4.1 INTRODUCTION

In the modern money oriented economy, finance is one of the basic foundations of all kinds of economic activities. It is the master-key which provides access to all the sources for being employed in manufacturing and merchandising activities. Thus, finance is the cornerstone of a small scale industry. Finance is the oil for the wheels of the industrial machine. Constant and adequate finance ensures smooth operations and prevents breakdown of the industry. A characteristic feature of the small-scale units is that the personal funds of entrepreneurs form a substantial proportion of the total assets. The sources that usually provide the finance for small scale industries are described briefly.
The sources of finance for small scale industries may be either internal or external. The internal sources are money invested by the proprietor as his capital contribution and the profit retained in the business in the form of reserves. The external sources from which, usually, funds may be borrowed are

a) Friends and Relatives
b) Trade creditors
c) Public deposits
d) Money lenders and Indigenous Bankers
e) Specialised Agencies such as National Small Industries Corporation, State Small Industries Development Corporation, State Financial Corporation, IDBI, Small Industries Development Bank of India.

f) Commercial banks including State Bank of India and cooperative banks.
1.2. FINANCIAL ASSISTANCE TO SSI FROM STATE BANK OF INDIA AND ITS SUBSIDIARIES

The primary purpose for which the Imperial Bank was nationalised was to make the bank to play a promotional role in the context of planned economic development of the country. Besides opening branches in the unbanked centres and financing of the cooperative movement, the State Bank has been the most significant single source of institutional assistance to small scale industries in the country. The financing of small scale industries by State Bank of India was started in the late sixties. Till then, this sector depended heavily on money lenders and indigenous bankers.

The State Bank of India has stepped up its financial assistance during the last two decades. The progress of the bank in financing small scale industries has been outlined in the Table 8.
### TABLE 8
STATE BANK FINANCE TO SMALL SCALE INDUSTRIES

<table>
<thead>
<tr>
<th>Year (At the end)</th>
<th>Number of units (in lakhs)</th>
<th>Amount (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 1969</td>
<td>0.61</td>
<td>104</td>
</tr>
<tr>
<td>Dec 1970</td>
<td>0.67</td>
<td>152</td>
</tr>
<tr>
<td>Dec 1975</td>
<td>1.32</td>
<td>320</td>
</tr>
<tr>
<td>Dec 1980</td>
<td>2.85</td>
<td>853</td>
</tr>
<tr>
<td>Dec 1985</td>
<td>5.20</td>
<td>2,063</td>
</tr>
<tr>
<td>Mar 1989</td>
<td>10.30</td>
<td>3,827</td>
</tr>
<tr>
<td>Mar 1990</td>
<td>10.50</td>
<td>4,412</td>
</tr>
<tr>
<td>Mar 1991</td>
<td>10.53</td>
<td>5,042</td>
</tr>
<tr>
<td>Mar 1992</td>
<td>10.37</td>
<td>5,069</td>
</tr>
<tr>
<td>Mar 1993</td>
<td>9.85</td>
<td>5,463</td>
</tr>
</tbody>
</table>

SOURCE: compiled from SBI Annual Reports and Monthly Reviews.

The financial assistance extended to small scale industries by the Bank stood at Rs. 104 crores in 1969 and Rs. 152 crores in 1970. In the next five years, it increased to Rs. 320 crores, recorded a growth of two times. During 1976-1980, the assistance rose to Rs. 853 crores.
crores. Its progress was remarkable by the end of 1985, i.e., rose to Rs. 2,063 crores, an increase of almost 3 times.

By the end of March 1989, the financial assistance provided by the Bank to the small scale industries stood at Rs. 3,827 crores. During 1989–90, it increased to Rs. 4,412 crores. During this period, 17.8 percent of the advances of the Bank accounted for small scale industries. The quantum of credit extended by the Bank to small scale industries sector rose to Rs. 5,042 crores. By the end of March 1993, the Bank had provided financial assistance worth Rs. 5,463 crores to 9.85 Lakh small scale industrial units, engaged in diverse productive activities. During this year Bank's outstanding advances to the small scale industrial sector had gone up by Rs. 394 crores. Smaller units predominate the Bank's portfolio of small scale industries and about 69.5 percent of the small industrial units financed by the Bank has been giving a greater thrust to financing small scale units engaged in the manufacture of export items.
including readymade garments, machine products, leather goods, gems and jewellery, scientific apparatus and computer software.

