INTRODUCTION

The need for establishment of special financial institutions was felt by India long before its Independence. In the late forties, right after the Second World War there was a paradigm shift in the approach to lending for Industrial projects from security for loans to income or cash flow from the project and there existed gap between demand and supply of long term funds in the country. Even some expert Committees recommended the establishment of special financial institutions to fill in this gap but those recommendations did not find favour with the British Government. A need was felt for special financial institution for industrial development immediately after India became Independent. As an integral part of the broad strategy of planned economic development, a battery of development finance institutions (DFIs) came into being. From a modest beginning with the setting up of Industrial Financial Corporation of India in 1948 with an objective of making available the long and medium term credit to the industrial sector. The structure of DFIs was strengthened and diversified from time to time both by addition of newer institutions with more flexible structure, and by enlarging the resource and the scope of functions of the existing institutions. The Government of India (GOI) and Reserve Bank of India (RBI) has been instrumental in devising a multi agency system to ensure credit dispensation to different sectors of the economy. The distinctive feature of the multi agency set up is that each of the major institution caters to the need of a particular segment of the economy, eg. agriculture, housing, exports, etc.

In wake of financial sector reform, the opening of the economy and consequent competition amongst various institutions, the credit delivery
system in the country underwent a metamorphic change. The setting up of new private sector banks and issuance of license of foreign banks helped a lot in enhancing the flow of credit to different sectors. In view of the change in perception and the provision for more availability of credit to industries in general and for SSI sector in particular, there has been a pick-up in the financial assistance from banks and financial institutions during the recent years.

The present structure consists of:

APEX LEVEL FINANCIAL INSTITUTION:

➢ Small Industries Development Bank of India. (SIDBI)

STATE LEVEL INSTITUTIONS:

➢ State Financial Corporations (SFCs)

➢ State Industrial Development Corporations (SIDCs)/State Industrial Investment Corporations (SIICs)

➢ State Small Industries Development Corporations (SSIDCs)

BANKS:

➢ Commercial Banks (CBs)

➢ Regional Rural Banks (RRBs)

➢ Co-operative Banks
OTHER AGENCIES:

- National Bank for Agriculture and Rural Development (NABARD)
- Khadi and Village Industries Commission (KVIC)
- National Small Industries Corporation Limited (NSIC)
- North Eastern Development Finance Corporation Limited (NEDFL)

Small Industries Development Bank of India (SIDBI) under an Act of Parliament, as an All India Principal Financial Institutions for promotion, financing and development of SSI sector and for coordinating the functions of the institutions engaged in similar activities became operational on April 2, 1990 and has completed 19 years of service to the small scale sector. SIDBI was set up at the time when the Indian economy was passing through the difficult phase, necessitating the launching of structural reforms process and stabilization programme through multi-disciplinary measures in the areas of industrial policy, public sector, fiscal policy, foreign investment, trade policy, monetary and credit policies.

Small Industries Development Bank of India (SIDBI) was set up as a wholly-owned subsidiary of IDBI by an Act of Parliament in 1989, commenced its operations from April 2, 1990 by taking over the outstanding portfolio and activities of IDBI pertaining to small sector. With the proposal of Union Budget 1998-99 SIDBI was delinked from IDBI to play its apex role in Small Scale Industries credit provisions more effectively. The basic idea underlying the formation of SIDBI was to
foster the growth of small scale sector which occupies a pivotal position in Indian economy. The Bank has been assigned the role of principal financial institution for promotion, financing and development of industry in the small, tiny and cottage sector and to coordinate the functioning of the institutions engaged in the similar activities. It pays concentrated attention to the multi-dimensional growth and development of industries in small scale sectors with special emphasis on the village, cottage and tiny sectors.

