3.0 Introduction

In the last chapter, the role of the SME sector in India is discussed in terms of its achievements and various initiatives taken by the Government of India and the Reserve Bank of India to develop the same. Credit is as one of the core inputs for development of the SME sector. While there has been some improvement in growth in credit to the sector, this is not found to be adequate in comparison with growth in production. Hence, there is a felt need to strengthen the credit flow to the SME sector. Towards this end, it is necessary to study credit needs of SME units, credit related and other facilities to them, credit institutions, recommendations of various committees set up by the Government of India (GOI) and the Reserve Bank India (RBI), initiatives taken by the GOI and the RBI in formulating policies to strengthen credit flow to the sector and details of credit made to the SSI sector over the years. This chapter discusses these aspects.

3.1 Credit Needs of the SME Units

3.1.1 SME units require funds for various purposes. For starting their business, they require fixed assets which comprise of land and building, plant and machinery, furniture and fixture, etc. It is advisable to house the plant and machinery in a rented premise to reduce the project cost. Initially, each unit requires minimum fixed assets. Subsequently, additional plant capacity may be created to expand production and diversify business activities. Besides, the units require funds to finance other fixed assets also, which include goodwill, trade mark and other non-current assets. To feed machinery, raw materials and stores are required. To process raw materials into finished goods, certain manufacturing expenses have to be concurred. Every time, minimum stocks should also be maintained which comprise of raw materials, stores, stock in process and finished goods. Similarly,
goods are normally sold on credit basis and accordingly, certain cash is required until the collection is made from customers i.e. sundry debtors. Thus, each unit requires funds to maintain current assets which include cash, raw materials, stock in process, finished goods, sundry debtors and short term investment.

3.1.2 To finance all these fixed assets and current assets, each unit raises funds, which include long term funds and short-term funds. Long term funds include capital, subsidies and grants, retained earnings which are in the form of reserves and surplus as in case of existing units, medium and long term loans from banks and financial institutions and loans received from non-institutional sources such as friends and relatives, money lenders, etc. Grants and seed capital received from the government are expected to supplement capital of the entrepreneur and are considered as part of long-term funds. Long term loans are repayable after one year. Capital and reserves & surplus constitute owned funds (equity or net worth). Later, short term funds mainly include short term loans wherein the repayment period is less than one year, payments due to suppliers of materials and service providers and short term private loans.

3.1.3 It is expected that the entrepreneur raises long term funds (equity and long term loans) to finance fixed assets. Similarly, current assets are expected to be financed partly by short-term funds and partly by long term funds (minimum of 25 per cent of current assets or working capital gap – current assets less current liabilities excluding bank borrowings). Thus, the desired pattern of financing of assets shall be as under:

<table>
<thead>
<tr>
<th>B/S</th>
<th>CL</th>
<th>CA</th>
<th>TL</th>
<th>FA</th>
</tr>
</thead>
<tbody>
<tr>
<td>B/S = Balance sheet; CL = Current liabilities; TL = Term Liabilities (equity + long term borrowings); CA = Current assets; FA = Fixed assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3.1.4 Any deviation in the above pattern of asset liability management by the borrower causes concern to banks and financial institutions. To elaborate, often current liabilities (mainly short term bank borrowings) are diverted to finance of fixed assets. This diversion of short-term bank borrowings for long term assets will lead to loan default by SME units. In general, there is a tendency on the part of the units to build up non-productive assets i.e. land and building by diverting short term funds borrowed from banks.

3.2 Credit Facilities to SME Units

3.2.1 Each unit raises funds from internal and external sources. Internal sources of funds mainly come from the entrepreneur. Of the external sources, banks and financial institutions are the major credit providers. They provide credit and other credit related and fee-based services to the entrepreneur. Credit is supplied in the form of term loan and working capital. Term loan is provided to finance around 75 per cent of project cost comprising land and building, plant and machineries, pre-operative expenses, margin money for working capital etc. These are generally medium term loans (3-5 years) and long term loans (beyond 5 years). The assets created out of term loans are offered as securities under hypothecation and mortgage. Working capital is required to convert raw materials into finished goods and also to maintain minimum inventory. In other words, working capital is required to carry-on operating cycle. Banks provide credit up to 75 per cent of working capital requirements and remaining 25% of the same is expected to be contributed by the borrower. Working capital finance is provided by the bank in the form of cash credit, overdraft, bills discounting and demand loan. All these short term liabilities are expected to be paid within one year. In addition, banks provide fee-based services such as guarantee, opening of letters of credit (LC), factoring, etc. These become liabilities if the borrower fails to honor guarantee obligations. All these credit facilities are granted by
different types of credit institutions. It is appropriate at this stage to know more about such credit institutions.

3.3 Credit Related and Other Facilities Available to SMEs
Recognizing the dynamic role played by the SME sector in the economy, the Government of India and the Reserve Bank of India have formulated several schemes for ensuring adequate and timely credit to the same sector. Such schemes are discussed as under:

3.3.1 Priority Sector Lending
Credit to the small-scale sector is regarded as part of the priority sector lending by banks. At present, Medium Sector enterprises are not part of the priority sector lending. In order to ensure that credit is available to all segments to SSI sector, the RBI has issued instructions that out of the funds normally available to the SSI sector, 40 per cent be given to units with investment in plant and machinery up to Rs 5 lakh, 20 per cent for units with investment between Rs 5 lakh and Rs 25 lakh and remaining 40 per cent for other units. Public sector banks have been advised to set up more specialized SSI branches at centres where there is a potential for financing many SSI borrowers. As on March 2004, 497 specialized SSI branches were working in the country.

3.3.2 Single Window Scheme
Banks provide composite loan up to Rs 1 crore towards both term loan and working capital components. With a view to moderating the cost of credit to SSI units, banks have been advised to accord SSI units with a good track record, the benefit of lower spreads over the prime-lending rate.

In order to take expeditious decision on credit proposals of SSI units, banks have been advised to delegate enhanced powers to the branch managers of the specialized SSI branches of that most of the credit proposals are decided at the branch level.
A sub-target of 10 per cent of net bank credit was fixed for foreign banks for lending to SSI sector under priority sector. Shortfall, if any, has to be deposited with SIDBI in a 3 year deposit. Interest on the deposit to be paid in inverse proportion to the extent of deficits.

The Union Budget 2003-04 announced that banks would provide credit to SSI sector within an interest rate band of 2 per cent above and below their Prime Lending Rates (PLR) for secured loans. All public sector banks have adopted this norm.

