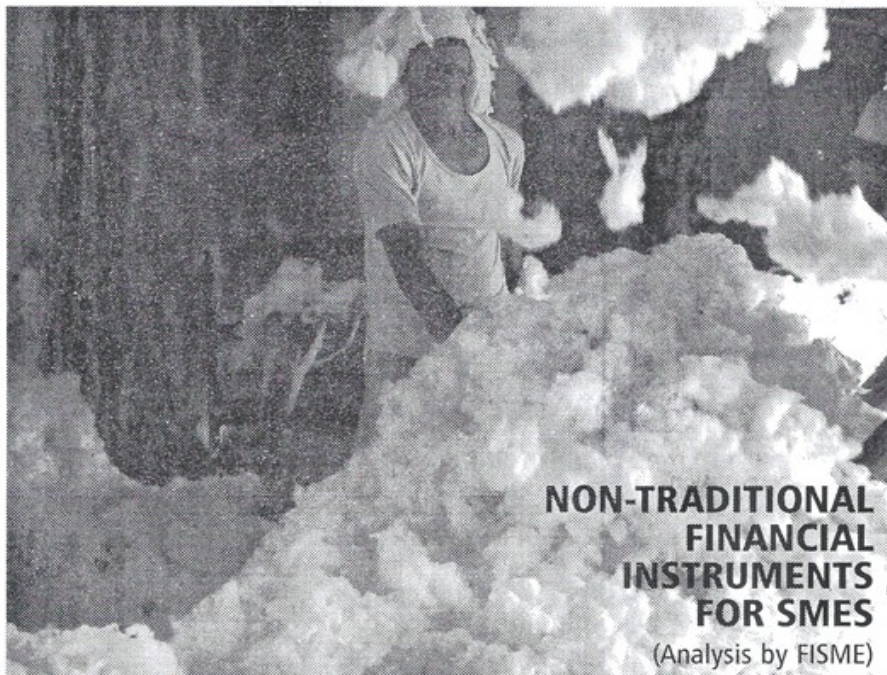


# SME WORLD

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## Small firms to get a lifeline

*The government is looking at various financial means as an alternative to the traditional debt instruments, which could be used for raising resources for SMEs*



**NON-TRADITIONAL FINANCIAL INSTRUMENTS FOR SMES**  
(Analysis by FISME)

**Financial Instrument**      **Policy suggestions for +ve interventions**

<b>ECBs</b>	<ul style="list-style-type: none"> <li>- Allow ECB for working capital</li> <li>- No restriction on uses of ECB below a threshold limit</li> <li>- Set aside for SME (mfg)</li> </ul>
<b>Venture Capital</b>	<ul style="list-style-type: none"> <li>- SME specific VC funds focusing Mfg. (beyond IT/BT/Auto/pharma)</li> <li>- IPO route through SME Exchange</li> </ul>
<b>Private Equity</b>	<ul style="list-style-type: none"> <li>- Banks to be encouraged (banks have right to invest 5% of the time and demand liability)                             <ul style="list-style-type: none"> <li>- set aside of 1%</li> <li>- exit route issue</li> </ul> </li> <li>- fiscal concessions/ incentives (In US the high net worth individual are allowed to invest in equity and get tax benefits)</li> </ul>
<b>SME Exchange / IPO</b>	<ul style="list-style-type: none"> <li>- reduce regulatory cost</li> <li>- ensure liquidity</li> </ul>
<b>Commercial Paper/ Bond</b>	<ul style="list-style-type: none"> <li>- Easing issuance norms</li> <li>- Support for collective issuance of papers by small Cos.</li> </ul>

RAYANA PANDEY  
New Delhi

In view of declining bank credit and growing competition for the micro, small and medium enterprise (MSME) sector, the government is looking at various financial means as an alternative to the traditional debt instruments, that could be used for raising resources.

The office of development commissioner, ministry of MSME, has asked industry bodies, like the Federation of Indian Small and Medium Enterprises (Fisme), to suggest means of SME financing. Fisme has recommended using options like external commercial borrowings (ECBs), private equity, factoring, leasing, SME stock exchange or alternative investment markets.

The recommendations, jointly prepared by Fisme, Financial Consultants, IL&FS, International Banks namely HSBC and Standard Chartered and others, will be submitted

to the Development Commissioner by the end of next week.

The move comes days after Finance Minister P Chidambaram announced in the Budget 2008-09, a Rs 2,000-crore fund in SIDBI for risk capital or venture capital. According to Jawahar Sircar, development commissioner, MSME ministry, MSMEs should be able to garner resources just like large companies.

"We are looking at more of non-debt financing for the sector. Just as large companies have options of venture capitalists,

private equity, initial public offerings, secondary markets among others, the MSME sector too needs to increase their share in the pie," Sircar added.

"MSMEs are a heterogeneous segment and different SMEs require different financial products at different stage of their operations," Suresh Mohan, managing director, Techno Spark Industries, a Bangalore-based granite systems company and the newly elected president of Fisme said.

According to Fisme, for an MSME which is part of a supply chain or supplying to a few large companies, 'factoring' or 'buyer credit' are preferential instruments. "Similarly, for one which is to scale up its operations, infusion of 'equity' may be required for raising debt. Yet,

**The percentage of banks' credit to the SME segment has come down from around 15 per cent in late 1990s to around 8 per cent presently**

for another SME, short term finance through External Commercial Borrowings (ECBs) could be very cost effective," Anil Bhardwaj, secretary general, Fisme said.

The traditional means of debt or loans, according to Fisme, has failed

to keep up with the growing need of this sector which now aims to expand aggressively. "In spite of RBI's Priority Sector Lending guidelines, the percentage of banks' credit to the SME segment has consistently come down from around 15 per cent in late 1990s to around 8 per cent presently. Also, with the opening of markets and imports getting cheaper due to rise of the rupee, MSMEs face enormous competition. Therefore, it is imperative to look at alternative resources," Bhardwaj added.