Strengthening of Credit Flow to SSI Sector in India

- Abstract of Research Thesis

Role of the SSI Sector

Importance of the Sector:

Thus far, Small Scale Industries (SSI) sector is being talked about. With the recent enactment of Micro, Small and Medium Enterprises and Development (MSMED) Act, 2006 Small and Medium Enterprises (SMEs) sector has emerged which will replace the SSI sector. Like in any other developing countries, in India SMEs play a very significant role in terms of their balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. As at the end of March 2006, there were around 12.0 million units - constituting 95 per cent of the industrial units in the country which produced more than 80000 items with associated technology varying from traditional to state-of-art. These units provide employment to nearly 24.9 million persons and account for 40 per cent of the value added in the manufacturing sector, 34 per cent of total national exports and 7 per cent of GDP during 2005-06.

Official Definitions:

In the Indian context, the definition of the SME sector is largely framed in terms of cumulative investment in plant and machinery. While most of the countries adopt the level of employment as the criterion for defining the SME sector. According to the official definition adopted in India till recently, the investment limit up to Rs.10 million in plant and machinery is treated as Small Scale Industries(SSI) unit. However, in respect of certain specified items such as hosiery, hand-tools, drugs & pharmaceuticals and stationary items, the above investment limit in plant and machinery has been enhanced up to Rs.50 million. But under MSMED Act, new official definitions are available separately for Manufacturing and Service rendering enterprises. Accordingly for Manufacturing enterprises, the criteria is investment in plant and
machinery i.e. micro – up to Rs 25 lakhs; small – above Rs 25 lakhs and up to Rs 5 crores and medium – above Rs 5 crores and up to Rs 10 crores. Regarding service enterprises, the criteria is investment in equipment i.e. micro – up to Rs 10 lakhs; small – above Rs 10 lakhs and up to Rs 2 crores and medium - above Rs 2 crores and up to Rs 5 crores. Today, SMEs are widely used in place of SSIs but data are available for the SSI sector only. Medium enterprises are new in this regard.

Policy Guidelines:

Various policy measures adopted for the development of SSIs include enactment of MSMED Act, product reservations, fiscal concessions, preferential allocations of credit and interest subsidy in a credit rationing framework, extension of business and technical services by the government, rating of SSIs, rehabilitation of sick units, restructuring of debts, preferential procurement of goods from SSIs by the Government etc. The SSI sector has also been given assurance to receive the minimum bank credit of 20% of projected production value / turnover. Since 1986, fiscal incentives have also been provided to the units in terms of complete exemption from excise duties or payment of lower rates under specified conditions. Since April 1995, SSI units are allowed a deduction of 25 per cent of profits for a period of ten years, for taxation purpose. When the SSI units are set up in specified backward areas, full tax exemption is allowed for the first five years and a deduction of 25 per cent in the subsequent five years.

In the same policy context, there has been a paradigm shift. The Indian industry remained within an inward oriented policy framework up to the 1990s. With globalization, liberalization and financial and real sector reforms the country adopted an outward looking approach. At present, both the industrial sector in general and SSI sector in particular are exposed to international competitive environment. However, the most significant aspect is that India has evolved a sound institutional set up for financing of the sector. A separate Industrial Policy was announced as part of the structural reforms in 1991
which not only eliminated various controls on the industrial sector, provided a greater role for the private sector and encouraged inflow of foreign investment and technology, but also contained specific initiatives for the development of the SSI sector. The recently introduced comprehensive policy package includes fiscal, credit, infrastructure and technology. Now, the emphasis is on quality improvement, marketing and streamlining regulations.

