Role of SIDBI in Development of Small Scale Industries

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Abstract

SIDBI play a role in the growth and development of a country as it provides required infrastructure for economic development of the country. In our country and our state a large population lives in villages and small city. The world has become a global market. The impact of globalization privatization privatization and MSMEs has totally changed the style of banking sector in India. In India banking sector is entering in several new activities SSIs. They do all the activities, which can assist their customers. The more highly development a country.

Micro, small and medium enterprises (MSMEs) in India and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. Indian economy during the recent years has shown an appreciable growth performance by contributing to creation of livelihood opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country. Prompt and appropriate fiscal stimulus, effective monetary policy and huge capital inflows were greatly instrumental in the bounce back situation of the economy.

Key Words: MSMEs, MSMEs, SSIs, fiscal stimulus.

Introduction

Small industries Development Bank of Indian (SIDBI) Set up by an Act of parliament, is the principal financial institution for the promotion, financing and development of industry in small, tiny and cottage sectors and for co-ordinating the function of the institution engaged in similar activities, It commenced its operations on April 2, 1990 by taking over the outstanding portfolio and activities of SIDBI pertaining to the small scale sector. From a predominantly refinancing institution; SIDBI has emerged as a major purveyor of a wide variety of financial services to the small-scale sector.

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

(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 develop- , ment 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.

Literature Review

Mody & Baruah (2011)[12] have observed that SME sector are exhibiting unswerving and higher growth rate than the rest in the industrial realm and SME have greater resource use efficiency, employment generation capacity, room for technological innovation, inter – sectoral linkages over and above raising exports and entrepreneurial skills and its greatest strength lies in locational flexibility-. **Mohanty (2010)**[13]has analyzed the SME‘s contribution to foreign trade and mentioned that SME in OEDC member states produce about 26 percent of OECD countries export and about 35 percent of Asian export. **Pooja (2009)**[14] in her research work on ―Micro, Small and Medium Enterprises in the Indian Economy‖ has observed that Small- scale industries is one of the most cost – effective ways of creating employment, spreading industry, catalysing research and development and allowingentrepreneurial talent grow.

Isaac, Blessing, Simbarashe, Divaris & Lloyd (2011)[95] in their research paper on ―Factors influencing micro and small enterprises access to finance‖ reported that formality, value of assets, business sector, operating period, financial performance and size are all important factors in determining access to finance. **Watson (2005)**[96]has conducted a survey in western Australia and targeted senior managers of Small, medium enterprises. He observed that procedures to obtain funding from a bank are too complicated as per the opinion of entrepreneur. He also emphasizes on the need of proper coordination between the SME and banks for better results.

Nayak & Misra (2006)[97]in their study aims at highlighting the sickness in small-scale industrial units and its revival position ascertained by the OSFC and State Government from time to time. They found that most of the SSI units established in South Orissa are confronted with the delay in supply of raw materials, delay by bankers in sanctioning working capital due to complex formalities and poor selection of entrepreneurs.

Raje (2000)[98] has observed that credit is an essential input for the working of small-scale industries any delay or inadequate supply of credit is important detrimental factor to the growth of SSI units, he underlined that timely and adequate availability of credit is of crucial importance for setting up and for expanding the existing SSI units.

Objectives of the Study:

- To Evaluate the Current Performances of the Small Scale Industries in Indian Economy.
- To Analysis the Role of SIDBI in development of the Small Scale Industries in India.
- To Evaluate the Current Financing Polices of the SIBI for the Small Scale Industries.

