

# CHAPTER - V

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**FINANCIAL INSTITUTION AND  
BANKS ENGAGED IN SSIs**

- V.1 Introduction
- V.2 State Industrial Development Corporations (SIDC)
- V.3 Industrial Development Bank of India (IDBI)
- V.4 Industrial Finance Corporation of India (IFCI)
- V.5 State Small Industries Development Corporation  
(SSIDCs)
- V.6 National Small Industries Corporation (NSIC)
- V.7 State Financial Corporation (SFCs)
- V.8 Institutional Credit to SSI Sector
- V.9 Commercial Bank (CBs)
- V.10 Small Industries Development Bank of India (SIDBI)
- V.11 Critical Assessment

## **CHAPTER - V**

### **FINANCIAL INSTITUTION AND BANKS ENGAGED IN SSIs**

#### **V.1 Introduction**

With the end of the Second World War, the urge for speedier industrial expansion got strengthened. At the same time, there was also great need for modernisation and replacement of obsolete machinery in already established industries. Hence government of India come forward with a series of financial institutions to provide funds to large and small scale industrial sector as under :

- i) Industrial Finance Corporation of India (IFCI)
- ii) Industrial Credit and Investment Corporation of India (ICICI)
- iii) Industrial Development Bank of India (IDBI)
- iv) Industrial Reconstruction Bank of India (IRBI) now called IIBI
- v) Export and Import Bank of India (EXIM Bank)

Recently, the Government has set up the SCICI/ICICI, RCTC, TFCI, IDICI, SFCs and SIDCs. The Narsimhan Committee (1991) called them Development Financial Institutions (DFIs). Small Industries Development Bank of India (SIDBI) was set up

in April 1990 by government of India under special Act of Parliament some of them grant loans and advances to Small Scale Industries sector. We can summarise some of the financial institution in brief. some of these institutions are financing only to large scale industries. Hence, such institutions are described in brief.

All these financial institutions had emerged as part of the industrial policy of government. The birth of State Finance Corporation or Small Industrial Bank of India and any other institutions are the fulfilment of decisions which were declared in the Parliament and hence such institutions have been also included in this study.

## **V.2 State Industrial Development Corporations (SIDC)**

Since 1960, many states and Union Territories have set up State Industrial Development Corporation or State Industrial Investment Corporations (SIICs)

There are 28 SIDCs, which promote industrial development in their respective States and also provide financial assistance to small entrepreneurs and help backward regions. During 1998-99 they sanctioned assistance to the tune of Rs. 2010 crores and disbursed Rs. 1280 crores which was more than previous

sanctioned and disbursed loan by 2.25% SIDCs financial assistance shown in Table No. V.16.

**Table No. V.16**  
**Financial Assistance by SIDC**

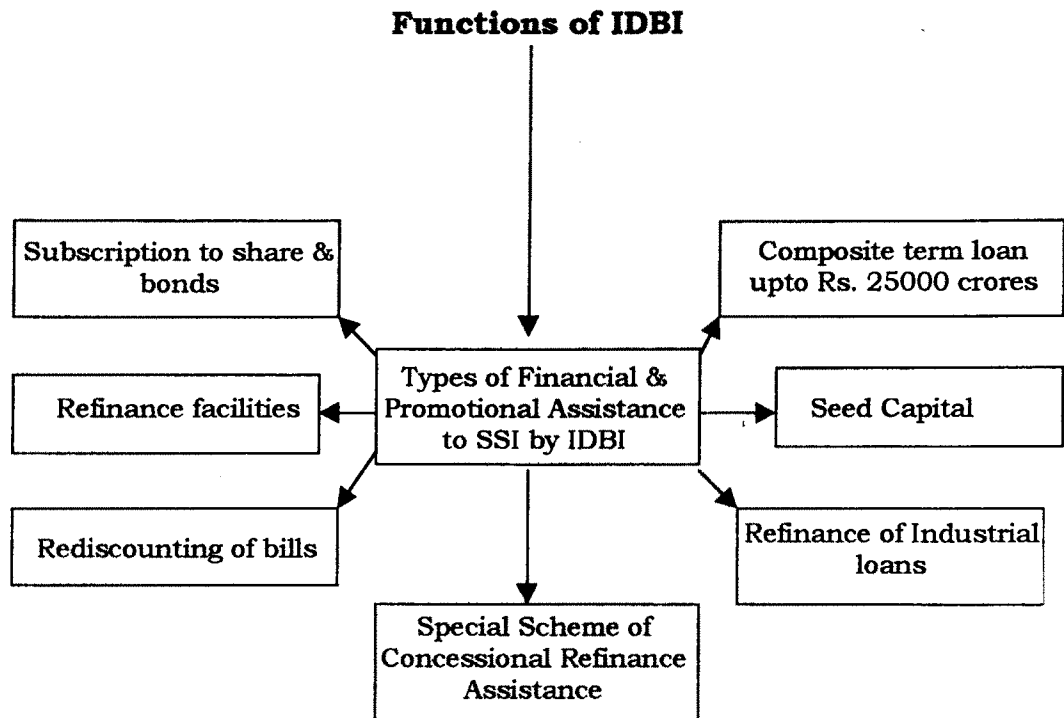
(Rs. in crore)

No.	Particulars	1980-81	1990-91	1998-99
1	Loans sanctioned	19	216	2010
2	Loans disbursed	11	125	1280
3	Percentage of disbursement to loan sanctioned	36.67	36.66	38.91

### **V.3 Industrial Development Bank of India (IDBI)**

The IDBI was established on July 1<sup>st</sup>, 1964 under the Industrial Development Bank of India Act, 1964, as a wholly owned subsidiary of the Reserve Bank of India.

