

EXPLORING GREEN FINANCING SCHEMES OF SIDBI- A CASE STUDY

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ABSTRACT

Green financing plays a crucial role in promoting sustainability by directing financial resources towards environmentally responsible projects. The Small Industries Development Bank of India (SIDBI) has been at the forefront of fostering sustainable growth by offering financial assistance for green initiatives. This research paper explores the role of SIDBI in green financing, analyzing its policies, financial instruments, and impact on sustainability. Using a case study approach, the paper examines key schemes, and challenges associated with green financing in India. The findings suggest that SIDBI has made significant contributions to sustainable development through tailored financial solutions, but challenges such as limited awareness and regulatory constraints remain. The paper concludes by offering recommendations to strengthen green financing frameworks in India.

Keywords: Green Financing, Sustainability, SIDBI, MSME, Climate Finance, Renewable Energy, Sustainable Development

1. INTRODUCTION

Sustainability has emerged as a central theme in global financial systems, driving the need for green financing. Green finance encompasses investments in renewable energy, sustainable infrastructure, and climate-friendly technologies. In India, SIDBI has played a pivotal role in facilitating green financing for micro, small, and medium enterprises (MSMEs), encouraging the adoption of energy-efficient and environmentally sustainable practices. This study aims to explore SIDBI's initiatives in green financing, the impact of its financial instruments, and its contribution to sustainability. By analyzing SIDBI's projects and policies, this paper provides insights into the challenges and opportunities in green financing within the Indian financial ecosystem.

2. REVIEW OF LITERATURE

Bhatnagar, S. and Sharma, D., (2021) in their study on green financing in India: identifying future scope for innovation in financial system, reviews the potential of GF in India by conducting SWOT analysis. The results of the study indicated that green financing in India is largely concentrated in the renewable energy sector followed by the construction and transportation sector. Kumar, K. and Prakash, A., (2019) in their study on developing a framework for assessing sustainable banking performance of the Indian banking sector, indicates that banks are more focussed on addressing social dimension of sustainability in banking rather than important dimensions of sustainable banking, namely, environmental management, development of green products and services and sustainability reporting. Shukla, S. and Prajapati, D., (2019) in their Study on Various Schemes for Msmes: With Special Reference to SIDBI, mentions various schemes of SIDBI are discussed for the development of MSMEs. Soundararajan, P. and Vivek, N., (2016) in their study on green finance for sustainable green economic growth in India, explores to validate the concept as feasible in the Indian industries for balancing the ecological depreciation due to the assimilation of carbon gases in atmosphere. Agarwal, A. and Gupta, S.K., (2013) in their Study on various Schemes for MSMEs: With Special Reference to SIDBI, detail study of various schemes which are provided by SIDBI for the development of MSMEs. Elliott, J., (2012) in their study on An introduction to sustainable development, gives new considerations to the challenges of achieving lower carbon growth, climate adoption and the implications on sustainable development of rapidly expanding economics. Omer, A.M., (2008) in their study on energy, environment and sustainable development, explains promoting innovative renewable applications and reinforcing the renewable energy market will contribute to preservation of the ecosystem by reducing emissions at local and global levels. Parris, T.M. and Kates, R.W., (2003) in their study on Characterizing and measuring sustainable development, confirms that there are no indicator sets that are universally accepted, backed by compelling theory, rigorous data collection and analysis, and influential in policy.

3. OBJECTIVES OF THE STUDY

1. To analyze SIDBI's green financing policies
2. To identify challenges faced by MSME's in getting green finance in India.

4. RESEARCH METHODOLOGY

This study employs a qualitative case study approach to examine SIDBI's role in green financing. Data has been collected from the Official reports published by SIDBI Research papers from Google Scholar and Interviews with MSME stakeholders benefiting from SIDBI's schemes.

ABOUT SIDBI:

The Small Industries Development Bank of India (SIDBI) was established in 1990 as a principal financial institution for MSME sector development. Over the years, SIDBI has played a significant role in providing financial assistance and policy support to promote sustainable business practices.

SIDBI's Green Financing Initiatives

SIDBI has introduced several financial instruments and programs to support sustainability, including:

- Energy Efficiency Financing Scheme (EEFS): Offers loans for adopting energy-efficient technologies.
- Green Climate Fund (GCF): Provides concessional finance for renewable energy and sustainability projects.
- Partial Risk Sharing Facility (PRSF): Encourages MSMEs to implement energy-saving projects.
- Renewable Energy Financing Scheme: Supports the deployment of solar, wind, and biomass energy.