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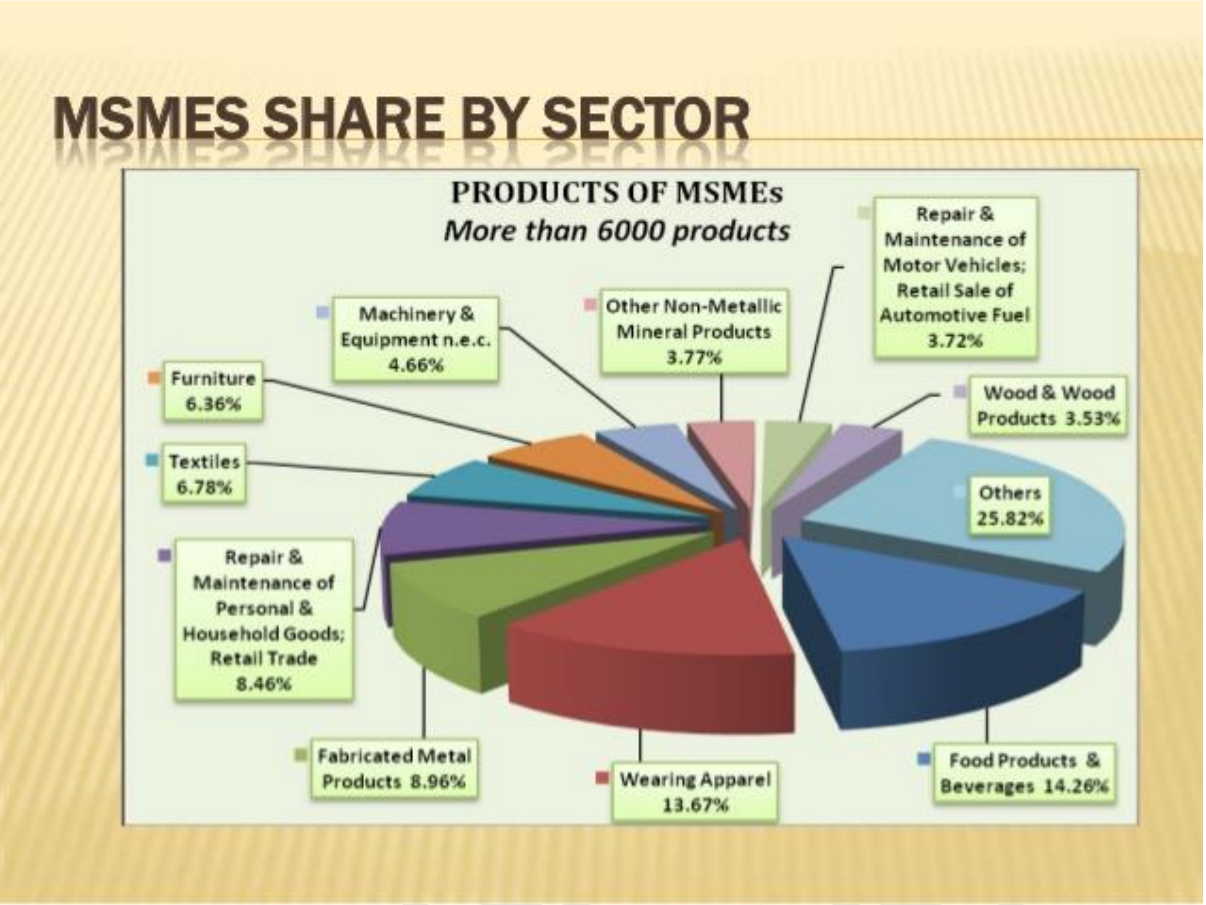
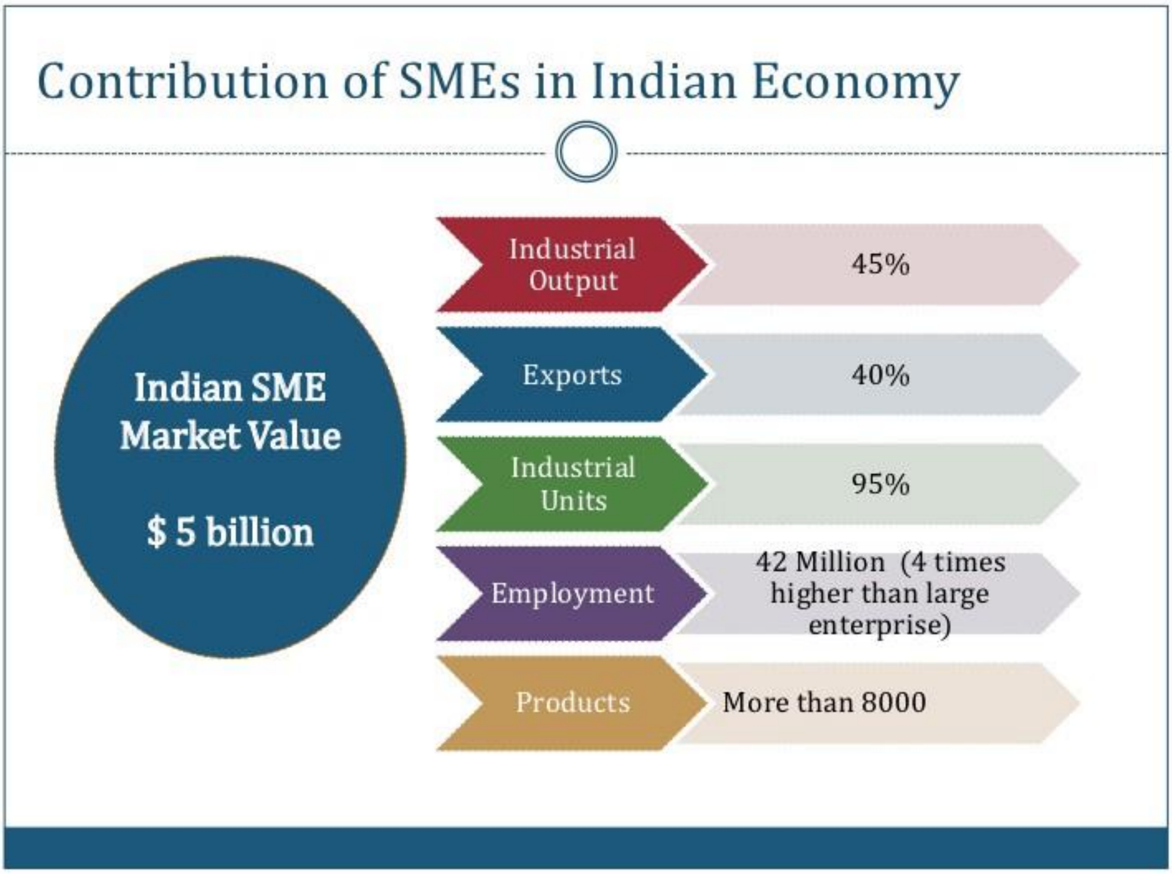
Research Methodology