As an apex development bank, the IDBI was playing a leading role upto the formation of SIDBI in the filed of industrial finance and promotion. The IDBI provided following types of finance and promotional assistance to SSI.<sup>2</sup>



#### **V.4 Industrial Finance Corporation of India (IFCI)**

The Industrial Finance Corporation of India was established in 1948 under the IFCI Act, with object of making medium and long term credit more really available to industrial concerns.

Being a development bank the ~~IC~~IFCI has been undertaking a number of development activities. These concluded the following:

- A) Guidance to new tiny, small scale and medium scale entrepreneurs in project identification formulation implementation, operation etc.
- B) Help to new and small entrepreneurs by subsidising the cost of feasibility/project reports, market subsidies, diagnostic

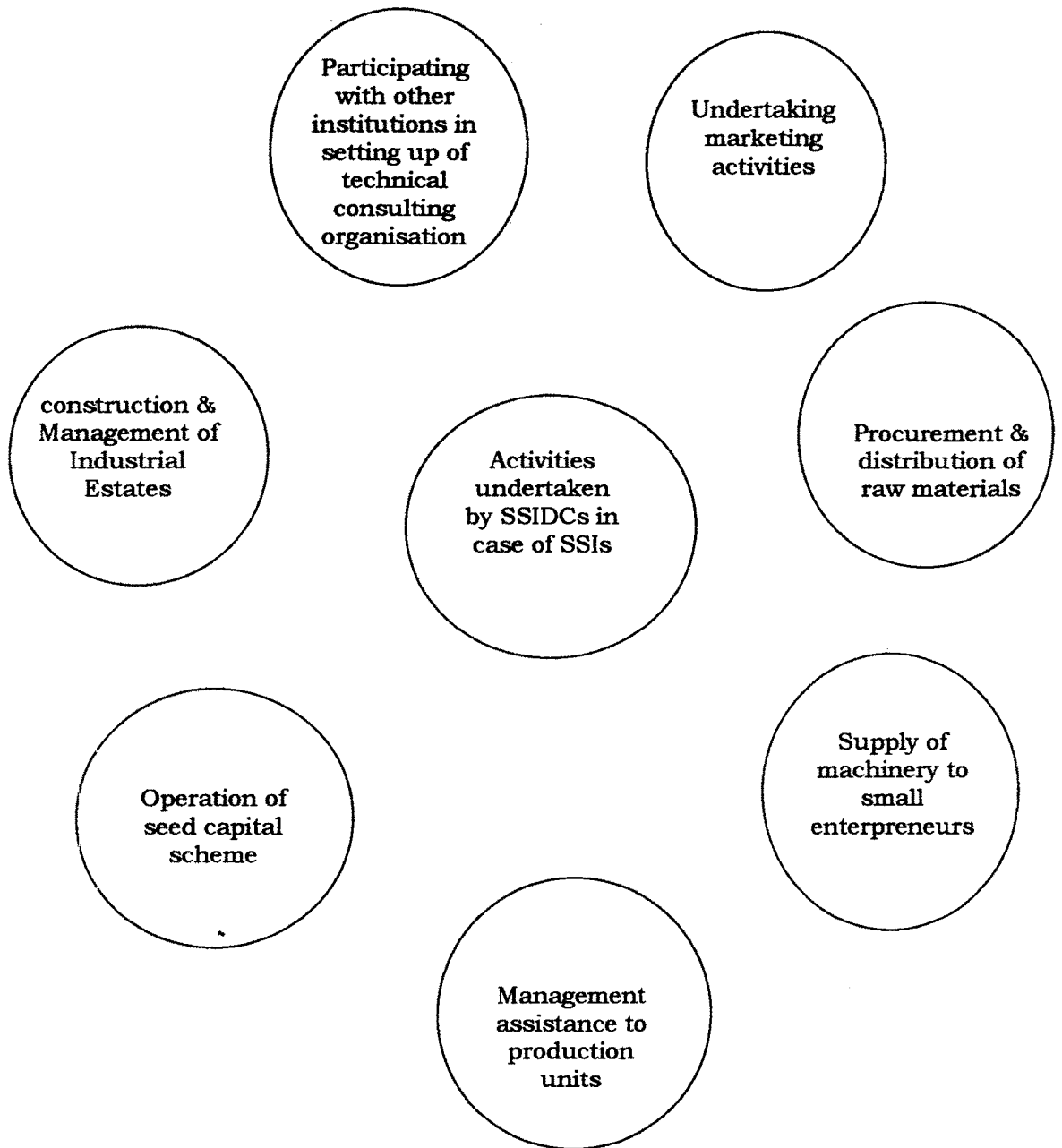
studies, revival of sick units, development of technology and in house R & D efforts.

During 1986-87 the Corporation introduced the scheme of Interest subsidy for Encouraging Quality Control Measures in small scale sectors. As a result of this institution tiny and small scale sector could get the loans at moderate rate of interest.

#### **V.5 State Small Industries Development Corporation(SSIDCs)**

State Small Industries Development Corporation have been set up to serve the needs of small scale industries in the respective States/Union Territories All the SSIDCs have been incorporated under the companies Act so as to lend them the desired operational flexibility to undertake variety of activities for benefit of small scale industries.