In its Mid-term Review of Monetary and Credit Policy 2003-04, the RBI announced that banks may enhance the limit of dispensation of collateral requirement for loans from the existing Rs 15 lakh to Rs 25 lakh on the basis of good track record and financial position of the units.

3.3.3 Institutional Arrangements
Small Industries Development Bank of India (SIDBI) was set up as an apex refinance institution. Term loans and working capital finance are provided by State Financial Corporations (SFCs) and banks.

3.3.4 SME Growth Fund
In line with the announcement made in the Interim Budget for 2004-2005, SIDBI sanctioned a contribution of Rs 100 crore to the Rs 500 crore corpus of SME Growth Fund (SGF). This is a unique initiative taken by SIDBI jointly with major public sector banks (PSBs) such as State Bank of India, Punjab National Bank, Bank of Baroda and several other PSBs. Aggregate commitment of Rs 475 crore has already been received. The SGF shall make primarily equity/equity related capital investments in accordance with SEBI guideline in units operating in various growing sectors such as life science, biotechnology, retailing, pharmaceuticals, light engineering, food processing, information technology, infrastructure related to services such as health care, logistics and distributions. It has started its operations by sanctioning
investments to two companies. It expects to commit major portion in next 3 to 4 years.

3.3.5 Small and Medium Enterprises Fund (SME Fund)

Pursuant to announcement made in the interim budget for 2004-2005, SIDBI has launched the SME Fund of Rs 10,000 crore, with a view to giving impetus to the fund flow to the SME sector. SIDBI has started operations of the Fund with effect from April 2004. Under the Fund, assistance is provided to SMEs at SIDBI PLR minus 2 per cent (i.e. 9.5% p.a. at present). Direct assistance is being extended to SMEs through branches of SIDBI. Refinance to State Financial Corporations (SFCs) is made available in the interest rate band of 7.5 per cent to 8 per cent and for scheduled commercial banks, the band is 6.25% to 7.25%, depending upon the loan amount and categorization of the banks.

3.3.6 Credit Guarantee Scheme

The Government approved Credit Guarantee Fund Scheme for Small Industries on 19th May, 2000 with the objective of making available credit to SSI units, particularly tiny units, for loans up to Rs 10 lakhs without collateral/third party guarantees. The Credit Guarantee Trust Fund for Small Industries (CGTSI) set-up by government of India and SIDBI is operating the Scheme. The Scheme has been operationalized with effect from 1st January 2001. It helps new and existing small scale/tiny units in getting credit both term loan and working capital without collateral security or third-party guarantee for their viable projects, from eligible Member Lending Institutions (MLI). As on March 31, 2004, there were 45 MLI including National Small Industries Corporation Ltd. and SIDBI. These MLIs include schedule commercial banks, regional rural banks and such institutions as may be approved by Government of India, CGTSI extends guarantee cover for mitigating credit risk in respect of case up to a loan limit of Rs 25 lakh. The scheme provides guarantee cover up to 75 per cent of the collateral free credit extended by MLI. CGTSI has broadened
the ambit of eligible activities to provide guarantee cover to SSI/tiny units engaged in service based activities also as per the definition of Small Scale Service and Business Enterprises (industry related), in addition to those engaged in manufacturing and IT based activities.

3.3.7 Credit Linked Capital Subsidy Scheme
The government of India has launched the Credit Linked Capital Subsidy Scheme (CLCSS) which aims at facilitating technology up gradation of the SSI units in the specified products/sub-sectors by providing 12 per cent capital subsidy for induction of well established and improved technologies approved under the scheme. The scheme is to be in operation for 5 years from October 01, 2000 to September 30, 2005 or till the time sanctions of capital subsidy by the Nodal Agency reach Rs 600 crores, whichever is earlier. SIDBI operates the scheme through its branches directly and also indirectly through eligible Primary Lending Institutions (PLIs). Approval for releasing subsidy corresponding to the term loan, both for direct and indirect cases, is being processed at SIDBI Office.

3.3.8 National Equity Fund Scheme
The objective is to provide equity type support to entrepreneurs for setting up new projects in tiny/small scale sector for undertaking expansion, modernization, technology up gradation and diversification by existing tiny, SSI and service enterprises and for rehabilitation of viable sick units in the SSI sector which fulfill the specified eligibility criteria, irrespective of location. The ceiling on project cost is Rs 50 lakh, with equity type assistance from SIDBI at 25 per cent of the project cost up to a ceiling of Rs 10 lakh. Assistance from NEF helps the small scale units in strengthening their equity base and thereby improving their acceptability for term financing by PLIs like the State Finance Corporations, State Industrial Development Corporations, scheduled commercial banks and select urban and state co-operative banks.
3.3.9 Technology Upgradation Fund Scheme (TUFS)
With a view to improving the competitiveness and overall long term viability of textile industry through modernization, the TUF Scheme was launched by Ministry of Textiles, Government of India on April 01, 1999 and SIDBI has been designated as the nodal agency for SSI units to channelise the benefits under the Scheme. An option was provided to the small-scale textile and jute industries to avail of either 12 per cent credit linked capital subsidy or the existing 5 per cent interest reimbursement under the Technology Upgradation Fund Scheme. This facility under the Scheme was introduced in January 2002.

3.3.10 Deferred Payment Guarantee (DPG) Scheme
This scheme under TUF Scheme was introduced in March 2002 in respect of rupee loans. Additional option of 20% credit linked capital subsidy on machinery cost, was launched in January 2004 under TUF Scheme exclusively for power loom units in SSI sector. SIDBI has co-opted 205 credit institutions under TUF Scheme to various SSI clusters. The Scheme has been extended up to the financial year 2007.

3.3.11 Technology Development and Modernization Fund (TDMF) Scheme
This scheme was introduced for providing finance to existing SSI units for technology upgradation. In July 1996, SIDBI had permitted SFCs and promotional banks to grant loans for modernization projects costing up to Rs 50 lakh. The coverage of the TDMF scheme has been enlarged in 1997, Non-exporting units and units which are graduating out of SSI sector are now eligible.

3.3.12 Laghu Udyami Credit Card (LUCC) Scheme
This scheme is launched by public sector banks for providing simplified and borrower friendly credit facilities to SSI, tiny enterprises retail traders and artisans.
3.3.13 ISO 9000 Scheme
This scheme meets the expenses on consultancy, documentation, audit, certification fee, equipment and calibrating instruments required for obtaining ISO 9000 certification.

3.3.14 Purchase and Price Preference Policy
This is administered through the Single Point Registration Scheme of NSIC. Under this, 358 items are reserved for exclusive purchase from SSI by Central Government. Other facilities include tender documents free of cost, exemption from earnest money and security deposit and 15% price preference in Central Government purchases.

