

A Study on the Role of SIDBI in Promoting and Developing MSMEs in India

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Abstract

This research paper explores the vital role of the Small Industries Development Bank of India (SIDBI) in advancing Micro, Small, and Medium Enterprises (MSMEs) in India. This study tracks the performance of government and SIDBI initiatives, evaluating their impact on MSME empowerment. It assesses government initiatives for MSME improvement, SIDBI's measures for empowerment, and examines MSMEs' influence on GDP and employment. Additionally, it analyzes SIDBI's role in supporting MSMEs through refinancing to diverse financial entities. The study found consistent growth in financial assistance for loans, significant refinancing support from SIDBI to financial entities, particularly MFIs and NBFCs, and increased direct loans to MSMEs. This reflects SIDBI's commitment to enhancing financial stability and promoting MSME growth. Additionally, the study highlights the crucial role of MSMEs in driving employment and GDP growth in India. The analysis relies on secondary Data collected from Research articles, magazines, textbooks, and annual reports of RBI, MSMEs, SIDBI, MUDRA, AND PIB websites which are relevant to the topic. Recommendations include SIDBI should streamlining procedures for smoother credit flow and prioritising direct lending to cater to diverse MSME needs. Institutions related to MSMEs should establish separate customer care departments. SIDBI should incentivize MSMEs to develop R&D facilities and focus on sustaining GDP contribution by facilitating easier access to finance. Efforts to promote all MUDRA loan categories and address loan defaults should be sustained by SIDBI.

Keywords: *MSMEs in India, SIDBI, Economic Growth, Financial Assistance, Entrepreneurship.*

1.0 Introduction

Micro, Small, and Medium Enterprises (MSMEs) serve as the backbone of India's economy, playing a vital role in various financial aspects. This sector, encompassing businesses involved in manufacturing, processing, and preserving goods, significantly influences India's economic growth. With almost 90% of all businesses falling under the MSME category, they are crucial for economic development and employment to 60 to 70% of the nation's workforce. Currently, MSMEs contribute approximately 27% to India's Gross Domestic Product (GDP), and the government aims to increase this to 50% in the future. They also play a crucial role in boosting India's exports, contributing to foreign exchange earnings, and strengthening the overall economy.

The Small Industries Development Bank of India (SIDBI), established in 1990, is a key driver behind the success and growth of MSMEs. As the primary financial institution dedicated to nurturing this sector, SIDBI provides essential financial aid, promotes entrepreneurship, and offers tailored advisory services. Through initiatives like affordable loans, credit guarantee schemes, and venture capital support, SIDBI facilitates access to necessary funds, enabling MSMEs to thrive in competitive markets.

This study examines recent government initiatives providing financial assistance to MSMEs, crucial for their competitiveness. It tracks the performance of these initiatives by both the government and SIDBI to gauge empowerment levels. Objectives include identifying government initiatives for MSME improvement, evaluating SIDBI's measures, studying MSMEs' contributions to GDP and employment, assessing SIDBI's support through refinancing, and examining MSMEs' enhanced performance from financial services. By addressing these objectives and analyzing loan disbursement data over the past five years, the research aims to fill gaps in understanding MSME financial literacy and challenges, providing insights into effective interventions for fostering MSME growth.

2.0 Literature Review

Janani M & Jayanthi (2022) studied the influence of demographic and socio-economic factors of entrepreneurs on financial literacy and also analysed, identified and categorised the level of financial literacy of the MSME entrepreneur and suggested supportive services to be offered. Many entrepreneurs have only a little bit of financial literacy, so the govt should work to improve financial education.

Keshav Mishra & Jai Shanker Shukla (2022) focused on studying various financial schemes of SIDBI, the role of SIDBI in the development of MSME in India and the role of MSME sectors in economic development. The researchers concluded MSMEs are small businesses that contribute significantly to the Indian economy by generating employment and increasing domestic output. However, they face issues such as delayed payments from creditors and a lack of support from commercial banking.

Mahesh et. al (2022) researched about understanding sustainable finance's impact on MSMEs and companies in terms of green growth. The study investigated initiatives by Government bodies like NABARD, SIDBI, RBI, and Niti Ayog in collaboration with ECG for sustainable finance. The study employed ABCD analysis to assess Green Growth and Sustainable Development. The research evaluated India's progress in this area and aims to create a tailored sustainable development model for MSMEs and companies.

