CHAPTER-III

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)- AN OVERVIEW
Historical Background

India has evolved an extensive institutional network over a period of time for the promotion of SSI sector. This network extends from the national to the state and to district level as is exhibited in the table 3.1

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Major Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>CENTRAL LEVEL:</td>
<td></td>
</tr>
<tr>
<td>Small Industries Development Organisation (SIDO)</td>
<td>Apex Body for SSIs Promotion.</td>
</tr>
<tr>
<td>Small Industries Services Institutions (SISIs)</td>
<td>Technical Services</td>
</tr>
<tr>
<td>National Small Industries Corporation (NSIC)</td>
<td>Marketing, machinery on hire purchase, import of raw materials, exhibitions etc.</td>
</tr>
<tr>
<td>National Institute of Small Industries Extension Training (NISIET)</td>
<td>Research, Training, consultancy, etc</td>
</tr>
<tr>
<td>National Institute for Entrepreneurship and Small Business Development (NIESBUD)</td>
<td>Co-ordination of Entrepreneurship Development Programme (EDP) organized by various EDP institutions in the country</td>
</tr>
<tr>
<td>Small Industries Development Bank of India (SIDBI)</td>
<td>Apex body for direct, Indirect financial assistance and promotional assistance</td>
</tr>
<tr>
<td>STATE LEVEL:</td>
<td></td>
</tr>
<tr>
<td>Directorate of Industries</td>
<td>State level apex body for SSIs promotion</td>
</tr>
<tr>
<td>Small Industries Development Corporations (SIDC)</td>
<td>Promotion of SSIs through industrial estates etc.</td>
</tr>
<tr>
<td>Small Industries Marketing Corporation (SIMC)</td>
<td>Marketing.</td>
</tr>
<tr>
<td>State Financial Corporation (SFC)</td>
<td>Long-term finance</td>
</tr>
<tr>
<td>DISTRICT LEVEL:</td>
<td></td>
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<tr>
<td>District Industries Centers</td>
<td>Provision of multiple services and support to SSIs under a single roof.</td>
</tr>
</tbody>
</table>

Source: Complied from Official Sources.

The Government initiates appropriate policy measures, programmes and schemes for the promotion of SSIs which include the
setting up of network of institutions at the field level to render assistance and to provide a comprehensive range of services and common facilities for small scale industries. The range of services covers consultancy in techno-economic and managerial aspects, training, testing facilities and marketing assistance through the agencies created for the specified functions. These activities are carried out through attached offices and organizations like Development Commissioner for Small Scale industries, Khadi and Village Industries Commission, National Small Industries Corporations, Coir Board, Small Industries Development Organisation, etc. Besides, these are supported by a host of other Central and State Government departments, promotional agencies, autonomous institutions, NGOs; etc which provides support to SSIs in different ways.

(I) Central Government Agencies

Foe giving focused attention and providing support network to the development of Small Scale Industries, following major agencies work under the control of Central Government:

Small Scale Industries Board

The Small Scale Industries Board was first constituted in 1954 to facilitate the coordination and inter-institutional linkages and to render advice to the Government on various policy matters and other related issues concerning the promotion and development of small scale sector. The Board is a non-statutory high-powered body constituted with the approval of the Prime Minister to co-ordinate the policy initiatives of the State Government, to evolve policies for the SSI sector at the Central
level and to advise the Government on all policy matters relating to the development of SSIs.

Small Industries Development Organisation

The officer of the Development Commissioner (Small Scale Industries) also known as Small Industries Development Organisation (SIDO) is an attached office of the department of SSI. SIDO being set up in 1954, functions through a network of Small Industries Services Institutions (SISIs) and their branches. The major activities of SIDO include:

1. Evolving an all-India policy and programme for the development of SSIs.

2. Co-ordinating the policies and programmes of various State Government.


4. Providing a comprehensive range of extension services through allied institutions.

5. Providing facilities for technology upgradation, modernization, quality, improvement, etc.

6. Monitoring the Prime Ministers Rozgar Yogana (PMRY) Schemes.
7. Offering services such as consultancy in technical and managerial aspects, training, common facility assistance and testing and tool room facilities and marketing assistance foe SSIs.

Small Industries Development Organisation has been continuously working for the development of SSIs since 1954 with the aim of SSI sector competent to take the optimum benefit of the available opportunities and to face challenges of globalization.

Small Industries Services Institutions (SISIs)

As a significant constituent of SIDO, Small Industries Services Institutions (SISIs) and along with their branches have been operating through the country. Their respective performances are overseen by the office of the Development Commissioner. Reports prepared by the SISIs emphasis the implementation of programmes on modernization, energy conservation, quality control, and upgradation and pollution control for the benefit of entrepreneurs. The main functions performed by SISIs are as follows:

1. Interface between Central and State Government.
2. Dissemination of economic information.
3. Entrepreneurship Development Programmes
5. Technical Support Services and Consultancy Services
6. Export Promotion and Liaison Activities.
7. Ancillary Development.
National Small Industries Corporation (NSIC)

The National Small Industries Corporation Limited (NSIC) is a Public Sector Undertaking set up by the Government of India in 1955 to promote aid and foster the growth of the small scale industries in the country. The Corporation provides support to the SSIs in the following areas:

1. Enlisting competent units and facilitating their participation in Government Stores Purchase Programme.
2. Supplying indigenous and imported machines on an easy hire purchase and lease term basis.
3. Providing diversified marketing support through Marketing Assistance Scheme.
4. Assisting in export of small industries products and developing the export worthiness of small scale units.
5. Providing training in industrial trades and developing prototypes of machines, equipments and tools.
6. Assisting SSIs in technology acquisition, adoption and upgradation through its Technology Transfer Center at New Delhi.
7. Extending assistance to SSIs through financial centers for marketing, bill discounting, raw material purchases and exports.
8. Ensuring the tiny units also drive benefits from the various schemes and special attention bee given for units in the backward areas and also for entrepreneurial promotion for weaker section of the society.
Khadi and Village Industries Commission

The Khadi and Village Industries Commission (KVIC) is a statutory organization established in 1957 under an Act of the Parliament. KVIC assists in the promotion and development of Khadi and Village Industries. The main objectives of the KVIC are

1. Rural Industrialization specially through small and tiny units;
2. Promotion of self-reliance among the people and building of a strong community base,
3. Skill development and transfer of technology.
4. Creation of employment opportunities in rural areas.

State Financial Corporation

State Financial Corporation (SFCs) came into being under the provision of the SFCs Act,1951. At present, there are 18 SFCs, of which 17 were set up under the SFCs Act and one viz,Tamil Nadu Industrial and Investment Corporation Limited under the Companies Act 1956. The main objectives of the SFCs are to finance and promote industrial enterprises in their respective states for achieving balanced regional growth, to capitalise investment, generate employment and widen the ownership base of industry. Financial assistance to small and medium enterprises is provided by way of term loans, direct subscription to equity and debentures, discounting the bills of exchange, guarantees and seed capital assistance.

SFCs operate a number of refinance schemes of IDBI and SIDBI and also extend equity-type assistance. SFCs have tailor made schemes for artisans and special target groups such as Schedule Castes and
Schedule Tribes, women entrepreneurs, ex-servicemen and physically handicapped persons. Under the Single Window Scheme of SIDBI, SFCs have been extending working capital along with term loans to mitigate the difficulties faced by SSIs in obtaining working capital limits from banks.

**Small Industries Development Corporations (SIDC)**

Small Industries Development Corporations, (SIDC) were set up under the companies Act, 1956 as wholly-owned undertaking of the State Government to act as catalyst for industrial development in their respective states. SIDCs develop land and provide industrial infrastructure facilities in the form of factory sheds and developed plots together with facilities like roads, power, water supply, drainage and other amenities. Set up primarily for providing assistance to medium and large scale industries, SIDC also extent assistance to the small scale sector by way of term loans, subscription to equity and promotional services.