The study has been fully based on secondary data which has been collected from *ITC, Geneva & DGCI &S, Kolkata* Reserve Bank of India (RBI), Economic Survey, Ministry of Commerce, and Ministry of Finance. In this study last 5 year data has been analysis.

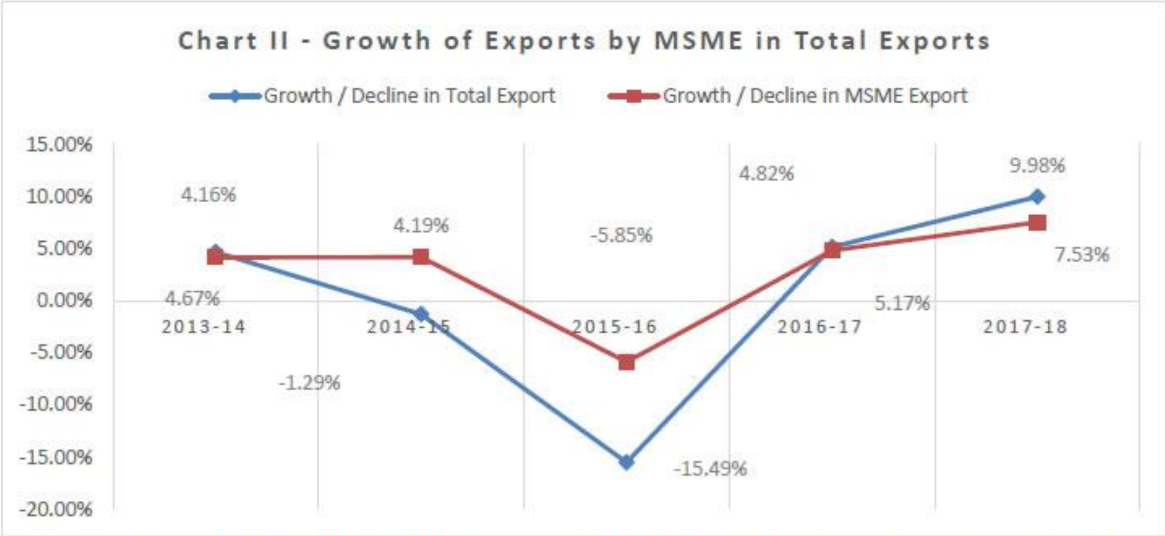
Micro, small and medium enterprises (MSMEs) in India and abroad have demonstrated considerable strength and resilience in maintaining a consistent rate of growth and employment generation during the global recession and economic slowdown. Indian economy during the recent years has shown an appreciable growth performance by contributing to creation of livelihood opportunities to millions of people, in enhancing the export potential and in increasing the overall economic growth of the country. Prompt and appropriate fiscal stimulus, effective monetary policy and huge capital inflows were greatly instrumental in the bounce back situation of the economy. As a catalyst for socio-economic transformation of the country, the MSME sector is extremely crucial in addressing the national objectives of bridging the rural-urban divide, reducing poverty and generating employment to the teeming millions. It is therefore ,essential that India adopts a suitable policy frame work that provides the required impetus to seize the opportunities and create an enabling business environment in order to keep the momentum of growth and holistic development. It is equally important that the MSME sector must address the infrastructural deficiencies and is well empowered to meet the emerging challenges for its sustainable growth and survival in a globally competitive order.