3.3.15 SSI Market Development Assistance
This scheme offers funding up to 90 per cent in respect of to and from airfare for participation by SSI Entrepreneurs in overseas fairs/trade delegations. The scheme also provides for funding for producing publicity material (up to 25 per cent of costs), sector specific studies (up to Rs 2 lakh) and for contesting anti-dumping cases (50 per cent up to Rs 1 lakh).

3.3.16 Marketing Support
Keeping in view the criticality of marketing initiatives for SSI products, SIDBI extends support to SSI units, for undertaking various marketing related activities like marketing research, advertising, branding, participation in trade fairs, etc.

3.3.17 Venture Capital Scheme
Venture Capital Scheme was launched by SIDBI in October 1992 and a separate VC fund with an initial corpus of Rs. 10 crore was set up for the purpose. Further allocations to the corpus have been made on an annual basis from profits generated by SIDBI. As on date, SIDBI has committed an aggregate contribution of Rs 433.09 crore to 24 Venture Capital (VC) Funds. The Fund was initially utilized for direct VC assistance to SSI units. Over the years, the focus changed and in
order to enlarge the reach for extending VC assistance to small-scale units. SIDBI assumed the role of “Fund of Funds” by contributing to the corpus of National/Regional VC Funds for extending assistance to SSI units. The venture capital strategy of SIDBI has been to create a three-tier venture capital structure at the Regional, National and International levels and enhance the opportunities for the SSI units. It may be mentioned that SIDBI and the funds promoted by it are the institutions largely extending VC assistance to SSI Sector. Other funds presently focus on larger investments of about Rs 15-20 crore per unit. In September 1999, SIDBI Venture Capital Ltd. (STCL), as wholly owned subsidiaries of SIDBI primarily to be the Investment Manager and Trustee of the National Venture Fund for Software and IT Industry (NFSIT) respectively. SVCL currently manages the Rs 100 crore NFSIT, which has contributions from SIDBI (Rs 50 crore), Ministry of Communications and Information Technology, Government of India (Rs 50 crores), Ministry of Communications and Information Technology, Government of India (Rs 30 crore) and IDBI (20 crore). The entire fund corpus has been drawn by SVCL from the contributors. SVCL works actively with its investors in implementing systems, MIS, corporate governance and other hand-holding services. It also provides visibility to the assisted units in both domestic and international market.

3.3.18 Scheme of Micro Credit Programme
The Scheme of Micro-Credit has been found as an effective for lifting the poor above the level of poverty by providing them increased self-employment opportunities and making them credit worthy. Total requirement of micro-credit in the country has been assessed at Rs 50,000 crore. Micro-credit programme works through NGOs/SHGs and the merit lies in weekly monitoring and refund of installments. In India, micro-credit programme are run primarily by NABARD in the field of agriculture and SIDBI in the field of Industry, Service and Business (ISB). Under the programme, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance.
3.3.19 SIDBI Foundation for Micro Credit (SFMC)

SFMC is a department of SIDBI which has been identifying and developing select potential Micro Finance Institutions (MFIs) as long term partners and providing them credit and capacity building support for their micro credit initiatives. SFMC pursues capacity building of MFIs and NGOs (informal agencies) as a part of institution building exercise. MFIs are provided need-based capacity building support in the form of grant for development of credit delivery techniques, MIS development and automation, training and capacity building. In addition, SFMC extends Transformation Loan to MFIs on very flexible basis to enable them to transform into formal and sustainable institutions. Besides capacity building support to MFIs/NGOs, the SIDBI also extends assistance for the overall development of the micro finance sector.

3.3.20 World Bank Project on SME Finance and Development

With a view to upscale the credit flow to the sector and raising resources for the SME Fund, SIDBI has recently negotiated a line of credit with the World Bank for financing and development of SMEs in India. The other multilateral/bilateral agencies associated with the project are KfW and GTZ Germany, DFID, UK and SECO, Switzerland. The Project has three components – (i) Line of Credit, (ii) Risk Sharing Facility, and (iii) Technical Assistance. The negotiations for a Line of Credit, the Project has been approved by the World Bank.

3.3.21 KfW (Germany) Line of Credit

SIDBI has negotiated a line of Credit from Kreditanstalt Fur Weideraufbau, the German Institution, which would be utilized to finance the cleaner production measures under selected sectors of leather tanning and finishing, textile wet processing, metal finishing, electroplating, foundries and common effluent treatment plants. The assistance under this Line of Credit is extended on concessional terms and is coupled with provision of free consultancy services to the eligible SSI units.
3.3.22 Small Industry Cluster Development Programme

For promoting technology upgradation in cluster for a group of SSI units of one industry. The Office of the Development Commissioner (SSI) has launched a scheme called the ‘Integrated Technology Upgradation and Management Programme’ (UPTECH), in 1998, now renamed as ‘Small Industry Cluster Development Programme’. The scheme applies to any cluster of industries where there is a commonality in the method of production, quality control and testing, energy conservation, pollution control, etc. among the units of the cluster. The scheme aims to take care of the modernization and technological needs of the cluster. It covers a comprehensive range of issues related to technology upgradation, improvement of productivity, energy conservation, pollution control, product diversification and the units’ marketing, training needs, etc.

3.3.23 Cluster-based Lending

The Ministry of SSI, GOI in consultation with SIDBI has identified 6149 SME clusters for credit concentration. The RBI Working Group on Credit Flow to SSI Sector, under the Chairmanship of Dr A S Ganguly, has recommended that the banks should have a full service approach to cater to the diverse needs of the SME sector. This could well be achieved by way of identification of clusters. SIDBI, under the above mentioned World Bank led Project on financing and development of SMEs, proposes to identify 150 clusters in different parts of the country and addresses the issues being confronted by SMEs with a view to scaling up the opportunities for credit deployment, output and employment.

3.3.24 Setting up of a dedicated Credit Rating Agency for SMEs

With a view to providing credit enhancement and comfort to the bank officials at the field level in their taking bona fide credit decisions, SIDBI, in association with leading public sector banks, has taken an initiative to launch a dedicated credit rating agency for SMEs i.e. SMERA. The agency would be offering a variety of rating product,
including cluster and sub-sector ratings. Over the period, the operations of the agency are expected to give boost to the flow of credit to the sector.