**State Small Industries Development Corporations (SSIDCs)**

State Small Industries Development Corporations, (SIDC) were establishment under the Companies Act, 1956 as State Government Undertakings to cater the needs of small, cottage, tiny and village industries in the respective States. SSIDCs undertake a variety of activities for the benefits of the SSI sector such as:

1. Procurement and distribution of scarce raw materials

2. Supply of machinery to SSI units on a hire-purchase basis.
3. Providing assistance for marketing of products.


5. Extending seed capital on behalf of the State Government and

6. Providing management assistance to production units

Other agencies at different levels that extend facilities for the promotion of SSIs, are State Infrastructure Development Corporation, State Co-operative Banks, Regional Rural Banks, State Export Corporations, Housing and Urban Development Corporation Limited, Technical Consultancy Organizations, Non-Government Organizations, and Credit Guarantee Fund Trust for Small Industries, Indian Institute of Entrepreneurship, Export Promotion Councils, etc. With the same objective Small Industries Development Bank of India (SIDBI) that has been established as an apex financial institution for the providing direct, indirect and promotional assistance for the growth of SSI sector. This chapter deals with the genesis, organization and management, recourse mobilization and profitability in detail.

Establishment of Small Industries Development Bank of India

To ensure large-scale financial assistance to the small scale sector, in the budget 1988-89 the government announced to establish small industries development bank of India (SIDBI) as a wholly owned subsidiary of (IDBI) as “the principal financial institutions for the promotion, financing and developing industries in the SSI to coordinate the functions of institutions engaged in promotion, financing and
developing industries in SSS and for matter connected therewith or incidental their to.”

The SIDBI act was passed by the parliament in October 1989 and commenced its operations from April 2,1990 as with an initial capital of Rs.250 crore fully subscribed by IDBI and taking over the outstanding portfolio of IDBI relating to small scale sector held under Small Industries Development Fund (SIDF) as of March 31,1990 amounting to Rs.4200 crore The authorised and paid-up share capital of the Bank were subsequently raised to Rs.500 crore and Rs.450 crore respectively, on February 1st 1991. Out of this paid up share capital,Rs.125 crore was contributed in cash by IDBI and balance of Rs.325 crore was adjusted against a part of the consideration for transfer of outstanding portfolio of SSI sector. The Bank has since been delinked from Small Industrial Development Bank of India as its subsidiary and began to work as an independent entity in pursuance of the provision of Small Industrial Development Bank of India (Amendment) Act,2000 which came into effect from March 27,2000 and amended the provisions of SIBDI Act,1989.The amended Act changed the provisions relating to the share capital structure, shareholding pattern, management business, borrowing acceptance of deposits and investment strategy, etc. of SIDBI and equip the board with more operational flexibility and functional autonomy. It increased the authorized share capital of the Bank from Rs.500 crore to Rs.100 crore divide into 75 crore equity share of Rs.10 each and 25 crore redeemable preference shares of Rs.10 each. Out of this, only 45 crore equity shares have been issued by SIDBI till March,31,2006.In pursuance of the relevant provisions of the amended Act, IDBI transferred more than fifty one percent of its holdings in SIDBI to public sector banks, Life
Insurance Corporation, General Insurance corporation and other institutions owned and controlled by the Central Government. Presently, share of SIDBI are held by thirty six institutions including public sector banks and insurance companies owned or controlled by the Central Government. IDBI Ltd. State Bank of India and Life Insurance Corporation of India rank as three largest shareholders of SIDBI as on March 31, 2006.

Since its inception, the Bank has been shouldering a wide range of responsibilities entrusted to it by assisting the entire spectrum of the SSI sector including the tiny, village and cottage industries. The range of assistance covers promotional financing and extension of support services through the suitable schemes tailored to meet the requirements of the setting of new projects, expansion, diversification, modernization and rehabilitation of existing units.

As an apex financial institution, the Bank is empowered under the Act to formulate suitable strategies for the extension of financial and support services to small scale industries all over the country through expansion of as well as strengthening its own branches and existing network of institutions engaged in the financing and development of the small scale sector. While continuing with the initial scheme operated under Small Industries Development Fund, the approach of SIDBI broadened gradually by taking initiatives to identify gaps in the existing credit delivery system and to devise schemes for direct lending to SSI units in order to supplement the efforts of Primary Lending Institutions. The lending operations of SIDBI are supplemented with promotional and developmental activities aimed at facilitating entrepreneurial skills and
strengthening the SSI sector in order to enable it to meet the emerging challenges of the liberalized economy. SIDBI's operations have three major dimensions, namely, direct assistance, indirect assistance and support services. Since its establishment, the Bank has striven to shoulder responsibilities enshrined in its Charter by formulation and reorienting its policies, gearing up its operations and enlarging the scope of its activities. Setting up SIDBI marked the fulfillment of a long felt need to have separate institutions at the national level exclusively to cater to the requirements of the small scale sector in the country. SIDBI has set a landmark in the field of micro credit in the country by launching SIDBI Foundation for Micro Credit on November 27, 1998, with an initial corpus of Rs.1 billion. It is envisioned that SFMC would eventually be the apex wholesaler for micro finance in India providing a whole range of financial and non-financial products and services to the sector such as loan and grant, equity support and institution building support to the retailing Micro Finance Institutions (MFIs) The foundation aims at facilitating the development of MFIs into financially sustainable entities besides developing a network of service providers for the sector. SIDBI's micro-credit programme is oriented toward the empowerment of the poor, particularly women. The Bank has constituted a separate governing Body comprising of micro finance specialists to guide in the policy directions to SFMC.

In order to ensure the enhanced flow of credit to various sub-sectors of the SSI sector, SIDBI liberalized its refinance schemes as also the schemes of direct assistance such as Technology Development and Modernization Fund Scheme, Pre-shipment and Post-shipment Credit Schemes, etc. Consequent upon the amendment to Small Industries
Development Bank of India (Amendment) Act, 2000, a scheme for providing refinance against loans and advances extended by the SFCs/SIDCs to industrial concerns other than in the SSI sector was introduced with effect from June 1, 2000. The new schemes would run concurrently with other existing refinance schemes of SIDBI.

Pursuant to the announcement made by the Hon’ble Prime Minister at the National Conference for SSIs and policy package announced by the Ministry of SSI and ARI, GoI at the 45th Small Scale Industries Board Meeting, the scope of Composite Loan Scheme was widened by increasing the loan ceiling from Rs.1 million to Rs.2.5 million effective over October 10, 2000. Similarly the project cost ceiling under National Equity Fund Scheme has been raised from 2.5 million to Rs.5 million and maximum soft loan assistance from 625,000 to Rs.1 million per project with effect from December 21, 2000. The service charge, which was hitherto levied at 1 percent on the soft loan provided under NEF, has been raised to 5 percent, of this PLIs would retain 1 percent and the remaining 4 percent would be passed on to SIDBI.

In order to meet the growing demand from SSIs for rupee export credit, the Bank earmarked significant resources for concessional rupee export credit assistance to SSI exporters, even though no refinance facility is available to SIDBI from RBI. SIDBI’s Authorised Dealer’s licence issued by the RBI was also renewed during the year 2000-01 on a permanent basis.

The details of financial assistance extended year-wise by the SIDBI during the period 1990-2006 are given in the following table 3.2.
Table 3.2 Sanctions, Disbursements and Outstanding Portfolio of SIDBI (Rs.billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions</th>
<th>Disbursements</th>
<th>Outstanding at the end-March (Portfolio Size)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>2410</td>
<td>1839</td>
<td>5177</td>
</tr>
<tr>
<td>1991-92</td>
<td>2847</td>
<td>2028</td>
<td>6476</td>
</tr>
<tr>
<td>1992-93</td>
<td>2909</td>
<td>2146</td>
<td>7253</td>
</tr>
<tr>
<td>1993-94</td>
<td>3356</td>
<td>2673</td>
<td>8800</td>
</tr>
<tr>
<td>1994-95</td>
<td>4706</td>
<td>3390</td>
<td>9701</td>
</tr>
<tr>
<td>1995-96</td>
<td>6066</td>
<td>4801</td>
<td>10872</td>
</tr>
<tr>
<td>1996-97</td>
<td>6485</td>
<td>4585</td>
<td>12185</td>
</tr>
<tr>
<td>1997-98</td>
<td>7484</td>
<td>5241</td>
<td>12862</td>
</tr>
<tr>
<td>1998-99</td>
<td>8880</td>
<td>6285</td>
<td>14209</td>
</tr>
<tr>
<td>1999-2000</td>
<td>10265</td>
<td>6964</td>
<td>15194</td>
</tr>
<tr>
<td>2000-2001</td>
<td>10821</td>
<td>6441</td>
<td>14571</td>
</tr>
<tr>
<td>2001-2002</td>
<td>9026</td>
<td>5919</td>
<td>13160</td>
</tr>
<tr>
<td>2002-2003</td>
<td>10904</td>
<td>6789</td>
<td>12728</td>
</tr>
<tr>
<td>2003-2004</td>
<td>8246</td>
<td>4414</td>
<td>10064</td>
</tr>
<tr>
<td>2004-2005</td>
<td>9091</td>
<td>6188</td>
<td>10862</td>
</tr>
<tr>
<td>2005-2006</td>
<td>11975</td>
<td>9100</td>
<td>13891</td>
</tr>
</tbody>
</table>

Source: SIDBI Annual Reports.