Nalla Bala Kalyan & Toopalli Sirisha (2022) highlighted the growth and performance of MSMEs and their contribution to the GDP. They discussed various initiatives supporting the expansion of the MSME sector, including the CGTMSE's involvement in enabling institutional loans and the development of the SHG Bank Linkage Programme. The study also examined how MFIs operate. The researchers highlighted that loan guarantees effectively increase loan flow to MSMEs and funding for small & medium firms is becoming more specialized due to the introduction of new financial products & services.

Hemalatha K J & Ravichandre Reddy (2021) examined the mindset of youth aged 18 to 30 regarding starting a business and analysed factors influencing their pursuit of loans from SIDBI for entrepreneurial ventures. The study highlighted the challenges in understanding credit

programs, government facilities, and dealing with officials, along with delayed loan approvals, deter youths from entrepreneurship and impede the Make in India initiative's success.

Dipak Kumar Das (2021) studied the present scenario of the MSME sector of India and evaluated the role of the MSME sector in the economic development of India. The researcher concluded that MSMEs are essential to a nation's economic development. because they create jobs, produce goods, help to distribute income, and contribute to exports. In India, MSMEs account for about 30% of the country's GDP of which around 45% of the manufacturing output, and approximately 40% of the country's exports. The government and other stakeholders need to work together to provide this support.

Mohd Arif & Kaushal Kishore Shukla (2021) assessed the SIDBI's performance. The researchers' findings emphasize the remarkable growth and positive trends evident in SIDBI's performance, underscoring its effectiveness. Based on the study's results, it is predicted that SIDBI will continue to achieve significant milestones in supporting the MSME sector in the foreseeable future.

Govindaraja (2020) studied SIDBI's functioning, loan procedures, challenges, and its role in advancing Indian MSMEs. The study concluded that institutions like SIDBI provide essential financial aid to MSMEs for their growth. MSMEs should optimize this support, adopt innovative approaches, and aid other struggling industries.

Kulkarni (2020) highlighted the role of SIDBI in the development of MSME & the role of MSME sectors in development. The study covered the Amount of Loan Sanction & Disbursed by SIDBI. The study concluded that the biggest problem of MSMEs is the unduly delayed payments by creditors. Other problems are lack of infrastructure inputs and commercial banking support.

Jitender Kumar (2018) examined the role of financial institutions in fostering the growth of MSMEs in Ambala District, Haryana state. The study, which spans from 1980 to 2016 and is based on primary data collected through surveys, shows that public sector financial institutions perform better than private organisations & other sources, such as relatives, in efficiently disbursing loans to MSMEs in the region. Consequently, the study suggests that the government should prioritize the promotion of public sector financial institutes to provide enhanced support for the expansion of MSMEs.

3.0 Methodology

In this type of research, secondary data collection methods are commonly employed. Secondary data sources include research articles, magazines, and official reports such as the Annual Reports of institutions like RBI (Reserve Bank of India), MSMEs (Micro, Small, and Medium Enterprises), SIDBI (Small Industries Development Bank of India), MUDRA (Micro Units Development and Refinance Agency), and PIB (Press Information Bureau) websites, provided they are pertinent to the subject under investigation.

The study specifically focuses on data from the past five years, spanning from the fiscal year 2017-18 to 2021-2022. This timeframe allows for a recent and relevant snapshot of the phenomenon being examined. By restricting the analysis to this period, researchers can capture contemporary trends and patterns within the specified context, enabling a more accurate

understanding of the subject matter. This focused approach ensures that the findings of the research are timely and reflective of current conditions, thereby enhancing the validity and applicability of the study's conclusions.

4.0 Data Analysis

The data analysis section employed secondary data analysis techniques, utilizing previously collected information for insights. Secondary data analysis provides valuable insights, researchers must ensure the reliability and validity of the data to enhance the credibility of their findings.