3.3.25 Setting up of Technology Bank
In order to build and disseminate information on technologies and undertake match making, technology transfer and fund syndication services, the SIDBI has taken steps to upgrade its existing Technology Bureau for Small Enterprises (TBSE), set up in association with United Nations-Asian & Pacific Centre for Transfer of Technology (UN-APCTT), into an independent Technology Bank, SIDBI has approached some public sector banks soliciting equity participation. Indian Bank, Oriental Bank of Commerce and State Bank of India have issued firm commitments to associate with SIDBI in setting up the Technology Bank.

3.3.26 Scheme for Financing Relating to Marketing to SSI Products
This provides assistance for undertaking various marketing related activities such as marketing research, R&D, product up gradation, participation in trade fairs and exhibitions, advertising, branding, establishing distribution networks including showroom, retail outlet, warehousing facility, etc.

3.4 Credit Institutions
The role played by the banking and financial institutions in the development of the small scale sector has to be viewed in the larger context of the policies of the government and the Reserve Bank of India. Credit is the prime input for sustained growth. Short term credit or working capital is provided by the commercial banks, co-operative banks, and RRBs while long credit or term credit is provided by the Development Financial Institutions (DFIs) at national as well as state levels. The role played by these credit institutions is discussed as under:
3.4.1 Commercial Banks

Working capital is mostly provided by commercial banks and is treated as part of the credit given to the priority sector. There has been a continuous increase in the quantum of credit provided to the SME sector by commercial banks. To elaborate, commercial banks’ outstanding advances of about Rs.21561 crores in 1993-94 have grown to Rs.63654 crores in 2003-04, accounting for 19.5 percent annual growth rate. Further, the credit to SMEs reached the figure of Rs.90239 crore in 2005-06 from Rs.76114 crore in 2004-05, registering growth of 18.55%. Similarly, the share of credit to SSI in the total bank credit has also gone up from 15.30% in 1993-94 to 17.5 % in 1997-98 (Table I). It is disheartening to note that the share of SSI credit has declined from 17.50% in 1998 to 6.25% in 2005-06 which is a matter of concern. This is mainly because of steep growth in retail lending which maintains growth of 30%. These are basically collateral loans. In some banks, such growth in retail loans is even doubled during 2005-06. Along with contraction of credit, delays in sanction and disbursement are experienced. Further, there is a limited range of services while needs of the SME sector are changing and increasing in number. To arrest this trend, what is needed is to make an overview of credit supply to the sector from the point of view of policies, systems and procedures, arrangements etc. Above all, the outlook of bankers and borrowers needs an orientation. This study attempts to analyse such issues concerning low credit off-take to the SME sector in terms its rapid growth.
Table I
Credit to SSI Sector : Public Sector Banks
(Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Bank Credit</th>
<th>Credit Priority Sector</th>
<th>SSI Account (lakh)</th>
<th>Amount</th>
<th>% Share of SSI Credit</th>
<th>Credit to Tiny Sector</th>
<th>Amount</th>
<th>% to SSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>140714</td>
<td>52945.0</td>
<td>30.19</td>
<td>21561</td>
<td>15.30</td>
<td>40.72</td>
<td>5869</td>
<td>27.22</td>
</tr>
<tr>
<td>1995-96</td>
<td>169038</td>
<td>61794.0</td>
<td>32.25</td>
<td>25843</td>
<td>15.29</td>
<td>41.82</td>
<td>7734</td>
<td>29.93</td>
</tr>
<tr>
<td>1996-97</td>
<td>184381</td>
<td>69609.0</td>
<td>33.77</td>
<td>29485</td>
<td>15.99</td>
<td>42.35</td>
<td>8183</td>
<td>27.76</td>
</tr>
<tr>
<td>1997-98</td>
<td>189684</td>
<td>79131.2</td>
<td>31.44</td>
<td>31542</td>
<td>16.60</td>
<td>39.86</td>
<td>9515</td>
<td>30.17</td>
</tr>
<tr>
<td>1998-99</td>
<td>218219</td>
<td>91318.6</td>
<td>29.64</td>
<td>38109</td>
<td>17.50</td>
<td>41.73</td>
<td>10273</td>
<td>26.96</td>
</tr>
<tr>
<td>1999-00</td>
<td>339477</td>
<td>114611.0</td>
<td>93.91</td>
<td>48483</td>
<td>14.28</td>
<td>42.30</td>
<td>28837</td>
<td>18.23</td>
</tr>
<tr>
<td>2000-01</td>
<td>292,943</td>
<td>154,414</td>
<td>22.72</td>
<td>55,972</td>
<td>15.20</td>
<td>36.24</td>
<td>24,742</td>
<td>44.20</td>
</tr>
<tr>
<td>2001-02</td>
<td>340,888</td>
<td>175,259</td>
<td>22.20</td>
<td>60,142</td>
<td>14.00</td>
<td>34.31</td>
<td>26,019</td>
<td>43.26</td>
</tr>
<tr>
<td>2002-03</td>
<td>396,954</td>
<td>203,799</td>
<td>22.23</td>
<td>62,917</td>
<td>11.80</td>
<td>30.87</td>
<td>27,030</td>
<td>42.96</td>
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<tr>
<td>2003-04</td>
<td>4778999</td>
<td>263,834</td>
<td>16.95</td>
<td>63,654</td>
<td>10.30</td>
<td>24.12</td>
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<td>2004-05</td>
<td>718722</td>
<td>-</td>
<td>17.71</td>
<td>67634</td>
<td>9.4</td>
<td>-</td>
<td>28063</td>
<td>41.5</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, Reserve Bank of India.

The provision of working capital credit to small scale sector has improved over the years. However, the number of borrowal accounts provided by public sector banks decreased from 30.19 lakhs in 1994-95 to 17.71 lakhs in 2004-05. These borrowal accounts not only include modern SSI units but also village and rural industrial units coming under other sub-sectors of the village and small industries, personal accounts, SEUUY scheme beneficiaries and loanees under loan melas.

In the context of working capital, there is no relevance between production and flow of credit. A close look at the data (Table II) on production value and bank credit reveals a few interesting points.
Table II
SSI Production and Bank Credit
(Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI Production</th>
<th>Minimum Credit 20% of SSI</th>
<th>% of 3 to 2</th>
<th>% of 3 to 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1994-95</td>
<td>98804</td>
<td>21561</td>
<td>21.82</td>
<td>19760</td>
</tr>
<tr>
<td>1995-96</td>
<td>122210</td>
<td>25843</td>
<td>21.14</td>
<td>24442</td>
</tr>
<tr>
<td>1996-97</td>
<td>148290</td>
<td>29485</td>
<td>19.88</td>
<td>29658</td>
</tr>
<tr>
<td>1997-98</td>
<td>168413</td>
<td>31542</td>
<td>18.72</td>
<td>33682</td>
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<td>189178</td>
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<td>22.77</td>
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<td>2000-01</td>
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</tr>
<tr>
<td>2005-06</td>
<td>351427</td>
<td>67634</td>
<td>18.11</td>
<td>70285</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress of Banking in India, Reserve Bank of India.

