

L10 : ROLL OF SIDBI IN FINANCING AND DEVELOPMENT OF SMALL SCALE SECTOR

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INTRODUCTION

The Small Scale sector comprises small scale industries (SSIs), tiny industries, cottage and village industries, powerlooms and handlooms, handicrafts, sericulture, khadi, coir, small road transport operators, artisans. This sector continues to remain as an integral part of the Indian economic structure at macro level and always enjoyed special status under the country's planning process. The industrial policy always laid emphasis on co-existence to this sector with the development of large and medium scale industries in view of its special characteristics like large employment potential, its wide dispersal in the rural and backward areas of the country, its large volume of output, its vast export capabilities, etc. The advantages available to this sector lies in low capital investment requirement, short gestation period for implementation of projects, meeting the changing demand for consumer needs, etc. In 1993-94, this sector achieved a real growth of 5% which was higher than the overall industry sector's growth. The employment in this sector ranks next to agriculture which was upto 458.7 lakhs in 1992-93 registering an annual growth of 4.5% since 1990-91. The estimated production of this sector in 1992-93 was Rs 214882 crores in 1992-93 having growth at a rate of 6.6% over the previous year. Further this sector recorded a growth of 28% in exports in 1993-94 over the previous year, reaching a level of Rs 40826 crores reaching almost 58% of the country's aggregate exports. It has made significant contribution in promoting balanced regional development, widening of entrepreneurial base and providing ancillary support to large and medium industries. Today, there are about 23.85 lakh SSI units in different organisational forms producing about 7500 items and the level of technology ranges from traditional to the most modern and sophisticated one.

However, the sector is also beset with a number of problems like low or absolute technology, weak marketing infrastructure, inadequate working capital, management deficiencies, lack of quality consciousness, etc. These problems have manifested in such a way that the sector has not been able to achieve the desired level of dynamism and vibrancy to supplement the efforts of large and medium industries. All these problems could be solved to a great extent through the concerted actions of various agencies involved in development of this sector.

Economic reforms, presently ongoing, have changed the policy environment in the country, Structural adjustments being undertaken are leading to a new economic order. The small scale sector has therefore to gear itself up for a higher level of performance and productivity. As the process of liberalisation is gaining momentum, the prospects of SSI sector need to be viewed in the light of opportunities offered to the sector for its vertical growth through modernisation, technology upgradation and quality improvement. The process of SSIs linkage with large and medium industrial sector is a step in the right direction for its integration with market economy.

Establishment of SIDBI - Its Role

While several institutions and banks are already assisting this sector, setting up of Small Industries Development Bank of India (SIDBI) in April 1990 has fulfilled the long felt need for a separate institution at the national level to exclusively cater to the requirements of this sector. As a principal financial institution, the role of SIDBI is wide ranging with considerable flexibility in promoting, financing and developing SSI sector and co-ordinating functions of all other institutions engaged in similar activities.

The principal forms of SIDBI's assistance are :

- (i) Refinancing of loans and advances extended by primary lending institutions to SSI sectors and providing resource support to such institutions.
- (ii) Discounting and rediscounting of bills arising from sale of machinery to or manufactured by SSI.
- (iii) Extension of working capital assistance by way of refinance to State Level Institutions/Banks in an integrated manner alongwith term loan under Single Window Scheme.
- (iv) Extension of seed capital/soft loan assistance under National Equity Fund, Mahila Udyam Nidhi, Scheme for Ex-serviceman
- (v) Grant of direct assistance as also refinance for strengthening and expanding the marketing infrastructure to SSIs
- (vi) Grant of direct assistance for setting up new units and for expansion, diversification, modernisation and technology upgradation of existing units.
- (vii) Providing resource support to factoring organisations for discounting the receivables of SSI units and leasing companies engaged in leasing/providing equipment on hire purchase to SSI units
- (viii) Extending resource support to SSIDC/NSIC for providing leasing, hire-purchase and marketing support to SSI units
- (ix) Extending financial support to state level corporations for development of industrial estates areas exclusively for SSI units in rural and semi-urban areas.
- (x) Extending support services such as technology upgradation/transfer, quality promotion, market development, management development programme for healthy growth of industries in SSI sector.

- (xi) Extending assistance out of venture capital fund for projects involving new and untried processes and technologies which have scope for commercial applications with characteristics of high risks and high returns.
- (xii) Extending equity support to selected SSI units directly and providing credit to merchant banking companies for bought out deals of OTCEI.
- (xiii) Extending term loan in foreign currency to export oriented units for import of machinery and pre-shipment credit either directly or through line of credit offered to scheduled commercial banks.
- (xiv) Extending direct assistance to well managed SSI units for obtaining ISO-9000 certification.
- (xv) Extending fee based activities such as preparation of project reports, appraisal of projects, etc.