SCHEMES OF SIDBI FOR MSMEs

The Small Industries Development Bank of India (SIDBI) provides various financial and non financial assistance to MSMEs. Following are some important schemes for MSMEs:

1. Flexible Assistance for Capital Expenditure (FACE): MSMEs felt the need for longer term repayment and flexible repayment for different components of project cost depending upon the nature of investment and economic life of the asset. To meet this need of MSMEs, SIDBI has launched a new scheme. Flexible Assistance for Capital Expenditure with separate repayment schedules for different components of the project. Further, the interest rate for each component would also be based on its tenure. MSMEs would, thus, have greater flexibility in repayments within one single project.

2. NSE Trade Receivables Engine for E-discounting in association with SIDBI (NTREES) -SIDBI, along with National Stock Exchange (NSE), took an initiative in 2009 for setting up an electronic platform for discounting of MSME receivables named as NTREES. Operations on the platform are done under Real Time Gross Settlement basis and all the participants are being provided with system generated passwords for accessing the platform.

3. Direct MSME Credit- SIDBI also provides direct credit to MSMEs mainly to supplement and complement the efforts of banks and FIs in providing credit to the sector. Direct lending is primarily where gaps exist or in clusters or in niche areas through product and process innovations. During FY 2011-12, SIDBI extended direct credit of Rs.15,049 crore to MSMEs registering a growth of 17%. One of the major components of direct credit, constituting 72%, is through MSME Receivable Financing, which addresses one of the important gaps of delayed payment. Further, to address the huge shortfall in availability of equity capital to MSMEs, SIDBI has been extending risk / venture capital assistance both directly and indirectly to MSMEs. During FY 2011- 12, SIDBI extended equity related assistance of Rs. 152 crore.

4. Set up of Risk Capital Fund: Pursuant to the announcement made in the Union Budget 2008-09, the Risk Capital Fund was created by SIDBI to provide Risk Capital assistance to MSMEs in the form of Equity, Preference capital, Optionally Convertible Debenture, Optionally Convertible Debt, etc.

5. MSME Receivable Finance Scheme: SIDBI operates the MSME Receivable Finance Scheme (RFS) for MSME sellers / eligible service providers in respect of sales & services rendered to purchaser companies. Under the Scheme, SIDBI fixes limits to wellperforming purchaser companies and discounts usance bills of MSMEs / eligible service sector units supplying components, parts, subassemblies, services, etc. so that the MSME / service sector units realise their sale proceeds quickly. SIDBI also offers invoice discounting facilities to the MSME suppliers of purchaser companies.

6. Direct Retail Credit-In order to supplement and complement the efforts of banks/FIs in augmenting the flow of credit to MSME sector, SIDBI introduced various new products and modified the existing products to meet the diverse credit needs of the MSME sector. In order to serve the MSMEs better, with enhanced customer satisfaction, the Bank provides tailor-made products and services. Direct credit assistance is provided by way of, (a) Term Loan, (b) Working Capital through arrangement with IDBI Bank, (c) MSME Receivable Finance and (d) Non - Fund based facility.

7. Green Loan Scheme - The awareness about the environmental aspects among MSMEs has increased and the MSMEs have started adopting various measures in the areas of energy efficiency, waste recycling, waste treatment & disposal, ISO certifications, energy audit, Bureau of Energy Efficiency (BEE) star rating of their products, green rating, etc. for sustainability of their manufacturing facilities. To encourage small capital investments in environmentally sustainable and energy efficient manufacturing facilities and services.

8. Support for Marketing Activities – The Bank supported 53 relevant exhibitions / seminars / events during the year benefiting more than 5000 MSME entrepreneurs, which include 3 international trade fairs. The state-of-the-art building of Karnataka State Small Scale Industries Association (KASSIA) at Bangalore, partly funded by SIDBI is also being used for various marketing related programmes for the MSMEs of the region.

RECOMMENDATIONS:

Based on the discussions with MSME owners, preferring to opt for sustainable finance, the following are the recommendations

Policy Reforms: The government should introduce tax incentives for businesses adopting green finance.

Capacity Building: Awareness programs should be conducted to educate MSMEs on sustainability financing.

Technology Integration: Digital platforms can streamline green loan applications and monitoring.

Public-Private Partnerships (PPP): Collaboration between SIDBI, banks, and private investors can expand financing options.

5. CONCLUSION

SIDBI has played a transformative role in advancing green financing and sustainability in India. Through specialized financial schemes, SIDBI has supported MSMEs in adopting eco-friendly technologies, thereby reducing carbon footprints and promoting resource efficiency. However, addressing challenges such as awareness gaps and regulatory constraints is crucial for scaling up green finance adoption. Strengthening policy frameworks, fostering innovation, and enhancing financial incentives will be key to ensuring sustainable economic growth in the coming years.

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