While the production value went up by 323.32 per cent between 1993-94 to 2004-05, bank credit witnessed lower rate of 213.68 per cent. Similarly, the percentage of bank credit to production value marginally decreased from 21.82 percent in 1993-94 to 16.17 percent in 2004-05 and, Compound Annualised Growth Rate (CAGR) in bank credit to SSI sector between 1994-95 and 2004-05 works out to 10.9522% as against the CAGR in SSI production of 11.8347% for the same period. Thus, there are concerns in regard to adequacy of credit supply. Even in terms of the Nayak Committee lending norms, the supply of bank credit is below the minimum norm. The deficit of credit is Rs.16018 crores. This deficit is enlarging year after year. The Committee had noted that working capital finance from formal sources should be a minimum provision of 20 per cent of the projected turnover.
Correlation and ANOVA Techniques
Further analysis was carried out by working out Correlation and ANOVA techniques by using the data given in the following Table.

Table III
Correlation and Regression
(Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production Value</th>
<th>Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>98796</td>
<td>21561</td>
</tr>
<tr>
<td>1994-95</td>
<td>122154</td>
<td>25843</td>
</tr>
<tr>
<td>1995-96</td>
<td>147712</td>
<td>29485</td>
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<tr>
<td>1996-97</td>
<td>167805</td>
<td>31542</td>
</tr>
<tr>
<td>1997-98</td>
<td>187217</td>
<td>38109</td>
</tr>
<tr>
<td>1998-99</td>
<td>210454</td>
<td>48483</td>
</tr>
<tr>
<td>1999-2000</td>
<td>233760</td>
<td>55912</td>
</tr>
<tr>
<td>2000-01</td>
<td>261297</td>
<td>60142</td>
</tr>
<tr>
<td>2001-02</td>
<td>282270</td>
<td>62917</td>
</tr>
<tr>
<td>2002-03</td>
<td>311452</td>
<td>63654</td>
</tr>
<tr>
<td>2003-04</td>
<td>357733</td>
<td>65355</td>
</tr>
<tr>
<td>2004-05</td>
<td>418263</td>
<td>76114</td>
</tr>
</tbody>
</table>

It is attempted to establish relationship between Production value of the SME sector and Bank credit for the period starting from 1993-1994 to 2004-2005. By working out correlation, it is found that there is a high degree of correlation (0.96) between the two variables. In other words, changes in bank credit are highly correlated with the changes in production value. This is seen from the graph below:
The concern is about the adequacy of credit to the SMEs. It has remained around 20% of production value. As said above, even minimum bank credit of 20% of production value is not assured. This calls for working out strategies to push up this percentage of bank credit so that dependence of SMEs on money lenders can be reduced. This supports the idea of Financial of Inclusion of SMEs in a big way. Towards this end, it is necessary to get further details of bank credit.

3.4.2 Development Financial Institutions

National Level

(A) The national level institutions such as NSIC (1995), KVIC (1956), NABARD (1982) and SIDBI (1990) were set up to mitigate the problems faced and make available timely and adequate credit requirements of village and small scale industries in the country. NSIC assists small scale industries through its various schemes such as hire-purchase, equipment leasing, marketing, export, raw material assistance, single point registration scheme, etc., provides technical training in its various prototype development and training centres and helps in spreading technical culture through its various training and entrepreneurship building programmes. KVIC and NABARD were set up to take care of village industries in rural
areas. The main objectives of KVIC are: providing employment in the rural areas, skills improvement, transfer of technology, creating self-reliance among the people and building up a strong rural community base and rural industrialisation. KVIC’s main activities include: procurement of raw materials and their distribution to the producers on one hand and assistance for disposal of finished goods on the other. NABARD provides refinance for short, medium and long term loans given to non-farm sector units by scheduled banks / RRBs / co-operative banks. It also provides refinance to banks for financing government sponsored programmes like Integrated Rural Development Programme (IRDP), Prime Minister’s Rozgar Yojana (PMRY), Action Plans of SC/ST development corporations, SEMFEXII, etc. The quantum of assistance provided by the national level institutions to the SSI sector, since 1993-94 to 2003-04, is given in the following table:

Table IV

National Level Institutions - Assistance to SSI

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>NSIC</th>
<th>KVIC</th>
<th>NABARD</th>
<th>SIDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>G</td>
<td>L</td>
<td>T</td>
<td>TS*</td>
</tr>
<tr>
<td>1993-94</td>
<td>129.2</td>
<td>93.0</td>
<td>99.2</td>
<td>172.2</td>
</tr>
<tr>
<td>1994-95</td>
<td>374.1</td>
<td>115.2</td>
<td>102.7</td>
<td>217.9</td>
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<tr>
<td>1995-96</td>
<td>597.9</td>
<td>130.2</td>
<td>70.4</td>
<td>200.6</td>
</tr>
<tr>
<td>1996-97</td>
<td>658.8</td>
<td>288.9</td>
<td>41.9</td>
<td>330.8</td>
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<tr>
<td>1997-98</td>
<td>848.0</td>
<td>336.8</td>
<td>11.3</td>
<td>348.1</td>
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<td>1998-99</td>
<td>894.0</td>
<td>343.0</td>
<td>13.0</td>
<td>356.0</td>
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<tr>
<td>1999-00</td>
<td>891.0</td>
<td>331.0</td>
<td>8.0</td>
<td>339.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>859.0</td>
<td>320.0</td>
<td>9.0</td>
<td>329.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>716.8</td>
<td>182.0</td>
<td>-</td>
<td>182.0</td>
</tr>
<tr>
<td>2002-03</td>
<td>527.2</td>
<td>395.1</td>
<td>3.9</td>
<td>399.0</td>
</tr>
<tr>
<td>2003-04</td>
<td>499.8</td>
<td>459.1</td>
<td>4.0</td>
<td>463.1</td>
</tr>
</tbody>
</table>

G = Grant  L = Loan  T = Total TS = Total Sanctions

Source: Annual Reports of SIDBI.
NABARD’s assistance to village and rural industries has increased very steeply, between 1993-2002. While more than 98 per cent assistance has been provided by NSIC for marketing SSI products under its marketing scheme, there is a need for strengthening the schemes of hire purchase and equipment leasing schemes. A review of the impact of the grant given by KVIC is required to be undertaken for making them even more effective for promoting rural entrepreneurs.