The specific activities undertaken by SSIDCs as shown in following chart.





In addition to the above, SSIDC have been providing infrastructural facilities like sheds, godowns and common production facilities, technical and consultancy services, particularly to the unemployed like preparation of feasibility reports formulation of project reports and planning for modernisation/diversification of existing product range and implementation of projects.

SSIDCs also arrange of marketing of finished products of small industrial units both in domestic as well as international markets under their Marketing Assistance Scheme.

Many SSIDCs are actively associated with the setting up of emporia to assist small scale units in marketing their products. The showrooms established are consumer goods oriented and are aimed at ensuring reasonable prices to both products and the consumers.

#### **V.6 National Small Industries Corporation (NSIC)**

The National Small Industries Corporation Ltd. was established in 1956 is the institution which is established to finalise the small scale units only. The NSIC with its head office at Delhi has regional/sub offices in several places.

The main functions of NSICs are the following :

- A) Supply of machinery, both indigenous and imported on hire purchase to help setting up of new small ancillary units and to modernise existing one.
- B) The Corporations Prototype Development and Training Centres at Okhlo, Howruh, Rajkot and Madras and the sub centres at Kashipur, Aligarh and Dindigril, demonstration cum training centre at Guwahati develop prototypes which may be transferred along with know-how to manufacturing units for commercial production and renders training in various engineering trades.
- C) Under the Raw Materials Assistance Scheme, Small Scale Units are supplied raw materials, imported and scarce indigenous ones on a continuing basis, giving them also the benefit of bulk purchases.
- D) NSIC helps the marketing of products of small scale units under the Government stores purchase programme as well as under its Internal Marketing Programme, through consortia approach. In field of export marketing the corporation has adopted a single window assistance programme.

- E) NSIC undertakes small industries projects on turn-key basis and provides total services from feasibility studies to installation and commissioning of plant.<sup>4</sup>

#### **V.7 State Financial Corporations (SFCs)**

There are both Small Scale and Medium Scale industries required financial assistance and for this purpose the State Governments had set up the State financial Corporations.

The Government of India passed the SFCs Act in 1951 and made it applicable to all the States. The authorised capital of a State government within the minimum and maximum limits of Rs. 50 lakhs and Rs. 5 crores and is divided into shares of equal value which are taken by the respective State governments the Reserve Bank of India, Scheduled Banks, Co-operative Banks, Other institutions such as Insurance Companies and Investment Trusts and Private parties.

The management in case of the State Corporation is similar to that of the IFCI. It has a Board of Directors, Managing Directors and Executive Committee. The Corporation can open offices at different offices at different places within the State.

**Functions of SFCs**

A State Financial Corporation can :

- A) Guarantee loans raised by industrial concerns which are repayable within a period not exceeding 20 years and which are floated in the public market;
- B) Underwrite the issues of stocks, shares, bonds or debentures of industrial concerns;
- C) Grant loans or advances to industrial concerns repayable within a period not exceeding 20 years; and
- D) Subscribe to debentures floated by industrial concerns.

SFCs act as agents for their respective State Governments for sanctioning or disbursing loans to SSIs under the State Aid to Industries Act. The SFCs have also been entrusted with IDA (International Development Association) credit for assisting small and medium industrial units. The bulk of assistance granted by the SFCs is to SSIs including road transport operators, liberal financial assistance on concessional terms to industrial units in the specified backward areas, assistance to technician entrepreneurs.

There are at present 18 SFCs and almost every big State has a financial corporation of its own.

**Table No. V.17**

**Public Sector Banks Credit to SSI Sector**

(Outstanding Credit Rs. in crore)