Credit Support to the SSI Sector

In recognition of the contribution and the vast potential of the SSI sector as well as its inherent strength, provision of adequate credit to this sector has continued to be an important element of the banking policy, even though economic and financial policies themselves have undergone significant transformation, particularly after the initiation of structural reforms in 1991. Bank credit to the SME sector increased from Rs.168 billion in March 1991 to Rs.902 billion in March 2006. Accordingly, the Government of India and the Reserve Bank of India have taken several initiatives to step up the credit flow to the sector. These include: considering SSI lending as part of priority sector lending, setting up SSI specialized branches, raising the limit of composite loan from time to time, linking rating of the unit with loan pricing, asking banks to delegate more lending powers to branches, collateral free lending to tiny and decentralized units, setting up of SME Growth Fund, Credit Guarantee Scheme, Credit Linked Capital Subsidy scheme for technology upgradation, National Equity Fund scheme, Credit Card scheme for SSIs, Venture Capital scheme, scheme for Micro Credit Programme, Cluster Development Programme etc.

Despite the above mentioned initiatives, the credit flow to the sector is not found to be adequate which is evident from the Reserve Bank of India publications. While the production value went up by 215.76 per cent between 1993-94 to 2002-03, the supply of bank credit to the SSI sector was low as 195.22 per cent during the same period. It is also observed that bank credit flow to the sector is just 18.11% of the production value as on March end
2003-04, which is below the Nayak Committee norm i.e. minimum bank finance should be 20 per cent of projected production value. Further, tiny and decentralized units and also those located in backward areas are given less importance by banks while providing credit keeping in mind credit risk. Besides inadequacy of credit, there are many other problems. These include delays in credit sanctions, too much insistence on collateral securities particularly from tiny units, high cost of loans, inadequate rehabilitation support to sick units, absence of credit schemes of specially designed for Medium Enterprises, etc. Hence, a need was felt to undertake a study to examine various issues relating to credit supply to the SSI sector and suggest suitable strategies. The study is undertaken at a time when in August 2005, the Finance Minister asked the banks to double the credit flow to this sector during the next five years. Accordingly, the strategies suggested by the present study would be of help to the banks, the RBI and the Government. The methodology is discussed as under:

**Methodology**

As discussed above, there is a gap between demand for and supply of the bank credit to the SSIs. Over the years, this gap is widening. Consequently, there are numerous challenges before the banks to meet the recent expectation of the government to double the credit flow to SSIs during the next five years. In other words, the average annual growth in bank credit to SSIs is expected to be 20% in the coming five years. In addition, banks have to provide the minimum credit of 20% of the projected sales which is found to be difficult to achieve considering the performance. During the last few years, the growth rate in bank credit to the SSI sector is less than 20%p.a. And, the credit gap is widening at a time when the sector has proposed to grow more than 12% during the Tenth Five Year Plan. Hence, there is an urgent need to examine various issues relating to this credit gap and suggest appropriate strategies. In this backdrop, the present study is undertaken. The study sets the following Statement of Problem/Hypothesis.
Hypothesis and Objectives:

“During the financial sector reform period in India, growth of the SSI sector and supply of bank credit are expected to be correlated. The adequate and timely supply of bank credit enhances the growth of the SSI sector. Reverse is the case when there are constraints in the supply of bank credit to the sector. “

Keeping in mind the above hypothesis, the study sets the following objectives:

1. To study the relationship between growth of the SSI sector and supply of bank credit during the recent past.

2. To assess the progress made in implementing the recommendations of the expert committees/study groups, appointed by the Government of India and Reserve Bank of India during the financial sector reform period.

3. To spell out expectations of the SSI units as perceived by the entrepreneurs and banks.

4. To draw lessons from the success stories in the SSI sector in which banks have been found to be more customer friendly.

5. To examine various constraints associated with the credit supply and suggest strategies to resolve the same. More importantly, the study is expected to suggest new approaches for bank finance to the SSI sector and work out plan for effective implementation of the same.