The important landmark in increasing credit to the SSI sector is the establishment of the Small Industries Development Bank of India (SIDBI). In line with the government policies, SIDBI, as the apex development bank of the country for the sector, has been formulating and implementing schemes of assistance for accelerating the orderly and efficient growth of the sector. Increasing the flow of assistance to this sector has been one of the corner stones of SIDBI’s policy since its inception in 1990. Assistance extended by SIDBI to the small sector has grown significantly over the years, covering an increasingly larger number of small and tiny units. SIDBI’s assistance increased at an annual rate of around 30 per cent from the average level of Rs. 3285 crores during 1990-95 to further to Rs. 7228 crores in 1996-2004. Besides ensuring continuous flow of financial and non-financial assistance to the small industry sector, SIDBI provides the focal point for efficiency co-ordinating the activities of the various organisations engaged in promoting the growth of the sector and also gives a new thrust to their activities. In fulfillment of its objectives, SIDBI took a variety of measures to step up assistance to the SSI sector. Within a very short period, SIDBI has achieved a unique position among development banks in providing credit to micro and SSI enterprises as per the survey carried out by the Bankers of London and international agencies.

The most important among the sectoral initiatives during the year 2003-04 was announcement of SME Fund of Rs.10,000 crore by the Government of India (GOI), supplemented by other facilitation
measures with a view to giving impetus to the Fund flow to SME sector. SIDBI has been advised to structure the funds and its operations have commenced with effect from April 2004. Under the Fund assistance is being provided to SMEs at an interest rate of 200 basis point below the Bank’s PLR. Loans are being extended to SMEs through SIDBI’s own offices and by way of providing refinance to the Primary Lending Institutions (PLIs). Refinance to SFCs is available in the interest rate band of 7.5 per cent to 8 per cent. The SME Fund provides for routing of assistance, besides SFCs through commercial banks. For the smooth operations of the Fund, the Government of India have approved the limit of investment in plant and machinery above Rs.1 crore and up to Rs.10 crore for defining a unit as medium enterprises. Similarly, to promote Venture Capital funding in the country, SIDBI launched a second national level Venture Fund viz., ‘SME Growth Fund’ with Corpus of Rs.500 crore. The Fund would focus on small scale units in pharmaceuticals, bio-tech, light engineering, software, IT and other growth oriented knowledge based industries. This is in addition to already established National Fund for Software and IT industry.

(B) Credit Guarantee Fund Trust (CGTSI)

The Government of India (GOI) in association with SIDBI formulated a Credit Guarantee Fund Scheme for SMEs in 2000. The objective of Credit Guarantee Scheme is to help the new and existing industrial units in SSI sector including units in information technology in getting collateral-free / third party guarantee free credit by way of both term loan and working capital, from Member Lending Institutions (MLIS) like scheduled commercial banks, RRBs, or such of those institutions as may be directly by the Government of India. The scheme is being implemented by the Credit Guarantee Fund Trust for small scale Industries (CGTSI) jointly set up by GoI and SIDBI, who are the settlers to trust. GoI and SIDBI have contributed Rs.125 crore to the initial corpus of the Trust for the year 2000-01 in ratio of 4:1 and based on
the future requirement, the Corpus is likely to be raised to Rs.2500 crore in future.

Under the scheme, initially CGTSI was to guarantee the loans and advances up to Rs.10 lakh which was subsequently increased to Rs.25 lakh in term of special policy package announced by Prime Minister on August 30, 2000. CGTSI guarantee term loan and / or working capital assistance up to Rs.25 lakh sanctioned and disbursed by the Medium Term Lending Institutions (MLIs) without any collateral security and / or third party guarantees to eligible borrowers. To make the scheme more customer friendly, it is attempted to reduce the premium rate from 2.5% to 1.5% in 2005-06.

**State Level**

To meet the credit requirements of the SSI sector at the state level, the Government of India, had set up 18 State Financial Corporations (SFCs) by an enactment of SFCs Act, 1951. Most of these SFCs were set-up during the fifties and early sixties. They catered to the requirement of SSIs. With the growing emphasis on a balanced regional development, the need for establishing an effective institutional framework for promotion of industries was well recognised. In addition to SFCs, the state governments had set up State Industrial Development Corporations (SIDCs) during the sixties, to act as catalytic agents in the industrialisation of the state. Wholly-owned by the respective state governments, there are at present 25 SIDCs operating in the country. Both organisations are engaged in meeting the credit requirements of the small and medium enterprises in the respective states. The credit flow to the SSI sector by the SFCs and SIDCs is given in the following table:
Table V
Assistance to SSIs by SFCs and SIDCs

(Rs. Crore)

<table>
<thead>
<tr>
<th>Year*</th>
<th>SFCs</th>
<th>SIDCs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>SSI</td>
</tr>
<tr>
<td>1993-94</td>
<td>1908.8</td>
<td>1561.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>2702.4</td>
<td>1920.4</td>
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<tr>
<td>1995-96</td>
<td>4188.5</td>
<td>2513.3</td>
</tr>
<tr>
<td>1996-97</td>
<td>3544.8</td>
<td>2115.0</td>
</tr>
<tr>
<td>1997-98</td>
<td>2626.1</td>
<td>1760.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>2790.7</td>
<td>1837.6</td>
</tr>
<tr>
<td>2001-02</td>
<td>2078.6</td>
<td>1437.7</td>
</tr>
<tr>
<td>2002-03</td>
<td>1808.0</td>
<td>1146.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>1545.4</td>
<td>918.6</td>
</tr>
</tbody>
</table>

*As on March

Total = Total Sanctions, SSI = Sanctions to SSI

Source: Annual Reports of SIDBI

Upto end of March 1998, SFCs sanctions to the small scale sector aggregated to Rs. 20545.7 crores forming 70.5 percent of the total sanctions. However, from the above table, it can be seen that during the last five years the share of assistance to the SSI sector by way of sanctions has declined from 81.8 per cent in 1993-94 to 67.3 per cent in 1997-98. However, it would be interesting to note that the assistance to small projects having an investment of less than Rs 10 lakh has declined from 30.20 per cent in 1993-94 to 21.84 per cent in 2003-04. The assistance provided by SIDCs to the SSI sector has declined from 23.84 per cent in 1993-94 to 16.99 per cent in 1997-98, though there has been enhancement in the investment in plant and machinery by the SSI units. It means, SIDCs are now concentrating more on larger projects.