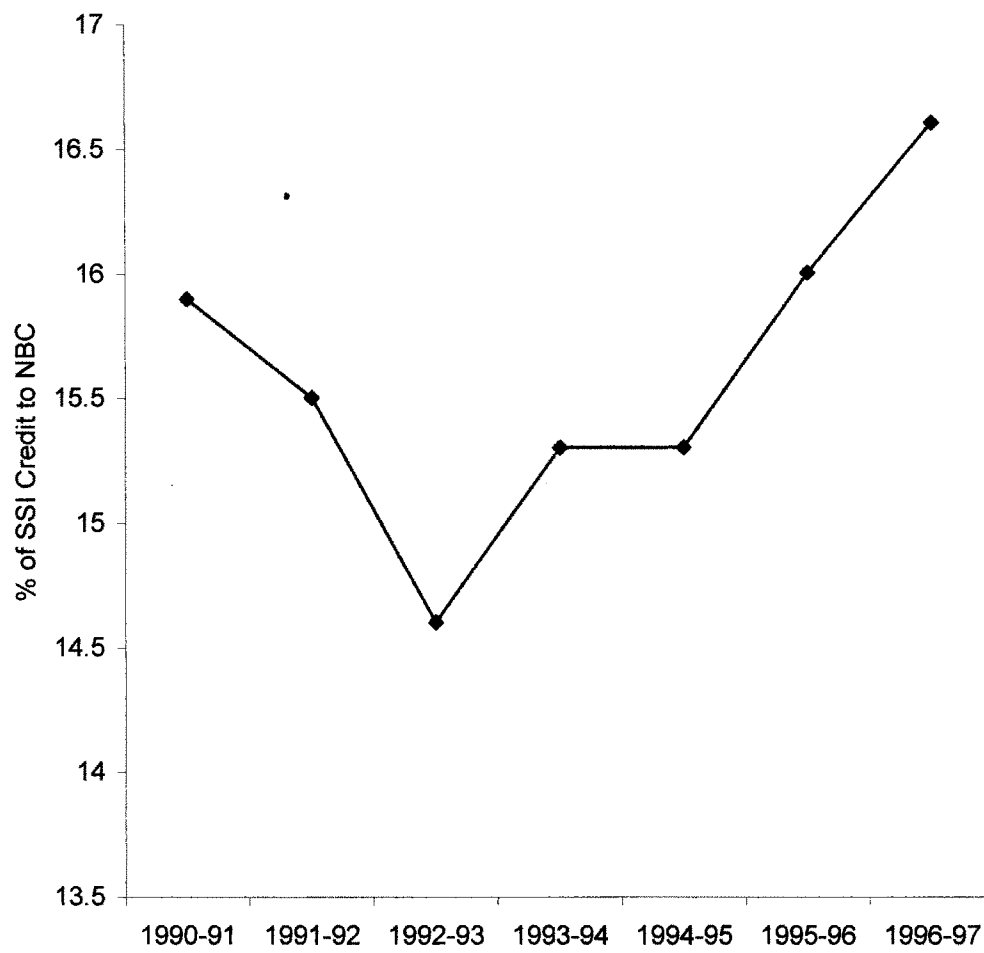
Year	Net Bank Credit	Credit to SSI Sector	Percentage of SSI Credit to NBC
1990-91	105632	16783	15.9
1991-92	112160 (6.18)	17398 (3.66)	15.5
1992-93	132782 (18.39)	19388 (11.44)	14.6
1993-94	140914 (6.12)	21561 (11.21)	15.3
1994-95	189038 (19.96)	25843 (19.86)	15.3
1995-96	184391 (9.08)	29485 (14.08)	16.0
1996-97	189684 (2.87)	31542 (6.98)	16.6
CGR (%)	11.27	12.24	

Figures in brackets are percent change over previous years.

Source : Small Scale Industries - Policy & Guidelines, RBI, 1996.

Diagram No. V.5

## Public Sector Banks Credit to SSI Sector



The above diagram is drawn on the basis of the data in Table No. V.17.

- 1) PSBs outstanding credit to SSI sector has almost doubled over the last six years.
- 2) The percentage share of credit to SSI, net bank credit to SSI sector has also increased to touch 16.6% in 1997 from 15.9% in 1991.
- 3) The compound growth rate for credit to SSI has been relatively high. However, the growth rate of credit has been low as compared to growth rate of production from SSI sector, which works out to be 17.79% for the same period.

During 1998-99 SFCs had sanctioned loans aggregating Rs. 2490 crores and disbursed Rs. 2120 crores over 70% of total assistance sanctioned and disbursed by all SFCs. Attempt are now being made to strengthen and improve the effectiveness of SFCs as regional development banks.

#### **V.8 Institutional Credit to SSI Sector**

We have made an attempt to capture the increasing role of PSBs in financing SSI sector and details are presented in Table No. V.17. it may be seen from the table that PSBs outstanding credit to SSI sector has almost doubled over the last six years. The percent share of credit to SSI to net bank credit to SSI sector has also increased to touch 16.6% in 1997 from 15.9% in 1991.

**Table No. V.18**  
**Inter State Disparity in SCBs Credit to SSI Sector**

State	(Amount in Rs. crore)											CGR %
	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96					
Andhra Pradesh	806.60 (29570)	940.78 (29780)	1076.20 (38720)	1090 (41420)	1189.62 (45870)	1231.19 (49160)	1740.18 (69492)					11.09 (14.27)
Assam	119.68 (28970)	217.58 (26230)	193.89 (13790)	215.04 (15030)	205.34 (14300)	224.53 (21800)	206.78 (20078)					6.49 (-5.01)
Bihar	495.49 (12910)	574.59 (12090)	586.21 (11620)	674.25 (12520)	702.54 (13550)	736.65 (15340)	625.05 (13021)					5.03 (2.37)
Gujrat	1055.26 (66170)	1320.45 (75790)	1435.30 (91180)	1703.43 (06220)	2004 (40430)	1931.69 (143100)	2239.25 (1658.79)					12.72 (17.27)
Haryana	472.26 (71269)	552.05 (71970)	581.87 (78420)	632.68 (88540)	637.41 (91690)	826.89 (120980)	868.95 (127129)					10.23 (11.04)
Himachal Pradesh	97.40 (31190)	106.60 (30930)	102.46 (33800)	109.42 (36730)	106.40 (39440)	125.55 (498.30)	142.98 (56747)					5.86 (9.43)
Jammu & Kashmir	77.36 (27700)	100.24 (33050)	97.92 (24410)	109.55 (24590)	116.99 (25550)	113.90 (28640)	228.31 (57412)					14.65 (7.20)
Karnataka	855.36 (38450)	1034.93 (39780)	1138.58 (52580)	1046.83 (52580)	1080.07 (59860)	1168.95 (67980)	1700.84 (98918)					8.31 (16.50)
Kerala	460.50 (25540)	582.99 (29760)	616.27 (33650)	718.41 (41390)	732.73 (37430)	808.47 (45610)	1245.92 (70284)					14.59 (15.35)
Madhya Pradesh	567.96 (20540)	693.58 (21340)	692.07 (20970)	732.61 (23540)	807.52 (27910)	851.70 (32080)	943.04 (35516)					7.73 (10.30)