Priority Areas and new Schemes of assistance

SIDBI is in operation for the last 4¹/₂ years and during this period it has always followed an integrated approach for the development of the small sector and laid emphasis on stepping up of the credit flow through liberalisations of various schemes and simplification of procedures as well as introduction of new schemes. The new schemes have been designed to fill up the gaps in existing structure with broad focus on creation of appropriate marketing infrastructure and speed up realisation of receivables. The Single Window Scheme (SWS) has been refurbished. To facilitate greater flow of working capital to SSIs, the extent of refinance against cash credit limit sanctioned by commercial Banks to eligible units has been raised from 50% to 75%. The limit under the Automatic Refinance Scheme (ARS) was also enhanced for Banks from Rs 10 lakhs to Rs 50 lakhs alongwith raising extent of refinance from 50% to 90% of term loan under ARS and NRS. Realising the need to fill in the gaps in the existing

lending structure to SSIs, SIDBI started Direct Finance Assistance Scheme to help comparatively larger SSI units on selective basis. For this purpose the Bank has also decided to try out a whole new approach by entering into participative arrangement with certain commercial banks envisaging joint appraisal and sanction of major portion of the term loan by SIDBI and the balance term loan and working capital by the bank. It has also introduced equipment finance scheme to assist the existing SSI units for acquiring machinery/equipment both indigenous and imported which are not related to any specific project. Exclusive Direct Assistance Scheme has been formulated for promotion and development of ancillaries. Special schemes have also been formulated for vulnerable sections for the society, viz. women entrepreneurs, SC/ST entrepreneurs and ex-servicemen. A venture Capital Fund is set up for supporting ventures adopting new technologies/untried processes involving high risks and high returns phenomenon. Lines of Credit were introduced for raw materials distribution and marketing support through SSIDCs. It is also to providing term loan to leading companies involved in leasing to SSI sector. In an effort to identify and fill the gaps in the existing system of credit delivery to SSI exporters, SIDBI has decided to extend term loan in foreign currency for import of capital equipment to export oriented units besides providing Pre-shipment Credit to such units to access capital market, SIDBI makes direct equity investment in select SSI units particularly to high tech project or projects with high growth prospects. SIDBI also extends Line of Credit to merchant banking companies to enable them to make investment in SSI units having plans to go public through OTCCI route. Recently SIDBI has decided to extend direct assistance to the units going in for ISO-9000 Certification.

Performance

The financial year 1993-94 of SIDBI was eventful in many ways witnessing a shift in business mix and substantial improvement in sanctions and disbursements under various schemes. During the year SIDBI's sanctions

amounted to Rs 4014 crore and disbursement Rs 3331 crore. Cumulative sanctions and disbursement upto 31st March 1994 stood at Rs 13794 crore and Rs. 10960 crore respectively.

Development and Support Services

On the promotional side, the thrust area of SIDBI has been rural industrialisation programme (RIP), technology upgradation and management development. The RIP is being implemented with the support of the State Govt. through accredited NGOs/voluntary organisations for setting up 2500-3000 micro enterprises in a contiguous area in 4 or 5 districts in ten identified States. Resources support is provided to the NGOs/VOs besides providing training to the personnel of NGOs/VOs in credit delivery/usage. Besides SIDBI is also experimenting with informal lending to rural poor especially women through savings and credit groups with the assistance of NGOs/VOs. Besides it is also undertaking Block Adoption Programme in selected districts in a few states. Under technology upgradation programme, SIDBI has entered into technical collaboration with Asian and Pacific Centre for Transfer of Technology (APCTT) which operates under the auspices of the Economic and Social Commission for Asia and Pacific (ESCAP) for bridging the technology gaps, by scouting link up with global and regional agencies and also for project exports envisaging transfer of technologies from India to developing countries. SIDBI has identified about 15 clusters and brought them under the programme for modernisation and technology upgradation by engaging the sources of National Research Laboratories, engineering and technology institutions and technical consultancy organisations. SIDBI and Small Industry Development Organisations (SIDO), GOI will jointly pursue developments programme of SSIs in the areas of technology upgradation, quality promotion and vendor development. As regards development of export market for SSI, it has tied up with Developing Countries Trade Agency (DeCTA), the Managing Agents

of Export Development Programme of British Govt. for promotion of export of small enterprises. DeCTA will assess export capabilities of SSI units, suggest strategic alliances and recommend measures for improving product quality and introduction of new technologies. Further, a special Marketing Assistance Fund with equal contribution from Swiss Development Corporation (SDC) and SIDBI has been set up for assisting the export marketing programme. SIDBI has initiated measures to encourage SSI units to go in for ISO-9000 certification with the assistance of Confederation of Indian Industry (CII) and National Productivity Council (NPC). The Bank has taken the initiative of providing incentive support to the first few units seeking such certification. To tackle the problem of weak management of SSIs, SIDBI has formulated and supported Small Industries Management Assistants Programmes (SIMAP) to build a special cadre of Managers for SSI units. Special EDPs are drawn up for target groups like service and technology graduates, women, rural entrepreneurs and ex-servicemen. Major programmes have been launched for prevention of pollution and environment management. In working out rehabilitation packages for SSI sector, SIDBI takes lead and occupies the position of facilitating agent. Khadi and Village Industries, artisans and cottage industry units are kept in special focus in certain development and promotional schemes of SIDBI.

