



Role of SIDBI in financing and development of small scale sector

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Abstract

The SIDBI banks being an important nerve of modern organized society can play an important role in the SSIs transformation. They provide the infrastructure on which agriculture; industries and trade of nation depend. They can allocate available resources by mobilizing deposits and advancing credit into the best possible uses according to national priorities. By opening branches in un-banked and under-banked areas, the banks can spread magnetization, thereby introducing a larger market economy in place of natural economy. By providing loans to agriculture and small-scale sector they can solve the acute problems of unemployment and under employment. Hence banks can rightly be called the nation's agents of economic development. But in developing countries like India the role of SIDBI is not confined to accepting deposits and advancing loans. They also accept the accelerating flow of credit in accordance with the needs of SSI development. They have shifted from restricted old conservative policies to modern banking with lots of new techniques, which brings dynamism and innovation in their functioning. The Government of India and the State government have been pursuing a policy of protecting and promoting small-scale industries for a long time. Small-scale industries have been accorded pride of place in the planned industrialization process of the Indian economy, which is characterized by among other factors low productivity in the SSIs abundant labour and scarcity of capital. The comparatively easy dispersal of small scale industries in the rural and economically backward areas has an added advantage of increasing incomes in these places. They can contribute to production and generate employment absorbing relatively a smaller amount of capital ensure a more equitable distribution of income and facilitate effective mobilization of capital and skills which would otherwise remain unutilized. The research work is comprises of following sections. The first section is for the "Introduction" Role of SIDBI in SSIs Development. Small Industries Development Bank of India - "An overview" in section two. A brief analysis of Research methodology is given in the third section. The fourth section deals with the SSIs Development Special reference to SSIs in Rajasthan state. Preliminary Analysis of Promotional and Developmental Activities of SIDBI the fifth section. The sixth section is comprises of Conclusions and Suggestions.

Keywords: Development, financing & small scale sector.

I. Introduction

The SIDBI was established as a wholly owned subsidiary of Industrial Development Bank of India (IDBI) under a special Act of the Parliament 1988 and started its operations on April 2, 1990. It took over the responsibility of administering Small Industries Development Fund and National Equity Fund which were earlier administered by IDBI. It is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. It is managed by a team of 10 Board of Directors. The authorized capital of the Bank is Rs. 1000 crore and the Paid up capital is Rs. 450 crore. Banking scenario has been changed rapidly since 1990. The decade of nineties

has witnessed a grass root changes in the way banking business carried out in India. Anywhere banking and anytime banking has become a reality. The financial sector now operates in a more competitive environment than before and intermediates relatively range volume of international financial flows. With a view to ensuring larger flow of financial and non-financial assistance to S.S.I. SIDBI became operational on April 2, 1990. SIDBI has taken over the outstanding portfolio of IDBI relating to Small Scale Sector worth over Rs. 4,000 Crore. The authorized capital of SIDBI is Rs. 250 Crore which could be increased to Rs. 1,000 Crore. SIDBI's headquarter is situated at Lucknow. It have five regional offices, 5 zones and 21 branch offices when it was started in different parts of India but now SIDBI has 73 Branches, 5 Regional Offices across the country. After the establishment of Small Industries Development Bank of India (SIDBI), all duties related to small scale enterprises which are performed by Industrial Development Bank of India (IDBI) have been shifted to SIDBI.