Given the apex role SIDBI in supplementing and strengthening the efforts and capabilities of existing state-level institutions and banks, its primary function is that of Refinance institution. Through financial and support services and by instituting suitable co-ordination mechanism, it provides assistance to the SSI sector. SIDBI operation have, therefore, been divided into three principal areas, that is,
(i) Direct Assistance,
(ii) Indirect Assistance and
(iii) Development and support services

The Bank has completed 15 years of operation and during this period it has striven to fulfill the role enshrined in its charter by formulating and reorienting its policies, gearing up operations and enlarging the profile of its activities.

SIDBI offers a chain of financial products covering micro-finance, business, incubation, venture capital, project finance, assistance for technology development and marketing of small scale industries products, export finance, bill finance, factoring, guarantees for loans and so on SIDBI also provides support services such as training, market information, and advice for enhancing the inherent strength of small scale units.

Products and Services offered by SIDBI
1. Direct Finance Schemes
2. Indirect Finance Schemes
3. Refinance Schemes
4. International Finance Schemes
5. Marketing Finance and Development Schemes
6. SIDBI Foundation for Micro Credit
7. Other Schemes
   a. Promotional and development Activities(P&D Activities)
   b. Fixed Deposit/Bonds
A. Direct Finance Schemes

SIDBI had been providing refinance to State Level Finance Corporations / State Industrial Development Corporations / Banks etc., against their loans granted to small scale units.

Since the formation of SIDBI in April, 1990 a need was felt/representations were made that SIDBI being the principal financial institution for the small sector, should take up the financing of SSI projects directly on a selective basis.

So it was decided to introduce direct assistance schemes to supplement the other available channels of credit flow to the small industries sector. Since then, SIDBI has evolved itself into a supplier of a range of products and services to the Small & Medium Enterprises [SME] sector.

The objective behind SIDBI’s direct assistance schemes has been to supplement the efforts PLIs by identifying the gaps in the existing credit delivery mechanism for Small Scale Industries.

SIDBI’s range of assistance extended directly to SSIs, inter alias, for the following activities:

i. Setting up of new units/small hotels/hospitals/nursing homes, etc.

ii. Technology upgradation/modernization of existing units/diversification and expansion

iii. Specialized marketing agencies/SSI units for marketing related activities. Development of markets for the SSI products.
iv. Resource support to SFCs, SIDCs, and Non-Banking Finance Companies for leasing/hire purchase facilities to SSI units.

v. Direct discounting of medium-term usance bill covering sale of equipment on deferred credit.

vi. Direct discounting of short-term bills for supply of products/components to large companies.

vii. Venture Capital

viii. Working Capital term loans

ix. Pre-shipment/ post shipment credit in rupees/foreign currency

x. Quality upgradation/acquiring of ISO-9000 Series Certification.

xi. Export Finance and foreign currency term loans

xii. Infrastructure development

xiii. Factoring Services

SIDBI’s products for direct lending have been structured to mitigate specific problems faced by the SSI units, for e.g. delayed payment of receivables, obsolescence of technology, marketing inadequacies, insufficient export credit, lack of suitable infrastructure etc. To achieve these targets SIDBI’s direct financial assistance schemes are as follows:

1. Credit Linked Capital Subsidy(CLCS)

2. Scheme for Development of Industrial Infrastructure for SSI sector(IID)
3. Equipment Finance Schemes (EFS)
4. Fast Track Financing Schemes (FTFS)
5. ISO 9000 Scheme (ISO9000)
6. Project Finance Scheme (PFS)
7. Tannery Modernization
8. Technology Development and Modernization Fund Scheme (TDMFS)
9. Technology Upgradation Fund Scheme for Textile Industries (TUFS)
10. Vendor Development Schemes (VDS)
11. Working Capital Term Loans (WCTL)

B. Indirect Financial Assistance:

The SIDBI provides financial assistance to industrial units through other financial institutions by way of subscription to shares and bonds, refinancing and bill rediscounting and resource support in the form of short term loans/line of credit in lieu of refinance, etc as specified in the Act. SIDBI’s schemes of indirect assistance envisage credit to SSIs. The indirect assistance is provided through a large network of 910 PLIs spread across the country with a branch network of over 65,000. Indirect assistance provided by SIDBI can broadly be divided under two heads

I. Refinance:

Refinance scheme is introduced for catering to the need of funds of PLIs for financing small-scale industries. Under the scheme, SIDBI grants refinance against term loans granted by the eligible PLIs to
industrial concerns for setting up industrial projects in the small scale sector as also for their expansion, diversification, modernization, technological upgradation, quality promotion, and rehabilitation of sick SSI units etc are eligible for refinance.

Refinance business of SIDBI is carried on under various Lines of Businesses Refinance schemes have been the main channel of assistance to the SSI sector a wide range of schemes have been introduced such as:

1. Refinance schemes for Acquisition of ISO Series Certificate, by SSI unit (RISO 9000)
2. Composite Loan Schemes (CLS)
3. Credit linked Capital Subsidy Schemes for Technology Upgradation of SSIs (CLCSS)
4. For term Loan-Non SSI
5. General Refinance Schemes (HRS)
6. Mahila Udyam Nidhi (MUN)
7. National Equity Fund (NEF)
8. Refinance schemes for Rehabilitation of Sick Industrial Units (RSR)
9. Self Employment for Ex-Servicemen Schemes (SEMFEZ)
10. Single Window Schemes (SWS)
11. Refinance for Small Road Transport Operators (SRTOS)
12. Refinance Schemes for Tannery Modernization (RTM)
13. Refinance Schemes for Technology Development and Modernization (RTDM)
II. Rediscounting:

In order to help manufacturers in the SSI sector to maximize their sales by offering deferred payments credit facilities to the prospective purchaser-users, the Bank operates a Bill Rediscounting Schemes. Bills Finance Scheme involves provision of medium and short-term finance for the benefit of the small-scale sector. Bills Finance seeks to provide finance, to manufacturers of indigenous machinery, capital equipment, components sub-assemblies etc, based on compliance to the various eligibility criteria, norms etc as applicable to the respective schemes.

To be eligible under the various bills schemes, one of the parties to the transactions to the scheme has to be an industrial unit in the small-scale sector within the meaning of Section 2(h) of the SIDBI Act, 1989. Various schemes under this heading are as follow:

1. Bill Rediscounting Schemes-Equipment (BRS-E)
2. Bill Rediscounting Schemes-Equipment-Inland Supply Bill
3. Direct Discounting Schemes-Components(DDS-C)
4. Direct Discounting Schemes-Equipment(DDS-E)

SIDBI provides support resources by way of short term loans, line of credit, etc. to intermediaries, namely SFCs, SIDCs, SSIDCs, Banks, Non-Banking Financial Companies (for leasing/Hire Purchase), Factoring Companies and to specialized institutions and corporate entities engaged in the promotion and development of Small Scale Industries.
III Promotional and Development Activities:

SIDBI apart from direct and indirect financing to industrial concern can take promotional activities such as and investment research and survey as well as technological studies. It can also provide technical and administrative assistance to any industrial enterprise. The Bank is in a position to exercise a large degree of discretion in these matters. These initiatives of the Bank aim at improving the inherent strength of the SSI units on one hand, and employment generation, economic rehabilitation of rural poor on the other.