4.3. SCHEMES OF FINANCIAL ASSISTANCE TO SSI

State Bank of India has now evolved various novel schemes to meet the varied credit needs of the small scale sector after a careful study of its problems. Actually, the rapid growth of this sector during the last decade is merely due to the valuable assistance received from the State Bank of India. Besides finance, the State Bank of India offers a wide range of package services or assistance to small scale industries. Section 33 of the State Bank of India Act enables it to extend term finance to industries, both big and small. This is a new field because traditionally banks provide only working capital for industries. The bank grants medium term loans for acquisition of plant and machinery for a new project or for modernisation of existing plant and machinery. The Bank also
issues deferred payments, guarantees for the import of plant and machinery.

4.3.1 Pilot Scheme of Coordinated Finance to SSI

Soon after the State Bank of India was formed, a pilot scheme for the provision of coordinated finance to small scale industries was started at 9 of its branches. The number of these centres gradually increased. In the light of the experience gained the scheme was made applicable to all branches from 1st January, 1959. The scope of the scheme was extended in 1960 to cover the grant of term loans for purchase of fixed assets by small scale units. The scheme has been simplified from time to time to overcome practical difficulties. The basic object is to help the small units in all possible ways. The scheme provides for working capital to small industries against the pledge of raw materials and finished goods. Advances are granted against goods in transit and clean advances are given in suitable cases. More than
the security, the integrity of the borrower and his ability to make progress are given the prime consideration. In 1962, the Bank introduced the instalment credit scheme which is designed to assist the financing or purchase of equipment or machinery by small and medium sized units engaged in approved manufacturing industries.

4.3.2 Entrepreneur Scheme

The Bank introduced in 1968, 'Entrepreneur Scheme' under which technically qualified and skilled persons who have a viable project but no capital are assisted to the full extent of their requirements, upto Rs. 10 Lakhs for starting new projects. Assistance upto Rs. 2 Lakhs is made available free of margin and where project cost exceeds Rs. 2 Lakhs, margins ranging from 5 per cent to 12.5 per cent are required to be contributed by the entrepreneur. At the end of March 1993, 8189 units had been assisted under the scheme to the extent of Rs.90.01 crores.
4.3.3 Equity Fund Scheme

The Bank provides equity support to small scale units under its Equity Fund Scheme by way of interest-free loans, repayable over a period of 5-7 years with an initial start-up period. Equity support is provided upto Rs. 1 Lakh to deserving entrepreneurs setting up new small scale units and upto Rs. 50000/- to professionals and self-employed persons. At the end of March 1993, Bank has provided credit to the tune of Rs. 8.68 crores to 1806 small scale units with a total project outlay of Rs. 76.26 crores.

4.3.4. Entrepreneurial Development Programmes

Bank organises these programmes in its lead districts and in backward districts to motivate first-generation entrepreneurs to set up risk-bearing ventures. Bank has so far conducted 187 such programmes covering 4894 entrepreneurs. The programme focus is partly on
persuading entrepreneurs to set up ancillaries near large projects and high-tech industries such as electronics and computer peripherals.

4.3.5 Assistance to women entrepreneurs

State Bank of India continues to place due emphasis on rendering assistance to women under various schemes. The Bank laid emphasis on providing credit facilities for greater economic self-reliance of women, especially those belonging to the weaker sections, through development of traditional arts and crafts like tailoring, knitting and embroidery. Financial assistance was made available to women entrepreneurs for setting up non-traditional ventures, such as manufacturing of hosiery goods, running beauty parlours and typewriting institutes. The Bank advanced loans to wives of defence/police personnel for purchase of sewing/knitting machines to enable them to supplement their earnings. Loans were also granted to unemployed women for establishment of creches.
A special programme called 'Stree Shakti' for encouraging entrepreneurship among women has been in operation in the Bank since 1988. Besides granting concessions in margins, the Bank has evolved special training programmes for women entrepreneurs covered under the scheme. The training inputs comprise accounting procedures, environmental scanning, product identification, asset management, as also interface with successful lady entrepreneurs. By the end of March, 1993, 2.72 Lakh women entrepreneurs had availed of aggregate financial assistance of Rs. 138.8 crores from the Bank.