Table 1: Data Analysis and Interpretation

PARAMETERS		2017-18	2018-19	2019-20	2020-21	2021-22
Financial assistance in the form of Loans	Sanctions	₹ 58,768	₹ 73,946	₹ 1,08,289	₹ 1,04,852	₹ 1,48,550
	Growth rate (%)	100%	125.82%	184.26%	178.41%	252.77%
	Disbursements	₹ 58,690	₹ 75,463	₹ 1,04,852	₹ 97,542	₹ 1,46,402
	Growth rate (%)	100%	128.57%	178.65%	166.19%	249.44%
	% of Disbursement to sanction	99.86%	(-2.05%)	96.82%	93.02%	98.55%
Funds of Funds for Startups	Sanctions	₹ 1,135.70	₹ 2,265.70	₹ 3,798.20	₹ 5,409.45	₹ 7,225.45
	Growth rate (%)	100%	199.49%	334.43%	476.30%	636.21%
	Disbursements	₹ 570	₹ 431.84	₹ 1,025	₹ 1,484.75	₹ 2,492.24
	Growth rate (%)	100%	75.76%	179.82%	260.48%	437.23%
	% of Disbursement to sanction	50.18%	19.05%	26.98%	27.44%	34.49%
Lendings through Prayaas Scheme	Sanctions	-	-	₹ 161.11	₹ 172.21	₹ 417.70
	Growth rate (%)	-	-	100%	106.88%	259.26%
	Disbursements	-	-	₹ 126	₹ 128.02	₹ 342.25
	Growth rate (%)	-	-	100%	101.60%	271.62%
	% of Disbursement to sanction	-	-	78.20%	74.33%	81.93%
Loans through Pradhan Mantri Mudra Yojana	Sanctions	₹ 2,53,677	₹ 3,21,722	₹ 3,37,495	₹ 3,21,759	₹ 3,39,110
	Growth rate (%)	100%	126.82%	133.04%	126.83%	133.67%

	Disbursements	₹ 2,46,437	₹ 3,11,811	₹ 3,29,715	₹ 3,11,754	₹ 3,31,402
	Growth rate (%)	100%	126.52%	133.79%	126.50%	134.47%

Table 2: Refinance provided by SIDBI

PARAMETERS		2017-18	2018-19	2019-20	2020-21	2021-22
Refinance provided by SIDBI to banks & financial institutions in the form of loans & advances	Amount (in ₹ Cr)	₹ 72,622	₹ 1,16,277	₹ 1,43,232	₹ 1,31,664	₹ 1,66,832
	Growth rate (%)	100%	160.11%	197.22%	181.30%	229.72%
Refinance provided by SIDBI to micro finance institutions in the form of loans & advances	Amount (in ₹ Cr)	₹ 1,579	₹ 1,171	₹ 1,821	₹ 1,672	₹ 3,118
	Growth rate (%)	100%	74.16%	115.32%	105.88%	197.46%
Refinance provided by SIDBI to NBFC in the form of loans & advances	Amount (in ₹ Cr)	₹ 11,411	₹ 9,369	₹ 10,374	₹ 11,292	₹ 17,935
	Growth rate (%)	100%	82.10%	90.91%	98.95%	157.17%
MSME's benefited by SIDBI through direct loans	Growth rate (%)	100%	241.56%	306.31%	367%	426.14%
MSME's contribution to employment in India	Growth rate (%)	100%	74.71%	83.44%	172.23%	180.73%
MSME's contribution to GDP	Growth rate (%)	29.34%	29.48%	29.25%	29.75%	29.75%

Table 3: Categories of Mudra Loans and Beneficiaries Under PMMY

CATEGORIES OF MUDRA LOANS		2017-18	2018-19	2019-20	2020-21	2021-22
SHISHU Scheme	No of Beneficiaries	4,26,69,795	5,15,07,438	5,44,90,617	4,01,80,115	4,17,21,154

	Growth Rate (%)	100%	120.71%	127.70%	94.16%	97.77%
KISHOR Scheme	No of Beneficiaries	46,53,874	66,06,009	64,71,873	94,86,160	1,10,88,206
	Growth Rate (%)	100%	141.94%	139.06%	203.83%	238.25%
TARUN Scheme	No of Beneficiaries	8,06,924	17,56,871	12,85,116	10,68,771	9,86,166
	Growth Rate (%)	100%	217.72%	159.26%	132.45%	122.21%

5.0 Findings of the Study

Over the years, there has been a consistent growth in financial assistance for loans, particularly notable in 2021-22. Despite some fluctuations, the disbursement-to-sanction ratio has remained relatively high, indicating efficient resource utilization. SIDBI's refinancing support to financial entities has shown a steady increase, ranging from 100% to 229.72%, reflecting its commitment to enhancing financial stability and facilitating lending efforts.

Specifically, SIDBI's refinancing assistance to Microfinance Institutions (MFIs) has displayed significant growth, with notable surges of 115.32% in 2019-20 and a remarkable 197.46% in 2021-22. This underscores SIDBI's dedication to strengthening MFIs and fostering the advancement of MSMEs. Similarly, there has been a noticeable rise in refinancing assistance to Non-Banking Financial Companies (NBFCs), peaking at a surge of 157.17% in 2021-22, indicating an increasing reliance on SIDBI's funding to meet financial needs.

