



India's small and medium-sized enterprises (SMEs) stand behind the country's economic growth and employment generation and make a significant contribution to poverty alleviation. The sector, however, suffers from limited access to finance and business development services, with the state-run system of business services covering only about 1 percent of all SMEs. In line with the Indian government's strategy to strengthen economic growth and employment by developing the SME sector.

Indian SME sector has been the silent catalyst driving the Indian economy much before the IT or the service sector industry was incepted. Sadly the Indian SME sector failed to reach its potential as small and medium enterprises often found it difficult to raise finances. The unorganised SME funding has been primarily one of the main reasons why many promising Indian SMEs had no option but to shut down operations.

With the new government in place, the SME sector was hoping for a facelift and government policies seem to suggest opening up of a wide range of funding possibilities for the SMEs.

Small Enterprise Magazine through September'15 issue facilitates linkages between SMEs and business development and finance service providers.

1: Social Media Promotion of SME Funding Activities: Over the years the government has come out with many SME centric financial schemes aimed to help the SMEs in various aspects of business expansion and operations. Unfortunately many schemes in the past did not reach the needy SMEs and were operational only in books and official records.

The government is now making sure that all SME funding schemes are promoted so that SMEs located across India can get updated information. The government is using social media proactively with the ministry of micro small and medium enterprises offering support to SMEs online.

2: Priority Lending for SMEs: SME funding schemes were available in the past but banks were not promoting them aggressively. The traditional Indian banking system wanted to play it safe and seek collateral securities for SME loans, something not every SME was able to give. As a result SME lending had dwindled substantially.

The Reserve Bank of India has now set an achievable target of 20 % year-on-year growth in credit to small and medium enterprises for all banks. This has led to priority in SME lending. Banks are now willing to offer all SME centric loans under various government schemes from working capital requirements, seed funding for new projects to money for business expansion to technological up gradations.

3: STU Fund for Tech Startups: The central government has set up a dedicated fund offering financial assistance to technology based startups. Since SME startups often do not have the luxury to offer collateral security as well as any past performance they often face loan denials from banks. With the setting up of the self-employment and talent utilization (SETU) fund, SME startups can now get loans easily. The finance ministry has dedicated a budget of Rs. 1000 crore for SETU fund which will be increased over the coming years.

4: Low Interest Funding under Mudra Scheme: The finance minister had announced the creation of Mudra Bank in the budget aimed at funding the unfunded. Under the scheme, SMEs can get low interest loans ranging from Rs. 50,000 and Rs 10 Lakhs from banks and various micro financing agencies. The facilitation of funds is done by the micro unit development and refinances agency or Mudra Bank.

5: Cluster Based Lending: Banks and microfinance companies lending to various SMEs have come up with a unique model whereby lending is done for units based in various clusters. Banks and NBFCs have identified geographies and have come up with distribution capabilities allowing direct access to the SME customers. These clusters offer both secured and unsecured loans and SMEs no longer have to run from one bank to the other to request for a working capital loans or other SME loans.

As the make in India and digital India initiatives gain momentum, SMEs are able to raise funds far more easily than ever before. The introduction of collateral free loans and credit guarantee schemes has made raising money simpler for SMEs. Banks are today offering SME loans at a priority with many SME centric loan offers for specific industries.