As an apex Development Bank, SIDBI was expected to play a more proactive role in reaching out financial and support services to SSIs, with the help of existing credit delivery system and support service agencies. Besides, co-promoting new intermediaries, expanding its own branch network of institutions engaged in development of SSI, SIDBI developed tailor made schemes catering to specific requirements of SSIs, thus supplementing the efforts of Primary Lending Institutions (PLIs). SIDBI’s operations have three major dimensions: indirect assistance, direct assistance and promotional and developmental assistance. The indirect assistance schemes of SIDBI envisage credit to SSIs through a large network of Primary Lending Institutions spread across the country with a vast branch network. The indirect financial assistance is provided by way of refinance and bill rediscounting scheme. The objective behind SIDBI’s direct assistance scheme has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for SSIs. Accordingly, SIDBI’s product for direct lending has been structured on the basis of such gaps with a view of mitigating specific problems faced by SSI such as delayed payment of receivables, obsolescence of technology, marketing inadequacies,
insufficient export credit, lack of suitable infrastructure, etc. The direct assistance is provided in form of direct discounting of bills, equity assistance and resource support to institutions and agencies engaged in the promotion and development of SSIs. The range of assistance extended by SIDBI directly covers the setting up of new units, expansion, technological upgradation and modernization of existing units, direct discounting of bills both for equipment and components, working capital term loans, venture capital, foreign term loans, marketing finance, infrastructural development assistance, etc. The Bank operates these schemes of direct assistance through its own network of 56 branches spread across the country. Apart from providing direct and indirect financial assistance to SSI sector, SIDBI does play a significant role by way of its promotional and developmental activities. For promotion and development of SSI, the Bank operates a number of schemes and programmes for enterprise promotion with emphasis on rural industrialization, micro credit with view to poverty alleviation, human resource development, technology upgradation, entrepreneurship development specially women entrepreneurs, quality and environment management, market promotion, information dissemination etc. Under these schemes, SIDBI extends developmental and support services by way of loans and grants to different agencies working for the promotion and development of SSIs including tiny industries.

The Bank has laid special emphasis on employment generation and livelihood improvement of the rural power by encouraging them to undertake income generating activities through self-employment ventures. The Rural Industries Programme of the Bank has endeavoured to develop viable and self sustaining enterprises in rural and semi-urban
areas, to address the problem of rural unemployment, urban migration and under utilization of resources and skills in rural areas. The Micro Credit Scheme, has helped rural poor, specially women, to set up micro enterprises. The Bank launched the ‘SIDBI Foundation for Micro Credit’ during 1998-99 with an initial corpus of Rs.100 crore so as to institutionalize the micro finance system in the country and to attain the desired outreach. SIDBI was awarded prestigious ‘Asian Banking Award’ 1999 for Micro Credit Scheme. Besides, the Bank has facilitated setting up Training-cum Production Centres for bringing about economic empowerment of women under Mahila Vikas Nidhi Scheme. Measures were also adopted for encouraging potential entrepreneurs and providing them with project idea through mass media, training and escort services. The launching of ‘National Programme on Innovations and Incubation for Small Industries’ was a milestone in this direction with special focus on Knowledge-based industries. Overall financial assistance sanctioned and disbursed by SIDBI in different years is shown in the following table:
Table 1.1 Overall Financial Assistance by SIDBI

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall Assistance Sanctions (Rs. crore)</th>
<th>Percentage Increase over the Previous year (%)</th>
<th>Overall Assistance Disbursement (Rs. crore)</th>
<th>Percentage Increase over the Previous year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>2410</td>
<td>-</td>
<td>1839</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>2847</td>
<td>18.1</td>
<td>2028</td>
<td>10.3</td>
</tr>
<tr>
<td>1992-93</td>
<td>2909</td>
<td>2.2</td>
<td>2146</td>
<td>5.8</td>
</tr>
<tr>
<td>1993-94</td>
<td>3356</td>
<td>15.4</td>
<td>2673</td>
<td>24.5</td>
</tr>
<tr>
<td>1994-95</td>
<td>4706</td>
<td>40.2</td>
<td>3390</td>
<td>26.8</td>
</tr>
<tr>
<td>1995-96</td>
<td>6066</td>
<td>28.8</td>
<td>4801</td>
<td>41.6</td>
</tr>
<tr>
<td>1996-97</td>
<td>6485</td>
<td>6.9</td>
<td>4585</td>
<td>(-4.5)</td>
</tr>
<tr>
<td>1997-98</td>
<td>7484</td>
<td>14.7</td>
<td>5241</td>
<td>14.3</td>
</tr>
<tr>
<td>1998-99</td>
<td>8880</td>
<td>18.7</td>
<td>6285</td>
<td>19.9</td>
</tr>
<tr>
<td>1999-2000</td>
<td>10265</td>
<td>15.6</td>
<td>6964</td>
<td>10.8</td>
</tr>
<tr>
<td>2000-2001</td>
<td>10821</td>
<td>5.4</td>
<td>6441</td>
<td>(-7.5)</td>
</tr>
<tr>
<td>2001-2002</td>
<td>9026</td>
<td>(-16.6)</td>
<td>5919</td>
<td>(-8.1)</td>
</tr>
<tr>
<td>2002-2003</td>
<td>10904</td>
<td>20.8</td>
<td>6789</td>
<td>14.7</td>
</tr>
<tr>
<td>2003-2004</td>
<td>8246</td>
<td>(-24.4)</td>
<td>4414</td>
<td>(-35.0)</td>
</tr>
<tr>
<td>2004-2005</td>
<td>9091</td>
<td>10.2</td>
<td>6188</td>
<td>40.2</td>
</tr>
<tr>
<td>2005-2006</td>
<td>11975</td>
<td>31.7</td>
<td>9100</td>
<td>47.1</td>
</tr>
</tbody>
</table>

Source: Computed with the help of data given in the annual reports of SIDBI for relevant years.