Data/Information Requirements:

Keeping in mind the broad objectives of the study, it was first attempted to identify the data / information requirements which include:

1. Statistics relating to the flow of bank credit to the SSI sector during the post financial sector reforms period.

2. Findings of the various research studies already conducted on the supply of bank credit to the SSI sector.
3. Initiatives taken by the Government of India and the Reserve Bank of India. Based on the recommendations of the various committees/study groups with special reference to the credit flow to this sector.

4. Problems as experienced by SSI entrepreneurs in availing of timely and adequate bank credit and their suggestions to overcome them.

5. Constraints in the supply of credit as perceived by the branch managers and their suggestions to overcome them.

6. Experiences of banks in rehabilitating sick SSI units.

7. Lessons from the successful entrepreneurs who have been able to set themselves as a good example to many others.

8. Views and suggestions of the Chiefs of SSIs in banks and financial institutions with special reference to policies and procedures relating to credit flow to SSIs.

9. Strategies to strengthen the credit flow to the sector based on the views and suggestions of bankers, borrowers, etc.

Sources of Data/Information:

Initially, it was attempted to refer to the Report on Trend and Progress of Banking in India, RBI publication, to collect the secondary data relating to bank credit to the SSI sector. Reference was made to the SIDBI annual reports and also the latest report of the Ministry of Small Scale Industries 2005-06, Government of India. In addition, the Third Census, conducted by the GOI and Statistical Tables relating to Banking in India, RBI publication, were looked into to obtain necessary details of the profile of the SSI sector and trends in bank credit. Reference was also made to the MSMED Act, 2006. It was attempted to go through findings of surveys/studies conducted by researchers on the subject. To share the global experiences in financing of SSIs, certain articles were examined. Studies conducted at the RBI, GOI, NIBM (National Institute of Bank Management) and also by many other researchers were also perused. For understanding the measures taken by the GOI and the RBI, it was referred to their publications during the recent past. In addition, reference was made to the reports of the Nayak Committee, the
Gupta Committee, the Abid Husain Committee, the Ganguly Committee, Internal Group on Credit Flow to SME sector and the Finance Minister’s statement made in the Parliament on August 10, 2005. From the study of these reports / papers/ data, it was possible to develop a good understanding of various measures taken by the banks, Government, RBI, SIDBI etc.

Sample Selection:
The study conducts the following Surveys/ Study :

1. Survey of Entrepreneurs
2. Survey of Branch Managers
3. Survey of Sick Units under Rehabilitation
4. Survey of Chiefs of SMEs in Banks and Financial Institutions
5. Study of Successful Entrepreneurs

To study the issues associated with credit supply to SSIs, five surveys/studies were conducted which include : a survey of entrepreneurs, a survey of branch managers, a survey of sick units under rehabilitation, a survey of chiefs of SMEs in banks and financial institutions and, a study of successful entrepreneurs. Details of these surveys/ study are as under:

The survey of entrepreneurs covers 39 entrepreneurs who were selected on randomly basis, wherein the entrepreneurs shared their views and suggestions relating various aspects of bank credit. These aspects include: their educational and professional background, credit sanctions availed by them, how they were motivated to start their unit, project formulation, filling up the loan application, managing both project cost and sources of funds, rehabilitation support if extended, loan recovery arrangements of banks, the role played by the credit institutions, their future plans, training support received by them, etc. This survey enabled to understand their expectations from banks and financial institutions in regard to credit sanctions besides receiving valuable suggestions on matters concerning overall development of the sector.

Regarding the survey of branch managers, 70 branch managers were contacted on randomly basis who shared their experiences in providing credit
to SSIs. Through the survey, it was possible to understand their expectations from entrepreneurs in regard to lending operations which include: formulation of project proposal, project appraisal, documentation, disbursement, credit monitoring, rehabilitation of a sick unit, loan recovery, etc. In particular, their suggestions for stepping up of credit flow were also understood. Thus, it was also possible to identify the areas in which improvement is needed.