Maharashtra	2010.35 (121680)	2546.58 (124730)	2805.59 (111320)	3253.19 (157380)	3243.52 (160210)	3936.53 (232360)	6581.27 (388475)	17.75 (19.94)
Orissa	252.17 (12480)	235.35 (9880)	281.57 (12020)	304.28 (11510)	325.55 (12990)	356.30 (13900)	375.72 (14652)	8.06 (4.54)
Punjab	811.79 (72390)	971.24 (77030)	981.36 (74180)	1045.20 (88060)	1224.07 (105610)	1355.07 (18250)	1676.58 (146310)	11.56 (12.60)
Rajasthan	439.97 (21090)	481.80 (21610)	489.15 (22540)	546.22 (26110)	580.70 (28450)	658.27 (34830)	806.76 (42682)	9.79 (12.52)
Tamil Nadu	1438.80 (55940)	1789.92 (55740)	1889.36 (79720)	2209.29 (89720)	2475.36 (79140)	2951.55 (112610)	4120.12 (157193)	17.13 (7.43)
Uttar Pradesh	1113.27 (24280)	1564.69 (24380)	1609.49 (29930)	1791.55 (29930)	1868.43 (31410)	2019.92 (33720)	2346.24 (39171)	10.90 (8.60)
West Bengal	904.96 (15050)	1370.18 (16530)	1382.00 (15210)	1584.11 (16410)	1593.63 (16570)	1667.46 (17770)	1862.55 (19845)	10.13 (3.86)
All India	12911.80 (34360)	16479.17 (35220)	17353 (30160)	19294.78 (41350)	21050.30 (45420)	22851.68 (52380)	30910.20 (70858)	13.18 (12.81)
S. D.	510.74 (28940)	665.51 (30390)	722.58 (31520)	839.03 (41140)	879.50 (45410)	1028.63 (59490)	1626.62 (92250)	
C. V. (%)	72 (73)	75 (74)	77 (74)	80 (81)	79 (83)	83 (89)	100 (103)	

Figures in brackets are outstanding per account in Rs. crore  
+ Amount outstanding per account for 1995-96 is calculated by using the number of account of 1994-95.  
Source : Computed from various Basic Statistical Returns and Statistical Tables Relating Banks in India, RBI.

Further, during 1990-91 to 1996-97 the compound growth rate for credit to SSI sector has been relatively high (12.24%) as compared to the growth in net bank credit (11.27%). However, the growth rate of bank credit has been low as compared to the growth rate of production from SSI sector which works out to be 17.79% for the same period.

The Table No. V.18 provides details of Statewise outstanding amount of credit to SSI sector by SCBs, following observations may be made from the Table.

- A) During the reference period, the outstanding amount (stock) to SSI sector by SCBs has shown upwardly trend in all the States with an all India compound growth rate of 13.18%. The States of Maharashtra and Tamil Nadu which accounted for 16 and 11% of the total SCBs credit in 1989-90 have improved their share in 1995-96 to 21 and 13% respectively in 1995-96.

The compound growth rates for these State excepting Jammu & Kashmir, have been quite low and below that of all India growth rate.

- B) In order to get a better picture of inter state variation from the table, in Andhra Pradesh, Karnataka, Kerala the per account outstanding amount has shown a compound

growth rate of around 15%. While in states of Gujarat, Maharashtra and Tamil Nadu, the same was more than 17%.

- C) However, interstate variation in credit per account as indicated by CV, has been relatively larger as compared to total to SSI.

**Table No. V.19**

**Statewise ratios of SSI Credit to SSI Outputs**

No.	State	% share to credit	% share to output	Ratios
1	Andhra Pradesh	6.293	6.901	0.9121
2	Assam	1.086	0.896	1.2130
3	Bihar	3.716	4.763	0.7803
4	Gujrat	10.606	11.405	0.9299
5	Haryana	3.372	3.7745	0.9005
6	Himachal Pradesh	0.563	0.477	1.11792
7	Jammu & Kashmir	0.619	0.187	3.3131
8	Karnataka	5.761	4.562	1.2628
9	Kerala	3.876	2.143	1.8086
10	Madhya Pradesh	4.272	22.427	0.1905
11	Maharashtra	17.158	5.973	2.8725
12	Orissa	1.722	2.024	0.8507
13	Punjab	6.475	4.679	1.3839
14	Rajasthan	3.072	3.384	0.9076
15	Tamil Nadu	13.095	11.096	1.1801
16	Uttar Pradesh	9.884	9.775	1.0112
17	West Bengal	8.430	5.565	1.549
18	All India	100	100	1.000

Source : Small Scale Industries, Policy & Guidelines, RBI, 1997.

From Table No. V.19 it is evident that the nine States (whose ratio are more than one credit received is in excess of their respective contribution to the total output.