Moreover, the number of MSMEs benefiting from SIDBI's direct loans has notably increased, with a consistently high annual growth rate, particularly surging by 426.14% in 2021-22. This demonstrates SIDBI's strong commitment to promoting MSMEs by expanding lending efforts. However, despite a rising trend in both sanctions and disbursements through SIDBI's Fund of Funds for Startups, the disbursement-to-sanction ratio has remained relatively low, fluctuating between 19.05% and 50.18%.

In the context of the Pradhan Mantri Mudra Yojana (PMMY), there has been consistent growth in loan sanctions and disbursements from 2017-18 to 2021-22, ranging from 100% to 133.67%. Although the number of sanctioned PMMY loans fluctuated, growth slowed in 2020-21 (105.41%) before rebounding in 2021-22 (111.76%).

Furthermore, MSMEs play a vital role in employment generation, with their contribution dipping to 74.17% in 2018-19. However, subsequent years witnessed growth, with MSMEs contributing 180.73% to employment in 2021-22, highlighting their increasing significance as employment generators in India. Similarly, MSMEs in India have consistently contributed to GDP, rising from 29.34% in 2014-15 to 30.27% in 2018-19, underscoring their pivotal role in driving economic growth and job creation.

5.1 Conclusion and Recommendation

While the study acknowledges the significance of SIDBI's role in fostering Indian MSMEs, it also raises concerns about the potential limitations associated with relying solely on secondary data sources and the narrow timeframe of analysis spanning from 2017-18 to 2021-2022. Moreover, it questions the alignment of objectives and methodology used to collect secondary data with the study's core focus, emphasizing the generalized nature of secondary data that may impede its applicability in making informed decisions.

Highlighting SIDBI's crucial role in promoting and developing Indian MSMEs, with various schemes and initiatives supporting them. Financial assistance for loans has consistently risen, reflecting effective fund utilization. SIDBI's efforts in refinancing, especially to ensure financial stability and lending, have shown positive trends. It has primarily offered indirect financing over direct financing. To enhance its effectiveness and efficiency, it should shift its focus towards direct financing, as it offers greater rewards and social benefits compared to refinancing. The process is often delayed when intermediaries are involved.

The study also highlights increasing MSMEs' contribution to GDP and employment to better serve the MSMEs. To increase efficiency, it should expand its financing operations, address loan defaults, and implement effective debt recovery strategies, and also the government should propose an independent Rehabilitation Fund with SIDBI for the rehabilitation of sick MSMEs, undertaking research and development activities. There should be an umbrella organization for overseeing the development of MSMEs sector with review to fully exploit the entrepreneurial growth potential of the country. SIDBI and other banks should go beyond the purview of lending and recovery. They should try to act as a friend philosopher. In essence, the study emphasizes SIDBI's vital contribution to MSME growth in India, while suggesting further improvements for even greater support.

To enhance the support for Micro, Small, and Medium Enterprises (MSMEs), SIDBI should expand its financing operations and streamline procedures to ensure smoother credit flow to beneficiaries. Prioritizing direct lending is recommended as it caters to diverse MSME needs, strengthens customer-bank relationships, and benefits both SIDBI and its customers. Additionally, alongside SIDBI, other institutions and organizations involved with MSMEs should establish separate customer care departments to better serve MSMEs.

SIDBI should also encourage MSME units to develop Research and Development (R&D) facilities, providing concessions to those with established R&D centres. Despite showing a stable contribution to GDP with a slight upward trend, MSMEs have the potential for further growth. Measures such as providing easier access to finance through collateral-free loans, promoting entrepreneurship, and facilitating skill development are crucial for unleashing their full potential. Among the three categories of MUDRA loans, the Shishu scheme has the highest number of beneficiaries, largely benefiting women through Microfinance Institutions (MFIs). However, SIDBI should strive to promote the Kishor and Tarun schemes equally for both men and women-owned MSMEs to ensure gender parity in access to financial support.

Furthermore, SIDBI needs to sustain its efforts to address loan defaults and enhance loan recovery mechanisms to mitigate the impact of Non-Performing Assets (NPAs) effectively. These initiatives are essential for fostering a conducive environment for MSMEs to thrive and contribute significantly to India's economic growth and development.

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