The total sanction and disbursement of assistance during 2000-01 amounted to Rs 108.21 billion and Rs. 64.41 billion, respectively. The compound annual growth rate during the period 1990-91 to 2000-01 was to the order of 16.2percent in terms of sanctions and 13.4percent in terms...
of disbursements. Cumulative assistance as at end March 2001 was Rs.662.29 billion in terms of sanctions and Rs.463.92 billion in terms of disbursements. In earlier years, SIDBI has co-promoted SBI Factors Limited, IDBI Bank Limited and North Eastern Development Finance Corporation Limited. The Bank is also one of the founder members of the Indian Institute of Entrepreneurship (IIE) at Guwahati. During 1999-2000 SIDBI has promoted their subsidiaries and other financial and non-financial institution namely SIDBI Venture Capital Limited, SIDBI Trustee Company Limited Credit Guarantee Fund Trust for Small Industries Technology Bureau for Small Enterprises. Projects, which are at seed stage having a high research and development content and are technology focused, require an incubator to reach a pre-commercial stage. Along with finance these units require critical inputs in various functional areas such as management support, strategic planning, seed/test marketing etc. To meet these requirements SIDBI took the initiative in the year 2001 by launching “SIDBI National Programme on Innovation and Incubation for Small Industries”. They have set up two innovation and incubation centers in collaboration with the Indian Institute of Technology, Kanpur and Birla Institute of Technology, Mesra, Rachi.\(^1\)

Infact, SIDBI has been a prime lending institution and a major support system for the development and growth of the Small Scale Sector and therefore it is necessary that the operation of the banks are reviewed periodically in order to find out whether its financial and promotional functions are in accordance with its objectives and national priorities.

\(^1\) SIDBI Report on SSI 2001, Page No. 8
It would also be interesting to know the impact of economic reforms including deregulation and liberalization of economic policies, and expanding technologies on the working of development banks in India, in general and Small Industries Development Bank of India in particular. A major challenge confronting SIDBI is to devise strategies for development of all the four distinct segments namely, micro, tiny, small and medium units, the first two predominantly covering traditional industries. In the given scenario, SIDBI’s strategies, policies, programmes and interventions, should be aiming at promoting an orderly and healthy growth of these segments focusing on five prime factors, viz, entrepreneurship, credit, technology, market and infrastructure. SIDBI, in tandem with the overall policy measure of the Government and keeping in view the expectations of the sector, is refining its strategies and putting in place new policies and programmes in achieving its objectives. This study is a humble attempt in this direction.

Objectives and Importance of the Study

The objectives of the present study are:

a. To provide an overview of the SIDBI including its financial resources and profitability.

b. To assess the overall financial assistance of the SIDBI.

c. To assess the direct financial assistance of SIDBI.

d. To assess the indirect financial assistance of SIDBI.

e. To analyze the promotional assistance of the SIDBI.

f. To present suggestions for further improvement in the working of SIDBI.
SIDBI has completed 19 years of its service to the Industrial and Small Scale Sectors

Scope and Methodology

This study is devoted to an analysis of the working of the SIDBI. It thus, covers the analysis of the assistance provided by the bank under various schemes of direct and indirect financial assistance, besides promotional assistance in different forms. The assistance granted under direct and indirect financial assistance has been examined both in quantitative and qualitative terms. The qualitative includes purpose of assistance, size of assisted units, sector (private, public joint and co-operation sector), industry wise assistance, state-wise assistance and assistance to backward areas. However, wherever data are not available, our analysis is limited to only few variables.

The data used in this study are secondary in nature. The main sources of data are Operational Statistics of SIDBI, Annual Reports of SIDBI and reports on development banking. Moreover, economic newspapers, journals and books on development banking also form source of information particularly for the second and third chapters. The collected data has been suitably classified and tabulated. The techniques of analysis used in the study are simple viz, percentage and ratios.