3.5 Committees and Working Groups Constituted by Reserve Bank

Recognizing the importance of the SSI sector, Reserve Bank had constituted several committees and working groups in the past to suggest measures for improving the credit flow to the sector. A gist of
the major recommendations of these committees and working groups relating to flow of credit to the SSI sector are given as under:

3.5.1 Report of the Committee to Examine the Adequacy of Institutional Credit to SSI Sector and Related Aspects (Nayak Committee) (1992)

All the major recommendations of the Committee were accepted and the banks were advised to:

- give preference to village industries, tiny industries and other small-scale units in that order, while meeting the credit requirements of the small-scale sector;
- grant working capital credit limits to SSI units computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is up to Rs2 crore [since raised to Rs.5 crore];
- prepare annual credit budget on the ‘bottom-up’ basis to ensure that the legitimate requirements of SSI sector are met in full;
- extend ‘Single Window Scheme’ of SIDBI to all districts to meet the financial requirements (both working capital and term loan) of SSIs;
- ensure that there are no delays in sanctioning and disbursal of credit. In case of rejection/curtailment of credit limit of the loan proposal, a reference to higher authorities should be made;
- not to insist on compulsory deposit as a ‘quid pro-quo’ for sanctioning the credit;
- open specialized SSI bank branches or convert those branches, which have a fairly large number of SSI borrowal accounts, into specialized SSI branches;
- identify sick SSI units and take urgent action to put them on nursing programmes;
- standardize loan application forms for SSI borrowers; and
- impart training to staff working at specialized branches to bring about attitudinal change in them.
3.5.2 Report of the High Level Committee on Credit to SSI (Kapur Committee, 1992)

The recommendations accepted and commended for implementation are as under:

- delegation of more powers to branch managers to grant ad-hoc limits;
- simplification of loan application forms;
- freedom to banks to decide their own norms for assessment of credit requirements;
- opening of more specialized SSI branches;
- enhancement in the limit for composite loans to Rs.5 lakh. (since enhanced to Rs.1 crore);
- strengthening the recovery mechanism;
- paying more attention to the backward states;
- conducting special programs for training branch managers for appraising small projects;
- making customers grievance machinery more transparent and simplifying the procedures for handling complaints and monitoring thereof.

3.5.3 Report of the Working Group on Flow of Credit to SSI Sector (Ganguly Committee, 2004)

The following recommendations were commended to banks for implementation:

- adoption of cluster based approach for financing SSI sector;
- sponsoring specific projects as well as widely publicizing successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;
- sanctioning of higher working capital limits SSI units by banks operating in the North East region, based on their commercial judgment due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system;
• exploring new instruments by banks for promoting rural industry and improving the flow of credit to rural artisans, rural industries and rural entrepreneurs, and
• revision of tenure as also interest rate structure of deposits kept by foreign banks with SIDBI for their shortfall in priority sector lending.

To address the concerns of the unorganized / informal sector enterprises, a four member National Commission on enterprises in the Unorganized / Informal Sector was set up on September 21, 2004 under the Chairmanship of Dr. Arjun Sengupta. The mandate of the Commission is to examine the problems being faced by the enterprises in the unorganized / informal sector and to provide appropriate recommendations for technical, marketing and credit support to these enterprises. The Commission would function both as an advisory body and a watchdog for the informal sector.

This internal Group reviewed the relevant guidelines relating to credit flow to SME sector. Accordingly, it suggested to include Medium enterprises as part of the sector. It also suggested to rehabilitate the sick units. The Group recommended for strengthening credit flow to the sector by monitoring the progress of banks for which certain agencies are expected to be set up at the state government and at RBI level.
3.6 Initiatives Taken By GOI and RBI

Recently, a number of initiatives have been taken by the GOI and RBI to strengthen credit flow to SSI. The important ones are as under:

3.6.1 Small Enterprises Development Bill
The Small Enterprises Development (SED) Bill has been approved by the Parliament. Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to remove the barriers to SSI growth by inculcating a hassle-free, user-friendly environment enabling SSI/Medium Enterprises (MEs) to diversify from the conventional product range to a broader contemporary product range. It will encourage exports and global integration and propel SSI/MEs towards the projected 12 per cent growth target. This would possibly help India to achieve its ambition of transforming into a global manufacturing hub, and a centre of excellence for small enterprise activities.

3.6.2 Credit Rating Scheme
A Credit Rating Scheme has been introduced through SMERA agency to encourage the SSI units to get their credit rating done by the reputed credit rating agencies, with a view to facilitating credit flow to them and enhancing the comfort-level of the lending banks. The scheme, being implemented by the NSIC, envisages that 75 per cent of the cost of the credit rating exercise, with a maximum limit of Rs.40,000 per SSI unit, would be reimbursed to the SSI units availing of this one-time facility. Credit rating agencies namely, CRISIL, ICRA, Dun and Bradstreet, have agreed to credit SSI units through NSIC.

3.6.3 SME Fund
Looking to the credit needs of the SMEs in 1990, the Small Industries Development Bank of India (SIDBI) was launched to aid and finance small enterprises with a corpus of Rs.2500 crore. To further improve credit availability, a SME Fund of Rs.10,000 crore has been made operational under SIDBI from April 2004.
3.6.4 Improved Credit to SSI
In order to facilitate smooth flow of credit to SSIs, the composite loan limit that can be granted by banks to SSI entrepreneurs was increased from Rs.50 lakh to Rs. 1 crore. Limits on collateral requirements have also been liberalized considerably.

3.6.5 Credit Cards
The Laghu Udyami Credit Card (LUCC) Scheme was liberalized by the Indian Banks’ Association, enhancing the credit limit from Rs.2 lakh to Rs.10 lakh (since raised Rs 25 lakhs) for borrowers who have a satisfactory track record.

3.6.6 SME Clusters
As many as 150 industrial clusters have been identified and taken up under Small Industries Development programme during 2005-06.

3.6.7 WTO and SMEs
Under the World Trade Organization (WTO) regime, new opportunities are being created for linkages among SMEs across the globe. The dismantling of the textile quotas has been received by the SMEs in India with great enthusiasm. Export of garments is a dominant characteristic of Indian SMEs. Other sectors, such as bio-tech, IT and IT-enabled services, footwear, etc. have shown a promising potential. Closer connectivity of India’s large agricultural resources affords growing opportunities for new ventures. India’s vast pool of talented and educated persons and low-cost labour can translate into possibilities for foreign collaborations.