SIDBI has been empowered to finance all types of industrial concerns engaged in the manufacturing and processing of goods, mining, transport, generation and distribution of power, in both public and private sector, irrespective of the forms of organization.

For promotion and development of SSIs, SIDBI operates a number of schemes and programmes for enterprise promotion especially by women entrepreneurs, micro-credit, human resources development, technology upgradation, management development, marketing, information dissemination etc. Under these schemes, SIDBI extends developmental and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallized into the following:

1. Enterprise Promotion with emphasis on Rural Industrialization
3. Technology Upgradation
4. Programmes on Environment and Quality Management
5. Market Promotion
6. Information Dissemination

IV. Diversification of Activities:

SIDBI operates special schemes for up-liftment of rural poor by providing credit through various schemes such as:

1. Micro Credit Schemes
2. Mahila Vikas Nidhi
3. Entrepreneurship Development Programmes
4. Rural Industries Programmes etc.

It also organizes management development programmes and pays special attention to quality management, technological upgradation through cluster based approach and marketing support for SSIs. The Bank operates in close collaboration with a vast network of reputed Non-Governmental Organization (NGOs), technology and management institutions and international developmental agencies.

Objectives of Small Industries Development Bank of India

The main objectives of the formation of Small Industries Development Bank of India are (i) promoting, financing and developing the whole spectrum of SSI sector in the country, and (ii) coordinating the functions of institutions engaged in similar activities. As an apex institution, SIDBI makes use of the network of banks and state financial institutions, which have retail outlets for coordinating the development of SSS. It has initiated a system of dialogue and obtaining fed back from representatives of institutions of SSIs who are on SIDBI’s National
Advisory Committee and Regional Advisory Committees, SIDBI has entered into Memorandum of Understanding (MoU) with 18 banks, government agencies, international agencies, development institutions, industry association to facilitate a coordinated approach for the development of SSS. With Export-Import Bank of United States along with IDBI, for providing support to Indian SMEs seeking to purchase US goods and services through information exchange and appropriate financing opportunities which could include credit guarantee, co-financing and parallel financing With the mission 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, SIDBI was established with the following objectives:

1. Financing
2. Promotion
3. Development of Industries in the SSS.
4. Co-ordination

With a view to ensuring flow of assistance to the small-scale units, the immediate trust of SIDBI was/is on:

i. Technology upgradation and modernization, expansion and diversification.

ii. Quality upgradation/ISO9000 series certification.

iii. Development of markets for SSI products

iv. Development of infrastructure of SSI sector

v. Setting up of new SSI units, small hotels and hospitals/nursing homes

vi. Pre-shipment and post-shipment credit and Export Bill Finance
vii. Discounting of Bills of manufacturer, seller in SSI sector, selling either equipment or components

viii. Factoring Services

ix. Promotion of employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby migration of population to urban areas.

In tandem with overall policy measure of the Government of India and keeping in view the expectations of the sector, SIDBI has been refining its strategies and putting in place new policies and programmes for the development of the sector.

During 19 years of its operations, the Bank has been fairly successful in facing the challenges while assisting the sector and in the process has emerged as a strong and vibrant institution. Besides co-promoting new intermediaries and strengthening the existing network of institutions engaged in development of SSI sector, chanelising assistance in respect of Government sponsored schemes and covering them under its development activities, SIDBI also developed tailor-made schemes catering to specific requirements of SSIs. It thus supplements the efforts of Primary Lending Institutions (PLIs), which include State Financial Corporations (SFCs) SIDCs (including twin function on IDCs), Scheduled Commercial Banks (SCBs) both in public and private, State Cooperative Banks, Scheduled Urban Cooperative Banks and Regional Rural Banks (RRBs). SIDBI's policies, programmes and intervention were aimed at promoting an orderly and healthy growth of three distinct segments that is, micro, tiny and modern SSI focusing on five prime factors that is:
While coordinating the activities of previous years, SIDBI has taken new initiatives keeping in view the market requirements with the focused intervention for high growth sectors. The Bank has taken steps to set up national and state/regional level funds dedicated to the Small Scale Units in software/IT industry with participation from Central and State Governments financial institutions and private sector. In association with the Ministry of Information Technology (MIT), Government of India and IDBI, SIDBI has launched Rs.1000 million National Venture Funds for software and Information Technology Industry (NFSIT), to meet the requirements of software and IT firms in the SSI sector. The Bank has also set up two subsidiaries that is, SIDBI Venture Capital Limited, to act as the Asset Management Company for the Fund and SIDBI Trustee Company Limited, as Trustee Company for the Fund.

The bank also appointed a working group on developing capital markets for SI sector under the chairmanship of Dr.R.H.Patil and also launched an annual publication. That is, ‘SIDBI report on SSI’ to provide comprehensive information about SSIs their status, performance, policy initiatives, outlook, etc.

Having clearly defined objectives and healthy organizational structure, SIDBI after its restructuring decided that the emphasis in the immediate future should rest upon programmes that would result in
increased assistance to small and new entrepreneur, to entrepreneur located in the back ward regions, to projects which use indigenous technology and having grater employment potential, to projects promoted by technicians entrepreneurs, to projects which save or earn foreign exchange and to all other projects which are accorded priority by the nation.

**Business and Functions of Small Industries Development Bank of India**

It has already been highlighted that basic function of the SIDBI is to grant financial assistance to the industry having priority in industrial development of the country. It has also been responsible for strengthening the resources of all other financial institutions including commercial banks. The SIDBI, as an apex institution, has been vested with the responsibility of strengthening resources position of the term-financing institutions with a view to enabling them to expand and diversify their activities. Thus we can say that SIDBI has been assigned ambitious objectives which are of utmost importance for national development and particularly for development of industries. In pursuance of these objectives, following major functions are being performed by SIDBI:

1. Direct financial assistance to the industrial units in the form of loans, underwriting and subscription of shares and bonds and their guarantees,

2. granting loans and advances to, any State Financial Corporation, State Industrial Development Corporations, State Small Industries Corporations Scheduled Bank, State Cooperative Bank or such
other financial institutions, approved by the Board in this behalf, by way of refinance on such terms and conditions as it may deem fit to impose, of any loans or advances granted to industrial concerns in the small scale sector by such corporations, banks or institutions or, of any loans or advances granted by the State Financial Corporations or State Industrial Development Corporation or any other industrial concern, which are repayable within a period not exceeding twenty five years;

3. Indirect financial assistance through extending help to other financial institutions or refinancing of industrial loans granted banks and other financial institutions,

4. accepting, discounting and rediscounting bills of exchange and promissory notes made, drawn, accepted or endorsed by industrial concerns in the small scale sector or by any person selling products manufactured by an industrial concern in the small scale sector;

5. subscribing to, or purchasing stocks, shares, bonds or debentures of, any State Financial Corporation, State Industrial Corporation, National Small Industries Corporation or such other financial institutions as may be approved by the Board in this behalf;

6. granting loans and advances to any industrial concerns in the small scale sector or subscribing to, or purchasing or underwriting the issue of stocks, shares bonds or debentures of any such concerns;

7. Finance for export in the form of direct loans and guarantees to exporters in participation with commercial banks,
8. Assistance to other financial institutions by way of subscriptions to their shares and bonds,

9. Promotional activities for the purpose of industrial development especially in less developed or industry less regions,

10. Providing factoring services to any industrial concern in the small sector;

11. Providing technical and financial consultancy, merchant banking and extension services;

12. Undertaking activities for promotion of industry in the small scale sector including entrepreneurial development programmes, raw material purchase, marketing support and promotion of, or financial support to, agencies engaged in such activities;

13. Leasing, subleasing or giving on hire or hire purchase any movable or immoveable assets to any industrial concern in the small scale sector;

14. Undertaking research and survey for evaluating or dealing with marketing or investments and undertaking and carrying on techno-economic studies in connection with the development of industry in the small scale sector;

15. Providing technical, legal marketing and administrative assistance to any industrial concern in the small scale sector or any person or promotion, management or expansion of any industrial concern in the small scale sector;
16. Planning, promoting and developing industries in the small scale sector;

17. Promoting, forming or conducting or associating in the promotion, formation or conduct of companies, subsidiaries, societies, trusts or such other association of persons as it may deem fit;

18. Acting as agent of the Central Government or of the Reserve Bank or of the Development Bank or such other Government or person as the Board may authorize;

19. Doing any other kind of business which the Central Government may, on the recommendation of the Board authorize;

20. Generally doing such other acts and things as may be incidental to, or consequential upon, the exercise of its power or the discharge of its powers or the discharge of its duties under this Act or any other law for the time being in force including sale or transfer of any of its assets.