**Table No. V.20**  
**SFCs Credit to SSI Sector**

Year	Rupee Loans	Under writing or Direct subscriptions	Seed/Special capital	Total	Per Unit Credit* (Rs. 000)
1989-90	1149.9	-	6.6	1156.8	-
1990-91	1263.4	-	7.4	1270.8	-
1991-92	1529.8	-	7.0	1536.8	498
1992-93	1546.2	6.3	4.9	1557.4	530
1993-94	1559.1	1.4	2.9	1563.4	644
1994-95	1874.4	4.4	1.3	1880.9	849
1995-96	2948.8	11.3	1.0	2961.1	1164
1996-97	2676.8	1.4	0.2	2678.4	959
CGR(%)	13.68	-	-	13.59	18.29

\*Amount sanctioned.

Source : Report on Development Banking in India (1993-94 and 1996-97), IDBI, Bombay

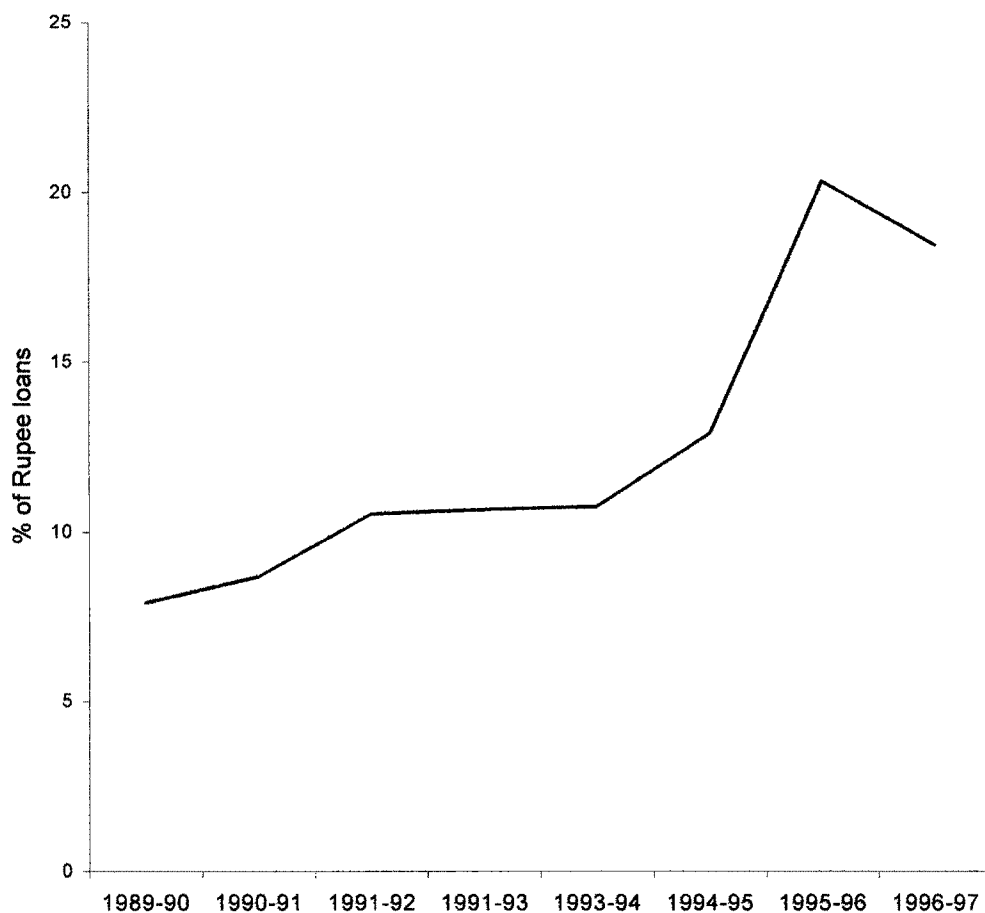
**Table No. V.21**  
**Percent of Rupee loans by SFCs to SSI**

Year	Rupee loans	% of loans
1989-90	1149.9	7.90
1990-91	1263.4	8.68
1991-92	1529.8	10.52
1992-93	1546.2	10.63
1993-94	1559.1	10.72
1994-95	1874.4	12.88
1995-96	2948.8	20.27
1996-97	2676.8	18.40

Source : Drawn from the data indicated in the Table No. V.20.

Diagram No. V.6

SFCs Credit to SSI Sector



- 1) Above diagram No. V.6 drawn on the basis of data in Table No. V.21. % of Rupee loans by SFCs to SSIs during 1989-90 to 1996-97 shows that SFCs credit (flow) to SSI sector has shown a relatively high growth rate of 13.59%, which is slightly higher than the growth rate for commercial banks credit (stock).
- 2) Between 1989-90 and 1996-97 SFCs credit has increased by two or a half times indicating that the rate of growth is higher as compared to working capital credit.

The details of SFCs credit to SSIs between 1989-90 and 1996-97 are presented in Table No. V.20. It may be seen from the Table SFCs credit (flow) to SSI sector has shown relatively high growth rate of 13.59% which is slightly higher than the growth rate for commercial banks credit. (stock). In addition, between 1989-90 and 1996-97, SFCs credit has increased by almost two and a half times indicating that the rate of growth for term credit has been relatively higher as compared to working capital credit.