Hypothesis

The hypothesis of the proposed research work is that the performance of Small Industries Development Bank of India (SIDBI) towards industrially backward areas and smaller, tiny and traditional industries is not satisfactory. So far as a qualitative content of the
financial assistance granted by SIDBI is concerned, it may said to be satisfactory in respect of industry-wise distribution only. But in so far as other quality variables are concerned, the performance was questionable. This was so particularly in respect of size-wise, sector-wise and state-wise distribution of its assistance. The larger portion of the Banks assistance had gone to larger companies and those belonging to private sector. Similarly, in most of the schemes, industrially advanced states shared disproportionately larger, shares as against industrially backward states. What is more disappointing is the rising share of the former at the cost of the latter. This is highly deplorable.

Plan of Study

The study is divided into the following seven chapters:

1. Introduction
2. Status of Small Scale Industries in India
5. Indirect Financial Assistance.
6. Promotional Assistance.
7. Summary and Suggestions.

Literature Review

Schmitz, Hebert (1995) their study is concerned with the role of Small Industries Development Bank of India in growth of small local industry in developing countries and explores one particular route for understanding and fostering such growth. It focuses on the clustering of firms and the competitive advantage, which they derive from local
external economies and joint action, captured in the concept of collective efficiency.

Rao (1995) reported SIDBI’s potential for investment related to technology requisition and transfer in small – scale and medium sector has assumed considerable significance in their interest to face the challenges of liberalization and globalization of markets.

The international prospective planning team (1995) which made an extensive study of India's small – scale industries, was of the opinion that effort of financial institutions for the promotion of this sector were largely scattered and dealt with only isolated segments of the problem.

Inderjith Singh & Gupta (1977) state that the expansion of the bank credit is not only desirable but also essential for the economic development of Jammu and Kashmir financial institutions have to take up this task of credit expansion on a challenging basis

Balasubrahmanyam (1998) in his study describes the elements of India's small industry policy with specific reference to credit delivery system and reviews its impact on the growth and efficiency of the sector.

Vasandhara Raje (2000) states that credit is an essential input for the working of small – scale industries. Any delay or inadequate supply of credit is detrimental to the growth of the SSI units. Therefore timely and adequate availability of credit is of crucial importance for setting up and for expanding the existing SSI units, and in this respect SIDBI is playing a vital role.

James manalel (1994) reported that the working of SIDBI and other financial institutions showed that the total assistance made available in Kerala for SSI units was comparatively small. The effectiveness of any incentives packages, however well designed it may be, depends on the
quality of the system of delivery. The state has comparable package on record, but the quality of delivery of the same was perceived by the entrepreneurs to be poor in relation to what units in other states get.

Even more select studies on SIDBI have been done in the past. The select work and studies certainly provide information of valuable ends. Nevertheless it is not possible to discuss all the factors of SIDBI in the present study owing to the inherent limitations generally associated with individual researcher.

Even though relevant works of eminent authors and the related researches done on the subject were also taken into account for the purpose of our study.

**Limitations of the Study**

Although the usefulness of this study lies in the fact that it relates to a detailed analysis of the apex development bank which largely determines the working of other all-India and State level development banks of the country, it is not free from certain limitations. We briefly discuss them as under:

1. This study is confined to the analysis of the working of a single financial institutions viz., Small Industries Development Bank of India. The working performance of the SIDBI has not been compared with that of the other similar all-India financial institutions like Industrial Finance Corporation of India and Industrial Credit and Investment Corporation of India. Had inter-institutional comparisons been done the quality of the thesis would have certainly improved.
2. The present study also does not cover some aspects like recovery of loans and follow-up monitoring of the SIDBI assisted units. However, these are the aspects which require an independent and separate study as, in particular, the corporate governance by financial institution has become a major issue before the nation.

3. This study also does not make a detailed analysis of the resources and profitability of the SIDBI. It has simply outlined the broad features and trends relating to them. It is because, the study relates to the appraisal of the financial working i.e, financial assistance provided by the SIDBI under different schemes. Moreover it may not be possible for an individual researcher to closely examine each every aspect of the performance of a giant financial institution like SIDBI.

4. The data used in this study have been compiled mainly from the data published by SIDBI in its annual publications like operational statistics, SIDBI Report on Small Scale Industries and Annual Reports. The researcher has found variations in the data used in the publications this has created a lot of problem and confusion to the researcher while compiling them. Thus the reliability of the conclusions drawn depends on the reliability of the published data. However, this was beyond the control of the researcher. The above mentioned limitations however, are not expected to affect the quality of the thesis in a significant way.

*************

14