SIDBI is also authorised under the Act to receive in consideration of any of the services above mentioned such commission, brokerage interest, remuneration or fee as may be agreed upon.

**Subsidiaries and Associate Organisations of SIDBI**

In order to broaden the coverage and to ensure availability of credit in different parts of the country, SIDBI has been routing its assistance
mainly through primary lending institutions. While ensuring a faster rate of growth for the SSI sector as a whole, reduction and removal of regional disparities has also been one of the important objectives of SIDBI's development strategy for the SSI sector. The lending operations of SIDBI are supplemented with promotional and development activities aimed at facilitating entrepreneurial skills and strengthening the SSI sector in order to enable it to meet the emerging challenges of the liberalized economy. SIDBI along with its subsidiaries and its associate organizations has been serving the nation as Principal Financial Institution for promotion, financing development of industries in the small scale sector and coordinating the functions of institutions engaged in similar activities. These subsidiaries and associate organizations help SIDBI in achieving its objectives in the way as mentioned below:

**SIDBI Venture Capital Limited. [SVCL]**

SIDBI Venture Capital Limited. [SVCL], an asset management company, was established for managing venture capital funds sponsored by SIDBI. At present, it manages the SME growth funds, launched in October 2004 and the National Venture Fund for Software and Information Technology Industry (NFSIT), set up in 1999. SME growth fund is 8 years close ended Venture Capital Fund, with a corpus of Rs.500 crore. It is a general fund with focus on growth sector of the economy such as life sciences, retailing, light engineering, food processing, information technology, infrastructure related to services like health care, logistics and distribution, etc. Contributors to the fund include eight public sector banks and SIDBI. NFSIT is a 10 year close ended Venture Capital Fund, with a committed corpus of Rs.100 crore. The fund
has been contributed by SIDBI, Ministry of Communication and Information Technology, Government of India and IDBI Ltd. The Fund focuses its investments in information technology, software related business. During the year 2005-06, while SVCL sanctioned Venture Capital Assistance aggregating Rs.21.03 core, comprising of Rs.13.38 crore to two new cases and Rs.7.65 crore by way of follow on funding to three investee companies, it disbursed Venture Capital Assistance aggregating Rs.20.69 crore, comprising of five new cases and six existing companies, as compared to sanctions of Rs.16.71 crore and disbursements of Rs.10.75 crore during the previous year. The sanctioned amount increased by 26 percent over the previous year and the disbursements grew by 92 percent during the same period. The cumulative sanctions and disbursements as on March 31, 2006 aggregated Rs84.43 crore and Rs.69.16 crore respectively, relating to 30 companies.

**SIDBI Trustee Company Limited. [STCL]**

SIDBI Trustee Company Limited. [STCL] was established to carry out trusteeship functions in general and for Venture Capital Funds in particular. The company was set up by SIDBI on July 19, 1999. It is, at present, acting as the trustee of SME Growth Fund and National Venture Fund for Software and Information Technology Industry. STCL has appointed SIDBI Venture Capital Limited to act as the Investment Manager to SME Growth Fund as well as National Venture Fund for Software and Information Technology Industry. Chairman and Managing Director of SIDBI acts as the Chairman of SIDBI Trustee Company Limited.
Credit Guarantee Fund Trust Scheme for Small Industries [CGTSI]

Credit Guarantee Fund Trust Scheme for Small Industries [CGTSI] promoted jointly by Government of India and SIDBI, was launched by the Hon'ble Prime Minister on August 30, 2000 for operating the credit guarantee scheme for small industries. The aims at helping the new and existing industrial units in SSI sector, in getting collateral free credit by way of both term loan and working capital from eligible member lending institutions. As on March 31,2006,fifty five such institution, comprising of 28 Public Sector Banks,12 Private Sector Banks,12 Regional Rural Banks and 3 other institutions, viz, National Small Industries Corporation, North Eastern Development Financial Institutions and SIDBI were registered with CGTSI as member lending institutions such of the institutions as may be approved by Government of India. CGTSI extends guarantee cover for mitigating credit rating upto 75 percent of the collateral free credits. In consonance with the measures pertaining to CGTSI in the policy package for steeping up credit to small and medium enterprises, a lower guarantee fee at the rate of 1.5 percent instead of 2.5 percent was implemented during the year in respect of (i) all loans upto Rs.2 lakh,(ii)all eligible women entrepreneurs and (iii) all eligible borrowers located in North Eastern Region and Jammu & Kashmir. As on March 31,2006 guarantees in respect of 40,605 proposals from SSI/Tiny units were approved, covering aggregate credit assistance of over Rs.1,000 crore, showing a growth of 86 percent over the level of Rs539 crore at March 31,2005. The units covered under Credit Guarantee Scheme are expected to generate employment over 1.64 lakh persons, turnover of over Rs.8,600 crore and exports of around Rs.2.50 crore.
CGTSI has adopted multi-channel approach for creating awareness of the scheme amongst banks SSI industry associations, SSI sector, etc.

**Technology Bureau for Small Enterprises [TBSE]**

Technology Bureau for Small Enterprises was set up by SIDBI in 1995 in collaboration with United Nations Asian & Pacific Center for Transfer of Technology. The Bureau aims at helping SSI units to attain international competitiveness through transfer of latest available technologies from both within and outside the country.

**Organisation and Management of Small Industries Development Bank of India**

The organizational structure and establishment of Small Industries Development Bank of India has been examined in the context of its organization pattern and operational process. SIDBI charter provides that general superintendence, direction and management of the affairs and business of the Bank vest in the Board of Directors. At the time of its inception in 1990-91 the Board consisted of Chairman, Managing Director, 2 Directors nominated by GOI, 1 Director nominated by RBI and 10 Directors nominated by IDBI comprising 1 Director each representing IDBI, NABARD and KVIC and remaining seven persons from experts in industry in the SSS or having specialization, professional experience in the sector or persons representing Scheduled Banks, SFCs and SSIDCs.

As a result of de-linking of SIDBI from IDBI, SIDBI (Amendment) Act, 2000 which came into effect from March 27, 2000, amended the provisions of SIDBI Act, 1989, inter-alias, relating to the appointment of Board of Directors.
Board of Directors:

In accordance with the provisions of Sec.4B of SIDBI (Amendment) Act, 2000, Government approved the transfer of 23 crore (51.11 percent) equity shares of SIDBI subscribed and held by IDBI to public sector banks. LIC, GIC and other institutions owned or controlled by Central Government. The Board of Directors of SIDBI has been constituted in accordance with the provision laid down in the SIDBI (Amendment) Act, 2000, consisting of following members:
a) A Chairman and a Managing Director appointed by the Central Government (the same person may be appointed to function both as Chairman and as Managing Director)

b) Two Whole Time Directors appointed by the Central Government;

c) Two directors who shall be officials of Central Government nominated by the Central Government;

d) Three directors to be nominated in the prescribed manner by the Development Bank, the Public Sector banks, the General Insurance Corporation, the Life Insurance Corporation and other institutions owned and controlled by the Central Government

e) Three directors including one director from the officials of the State Financial Corporations, nominated by the Central Government from amongst the persons having special knowledge of, or professional experience in, science, technology, economics, industry, banking, industrial co-operatives, law, industrial finance, investment, accountancy, marketing or any other matter, the special knowledge of, or professional experience in, which would, in the opinion of the Central Government, be useful to the Small Industries Bank;

f) Such number of directors not exceeding four elected in the prescribed manner, by shareholders, other than the Development Bank, Three directors to be nominated in the prescribed manner by the Development Bank, the Public Sector banks, the General Insurance Corporation, the Life Insurance Corporation and other institutions owned and controlled by the Central Government, whose names are
entered in the register of shareholders of the Small Industries Bank ninety days before the date of the meeting in which such election takes place.

g) The chairman and managing director and the whole-time director shall hold office for such term not exceeding five years as the Three directors to be nominated in the prescribed manner by the Development Bank, the Public Sector banks, the General Insurance Corporation, the Life Insurance Corporation and other institutions owned and controlled by the Central Government may specify in this behalf and any person so appointed shall be eligible for reappointment.