**Table No. V.22**

**Inter-State disparity in SFCs Credit to SSI Sector**

State	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	CGR (%)	R2
Andhra Pradesh	128.3	154.7	158.9	126.2	79.8	86.3	116.8	112.5	-5.342	0.297
Assam	9.3	11.2	10.6	6.9	4.7	4.7	3.7	2.2	-19.965	0.860
Bihar	31.10	27.5	14.0	6.5	0.6	0.3	4.1	8.5	-32.071	0.312
Gujrat	106.6	132.4	155.2	180.6	206.1	175.1	240.0	167.8	8.231	0.590
Haryana	33.7	38.4	51.7	91.8	115.2	128.2	231.6	130.2	29.007	0.554
Himachal Pradesh	23.0	12.9	14.1	14.1	12.2	15.2	20.0	15.5	-0.578	0.004
Jammu & Kashmir	32.2	33.4	34.6	18.9	6.2	1.6	0.8	1.0	-4.698	0.890
Karnataka	147.0	190.7	248.5	299.8	308.0	389.7	484.6	556.8	20.069	0.981
Kerala	56.4	60.2	60.6	65.1	68.4	75.4	139.7	186.9	17.151	0.762
Madhya Pradesh	44.5	44.7	38.9	45.5	43.0	39.9	61.8	68.2	5.664	0.439
Maharashtra	72.2	99.2	158.5	154.7	180.5	262.8	603.8	323.0	28.698	0.845
Orissa	56.1	49.9	50.8	49.3	45.8	35.1	54.4	67.1	0.621	0.006
Punjab	48.7	59.3	66.0	70.9	74.4	70.3	69.2	73.9	4.791	0.645
Rajasthan	65.4	80.9	104.7	107.5	106.3	120.7	131.7	122.1	8.980	0.812
Tamil Nadu	93.5	103.2	161.5	130.1	198.3	246.9	320.7	341.1	10.960	0.940
Uttar Pradesh	152.8	121.7	146.0	127.6	75.2	179.9	389.3	422.7	16.699	0.415
West Bengal	42.1	42.8	43.3	31.6	22.9	30.7	47.9	50.7	0.611	0.003
Average	67.2	74.3	89.2	89.9	91.0	109.3	171.8	155.9	13.587	0.877
CV (%)	65.0	70.0	78.0	85.0	95.0	101.0	106.0	104.0		
All India	1156.5	1279.8	1536.8	1554.4	1563.4	1880.9	2961.1	2678.4	13.609	0.877

Source : Computer from various Basic Statistical Returns, RBI,

National Bank News Review

There are 18 SFCs in the country of which 17 were setup under SFCs Act of 1951. Tamil Nadu Industrial Investment Corporation Ltd. established in 1949 under Companies Act also functions as SFCs. The details of Statewise SFCs credit (disbursements) are given in Table No. V.22. It may be seen from the Table that in the States of Uttar Pradesh, Karnataka, Andhra Pradesh, Gujarat and Tamil Nadu, the SFCs credit has been well above the average throughout the study period. Contrarily, Assam, Bihar, Himachal Pradesh, Orissa, Punjab, West Bengal and Madhya Pradesh accounted for not even half of the average during the reference period.

**Table No. V.23**

No.	States	1989-90	1990-91	1991-92
1	Andhra Pradesh	14960	16580	14800
2	Assam	8180	8750	7380
3	Bihar	4320	3580	1670
4	Gujrat	13590	15360	16360
5	Haryana	4860	5160	6470
6	Himachal Pradesh	20710	11076	11590
7	Jammu & Kashmir	16200	15410	15270
8	Karnataka	19820	23750	28070
9	Kerala	9770	7680	7000
10	Madhya Pradesh	2770	2590	2110
11	Maharashtra	122700	16550	23310
12	Orissa	35000	31050	30780
13	Punjab	4230	4760	4910
14	Rajasthan	10910	12970	16250
15	Tamil Nadu	8700	8910	12070
16	Uttar Pradesh	8230	5600	5890
17	West Bengal	3060	3060	3040
18	Average	11690	11340	12170
19	All India	8450	8480	9380
20	CV (%)	71	69	72

Source: Computer from various Basic Statistical Returns, RBI

SFCs mainly provide term capital/seed capital assistance, the unit covered by them are fairly big in terms of investments and credit requirements and are essentially registered with State/UT Directorate of Industries, while financing SSIs we have made an attempt to examine the interstate variation in SFCs credit to SSI unit registered on permanent basis with State/UTs Directorate of Industries and covered by SIDO. The data on commutative number of SIDO units are available for only three years and details are presented in Table No. V.23. A thorough examination of the Statewise details of SFCs credit reveals that majority of States which had relatively high bank credit have relatively low SFCs credit and vice-versa. It is rather striking that the flow of credit from SFCs in Orissa and Jammu & Kashmir has been relatively high as compared with States like Tamil Nadu, Gujarat and Punjab. Further, the C.V. for SFCs credit has been comparatively low at around 70% suggesting that the disparity in flow of SFCs credit is relatively low as compared to credit from banks. Recent figures of SFCs credit loan sanctioned and disbursed is shown in the Table No. V.24.



**Table No. V.24**  
**Financial Assistance by SFCs**

No.	Particulars	1980-81	1990-91	1998-99
1	Loans sanctioned	370	1860	2490
2	Loans disbursed	250	1270	2120
3	% of disbursement to loans sanctioned	67.57	68.28	85.14

### **V.9 Commercial Banks (CBs)**

Commercial Banks are a very important source of finance for the industry. The industrial sector is getting around 50% of the total banks credit.

Particularly since the major bank nationalisation of 1969, there has been a substantial expansion of the bank branch network and a substantial growth of the bank deposits and credits.

In respect of term finance the commercial banks, besides providing term credit and subscribing to the shares and debentures, indirectly participate in term finance by subscribing to the shares and debentures.