The Micro, Small and medium enterprises of India is an important driving factor for the growth of Indian Economy. These MSMEs not only provide the employment opportunities but helps in the process of industrialization in rural areas simultaneously reducing the unequal income distribution among the residents. The MSMEs contribute significantly in the development of Indian economy through export production, domestic production, low investment requirements, operational flexibility, technology oriented enterprises etc. The SMEs are complimentary to large industries operating in the economy & contribute significantly in the development of the country. On an average this sector has almost 36 million units that provide employment to about 80 million individuals. This sector through the production of 6000 products contributes 8% to GDP of the country. It constitutes the 45% portion of the total manufacturing output and 40% of the total exports of the country. So, this paper has made an attempt to understand the role of MSMEs in providing employment opportunities & push towards the inclusive development of the country.



In India, new economic reforms started in 1991. Globalization results in more challenges and created wide opportunities to the manufacturing industries. The main objectives of economic reforms are: to reduce the government intervention to reduce the tariffs and quantitative restriction on imports, to facilitate to avail foreign technology and to raise the growth of the performance of the industrial sector by removing various constraints, and to improve the efficiency of the manufacturing sector through increased competitiveness. In developing countries like India, Small Scale Industries (SSI) has been one of the major strategies of economic development since Independence. The small scale industry occupies a position of strategic importance in the Indian economy due to its significant contribution in terms of exports, output and employment opportunities as also for balanced regional development. Indian small scale industries played a vital role in the industrial development. SSI units should be the responsibility of industrial growth and development. They contributed approximately 40% of the gross value of output in the manufacturing sector, about 35% of the total exports . Here we explain each industry exports performance. The study is to explore the Indian Small Scale industrial contribution to exports, especially of mentioned industries



*Source: RBI & Press Information Bureau/*Directorate General of Commercial Intelligence and Statistics. *(DGCIS)*

SIDBI : Sphere of Activities

- **Direct Finance:** Assistance to MSMEs, Service sector entities, Resource support to NBFCs/Other intermediaries, Infrastructure, etc.
- **Indirect Finance :** Refinance/STL to Banks, SFCs, etc.
- **Micro Credit :** Pioneers in micro credit movement in the country. Developed several leading MFIs. Assistance through MFIs
- **Promotion & Development :** Organises and supports initiatives for development of MSME sector (EDP, Skill up gradation, RIP, etc.).
- **Associate Institutions:** SVCL, SMERA, ISTSL, CGTMSE & ISARC.
- **Nodal Agency :** For GoI schemes like CLCSS, TUFS, TUFFPI and IDLSS.

