

ARRANGING FINANCE

No MSME unit can take off without monetary support. This need for finance can be classified into following types:

- 1) Long and medium term loans
- 2) Short term or working capital requirements
- 3) Risk Capital
- 4) Seed Capital/Marginal Money
- 5) Bridge loans

Financial assistance in India for MSME units is available from a variety of institutions. The important ones are:

- (i) Commercial/Regional Rural/Co-operative Banks.
- (ii) SIDBI: Small Industries Development Bank of India (refinance and direct lending)
- (iii) SFCs/SIDCs: State Financial Corporations (e.g. Delhi Financial Corporation)/State Industrial Development Corporations.

Long and medium term loans are provided by SFCs, SIDBI and SIDCs. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks. The commercial banks also sanction composite loan comprising of working capital and term loan up to a loan limit of Rs.1 crore.

For loans from financial institutions and commercial banks a formal application needs to be made. The details of documentation that need to be provided with the loan application are indicated below:

- 1) Documentation for Loan Application
- 2) Balance Sheet and Profit Loss Statement for last three consecutive years of firms owned by promoters
- 3) Income Tax Assessment Certificates of Partners/Directors
- 4) Proof of Possession of Land/Building
- 5) Architect's estimate for construction cost
- 6) Partnership deed/Memorandum and Articles of Associations of Company
- 7) Project Report
- 8) Budgetary Quotations of Plant and Machinery

A sanction or rejection letter is issued by bank after its assessment of the application. After receiving a sanction letter, applicants need to indicate in writing their acceptance of terms and conditions laid down by FI/Banks.

Subsequently, loan is disbursed according to the phased implementation of the project. In today's environment there are other choices apart from commercial banks and Government owned financial institutions. These options include venture capital funds and non-government finance companies.