**Executive Committee and other Committees**

1. The Board shall constitute an Executive Committee consisting of the chairman and managing director, the whole-time directors and such other directors as it may deem fit.

2. The Executive Committee shall discharge such functions as may be prescribed or as may without prejudice to the provision contained in section 34, be delegated to it by the Board.

3. The Board may constitute such other committee whether consisting wholly of directors or wholly of other person or partly of directors and partly of other persons for such purpose as it may think fit.

**Executive Committee**

Sanctions relating to credit proposals above a threshold limit and other such operational matters as delegated by the Board are considered
by the executive committee. It is formed by the Board as its sub-committee under the provisions of Section 12 of the SIDBI Act. A post-sanction reporting is in place to report sanctions of proposals by delegated authorities to their next higher authorities. The Credit Committees at the Head Office and Zonal/Branch Office deals with other loans/grants/settlement proposals depending upon the quantum of assistance. Matters relating to rehabilitation/settlement are dealt with by the Central/Zonal Settlement Committees.

Audit Committee

The Audit Committee appointed by the Board of Directors as its sub-committee overseas the functioning of the Internal Audit Department and reviews its major observations. In addition, it also provides guidance in matters relating to finalization of accounts of the Bank and inspections by the authorities of Reserve Bank of India.

Empowered Committees on Micro Finance

In order to guide in matter related solely to SIDBI Foundation for Micro Finance, a new sub-committee of the Board, viz, Empowered Committees on Micro Finance was constituted during the year 2003-04. The committee was empowered to make policy decision and consider proposal above a threshold limit and other operational matters of SIDBI Foundation for Micro Finance Credit (SFMC).

Credit Committee

The Credit Committee at the Head Office and Zonal/Branch Office deals with other loans/grants/settlement proposals depending upon the
quantum of assistance. The Central Credit Committee I of the Bank which considers proposals relating to project finance bills, forex assistance, marketing assistance, etc. was reconstituted during the year 2002-03. The Committee is headed by the Deputy Managing Director of the Bank. The Central Credit Committee II considers proposals relating to the promotional and developmental activities of the Bank. The Committee is chaired by an Executive Director. Sanctions relating to credit proposals above a threshold limit as considered by the Executive Committee of the Board.

**Settlement Committee**

Matters relating to rehabilitation/settlement are dealt with, depending upon the deregulation, by the Settlement Committees at the Head and Zonal Offices. The Central Settlement Committee and four Zonal Settlement Committee are reconstructed during the year 2002-03 as per the decision of the Board of Directors for considering proposals for grant of relief, concessions, rehabilitation, ‘One Time Settlement’ and other related matters within the delegated powers.

**Financial Resources**

SIDBI raises resources, besides internal generation by way of repayment of debts by borrowers and institutions, through two routes—domestic and external borrowings. Its domestic bond issues have been given an AAA rating (indicating the higher safety) by the rating agencies CRISIL and CARE. SIDBI mobilizes external resources from leading international lending agencies such as Japan Bank for International Cooperation (erstwhile Overseas Economic Co-operation Fund), Japan and Kreditanstalt fur Wiederaufban, Germany.
The resources raised by SIDBI during 2000-01 aggregated Rs.10.88 billion as against Rs.7.73 billion raised during 1999-2000. Resources raised in foreign currency during 2000-01 amounted to Rs.0.11 billion as compared to Rs0.04 billion during the previous year. Borrowings from domestic sources increased to Rs.10.77 billion from Rs.7.69 billion during the year 2000.¹

SIDBI was established in 1990 with authorized capital of one thousand crores divided into seventy five crores fully paid equity shares of rupees ten each and twenty five crores fully paid redeemable preference shares of rupees ten each. With a provision that the authorized capital can be increased up to an amount no exceeding two thousand crore.

The initial issued and paid-up capital was Rs.250 crores fully subscribed by IDBI which was raised to Rs.450 crores on 1st February 1991 of this Rs 125 crore were contributed in cash and the balance Rs.325 crore were adjusted against a part of the consideration for transfer of outstanding portfolio of SSI sector.

In pursuance of the announcement, of de-linking of SIDBI from IDBI on 27th March 2000 resulting in transferring of shareholdings in Small Financial Corporations (SFCs) to SIDBI. SIDBI [Amendment] Act, 2000, interalia, has also changed the provisions relating to capital structure, shareholding, management, business, borrowings, acceptance of deposits and investments.

¹ SIDBI Report on SSI 2001, Page No. 139
With the amendments Act, the authorized capital of the Bank raised to Rs 10 billion, divided into 750 million equity shares of Rs. 10 each and 250 million redeemable preference shares of Rs. 10 each. The Act also provides that on the recommendation of the board of SIDBI, the Central Government may by notification, increase the authorized capital to Rs. 20 billion.

The Amended Act further provides that fifty one percent of the equity shares of Rs. 4.50 billion, subscribed and held by Industrial Development Bank of India, will be transferred to public sector banks, General Insurance Corporation, Life Insurance Corporation and other institutions owned and controlled by the Government. The equity share capital held by these institutions shall not be less than 51 percent at any point of time.

The SIDBI (Amendment) Act confers operational flexibility and functional autonomy on the Board of SIDBI. However, the approval of the Central Government would be required for acquiring the business, assets and liabilities of other institutions and for doing any other kind of business which are not provided in the relevant section of the Act. The amended Act also permits SIDBI to extend its refinance assistance to SFCs and SIDCs in respect of their loans to non-SSI sector.

The resource of SIDBI comprise, paid-up capital, borrowings from Government of India, RBI, IDBI, Asian Development Banks including foreign currency borrowings, issue of bonds, deposits sale of investments in shares and debentures, repayment by borrowers, receipt of interest, and others.
Table 3.3 : Financial Resources of SIDBI

(Rs. in Million)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid-up Capital</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
</tr>
<tr>
<td>Borrowings From GOI</td>
<td>428.42</td>
<td>810.64</td>
<td>810.64</td>
<td>1355.64</td>
<td>1708.09</td>
<td>1740.25</td>
<td>1737.4</td>
<td>NA</td>
<td>1727.74</td>
<td>1722.9</td>
<td>1703.9</td>
<td>1646.32</td>
<td>1586.04</td>
<td>906.58</td>
<td>NA</td>
<td>804.36</td>
</tr>
<tr>
<td>Borrowings From RBI</td>
<td>400</td>
<td>840</td>
<td>840</td>
<td>1172</td>
<td>1380.75</td>
<td>1604.75</td>
<td>1729.75</td>
<td>NA</td>
<td>2004.75</td>
<td>2004.75</td>
<td>2004.75</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Borrowings From IDBI</td>
<td>3817.22</td>
<td>4157.59</td>
<td>4157.59</td>
<td>3814.15</td>
<td>3456.34</td>
<td>3097.99</td>
<td>2738.75</td>
<td>NA</td>
<td>2010.1</td>
<td>1633.02</td>
<td>754.76</td>
<td>524.64</td>
<td>164.2</td>
<td>NAA</td>
<td>NAA</td>
<td>NAA</td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>28.29</td>
<td>54.31</td>
<td>729.51</td>
<td>953.03</td>
<td>NA</td>
<td>2280.33</td>
<td>2626.13</td>
<td>2367</td>
<td>2350.95</td>
<td>2578.95</td>
<td>2713.96</td>
<td>NA</td>
<td>1777.07</td>
</tr>
<tr>
<td>Other Sources</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>(1.09)</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>150</td>
<td>305</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Issue of Bonds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>504.57</td>
<td>856.33</td>
<td>1398.93</td>
<td>1591.59</td>
<td>1984.26</td>
<td>NA</td>
<td>2002.41</td>
<td>2436.96</td>
<td>3296.94</td>
<td>5215.49</td>
<td>4691.76</td>
<td>5428.36</td>
<td>NA</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>549.16</td>
<td>310</td>
<td>123.61</td>
<td>354.91</td>
<td>NA</td>
<td>299.02</td>
<td>307.43</td>
<td>292.17</td>
<td>336.39</td>
<td>436.15</td>
<td>1181.49</td>
<td>NA</td>
<td>423.25</td>
</tr>
<tr>
<td>Sale of Investments</td>
<td>1.7</td>
<td>0.56</td>
<td>0.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2.36</td>
<td>NA</td>
<td>8.08</td>
<td>4.26</td>
<td>20.68</td>
<td>38.95</td>
<td>78.55</td>
<td>71.39</td>
<td>NA</td>
<td>20.84</td>
</tr>
<tr>
<td>Other Receipts (Interest and Commission)</td>
<td>401.79</td>
<td>485.1</td>
<td>647.54</td>
<td>803.97</td>
<td>941</td>
<td>1047.74</td>
<td>1193.8</td>
<td>NA</td>
<td>1429.96</td>
<td>1496.26</td>
<td>1488.24</td>
<td>1369.05</td>
<td>1105.16</td>
<td>825.44</td>
<td>NA</td>
<td>721.3</td>
</tr>
<tr>
<td>Opening Cash</td>
<td>173.2</td>
<td>8.2</td>
<td>52.01</td>
<td>71.8</td>
<td>237.65</td>
<td>337.82</td>
<td>397.78</td>
<td>NA</td>
<td>580.84</td>
<td>386.12</td>
<td>203.33</td>
<td>1003</td>
<td>891.11</td>
<td>2312.79</td>
<td>NA</td>
<td>14084.82</td>
</tr>
<tr>
<td>Total</td>
<td>5673.33</td>
<td>6752.09</td>
<td>7462.58</td>
<td>9281.34</td>
<td>9957.07</td>
<td>10723.26</td>
<td>11542.04</td>
<td>NA</td>
<td>12793.23</td>
<td>13092.83</td>
<td>12581.73</td>
<td>11481.79</td>
<td>11853.81</td>
<td>12323.33</td>
<td>NA</td>
<td></td>
</tr>
</tbody>
</table>