3.6.8 Product Reservation Policy
The need to review the policy of exclusive product reservation for the SSI sector has been well recognized and the exclusive list is accordingly being pruned in a progressive manner. In the recent past, the Government had de-reserved 85 items from the list of items reserved for manufacture by the small-scale industries. The Union
Budget 2005-06 has further de-reserved 108 items from the exclusive list reserved for the SSIs. After the aforesaid announcement, the number of items reserved for exclusive manufacture in the small-scale sector as on March 28, 2005 stands at 506.

### 3.7 Details of Credit Provided to the SSI Sector

RBI publication on Statistical Tables relating to banking in India, provides certain details of credit supply to the SSI sector. These are indicated in Tables VI and VII. From the study of these details, a few points arise:

Total credit provided by Public Sector Banks to the SSI sector, increased from Rs. 52987 crores in 2003 to Rs. 58278 crores in 2004, a rise of 9.98 per cent. But there are 4 banks which reduced their exposure to the sector in 2004 over 2003 figures.

The number of accounts declined from 16.95 lakhs in 2003 to 16.33 in 2004, a fall of 3.65 per cent. This trend is observed in all Public Sector Banks except 4 banks. Similarly, there are 4 banks which reduced their exposure to the sector in 2004 over 2003 figures.

The amount of credit per borrowal account increased from Rs. 3.12 lakh in 2003 to Rs. 3.56 lakh in 2004. Among the banks, Corporation Bank is found to be very liberal in providing credit to the units whose per borrowal account was as high as Rs.14.28 lakhs in 2004.

Out of total credit to SSI sector, bank credit to Cottage, Khadi & Village Industries, Artisans, Tiny industries, etc. is declining from Rs. 26937 crores in 2003 to Rs. 10245 crores in 2004, a fall of 61.96 per cent. This is a matter of concern since banks have developed more preference to bigger units in this sector. This trend is observed in all banks except 5 banks.
As per the RBI guidelines, banks have to provide more credit to smaller units than larger units. Accordingly, the SSI units are classified into three categories in terms of investment in plant and machinery – up to Rs. 5 lakh, Rs. 5-25 lakhs and above Rs. 25 lakh. The percentage of credit to these categories should be 40 per cent, 20 per cent and 40 per cent respectively. But in reality, bigger units (investment in plant and machinery Rs. 25 lakhs and above) were provided 47.11 per cent of total credit to the SSI sector in the year 2004 as against 40 per cent stipulated. In other words, smaller units (investment in plant and machinery up to Rs. 25 lakhs) received 52.89 per cent in 2004 as against 60 per cent. This is yet another matter of concern.

Region wise distribution of credit is worth examining. It disheartening to note that North-Eastern region and Eastern region have been neglected in receiving credit for SSI units. In 2002, Western and Southern regions received 60.98 per cent of the total credit to SSI sector. Similarly, the amount of credit per borrowal account is as high as Rs. 5.39 lakhs in 2002 as against the average of Rs. 3.47 lakhs.

Banks provide credit mostly in the form of working capital. Generally, term loan and working capital are the two major facilities. The percentage of credit in the form of term loan and working capital was 16.67 and 83.33 per cent respectively. This is the other area of concern when SSI units have to approach other organizations for meeting the capital expenditure. In other words, there is scope for providing all credit requirements under one roof.

Thus, the above analysis indicates that there are numerous issues relating to credit flow to the SSI sector which need to be addressed. Many more observations can be made at micro level calling for a survey to be conducted.
3.8 Conclusion

Over the years, the ME sector has maintained an impressive growth in production value which went up by 323.32 per cent between 1993-94 to 2004-05. But growth in bank credit fell down significantly. The growth rate in bank credit to the sector was just 213.68 per cent during the same period. Similarly, the percentage of bank credit to production value decreased from 21.82 per cent in 1993-94 to 16.17 per cent in 2004-05. Further, banks have developed preference to bigger units as compared to smaller units. In the same way, they concentrate more on developed regions. There is a steep decline in the growth of number of borrowal accounts. All these have caused lot of concern to everyone. The GOI insists that the banking system should strengthen credit flow to the sector which is expected to maintain an annual growth of twelve per cent in production during the Tenth Five Year Plan. On August 10, 2005 the GOI has announced its policy to ask banks to double the credit flow to SME sector from Rs. 67,000 crores to Rs. 1,35,000 crores during the next five years. To meet this expectation, much needs to be done. More importantly, issues relating to credit flow to the sector need to be identified and strategies should be worked on to resolve the same. Such strategies relate to matters concerning credit policies, credit appraisal, systems and procedures, credit administration etc. For this purpose, there is a felt need to carry out an in depth analysis of data to be gathered through field survey, interactions with bankers and borrowers, etc.

There is a one more set back in the credit flow to the sector i.e. industrial sickness. The SSI sector witnesses a widespread industrial sickness causing loss in production, employment and income. Banks are hesitant to lend the SSI units due to the fear of industrial sickness and loan default. At this juncture, it is appropriate to make a review of developments relating to sickness in SSI sector which is made in the next chapter.
References
1. Annual Report of SIDBI for different years.
3. Report on Trend and Progress of Banking in India, RBI, for different years.
9. Statistical Tables Relating To Banking In India, RBI, for different years.
10. Tenth Five Year Plan Document, Planning Commission, GOI.
<table>
<thead>
<tr>
<th>Region/State/Union Territory</th>
<th>As on last reporting Friday of March</th>
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</thead>
<tbody>
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<td>Agriculture</td>
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<td></td>
<td>Direct</td>
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<tr>
<td></td>
<td>No. of Accounts</td>
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<tr>
<td>Northern Region</td>
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<td>Himachal Pradesh</td>
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</tr>
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<td>Jammu &amp; Kashmir</td>
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<td>Punjab</td>
<td>30060</td>
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<td>Rajasthan</td>
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<tr>
<td>Chandigarh</td>
<td>698511</td>
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<td></td>
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<tr>
<td>North-Eastern Region</td>
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<td>Assam</td>
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No. of A/Cs = No. of Accounts, Amt O/S = Amount Outstanding
### Table VII: Outstanding Loans and Advances of Public Sector Banks to Small Scale Industries: 2003 and 2004

(No. of Accounts in lakh and Amount in Rs Crore)

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No. of A/Cs = No. of Accounts, Amt O/S = Amount Outstanding
### Outstanding Loans and Advances of Public Sector Banks to SSIs : 2003 and 2004 (Contd.)

(No. of Accounts in lakh and Amount in Rs Crore)

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<td><strong>Public Sector Banks (A+B)</strong></td>
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<td><strong>13804</strong></td>
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No. of A/Cs = No. of Accounts, Amt O/S = Amount Outstanding