Domain of Service

The Small Scale Industries (SSIs) sector is a vibrant and dynamic sector of the Indian economy. The sector presently occupies an important place and its contribution in terms of generation of employment, output and exports is quite significant. The Small Scale Industries sector including tiny units comprises the domain of SIDBI's business. Besides, the projects in the services sector with total cost up to Rs.250 million are also taken within the area of SIDBI's operations. The Bank also finances industrial infrastructure projects for the development of SSI sector. The objectives of Government policy have been to impart vitality and growth impetus to the sector by removing bottlenecks that affect the growth potential. In the liberalized era and emerging economic scenario, the sector is assured of continued support. SIDBI and the others banks have embraced technology right from the inception of their operation and therefore they have adapted themselves to the changes into the changes in the technology easily. Whereas the public sector banks (PSBs) and the old private sector banks have not been able to keep pace with these developments. SIDBI is the subsidiary bank of the IDBI, has also adopted the same strategy, and SIDBI already transformed itself into a universal bank. Now the process of progeny IDBI bank merging itself with the parent IDBI is underway and is likely to be completed soon. This trend may lead logically to promote the concept of financial super market chain and making available all types of credit and not find facilities under one roof or specialized subsidiaries which are under one umbrella organization. There is a need to review our regulatory framework not only in the light of the global developments that have been mentioned, but also due to domestic compulsions. SIDBI (Small Industries Development Bank of India) is now the principal financial institution and for the purpose of promotion, financing and development of small scale industries in the country. It coordinates the functions of existing institution on engaged in similar activities. According to SIDBI has taken over the responsibility of administering Small Industries Development Fund (SIDF) and National equity fund (NEF) which were earlier administered by IDBI.

II. Mission of The Organization:

SIDBI is committed to developing a strong, vibrant and responsive small-scale sector. This commitment is to be achieved through a variety of means. Principal amongst them is finance. Alongside finance, SIDBI provides appropriate support in the form of promotional and developmental services. SIDBI has been built up as a financially sound, vibrant, forward looking and technically oriented institution and, it intends to sustain this orientation in future. SIDBI intends to provide quality services to its clients, devoid of any systemic and procedural difficulties.

Function of SIDBI

SIDBI has a certain function.

The important function of SIDBI is as follows:

- (i) SIDBI Refinance loans and advances extended by the primary lending institutions to small scale industrial units and also provide sources support to them,
- (ii) SIDBI discounts and rediscounts bills arising from sale of machinery to or manufactured by industrial units in the small scale sector,

- (iii) SIDBI extends seeds capital / soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and seed capital scheme through specified lending agencies,
- (iv) SIDBI grant direct assistance as well as refinance loan extended by primary lending Institution for financing export of products manufactured by industrial concerns in the small scale sector,
- (v) SIDBI provides services like leasing, factoring etc. to industrial concerns in small scale sector.
- (vi) SIDBI extends financial support to state small Industries Development Corporation (SSIDCs) for providing source raw materials to and marketing the end products of industrial units in small scale units,
- (vii) SIDBI provides support to National Small Industries Corporation (NSICs) for providing leasing, hire-purchase, and marketing support to industrial units in the small scale sector,
- (viii) Refinancing of loans & advances extended by the primary lending institution to small scale industrial unit concern and also providing resources support,
- (ix) Discounting and rediscounting of bills arising from scale of machinery to or manufactured by industrial units in the small scale sector,
- (x) Extension of seed capital/soft loan assistance under National Equity fund. **Mahila Udyam Nidhi** and **Mahila Vikas Nidhi** and seed capital schemes through specified lending agencies,
- (xi) Granting direct assistance as well as refinancing of loans extended by primary lending institution for financing export of products manufactured by industrial concern in the small scale sector, and
- (xii) Providing services like learning factoring etc. to industrial concerns in the small scale sector.

In setting up SIDBI, the intention of the Govt, of India was to ensure larger flow of financial assistance to small scale sector; SIDBI has in already initiated step for technological up gradation and modernization of existing units. It is expanding the channels for marketing of products of SSI sector in internal and International market it is promoting in a big way employment - oriented industries especially in semi - urban areas to credit more employment opportunities and thereby checking migration of rural population to urban and cosmopolitan areas.

Role of SIDBI:

Since in inception, SIDBI has been endeavoring to meet the diverse needs of the Small and Medium Enterprises (SME) sectors through various tailor-made schemes and fulfill its vision i.e. "To emerge as a single window for meeting the financial and developmental needs of the Micro Small Medium Enterprises (MSME) sector to make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer - friendly institution and for enhancement of share-holder wealth and highest corporate values through modern technology platform. While extending financial assistance to the small units all over the country SIDBI makes use of the existing banking and financial institutions, such as the commercial banks, cooperative banks and RRBs, SFCs and SIDCs which have vast network of branches all over the country. As many as 870 institutions are eligible for assistance from SIDBI."