The survey of sick units is aimed at drawing various lessons from rehabilitation. In all, 15 units were contacted on randomly basis. According to bankers, these are found to be successful in rehabilitation when they were sick at one time. Today, they have set themselves a good example for many others due to successful rehabilitation. Hence, it is possible to draw lessons which relate to timely identification of a sick unit, study of causes of sickness, assessment of viability of the project, preparation of rehabilitation of sick unit, implementation of the rehabilitation plan, monitoring of the progress in rehabilitation, review of the progress made in rehabilitation at the end of the rehabilitation period, involvement of the borrower and the banker, factors responsible for success in rehabilitation and suggestions from the borrowers and the bankers in making rehabilitation more effective.

The survey of Chiefs of SMEs in banks and financial institutions was conducted in which 22 Chiefs were participated. Initially, their perceptions about expectations of SSI customers were understood. Thereafter, it was attempted to understand their suggestions to meet such expectations. These suggestions relate to organization structure for SSI lending, systems, procedures and technology and people involved in SSI lending. Many of the suggestions are useful to step up the credit flow to the SSI sector.

Lastly, the study of successful entrepreneurs was conducted. This was done by going through interviews of the entrepreneurs which were published in Economic Times during October – November 2005. In all, 19 entrepreneurs were covered/interviewed. Based on the interview text as published in Economic Times, many factors which are responsible for their successful
venture, are understood. These points relate to their background; involvement in the venture; support received from banks/ Government, suppliers of materials, customers, etc; co-operation received from family members; importance given to strategic planning; development of leadership; market forces etc. More importantly, it was worth going through the strategies adopted by them in removing various hurdles in business operations.

The survey of entrepreneurs was conducted in Pune. Chiefs of SMEs were approached in Pune when they were attending a conference, organized by National Institute of Bank Management (NIBM) in November 2005. The other two surveys - branch managers and sick units, were completed by collecting information through a mailed questionnaire. It was attempted to develop a structured questionnaire for each of the surveys.

Besides surveys, lot of data were gathered from the secondary sources which include the RBI and GOI publications. In addition, reports of various committees and published papers/ articles were studied. From NIBM library, several working papers and study reports were studied. All these efforts helped in developing a good understanding of issues relating to credit flow to the SSI sector. To resolve the issues, the study makes several recommendations. To start with, issues need to be analysed carefully.

**Issues in Bank Lending to SSIs**

There are numerous issues involved in strengthening the credit flow to the SSI sector. These relate to two broad areas – (A) SSI lending operations and (B) Other related areas.

**(A ) SSI Lending Operations**

1. Information Centre - Entrepreneurs expect that all data/information required for preparation of project proposal should made available at one place.

2. Preparation of Project Proposal - Entrepreneurs experience many difficulties in formulating the project proposal which is required for raising
assistance from the banks/the government. Data/information requirements are too many and the same are not available at one place. It is a time taking process, Hence, entrepreneurs look for certain arrangements to get the required data/information conveniently and at low cost.

3. Quantum of loan sanctioned - Both borrowers and bankers agree that the quantum of loan sanctioned is found to be inadequate in terms of the requirements of the SSIs. This issue is also confirmed from the analysis of the secondary data analysis. Hence, it calls for the review of the existing system of assessment of working capital. Further, an element of fear in the minds of the field personnel has to be taken out when the senior officers from the controlling office extend a moral support to them. Credit risk in financing this sector seems to be higher because, there is lack of transparency and openness on the part of entrepreneurs. This also calls for strengthening efforts of the banks and the Government to educate the entrepreneurs.

4. End use of borrowed funds - One of the main reasons for the units to become non-performing is the diversion of funds, calling for the present system of follow up and supervision to be strengthened. This suggests a need to introduce the concept of credit monitoring.

5. Annual review - The working capital limits are expected to be renewed on yearly basis. As part of the annual review, the performance of the unit is reviewed. But in the absence of proper review, the problems of the SSIs are not understood. This leads to under-assessment of credit needs which calls for developing an effective annual review format.