Source : Computed from the data given in Annual Reports of SIDBI for the relevant years
Table 3.3 presents the resource structure of the SIDBI during the 10-15 years period of study. Taking the entire period as a whole, we find that total resources of Bank as on end-March 2000 was of the order of Rs.13092.83 crore. Of the various sources of funds, foreign borrowings constituted the largest source of SIDBI’s finance its share being (20%) which accounted for one-fourth of the total resources, these were followed by issue of bonds (18.61%), RBI (15.31%), borrowings from Government of India (13.16%), IDBI (12.47%), other receipts including interest and commission (11.43), deposits (2.35%), other sources (0.19%) and sale of investments (0.03%). The total borrowings (excluding issue of bonds) accounted for about 60% of the total resources. Moreover the pattern of borrowings in the first seven years have been quite different, as during these years domestic borrowings constituted the major source of finance specially IDBI. De-linking of SIDBI from IDBI resulted in reduction in the amount of financial assistance provided by IDBI year after year. Whereas the borrowing pattern from RBI and GOI has been consistent in the past years. Similar pattern was found for other sources of finance throughout the period of study, with minor exceptions here and there.

Profitability Position

In order to serve the industrial sector on a massive scale, it is necessary that financial institutions like IDBI, IFCI and ICICI maintain their profitability to a reasonable level. It is important to note that IDBI dose not function purely on business principles as it has to discharge promotional and developmental functions also.
The details of incomes and expenditure during 1990-2000 have been presented in Table 3.4. The main source of income of SIDBI are interest, income from investment and other incomes. Considering the period of study 1990-2000, the total income increases from Rs. 422.5 crore in 1990-91 to Rs 1593.62 crore in 2000-01. Of the total income, interest was the most prominent source contributing nearly 94% of the total income, followed by income from investments (5.81) and other incomes (0.03).
Table 3.4 : Income Expenditure and Profit of SIDBI

(Rs. in Million)

<table>
<thead>
<tr>
<th>INCOME</th>
<th>90-91 (94.91)</th>
<th>91-92 (95.97)</th>
<th>92-93 (95.98)</th>
<th>93-94 (94.83)</th>
<th>94-95 (94.1)</th>
<th>95-96 (92.29)</th>
<th>96-97 (92.68)</th>
<th>97-98 (91.05)</th>
<th>98-99 (93.89)</th>
<th>99-2000 (92.95)</th>
<th>2000-01 (92.59)</th>
<th>2001-02 (95.26)</th>
<th>2002-03 (92.59)</th>
<th>2003-04 (90.75)</th>
<th>2004-05 (92.59)</th>
<th>2005-06 (92.59)</th>
</tr>
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<tbody>
<tr>
<td>Interest</td>
<td>401</td>
<td>485.1</td>
<td>647.54</td>
<td>803.97</td>
<td>941.1</td>
<td>1047.74</td>
<td>1193.8</td>
<td>NA</td>
<td>1420.96</td>
<td>1496.26</td>
<td>1488.27</td>
<td>1369.05</td>
<td>1105.16</td>
<td>825.44</td>
<td>NA</td>
<td>721</td>
</tr>
<tr>
<td>Income From Investments</td>
<td>20.75</td>
<td>16.84</td>
<td>17.01</td>
<td>29.73</td>
<td>38.86</td>
<td>65.31</td>
<td>43.12</td>
<td>NA</td>
<td>92.61</td>
<td>92.55</td>
<td>97.74</td>
<td>145.67</td>
<td>216.37</td>
<td>240.97</td>
<td>NA</td>
<td>202</td>
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<tr>
<td>Other Income</td>
<td>0.77</td>
<td>3.55</td>
<td>10.12</td>
<td>18.12</td>
<td>20.16</td>
<td>22.19</td>
<td>51.18</td>
<td>NA</td>
<td>47.87</td>
<td>4.81</td>
<td>12.75</td>
<td>8.66</td>
<td>2.22</td>
<td>16.32</td>
<td>NA</td>
<td>29.59</td>
</tr>
<tr>
<td>Total Income</td>
<td>422.52</td>
<td>505.49</td>
<td>674.67</td>
<td>851.82</td>
<td>1000.02</td>
<td>1135.24</td>
<td>1288.1</td>
<td>NA</td>
<td>1570.44</td>
<td>1593.62</td>
<td>1598.76</td>
<td>1523.38</td>
<td>1320.75</td>
<td>1082.73</td>
<td>NA</td>
<td>952.59</td>
</tr>
</tbody>
</table>

| EXPENDITURE                     |              |               |               |               |              |              |              |              |              |                |                |                |                |                |                |               |
| Payment of Interest             | 377.29       | 421.41        | 538.13        | 693.86        | 779.37       | 829.82       | 905.04       | NA           | 1047.59      | 1055.39        | 1042.38        | 1069.44        | 984.26         | 660.91         | NA             | 475.56        |
| Other Expenditure               | 1.47         | 2.57          | 14.49         | 9.09          | 10.45        | 18.74        | 35.65        | NA           | 33.48        | 36.8           | 37.69          | 30.06          | 40.52          | 46.33          | NA             | 39.82         |
| Provision for Taxation          | -            | -             | -             | -             | -            | -            | -            | NA           | -            | -              | -              | 152.98         | 96.46          | 140.47         | NA             | 110.75        |
| Total Expenditure               | 378.76       | 423.98        | 552.62        | 702.95        | 789.82       | 848.56       | 940.69       | NA           | 1081.07      | 1092.19        | 1080.07        | 1252.48        | 1121.24        | 847.71         | NA             | 626.13        |
| Profit (after tax)              | 35.6         | 72.19         | 108.29        | 135.07        | 191.34       | 261.25       | 315.67       | NA           | 450.37       | 459.44         | 477.44         | 253.65         | 219.85         | 235.3          | NA             | 276.17        |

Source: Computed from the data given in Annual Reports of SIDBI for the relevant years
On the other hand, payment of interest and other expenditures including administrative expenses were the main expenditure of the Bank. Interest constituted over 66% of the total expenditures and other expenditures only 2% (Table). It is worth mentioning that the SIDBI was exempted from payment of income tax upto 2000-01. However after amendment in SIDBI Act, it was required to pay tax from 2001-02. Income tax constituted 10-13% of the total expenditure of the SIDBI during 2001-06.