Objectives of SIDBI:

Mandatory Objectives

Four basic objectives are set out in the SIDBI Charter. They are;

Financing

Promotion

Development

Co-ordination

For orderly growth of industry in the small-scale sector. The Charter has provided SIDBI considerable flexibility in adopting appropriate operational strategies to meet these objectives. The activities of SIDBI, as they have evolved

over the period of time, now meet almost all the requirements of small scale industries which fall into a wide spectrum constituting modern and technologically superior units at one end and traditional units at the other.

Other Objectives:

- To empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

- To emerge as a single window for meeting the financial and developmental needs of the MSME sector to make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer - friendly institution and for enhancement of share – holder wealth and highest corporate values through modern technology platform.

SIDBI's charter includes Financing, Promotion, Development and Coordination for orderly growth of Small and Medium Enterprises. The Charter has provided SIDBI considerable flexibility in adopting appropriate operational strategies to meet these objectives. The activities of SIDBI, as they have evolved over the period of time, now meet almost all the requirements of SMEs which fall into a wide spectrum constituting modern and technologically superior units at one end and traditional units at the other.

SIDBI is committed to developing a strong, vibrant and responsive small scale sector. This commitment is to be achieved through a variety of means. Principal amongst them is finance. Alongside finance, SIDBI provides appropriate support in the form of promotional and developmental services. SIDBI has been built up as a financially sound, vibrant, forward looking and technically oriented institution and, it intends to sustain this orientation in future.

III. Methodology:

The Data required for the study has been collected from secondary sources. The Data Collection includes (i) Annual Reports of SIDBI; (ii) SIDBI's Reports on MSME Sector; (iii) Ministry of MSME's releases; (iv) RBI Annual Reports, (v) Various Websites relevant to topics.

III. Budgets 2015-16 high lights for MSME:

The Union Budget has mitigated some of the main concerns of the Micro, Small and Medium Scale (MSME) enterprises by allocating Rs. 20,000 crore for Mudra Bank to enhance credit for SMEs, another Rs. 1,000 crore for supporting start-ups and a new National Skills Mission to spur job creation, said Chidananda M Rajamane, President, Karnataka Small Scale Industries Association (KASSIA).

In his reaction to the Union Budget 2015-16 on behalf of the Karnataka's MSME sector, Rajamane said the newly proposed gold monetisation scheme, cut in Customs duty on 22 specified items, and service tax exemption for pre-cold storage warehousing are welcome, though this may slightly be offset against the marginal increase in central excise to 14 per cent,

IV. Credit Flow to Micro and Small Enterprises Sector (MSE) by Scheduled Commercial Banks (SCBs)

- Advances to micro and small enterprises (MSE) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 percent (32 percent for Foreign Banks operating in India with less than 20 branches) of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
- 40 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs. 10 lakh and micro (service) enterprises having investment in equipment up to Rs. 4 lakh;
- 20 per cent of the total advances to MSE sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs. 10 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 4 lakh and up to Rs. 10 lakh. Thus, 60 per cent of MSE advances should go to the micro enterprises.

- While banks are advised to achieve the 60% target as above, in terms of the recommendations of the Prime Minister's Task Force, the allocation of 60% of the MSE advances to the micro enterprises is to be achieved in stages viz. 50% in the year 2010-11, 55% in the year 2011-12 and 60% in the year 2012-13.