SIDBI
भारतीय लघु उद्योग विकास बैंक
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Direct Assistance SIDBI started its direct finance with the object that no bankable project in MSME sector languishes for want of resources. Accordingly, direct finance is provided to fill in the credit gaps by way of supplementing and complementing the efforts of the banks/SFCs/MFIs to meet adequate credit needs of MSMEs at affordable rates. It is also undertaken to showcase lending to the MSME sector is a viable and profitable proposition. Over the years, SIDBI has evolved itself as a onestop institution to meet the various types of credit requirements of the MSME sector by directly offering tailor-made fund based and non-fund based financial products and services. Direct finance is channelised through the Bank's present network of 103 branches all over the country covering more than 600 MSME clusters. The major schemes of Direct Finance are:

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 well-performing 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. This initiative of reverse factoring addresses the delayed payment issues of MSMEs

Vendor Development Programme: Original Equipment Manufacturers (OEMs) of some of the growing sectors are looking up to their vendors to upscale their facilities to support their growth. Some of the OEMs are advising their vendors to relocate facilities either close to their plants to improve inventory management or to new areas where tax benefits are available. With a view to catering to the increasing demand, SIDBI introduced and remodeled from time to time a special vendor development programme to OEMs. Depending upon the comforts provided by the OEM, the scheme provides several flexibilities in fixing financial parameters, appraisal mechanism, etc. Conceptually, the scheme enables us to adopt a customised approach with each OEM. Under the scheme, term loan, working capital loan etc. are provided to the OEM's MSME vendor for setting up new project, expansion, modernisation, etc. based on the recommendation of the OEM

Indirect Assistance SIDBI is primarily a Refinancing Institution. It provides refinance e to augment the resource position of Primary Lending Institutions (PLIs), like banks, SFCs, SIDCs/ SSIDCs, MFIs, etc. so as to enable them to provide greater flow of credit to MSME sector. The Bank is able to access the vast geographical area of the country as the assistance is channelized through PLIs having a network of over 82,000 branches across-the-country. The Bank also provides resource support to institutions / Nonbanking Finance Companies (NBFCs) engaged in financing to large pool of MSMEs. The Refinance support is extended for (i) Setting up of new projects and for technology up gradation / modernisation, diversification, expansion, energy efficiency adoption of clean production technologies etc. of existing MSMEs (ii) Service sector entities and (iii) Infrastructure development and up gradation. The main components of indirect finance are:

• **Resource Support**: SIDBI provides resource support to institutions / Nonbanking Finance Companies (NBFCs) engaged in promotion and development of MSME sector to facilitate channelizing of assistance to a large number of MSMEs and infrastructure projects having linkages to MSMEs.

• **Lines of Credit** (Refinance) in favour of: Banks, State Financial Corporation's (SFCs), State Industrial Development Corporations (SIDCs) and State Small Industries Development Corporations (SSIDCs).

• **Micro Credit Schemes**: Term loan assistance to MFIs for onward lending, Transformation Loan, Privileged Partner Scheme, Term loan to Market Service Providers, Partnership Assistance, Micro Enterprises Loans, and Equity Support to MFIs.

Microfinance Pulse primarily aims to provide insights on trends in the microfinance industry from disbursements to delinquencies to top growing states and top loan categories. The publication gives an opportunity to look into the future prospects, apart from being a repository of all that has taken place in the microfinance sector in the recent past. The second edition of the Microfinance Pulse provides an overview of the microfinance industry as of March 31, 2019.

Microfinance Industry Overview: The microfinance industry has total loan portfolio of `1,78,547 crore as on March 31, 2019 which represents a growth of 40% over March 31, 2018. NBFC-MFIs hold the largest share of portfolio in micro-credit with total loan outstanding of `68,156 crore, which accounts for 38% of total industry portfolio. Banks are the second largest provider of micro-credit, with a loan amount outstanding of `59,999 crore, which includes both direct and indirect lending through BC partnerships, accounting for 34% of total micro-credit universe. SFBs have a total loan amount outstanding of `29,990 crore, with total share of 17%. NBFCs account for 10% and Not-for-Profit MFIs account for 1% of the industry portfolio.