6. Rehabilitation of sick units - From the survey of sick units, it is observed that success rate in rehabilitation is unsatisfactory. Involvement of banks can be enhanced when their role is specified. Procedures to be followed in banks should be spelt out. There is a need to develop a check list of DOs and D'NOTs in compliance of bank procedures.

7. Loan recovery - Branch Managers look for a check-list of recovery measures which are many in number. Such measures relate to non-legal and legal categories. This check list helps branch managers to choose an
appropriate measure for a given case.

(B) Other Issues

8. Delays in credit sanctions - Delays are seen at every level lending operation. Such levels include: submission of the loan application form, project formulation, project implementation, annual review and renewal of limits and rehabilitation of sick units. In addition, banks take the substantial time in offering regular services which include collection, remittance and other fee based services. Hence, the existing organization-structure in the banks needs a review to ensure prompt services.

9. Limited bank products - While SSI units are operating in the global environment, bank products are found to be limited. The time has come for banks to devise schemes well suited to the changing needs of the units. Cluster based bank products have to be offered. All these products have to provided on line basis. There is also a need to set up a cell to develop credit related products especially for SSI units.

10. Cost of loans - Despite liberalisation and financial sector reforms, the cost of loans is still high. Cost of loans and rating of units have to be correlated. Banks have to develop an internal rating system and charge interest rate accordingly.

11. Terms and conditions - The Reserve Bank of India has advised the banks not to insist on collateral securities for small loans when the amount outstanding is less than Rs.5 lakhs and Rs.25 lakhs where a guarantee cover is available. But in reality, collateral securities are still required to avail of even small loans.

12. Delayed payments by large corporates - Considerable delay in settlement of dues / payment by bills by the corporate buyers from the SSI units adversely affects the recycling of funds and business operations of the units. Though the government has enacted the Delayed Payment to Small Scale and Ancillary Industrial Undertakings (Amendment) Act, 1998 many of the units are reluctant to pursue cases against corporate buyers. The Act has made it compulsory that the payment of suppliers should be
made within 120 days, otherwise a penal interest has to be imposed. But this rarely happens. Further, while fixing sub-limits to large corporates, care should be taken to earmark some part of the same for the payment of bills to SSI units.

13. Marketing - Marketing remains the most crucial for the SSI sector as some of the units are very small and so is their output individually. Adopting consortium of SSIs as a measure, could best solve the marketing problems of the units. Besides, finance for marketing related activities, dissemination of requisite information on demand pattern, futuristic trends etc. could be made available by the credit institutions / SSI Industry Associations, etc.

14. Challenges emanating from the WTO - To face challenges emanating from the WTO Agreement, SSI units, irrespective of their size, need technology up-gradation and modernization. The preparation for competitiveness needs to be done by the Government as well as entrepreneurs and the corporates. The Government should provide good infrastructure and create level playing field for the industry. Few steps have already been taken. For instance, the Government has introduced the credit linked subsidy scheme for the Technology up-gradation of SSIs under which it should provide a good infrastructure and create a level playing field for the industry. The Government has also introduced the credit linked subsidy scheme for the Technology up-gradation of SSIs under which 12% back ended capital subsidy would be admissible on the loans advanced to SSIs by banks/ financial institutions for technology up-gradation in certain sectors.

15. Services with smile - It is observed that borrowers are not happy with the quality of services rendered by the bank staff. In particular, the attitude of the bank staff needs to be positive. In the absence of the same, borrowers are gradually shifting from the public sector banks to the newly set up private sector banks.

16. Lack of hand holding services - Tiny and decentralized units in the sector look for hand-holding services in several respects such as filling up loan application form, project formulation, project implementation, rehabilitation
of sick units, book-keeping, training of staff, procurement of orders and collection of payments from the government and corporates. Such services are specially required by the second generation entrepreneurs.