V. Role of Small Industries Development Bank of India:

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, is the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co- ordination of the functions of the institutions engaged in similar activities. Financial support is provided by way of refinance to eligible Primary Lending Institutions (PLIs) such as banks, State Financial Corporation's (SFCs), State Industrial Development Corporations (SIDCs), State Small Industries Development Corporations (SSIDCs) etc. for onward lending to MSMEs, financial assistance in the form of loans, grants, equity and quasi- equity to Non Government Organizations / Micro Finance Institutions (MFIs) for on-lending to micro enterprises and economically weaker sections of society, enabling them to take up income generating activities on a sustainable basis and direct assistance to MSMEs which is channelized through the Bank's network of 103 branch offices. SIDBI plays a significant role in promotion, financing and development of MSMEs and coordinating the functions of institutions engaged in similar activities. Its sphere of activities include (i) Direct Finance Operations to MSMEs and Service Sectors besides Infrastructure; (ii) Indirect Finance by way of resource support to Banks, NBFCs, SFCs, and other Central Financing/Development Agencies, Development of Micro Credit Institutions; (iii) Promotion of Associate Institutions like Venture Capital, Rating Agency, Credit Guarantee Fund, Asset Reconstruction Company and so on; and (iv) Nodal Agency for Government of India MSME Schemes like Technology Up gradation Fund Scheme (TUFS), Credit Linked Capital Subsidy Scheme (CLCSS), Integrated Development of Leather Sector Scheme, Development of Infrastructure Development Projects and a few. SIDBI's focus is on development of manufacturing, service and infrastructure sectors through the growth of MSMEs and their promotion.

VI. Subsidiaries and Associate Organisations of SIDBI:

Apart from addressing various financial and non-financial needs, SIDBI has also created an enabling institutional eco-system to address specific requirements of MSMEs through its subsidiaries / associate concerns. First, SIDBI Venture Capital Ltd. was set up in July, 1999 for providing venture capital assistance to knowledge based MSMEs. Presently SVCL is managing three venture capital funds, viz. the National Venture Fund for Software and Information Technology Industry, SME Growth Fund and India Opportunity Fund for providing venture capital assistance. Similarly, to encourage banks / FIs to provide more credit to MSMEs, SIDBI along with Govt. of India set up Credit Guarantee Fund Trust for Micro and Small Enterprises in 2000 to provide credit guarantee coverage to collateral free / third-party guarantee free loans upto `1 crore extended by banks/FIs to micro and small enterprises. This acted as a game changer in as much as that more than 9.33 lakh MSE loan account with credit guarantee coverage were provided financial assistance by banks / FIs by end October, 2012. Again, to support banks in quicker credit sanction to MSMEs, SIDBI, along with few Public Sector banks and Dun & Bradstreet (D&B), set up SME Rating Agency of India Ltd. (SMERA) in September 2005 – an MSME dedicated third-party rating agency to provide comprehensive, transparent and reliable ratings and risk profiling. Cumulatively as on September 30, 2012, SMERA has assigned ratings to 17,725 MSME units, out of which micro enterprises constituted 65%. India SME Technology Services Limited (ISTSL), was set up by SIDBI in November 2005, which provides a platform for MSMEs to tap opportunities at the global level for acquisition of modern technologies. SIDBI has also set up, India SME Asset Reconstruction Company Ltd. (ISARC), country's first MSME focused ARC striving for speedier resolution of non-performing assets (NPA) by unlocking the idle NPAs for productive purposes which would facilitate greater and easier flow of credit from the banking sector to the MSMEs. It started operations in April 2009.

VII. SIDBI as Nodal Agency for Government Schemes:

In addition to its direct and indirect operations, SIDBI also plays a pivotal role in implementation of various schemes for MSME sector undertaken by the Government of India (GoI). SIDBI continued to play an important role as a nodal agency in the implementation of GoI schemes, viz. Credit Linked Capital Subsidy Scheme (CLCSS) [Ministry of MSME], Technology Up gradation Fund Scheme for Textile Industry (TUFS) [Ministry of Textiles], Integrated Development of Leather Sector Scheme (IDLSS) [Ministry of Commerce & Industry] and Scheme of Technology Up gradation / Setting up / Modernization / Expansion of Food Processing Industries (FPTUFS) [Ministry of Food Processing Industries].