4.3.6. Credit Guarantee Scheme for Small Scale Industries

Small scale industries were finding it difficult to have easy access to various financial institutions supplying finance, mainly because they could not offer adequate security and because their repaying capacity was doubtful. In order to overcome this bottleneck in the development process, the Government of India, introduced a scheme in July 1960, known
as the Credit Guarantee Scheme for small scale units. The scheme was modified in 1970 and has been amended from time to time in order that its scope and the benefits may be enlarged. The scheme provides a guarantee up to 90 per cent of the credit amount in default, or the amount guaranteed, whichever is less. Under the credit guarantee scheme, credit institutions were required to pay to the guarantee organisation, a guarantee commission of 1/10 percent. The State Bank has taken full advantage of the Credit Guarantee Scheme. The Bank brought all its advances to small scale industries under the Guarantee Scheme. The Scheme has given a great deal of stimulus to the State Bank in the provision of larger credit facilities to small scale industries.

4.3.7. Leasing Finance

Leasing as a corporate financing tool developed from the beginning of the 1980's. The mushroom growth of leasing companies, however, is a phenomenon of the recent years partly due to product acceptance and partly due to the booming Industrial and Investment climate. Basically, there are two major forms of leases.
One is financial lease and the other is operational lease. Under the financial lease, the lessee pays the full value of the asset together with the interest charged within a period of 5 or 8 years, the normal life of a lease transaction. In an operational lease, the lessee uses the asset for as little as 6 months or as long as he requires, but pays a much higher rental since he has the option to terminate the lease at short notice. There are also equated leases, which are equated in terms of payment over the period of the lease. In India, most of the leasing companies offer financial leases. The lease period could vary from 3 to 8 years. Lease rentals vary and could be as high as Rs. 42/- per Rs. 1000/- per month and as low as Rs. 10/- per Rs. 1000/- per month. There is considerable flexibility in charging lease rentals and no standard rates exist. Leasing companies normally charge one-time management fees at the rate of 1 percent of the value of asset purchased. Leases could be up-fronted i.e., more lease rentals are charged in earlier years or back-ended, that is, less lease rentals in later years.
The State Bank of India offers lease financing facility through its subsidiary, namely, State Bank of India Capital Markets Limited (SBICAP). SBICAP concentrates on full pay-outs financial leases with payment periods between 5 to 7 years. One time management fees of 1 per cent are charged and lease rentals are normally in the range of Rs. 24/- or Rs. 25/- per Rs. 1000/- per month for a 5 year lease. There is considerable flexibility in fixing of lease rentals. They are fixed on a case to case basis. Lease would be offered mainly for expansion or diversification and modernisation programmes of existing profit making companies only profit making companies which have been consistently declaring dividends over 2 or 3 years would be considered for lease financing.

The leasing option is not an economically viable proposition in case of new companies. Besides, leasing companies do not offer lease finance to new companies. Normally, only profit making, dividend declaring existing companies would be considered for lease financing.

companies are considered for leasing. When a company considers the leasing option as opposed to the term financing option for purchase of fixed assets, it must closely analyse the pros and cons of the two alternatives. Normally, financial analysts use the net present value concept in the two options.

4.3.8. Technical Consultancy Cells

Having regard to the need for providing technical and managerial guidance to small scale industries, the Bank has set up its own Technical Consultancy Cells in each of the Local Head Office and Zonal Office to provide such assistance to the small scale units in 1973. Suitable persons were selected from among the technically and professionally qualified officials of the bank for this purpose. The Bank entered into an agreement with a reputed business and industrial consultancy work for a period of one or two years. The agreement covers the issues pertaining to financial analysis and appraisal, financial management, production planing and control, inventory
control, budgetary control, costing, marketing, etc. With the recent liberalisation in industrial policy, the Bank's consultancy wing is expected to play a more extensive supportive role in the years to come.