17. Fair practices code - There are numerous complaints received by banks from the SSI borrowers regarding excess bank charges, delays in credit sanctions, stricter terms and conditions, etc. This calls for each bank to spell out its own Fair Practices Code which should be widely canvassed.

18. Lack of response to the schemes sponsored by the Government - There are many schemes of the Government which are formulated in the larger interest of the units. These include: Composite Loan Scheme, National Equity Fund, Credit Guarantee Scheme, One Time Settlement Scheme, Debt Restructuring Scheme for SMEs, Technology Up-gradation Scheme, Delayed Payments to Small Scale and Ancillary Industrial Undertakings by Corporates, Cluster Development, etc. But the response to these schemes is not satisfactory. Towards this end, the Government should make necessary arrangements to popularize the schemes. It should undertake the impact studies. It also calls for co-ordinated efforts. More importantly, banks have to develop larger interest in associating with such schemes.

In this way, many more issues were identified by the study while interacting with SSI entrepreneurs, bankers, development agencies including SIDBI, chiefs of SMEs in banks and financial institutions and analysing the secondary data. All these issues need to be resolved for which the study makes certain recommendations.

Recommendations

Regarding ‘SSI Lending Operations’ (items 1-7 as above), the study has worked out details. For instance, it is suggested to set up Information Centers in the private sector to provide data/information for project formulation. Further, the study suggests the banks to introduce “Cash Flow Based Lending” which would ensure the need based finance to the units. And, Credit
Monitoring is expected to identify early warning signals of any account to become non-performing and preventive steps are needed to arrest slippage in standard assets. Similarly, Annual Review of a borrowal account can be conducted more effectively when banks will use the suggested format for the same. In the same way, the banks look for guidelines on rehabilitation of sick units. In this regard, it is attempted to prepare a checklist comprising DOs and D'NOTs. This check-list is prepared in consultation with the bankers. Lastly, the suggested check list of recovery measures is useful for branch managers to know about all the recovery measures at one place. This check list is also developed in consultation with branch managers covered under the study. The required details of this suggestions for items 1-7 above, are discussed in the thesis.

In respect of ‘Other Issues’ (items 8-18 above), recommendations are made in the thesis which relate to: 1) Organization Structure for SSI lending in banks 2) Systems, Procedures and Technology for SSI lending and 3) People concerned with SSI lending in banks.

Regarding the recommendations on the Organization Structure related aspects, it is suggested re-design the organization structure in such a way that faster loan sanctions shall be offered to SSIs. There should be a provision to create expertise particularly in selected areas/clusters. Product Development is an important activity. For this purpose, a Product Development cell has to be created in the bank. Further, the post of a ‘Relationship Manager’ should be created at controlling offices who will coordinate the entire activities of SSI lending. Specialized branches have to be set up in the identified clusters. Marketing of bank products, specially designed for SSIs needs to be done more aggressively. More importantly, Central Processing Units (CPUs) have to be set up in banks to derive the benefits of low cost of processing, creating specialization in processing of the credit proposals and quick disposal of proposals. It is also suggested to follow a ‘Committee Approach’ in taking lending decisions. This arrangement ensures more confidence on the part of the bank officers to take decisions
and in turn, removes the element of fear in their mind. Lastly, rigidity in credit sanctions should be avoided in the new set up.

Many recommendations may be offered relating to Systems, Procedures and Technology related aspects. Systems and procedures in banks have to be made customer friendly. There is some scope to reduce the size of the loan application form. A check-list of banker’s data/information requirements should be provided to the potential borrower along with the loan application form. In the same way, ‘In- Principle Sanction’ letter should be issued by the bank immediately after receiving the loan application form. This enables the entrepreneurs to plan for promoters’ contribution. Also, the rating of borrowers is a must and it should be the guiding factor for loan pricing. What is more important is to ensure transparency in bank charges, terms and conditions and the eligibility criterions under various schemes. Bank procedures have to be rationalized to increase speed and avoid inconvenience to the borrowers. Banks should encourage the borrowers to transact on line. Data/ information requirements of banks should be well suited to the MIS of the borrowers.