VIII. Promotional & Developmental initiatives:

Being the apex financial institution for the MSME sector, SIDBI adopts a "Credit Plus" approach under which Promotional & Developmental (P&D) activities are initiated with the twin strategy of creation of enterprises and strengthening of existing enterprises. SIDBI has benefitted the MSME sector through P&D activities which helped in setting up of over 1 lakh enterprises, generating employment of around 3 lakh and benefitting around 4 lakh persons. An important P&D initiative of the Bank is the Micro Enterprises Promotion Programme (MEPP) which aims at promoting viable micro enterprises in rural areas leading to rural employment generation. Cumulatively, upto March 31, 2012, MEPP has been implemented in 121 districts in 24 States, thereby promoting more than 38,000 rural enterprises. Similarly, Entrepreneurship Development Programme (EDP) aims at promotion of self-employed ventures capable of generating employment opportunities, especially targeting less privileged sections of the society like Women, Scheduled Castes / Scheduled Tribes, minorities and the rural poor. As on March 31, 2012, cumulatively number of EDPs supported by the Bank for various target groups was 2894, benefitting more than 72,850 participants. Similarly, the total number of Skill-cum-Technology Up gradation Programmes (STUPs) and Small Industries Management Programmes (SIMAPs) supported by the Bank since inception, till March 2012, were 1,504 and 295, respectively benefiting about 39700 participants. STUP aims at enhancing technology profile of MSME units and SIMAP targets qualified unemployed as well as industry-sponsored candidates, with the overall objective of providing competent managers to the MSME sector. SIDBI also accords special attention to the development of North Eastern Region (NER) through a package of micro finance, rural industrialization, entrepreneurship development, marketing support, etc. The special initiatives being pursued in the NER encompass MEPP in 22 districts, 39 Cluster Development Programmes (CDP) and various vocational training programmes, marketing activities, seminars, etc. These programmes have so far promoted more than 2500 units in NER. To accelerate industrial development in the north eastern part of the country, your Bank has enlisted North Eastern Development Financial Institution (NEDFi) as an eligible primary lending institution for refinance of loans to micro and small enterprises and a refinance limit of ₹50 crore was sanctioned to it during FY 2011-12. Your Bank has also set up Counselling Centres Shillong (Meghalaya), Silchar (Assam), Aizawl (Mizoram), Gangtok (Sikkim) and Agartala (Tripura). In 2012-13, the financial institution provided loans to Micro, Small and Medium Enterprises (MSMEs) directly (term loan under direct credit schemes, MSME receivable finance, bulk credit & Venture capital finance) and indirectly (Refinance, Equity assistance, Micro Finance including P&D assistance Resource support to institutions) had disbursed Rs 41160 crore. SIDBI had identified four niche areas - risk capital, receivable financing, financing services sector and sustainable financing - where MSMEs need support. In the current fiscal, SIDBI set a 10 per cent higher disbursement target.

IX. Conclusion:

MSMEs play a significant role as the growth engines of the Indian Economy. In fact, they have been playing a critical role in the socio-economic development of the country. Their main objectives have been mass employment generation, low investment, Import substitution, export earnings, labor intensive mode of production, capacity to

develop indigenous technology and high contribution to domestic production. MSME sector is heterogeneous, highly dispersed and mostly unorganized. The biggest problem of MSMEs is the unduly delayed payments by large industry players. The other problems are lack of infrastructure inputs and banking support. Now it is obvious that Indian MSMEs are striving to be on par with their counterparts in technology development. While in countries like China, North Korea and Taiwan, apart from hand-holding by the Government and banks, large corporates support them through prompt payments. A strong business model was nurtured in these countries instead of a subsidy mindset adopted in India. The MSME sector is yet to realize fully the benefits of liberalization and deregulation. There is a need to uplift the MSMEs not only technologically, but otherwise too. MSMEs still face the problem of obtaining the timely and affordable credit. The sector is still neglected by the Banks and Financial Institutions in the Private Sector, which are neglecting the mandatory 40% priority sector lending. The proposed SME Stock Exchanges should take initiative to raise capital from the public SIDBI would continue to identify the gaps in the MSME clusters and address those gaps through innovative solutions viz. loan syndication, capacity building of MSME sector, common facility centre, cluster diagnostic studies, credit facilitation centre, credit counselling and advisory services including market information, supporting skill development institutes, supporting incubation and innovation centres, setting up of website to address information asymmetry for the prospective and new entrepreneurs, coming out with various studies / reports / web-based solutions to address information gap, etc. These developmental initiatives would not only address the emerging needs of the sector, but also will create employment opportunities in this productive sector of the economy.

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