Disbursement Trends: During FY 2019, Loan disbursal grew by 20% in terms of volume. Loan disbursed amount for FY 2019 is `213,074 crore, which has increased by 36% as compared to FY 2018. All India ATS as of FY 2019 is `31,623, which had increased by 13% on Y-O-Y basis. ATS of bank loans is highest at `42,086, whereas ATS of NBFC-MFIs is lowest at `25,850. Highest number of loans in FY 2019 are disbursed in `20,000 - `30,000 ticket size category

. Industry Risk Profile: Delinquency level witnessed improvement across all the DPD buckets. PAR (1-29 DPD), which indicates the early delinquency rates, has reduced from 4.74% in March 2017 to 1.40% in March 2019, indicating improved collections. The risk levels for PAR 60-89 days past due, has reduced from 2.41% in March 2017 to 0.24% in March 2019.

Geographical Concentration: Top 10 states account for 83% of the microfinance industry's gross loan portfolio. West Bengal and Tamil Nadu contribute 34.7% of the top 10 states. Amongst the top states, West Bengal, Tami Nadu, Bihar and Karnataka has portfolio of more than `15,000 crore each.

Top 30 Districts: Microfinance industry has a presence in 619 districts in India. Top 30 districts comprise 25% of portfolio outstanding whereas 213 districts contribute 80% of the portfolio. 111 districts have portfolio outstanding of less than `10 crore.

RECENT INITIATIVES OF SIDBI

SIDBI launched a Rs.10,000 crore 'SIDBI Make in India Soft Loan Fund for Micro, Small & Medium Enterprises (SMILE)' to make available soft loan to MSMEs, in the nature of quasi-equity to meet the required debt-equity ratio and term loan on relatively soft terms for establishment of new MSMEs, as also for pursuing opportunities for growth of existing MSMEs.

Reserve Bank of India (RBI) has granted an "in-principle" approval to three companies including a joint venture between Small Industries Development Bank of India (SIDBI) and National Stock Exchange's NSE Strategic Investment Corporation Limited (NSICL) to set up and operate a new Trade Receivables e-

Discounting System (TReDS) to be formed under the Payment 66 and Settlement System (PSS) Act 2007. TReDS will allow MSMEs to post their receivables on the system and get them financed quickly and at competitive rates, thereby addressing the problem of delayed payments of MSME sector.

"Start-up India" initiative of Government of India is aimed at fostering entrepreneurship and promoting innovation by creating an eco-system that is conducive for growth of startups. The prime objective of the programme is to reduce the regulatory burden on start-ups, thereby allowing them to focus on their core business and keep compliance cost low. The Action Plan is divided across the following areas: (a) Simplification and Handholding, (b) Funding Support and Incentives and (c) Industry-Academia Partnership and Incubation.

As part of up-scaling its initiatives to address the gaps in the start-up ecosystem, SIDBI created an on-line platform "www. sidbistartupmitra.in", which was launched by the Hon'ble President of India on March 17, 2016. The portal enables startup entrepreneurs to get connected with various stakeholders, viz. incubators, mentors, angel networks, venture capital funds, etc. The portal is also supported by Department of Science and Technology [DST], Govt. of India. Around 500 start-ups, 48 incubators and 50 investors had already registered on this platform as at end of March 2016

. India Aspiration Fund (IAF) was launched by SIDBI with a corpus of Rs.2,000 crore to boost to start-up Venture Capital ecosystem in the country. IAF acts as Fund of Funds managed by SIDBI and contributing to MSME-focused VCFs, which enables them to raise private capital, thus enhancing flow of equity to start ups, and growth stage MSMEs in the country.

Conclusion of the Study

1- The Bank would have to follow sound business approach, accountability may be fixed on Branch offices for their business and to maintain relationship or co-ordination. Head office should have to avoid micro level information system is only required to increase the managerial and operational efficiency of the Bank in future.

2- The Branch offices off the corporation have to perform their responsibility which comes with the delegated powers, Therefore monitoring and follow-up should be strengthened.

3- The better customer services are also required to get more business by the Bank. Therefore, regional and branch offices should be acquainted with and well known to the customer through proper media.

4- Branch network should be based on need based so that Bank may get more business. 18- SIDBI has been extending credit to the sector through direct and indirect assistance. Keeping in view the diversified needs of the sector, direct credit assistance is required to be further encouraged.

5- SIDBI should accord primacy to attain corporate governance of international standards. The bank should be committed to protect and enhance the share holders' value.

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