SIDBI has built up a strong financial profile over the period of time, while serving the needs of the Small Scale Industries Sector. As on March 2001, SIDBI had a net worth of Rs. 37.71 billion, total assets of Rs.170.90 billion and an outstanding portfolio of Rs.145.71 billion (figure) Since the inception of SIDBI there has been consistent growth in its income and profits. The total income of SIDBI has grown from a level of Rs.4.25 billion in 1990-91 to Rs.16.19 billion in 2000-01. The net profit of SIDBI during the period has grown from Rs.0.36 billion in 1990-91 to Rs.4.77 billion in 2000-01(Figure 6.6). The bank has been consistently paying dividend on equity holdings to IDBI.
Table 3.5 Trend of Operating Profits of SIDBI

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Profits (Rs.crore)</th>
<th>Percentage growth rate over the preceding year (%)</th>
<th>Percentage growth rate over the base year 1990-91 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>35.60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>72.19</td>
<td>102.78</td>
<td>102.78</td>
</tr>
<tr>
<td>1992-93</td>
<td>108.29</td>
<td>50.01</td>
<td>204.19</td>
</tr>
<tr>
<td>1993-94</td>
<td>135.08</td>
<td>24.74</td>
<td>279.44</td>
</tr>
<tr>
<td>1994-95</td>
<td>191.35</td>
<td>41.66</td>
<td>437.50</td>
</tr>
<tr>
<td>1995-96</td>
<td>261.26</td>
<td>36.54</td>
<td>633.88</td>
</tr>
<tr>
<td>1996-97</td>
<td>315.66</td>
<td>20.83</td>
<td>786.74</td>
</tr>
<tr>
<td>1997-98</td>
<td>405.23</td>
<td>28.37</td>
<td>1038.29</td>
</tr>
<tr>
<td>1998-99</td>
<td>450.37</td>
<td>11.14</td>
<td>1165.08</td>
</tr>
<tr>
<td>1999-2000</td>
<td>459.44</td>
<td>02.01</td>
<td>1190.56</td>
</tr>
<tr>
<td>2000-01</td>
<td>477.45</td>
<td>03.92</td>
<td>1241.15</td>
</tr>
<tr>
<td>2001-02</td>
<td>405.34</td>
<td>(-15.10)</td>
<td>1038.60</td>
</tr>
<tr>
<td>2002-03</td>
<td>315.01</td>
<td>(-22.29)</td>
<td>784.86</td>
</tr>
<tr>
<td>2003-04</td>
<td>374.46</td>
<td>18.87</td>
<td>951.85</td>
</tr>
<tr>
<td>2004-05</td>
<td>315.61</td>
<td>(-15.72)</td>
<td>786.55</td>
</tr>
<tr>
<td>2005-06</td>
<td>378.18</td>
<td>19.83</td>
<td>962.30</td>
</tr>
</tbody>
</table>

Source: Computed from the data given in Annual Reports of SIDBI for the relevant years

The Table 3.5 shows that operating profits of SIDBI increased substantially during its working of last sixteen years from Rs.35.60 crores in 1990-91, the first year of its operation, to Rs.378.18 crore during 2005-06, representing a compound growth of 15.18 percent during 1991-2006. The increase in operating profits in 2005-06 over 1990-91 was as much as 378.18 percent. The year to year profit performance of SIDBI reveals the fact that a sharp rise of 102.78 percent was achieved in operating profits of second year of operation as compared to the first.
year's operating profit of Rs.35.60 crore in 1990-91. This increase was highest during the period of sixteen years of bank's operations. Thereafter, a declining trend was seen in the growth rates of operating profits in the succeeding years till 1999-2000 when it got shrinked to merely 2.01 percent and in the next year to 3.92 percent only, due to the hick in salaries burden of income tax as well as bad-debts and lowering interest income on loans and advances, the operating profit got decreased by 15.10 percent to Rs.405.34 crore as compared to Rs.477.45 crore in 2000-01. Again, a decrease of 22.29 percent in the operating profit of 2002-03 was noticed in comparison to the profit of previous year. The year 2003-04 registered a positive growth rate of 18.87 percent over the previous year 2002-03. A reduction of 15.72 percent in operating profit was once again noticed in the year 2004-05. However, SIDBI managed to achieved a growth rate of 19.83 percent in the operating profits of 2005-06. It moved the operating profit upto Rs.378.18 crore as compared to Rs.315.61 crore during the previous year 2004-05. Percentage growth rate taking 1990-91 as the base year comes to 962.30 percent over a period of sixteen years. It is quite impressive and shows a good sigh of profitability. The trend of net profit of SIDBI is presented in the following table 3.6:
Table 3.6 Trend of Net Profit of SIDBI

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Profits (Rs. Crore)</th>
<th>Percentage growth rate over the preceding year (%)</th>
<th>Percentage growth rate over the base year 1990-91 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>35.60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>72.19</td>
<td>102.78</td>
<td>102.78</td>
</tr>
<tr>
<td>1992-93</td>
<td>108.29</td>
<td>50.01</td>
<td>204.19</td>
</tr>
<tr>
<td>1993-94</td>
<td>135.08</td>
<td>24.74</td>
<td>279.44</td>
</tr>
<tr>
<td>1994-95</td>
<td>191.35</td>
<td>41.66</td>
<td>437.50</td>
</tr>
<tr>
<td>1995-96</td>
<td>261.26</td>
<td>36.54</td>
<td>633.88</td>
</tr>
<tr>
<td>1996-97</td>
<td>315.66</td>
<td>20.83</td>
<td>786.74</td>
</tr>
<tr>
<td>1997-98</td>
<td>405.23</td>
<td>28.37</td>
<td>1038.29</td>
</tr>
<tr>
<td>1998-99</td>
<td>450.37</td>
<td>11.14</td>
<td>1165.08</td>
</tr>
<tr>
<td>1999-2000</td>
<td>459.44</td>
<td>02.01</td>
<td>1190.56</td>
</tr>
<tr>
<td>2000-01</td>
<td>477.45</td>
<td>03.92</td>
<td>1241.15</td>
</tr>
<tr>
<td>2001-02</td>
<td>281.74</td>
<td>(-40.99)</td>
<td>619.41</td>
</tr>
<tr>
<td>2002-03</td>
<td>207.20</td>
<td>(26.46)</td>
<td>482.02</td>
</tr>
<tr>
<td>2003-04</td>
<td>243.12</td>
<td>17.34</td>
<td>582.92</td>
</tr>
<tr>
<td>2004-05</td>
<td>225.23</td>
<td>(-7.36)</td>
<td>532.67</td>
</tr>
<tr>
<td>2005-06</td>
<td>270.19</td>
<td>19.96</td>
<td>658.96</td>
</tr>
</tbody>
</table>

Source: Computed from the data given in Annual Reports of SIDBI for the relevant years.

The Table 3.6 shows that the net profits of SIDBI grew at the compound rate of 11.6 percent during the period of sixteen years of its working. The trend of net profits indicates that similar to operating profits growth, phenomenal growth rates in net profits were also achieved by SIDBI in 1991-92, 92-92 and 94-95. It is evident from the table that on a year to year bases, net profits of the bank declined in the year 2001-02, 2002-03 and 2003-04 among these years of falling profits, the year 2001-02 witnessed a sharp reduction of 40.99 percent in the net profit over the previous year. The net profit of this unfortunate year declined to Rs.281.74 crore from Rs.477.45 crore of the previous years. The sharp reduction in the net profits was mainly caused by rising cost of establishment expenses, heavy provision for income tax, writing of NPAs
and reduced share of interest income. However, SIDBI registered a growth of 19.96 percent in its net profit in 2005-06 over the previous year’s profit of Rs.225.23 crore.

The performance of a banking institution is generally measured on the basis of some basic parameters like efficiency, liquidity, safety, profitability, etc. There has been steady growth in Bank’s networth, assets and other financial parameters which made SIDBI emerge as a strong and vibrant institution and thus been rightly rated as one of the top 25 Development Banks of the World. The efficiency and profitability ratio of SIDBI demonstrate good performance during the period of review. The bank has developed its own supervisory management system for the strategic planning and stringent control over the activities.