CONCLUSION

In the changing scenario, the SSI sector will have greater opportunities for playing a more active and diversified role. Govt. of India in its ongoing process of economic reforms has attached a great deal of importance for the development of modern SSI sector in the country. The RBI has also initiated certain follow-up measures based on the recommendations of the Nayak Committee Report such as setting up of specialised bank branches to operate the Single Window Scheme to assist the SSI units.

These measures are expected to go a long way in improving the health of SSI sector in general and in ensuring availability of adequate and timely working capital to SSIs in particular. No doubt, SIDBI will continue to share greater responsibilities, provide more and more innovative schemes and services and extend all the required help as in the past to help the SSI sector. However, the SSIs themselves with their inherent strengths should also gear up to meet the new challenges.

ELIGIBLE ACTIVITIES COVERED UNDER REFINANCE SCHEME

1. Setting up of new projects as well as expansion, modernisation and diversification.
2. Composite Loan Scheme for artisans, physically handicapped and SC/ST entrepreneurs.
3. Assistance to Small Road Transport Operators (SRTOs).
4. For purchase of equipment by existing units
5. For purchase of computers (Limit Rs. 5 lakhs)
6. For Purchase of equipment for
 - indigenisation/import substitution
 - in-house quality control (Limit Rs. 7.50 lakhs)
 - pollution control (need based)
 - renewable energy/energy saving system (need based)
7. Scheme for professionals (project cost limit Rs. 10 lakhs)
8. Scheme for marketing organisation/Entrepreneurs (Project cost limit Rs. 25 lakhs)
9. Scheme for purchase of mobile sales vans (Limit for vehicle Rs. 3 lakhs)
10. For Hospitals/Nursing Homes (Project cost limit Rs. 45 lakhs)

11. For tourism related activities (Project cost limit Rs. 45 lakhs)
12. For Hotels and Restaurants (Project cost limit Rs. 45 lakhs)
13. For electro-medical and other equipment (cost of equipment not to exceed Rs. 60 lakhs)
14. Development, Maintenance and construction of roads.
15. Industrial Estate - Project cost limit limited to Rs. 3 crore and loan limit Rs 100 lakh.
16. National Equity fund (project cost not exceeding Rs 10 lakhs. DER 3:1. Equity support 15% of project cost not exceeding Rs 1.50 lakhs).
17. Single Window Scheme (Project cost outlay upto Rs. 50 lakhs)
18. Special scheme for women entrepreneurs
- 19.. Special scheme for Ex-servicemen (SEMFEX)
 - Project cost limited to Rs. 15 lakhs - Equity support limited to 15% of project cost subject to a maximum of Rs 1.50 lakhs
20. Rehabilitation of sick industrial units (Assistance need based)
21. Assistance to Floriculture Development (Cultivation, treatment and packaging).
22. Aqua culture projects envisaging farming of shrimps, prawns, (including spawning and hatching of eggs, their cultivation into post-larvae stage by using special technology, quality seeds and controlled environmental conditions.
23. Installation and operation of cable TV networks, provision of safety lockers and construction and hiring out of executive cabins with common facilities like telephone, fax, secretarial service etc.
24. Assistance to Powerloom units under restructuring plan for the National Textile Corporation (NTC) Mills.

**SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA
(SIDBI)**

Financial Services for Small Scale Industries
FINANCIAL ASSISTANCE

INDIRECT	DIRECT
1. Refinance scheme for industrial concerns	1. Project Finance Scheme - Term Loans for new projects, expansion, modernisation and diversification
2. Bills rediscounting scheme	2. Equipment Finance Scheme for existing projects
3. Line of credit/subscription to adhoc bonds of State Small Industries Development Corporations.	3. Term loans for leasing companies
4. Equity support - National Equity Fund - Mahila Udyam Nidhi - Semfax - Seed Capital	4. Term loan for ancillary units
5. Resources Support for factoring companies	5. Bills - Direct Discounting Scheme (Components) - Direct Discounting Scheme (Equipment)
	6. Short term loans for working capital requirements
	7. Foreign Currency Loans to SSI - Term loan for import of capital equipment - Pre-shipment credit in F.C. to exporting units - Line of credit in F.C. to Scheduled Commercial Banks
	8. Line of Credit to Merchant Bankers for supporting public issues of SSI units on OTCEI market
	9. Line of credit to NBFCs for bought-out deals on OTCEI
	10. Direct Equity Investment in Public issues of SSI units
	11. Term Loan for Marketing set up
	12. Assistance for Infrastructure Development
	13. Venture Capital
	14. Integrated Infrastructure Development Scheme
	15. Mahila Vikas Nidhi
	16. Assistance to NGOs - Informal savings and credit groups
	17. Assistance for ISO-9000 Certification