Schedule banks have been permitted to hold in their own investment portfolio shares and debentures of the private corporate sector developing on them through their underwriting and merchant banking commitments.

The shift in favour of the "priority sectors" led to a decline in the share of the industrial sector in the total bank credit. Today, the industrial sector accounts for about half of the total bank credit compared to over two third period to the nationalisation of 1969. This decline in share has been confined to medium and large scale sectors. Small Industry is a priority sector and there has been a very significant increase in the proportion of the credit.

Flow to this sector, in the two decades between March, 1968 and March 1987, the share of SSIs in the total bank credit has doubled i.e. from 6.9% to 14.6%. On the other hand the share of the medium and large industries declined from 60.61% to 35.5% during this period.<sup>5</sup>

#### **V.10 Small Industries Development Bank of India (SIDBI)**

Considering the high demand for loan from small scale sector, the Government of India decided to establish a separate Bank for Small Scale Industries. This is one of the rational achievement in industrialisation of Indian economy.

SIDBI was set up on 2<sup>nd</sup> April, 1990 by the Government of India under a special Act of the Parliament as a wholly owned subsidiary of IDBI. SIDBI has been taken over the outstanding portfolio of IDBI relating to the small scale sector worth over

Rs. 4000 crores. The authorised capital of SIDBI is Rs. 250 crores which could be increased to Rs. 1000 crores.

### **Role of SIDBI**

SIDBI is now the principal financial institution for promotion financing and development of small scale industries in the country.

Accordingly, SIDBI has taken over responsibility of administering Small Scale Industries Development Fund and National Equity Fund which were earlier administered by IDBI.

SIDBI makes use of the existing banking and financial institutions, such as the commercial banks, co-operative banks and RRBs, SFCs and SIDCs which have a vast network of branches of all over the country. As many as 870 institutions are eligible for assistance from SIDBI.

### **Functions of SIDBI**

Important functions of SIDBI are as follows :

- A) SIDBI refinances loans and advances extended by primary lending institutions to SSIs and also provides resources support to them.

- B) SIDBI discounts and rediscounts bill arising from sale of machinery to or manufactures by industrial units in the small scale sector.
- C) SIDBI extends seed capital/soft loans assistance under National Equity Fund, Mahila Udyam Nidhi and Mahila Vikas Nidhi and Seed Capital Schemes through specified lending agencies.
- D) SIDBI grants direct assistance as well as refinance loans extended by primary lending institutions for financing export of products manufactured by industrial concerns in the small scale sector.
- E) SIDBI provides services like leasing, factoring etc.
- F) SIDBI extends financial support to National Small Industries Corporations for providing, leasing hire purchase and marketing support to industrial units in the small scale sector.

### **Progress And Growth of SIDBI**

Some of the salient features of progress and growth of SIDBI can be listed as follows :

- A) The extent of refinance against cash credit sanctioned by banks under single window scheme has been

widened by making the proposals for rehabilitation, modernisation and technology upgradation of existing units.

- B) The limit of term loans under Automatic Refinance Scheme (ARS) was initially fixed by Rs. 10 lakh but was raised later to Rs. 50 lakhs and the extent of refinance has been raised from 75% to 90%.
- C) SIDBI has introduced equipment financing for assistance to existing well run small scale units for technology upgradation/modernisation during a year.
- D) SIDBI has introduced a refinance scheme for resettlement of Voluntarily Retired Workers of National Textile Corporation (NTC) and helps them to buy upto 4 looms.
- E) SIDBI has set up a venture capital fund to assist entrepreneurs.

During 1998-99 financial assistance sanctioned and disbursed by SIDBI amounted to Rs. 8880 crores and Rs. 6280 crores respectively,<sup>6</sup> i.e. shown in Table No. V.25

**Table V.25**  
**Financial Assistance by SIDBI**

(Rs. in crore)			
No.	Particulars	1990-91	998-99
1	Loan sanction	2410	8880
2	Loan disbursed	1840	6280
3	Percentage disbursement to loans action	43.29	41.42

Source : Ruddar Datt, K. P. M. Sundaram, Indian Economy

### V.11 Critical Assessment

Commercial Banks continue to play an important role in financing SSI sector. However, the growth rate of bank credit has been low as compared to the growth rate of production from SSI sector.

This forces us to conclude that the banking sector has in way, failed to meet the increasing credit requirements of SSI sector, along with increasing institutional credit to SSI sector, the interstate disparities in distribution have also widened. In fact, interstate variation in credit to SSI sector from Banks a major source of finance for SSI sector has widened between 1989-90 and 1995-96. The banks credit to A & V sector has shown relatively low growth rate and the interstate variation has been relatively low as compared to total SSI credit. We get a different picture of disparity when credit is juxtaposed with output. The ratios of credit to output indicates that the States of Madhya Pradesh, Bihar and Orissa are extremely credit deficit States. Contrarily,

Jammu & Kashmir, Maharashtra, Kerala, West Bengal, Karnataka and Punjab received SCBs credit in excess of their respective contribution to the total SSI output.

It is interesting to note that the credit from SFCs has shown relatively higher growth rate as compared to banks credit. It is disturbing to observe that interstate disparity in SFCs credit has also widened during the reference period. There seems to be a sort of complementary relationship between banks and SFCs in financing SSI sector. Majority of the States which had low bank credit and vice-versa and this in a way point to the above observation.

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