4.3.9 Financing of SSI in Backward Areas

The Bank lays accent on lending programmes in backward areas to help in the balanced development of different regions. Through the Bank's liberalised scheme, concessions are extended to small scale industries in backward areas by way of lower margins, extended grace periods for repayment and longer amortisation periods for term loans. In Rural Industries Project areas located in backward districts, a special scheme for financing small units upto Rs. 10000 without the stipulation of any margins has been in operation. The Bank also allows special concessions in margins upto 10 percent for schemes which envisage the setting up of industrial ancillary complexes in backward areas, and these are formulated by State Governments. Besides, the Bank assists
entrepreneurs in formulating viable projects and provides finance, guidance and free consultancy assistance to enable them to set up and operate their units. Under the Annual Credit Plan 1990-91, the commitment of the Bank in the backward districts was Rs. 210 Crores, against which the Bank had extended credit aggregating Rs. 192 crores or 91 per cent of the commitment. About 49.5 per cent of small scale industrial units assisted by the Bank are in backward areas, accounting for 22.5 per cent of Bank's financial assistance to the small scale industrial sector, by the end of March 1993. Out of the 187 Entrepreneurial Development Programmes organised by the Bank so far, 118 were (63.1%) conducted in the backward districts during this period.
4.3.10 Schemes for Sick SSI units

Any industrial unit is sick when it is not healthy. According to the definition of Reserve Bank of India (1989) "a unit should be considered sick if it has, at the end of any accounting year, accumulated loses equal to or exceeding 50 percent of its peak net worth in the immediately preceding five accounting years". Industrial sickness is growing at an annual rate of about 28 per cent and 13 percent respectively in terms of the number of units and outstanding amount of bank credit. Nearly 29000 units are added to the sick list every year, i.e., 90 units fall sick every working day. Almost every third or fourth small scale unit is sick or dying. As many as 99 per cent of sick units are in the small scale sector. According to the report of the Nayak Committee, set up by the RBI, there were 2,25,324 sick SSI units as in September, 1990 against whom a sum of

Rs.2610.87 crore was outstanding. Of these only 16977 or 7.5 percent were potentially viable involving an amount of Rs.656.87 crores or 25.2 percent of the total outstanding\(^{32}\). Over the years, several efforts have been made in India to contain industrial sickness.

4.3.11. Rehabilitation

The major thrust of the Bank's efforts in the area of industrial rehabilitation was on extending nursing assistance to the sick units. Simultaneously, speedy disposal of cases which were not amenable to nursing was achieved through compromises, recoveries, write-offs and mainly under the aegis of the Board for Industrial and Financial Reconstruction (BIFR). Mergers with healthy companies. During 1992-93 71.4 per cent of sick but viable small scale industrial units on the Bank's books had been

\(^{32}\) Laghu Udyog Samachar, October 92, P. 22.
brought under suitable nursing programmes. In order to facilitate monitoring of the implementation of rehabilitation packages and maintain a careful watch over the financial affairs of the sick or weak units, the Bank has currently appointed 17 executives as whole-time financial directors on the Boards of various such units. Further, the Bank has also part-time nominee directors on 54 companies.33.

4.3.12 Technology Upgradation

In line with the national priority to upgrade industrial technology, improve industrial competitiveness and avoid sickness in industries, the Bank set up an Industrial Technology Group (Uptech Group) in 1988 at SBI's Central Office, Bombay with a fund of Rs. 2 crores. (Technology Data and Information Services Centre Fund). The Uptech group has taken up location and industry specific programmes so that the Bank's efforts get focused.

Upgradation of products and processes are attempted in these programmes to bring about improved productivity and efficiency. The Bank follows up these initiatives by offering packages of assistance to units which wish to implement the technological upgradation programmes. The Bank's package of assistance comprises both financial and non-financial support. Besides carrying out detailed techno-economic surveys of clusters of industries, seminars for industry personnel on technical matters are also being arranged for the purpose of dissemination of information. It has already taken up five projects. Three of them, the agro-pumpset industry at Coimbatore, internal combustion engines and automobile ancillary industry at Kolhapur and the huller rice mills of Palakkad are nearing completion. The two newer projects are foundry industry at Agra and glass industry at Firozabad. Modernisation efforts in these industries will focus, inter alia, on pollution control and reaching wider markets 34.

34. SBI, Annual Report, 1992-93, P.41.