Much needs to be done in regard to People related aspects. Here, ‘People’ mean bank staff. Attempts should be made to spread the SSI Lending philosophy among the staff members. Training to the staff should be done on priority basis. A special pool of trained officers should be created to handle SSI lending in the identified clusters. They should also develop a positive outlook towards SSI units. Lastly, the performers in SSI lending should be adequately rewarded for which an incentive scheme should be worked out.

In the end, a number of steps have to be taken to promote the healthy growth of the SSI sector. SSI units in particular have to gear up to face the challenges of the economic liberalisation and financial reforms. It is hoped from the excellent performance track record in the past, the SSI sector will develop a global vision, respond to more demanding standards of the customers and adopt key strategies that would take them ahead in
competition. But, credit should not be the constraint to support the fast growing SSI sector. Towards this end, the present study has attempted to offer several recommendations to strengthen the credit flow to the sector.

**Limitations of the Study**

Like any other studies, this also has certain limitations. The study confines only to 'credit' as an input though other non-credit inputs are equally important for the development of the SSI sector. Due to time and resource constraints, the size of the sample of SSIs and branch managers is relatively small. In addition, there is heavy reliance on analysis of the responses received from borrowers and bankers which may be biased to some extent. However, cross test is done by referring to the secondary data and recommendations of various committees. There is also limited use of quantitative techniques since the study depends more on qualitative information. But the recommendations of the study have lot of practical orientation.

**Conclusion**

The SSI sector is now called as SME sector. This sector deserves liberal institutional credit due to its unique contribution in terms of creation of employment, foreign exchange earnings, reduction in regional disparities, etc. But in reality, such supply of institutional credit is too less and often delayed. In addition, the sector has many other expectations from banks. There are many factors, both internal and external, responsible for the inadequate and delayed supply of credit. The second phase of reform focuses on organizational aspects of banking business. In particular, efforts of banks in providing finance to the SSI sector need to be strengthened. Towards this end, they have to spell out their policies in financing of SSI in the changing context. The existing credit schemes also need a review in the context of the growing expectations of the SSI units. Further, sufficient resources have to be allocated for the SSI sector keeping in mind its increasing role in the economy and likely changes in the money and capital markets.
To conclude, banks have a long way to go to double the credit flow to the SME sector during the next five years. Hence, they have many tasks on hand and hurdles to overcome during the second phase of reforms to make bank lending organizationally effective. These tasks, when completed and constraints overcome, will certainly strengthen the banker-borrower relationship. In the process, when the banker would have fulfilled his mission, the SMEs will prosper and the customers at large will benefit. In the final analysis, India will become a strong industrialized nation. Towards this end, the present study attempts to suggest certain strategies to strengthen the credit flow to the SSI sector.

Organisation of the study

The study is organised in eleven chapters as detailed below:

Chapter 1 provides introduction to the subject proper and outlines the methodology adopted for collection and analysis of data. It also makes a detailed review of the literature. In the next Chapter, the changing role of SME sector is discussed. Various developments in strengthening credit flow to the SME sector in India and abroad are reviewed in the Chapter 3. In Chapter 4, Rehabilitation of sick units - concept and process is discussed. Findings of the success stories on SMEs are presented in Chapter 5. In Chapter 6, it is attempted to analyze the responses received from Entrepreneurs. A survey of Branch Managers is discussed in Chapter 7. A study of successfully rehabilitated cases and lessons drawn from them are presented in Chapter 8. Suggestions emerging from the survey of Chiefs of SMEs in banks and financial institutions are dealt in Chapter 9. SME Lending Operations are extensively discussed in Chapter 10 with a view to suggest new approaches. In the last Chapter 11, summary and recommendations are offered.
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