ABSTRACT

FINANCIAL RESOURCE SUPPORT BY SIDBI:
A STUDY OF SSI SECTOR
OVER THE SECOND GENERATION REFORMS IN INDIA

The Small scale Industrial (SSI) Sector contributes significantly to the prime social objective of providing employment opportunities to millions of people across the country. The SSI sector has been contributing significantly to industrial production, exports and national Gross Domestic Product. The sector has been assigned the target of annual growth of 12% and creation of 4.4 million additional jobs during the Tenth Five Year Plan.

India’s Tenth Plan (2002-2007) sets a target of 8% growth in GDP and 10% growth in industry sector. In this respect, the SSI sector is set forward to contribute 12% per annum growth, so as to achieve a 10% growth in industrial sector. As a matter of caution, it may be mentioned that although SSI’s growth rates had been over and above India’s overall industrial sector’s growth and the growth rate of GDP, yet ever since SSI’s peak growth of 1995-96, it is yet to attain it. Thus, Tenth Plan’s rely on SSI sector appears to be heavy.

Credit requisitions of SSI are predicated by long-term credits and working capital. The Plan estimated capital requirements of SSI sector of Rs. 63,000 crore as long term capital and Rs. 1,23,000 crore as working capital by the terminal year of the Plan period.

Hence, specially from the point of view of metamorphosic change in the financial infrastructure resulted out of the accelerated pace of deregulation of financial sector, financial resource support to SSIs is bound to be crucial and financing of its
infrastructure, marketing, modernizing technology, exports and many other specialized support services will be the major focus areas.

The Indian financial system is undergoing metamorphic changes. From the point of view of financial resource support service to SSIs, the forthcoming years will be of more importance mainly due to the accelerated pace of deregulation of financial sector. Financing of infrastructure, marketing, technology up gradation and services sector of SSIs are bound to be the major focus areas which should necessarily be comprehended for an appropriate apprehension of future prospects of SSIs.

SIDBI was established under SIDBI Act 1988 and commenced its operations w.e.f. April 02, 1990 with head quarters in Lucknow and branches all over the country, as a subsidiary of IDBI. It took over the IDBI business relating to small scale industries including National Equity Scheme and Small Industrial Development fund. The objective of establishment of SIDBI, in particular, is to strengthen and broad-base the existing institutional arrangement to meet the requirement of SSI and tiny industries.

To enable the SSI sector to achieve high levels of target, banks and financial institutions are expected to deploy an amount over Rs. 63,000 crores as long term capital and Rs. 1,23,000 crores as working capital by the terminal year of the Plan period. Interestingly, of the given requirement of long term credit to be supported by all term lending institutions, SIDBI alone intends to meet at least two-third of the same during the Tenth Plan period.

The present research work tries to evaluate the present status of SSI sector in India and its future prospects in this respect. Quite obviously, behind any sectoral performance, it is the financial backbone and other specialised support services that basically provide strength to the sector. This is also true for the SSI sector. In this respect, here we have evaluated the financial and specialised resource support provided to the SSI sector by SIDBI at the apex level, followed by Banks and UPFC in general.
In addition, a micro-level study of SSI units in Varanasi district is being conducted. The basis of primary data survey has been purely on random basis and we do admit that it lacks representativeness of vast activities and its proportions under SSI sector. On the whole, our appraisal consists of 168 SSI units, engaged in as many as 37 types of different activities.

The basic objective of this primary survey was to collect informations on what types of various problems that these SSI units are facing with regard to not only raw materials, financial assistances, employment and labour, level of investment and associated problems, but also the types of competition that these units are encountered with.

At this juncture, it will be quite appropriate to mention about our study periods. These are divided into three slabs, namely,

1. For evaluation of SSI sector, the IIIrd All India Census of SSI is being used.

2. For evaluation of SIDBI’s contribution, the period from 1990-91 to 2002-2003 is being considered, admittedly for the time limitation of the research work.

3. For analysis of current problems faced by the SSIs, the Primary data survey was conducted in the year 2008.

With such preview, the research problem is analysed under the following chapters:

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ON THE PRECEDENCE

More than a decade ago, in July 1991, the Government of India adopted two corrective measures (popularly termed as New Economic Policy or Economic Reforms), namely, (i) short term crisis management to correct fiscal and BOP deficits. This programme was termed as ‘Stabilisation Policy’, and (ii) long term structural reforms to improve upon state of growth. Named as ‘Structural Adjustment Programmes’, these aimed at reducing structural rigidities in India’s industrial sector, external trade and taxation. With these thus was the end of an era of protection to the SSI sector.

Prior to 1991, it had been a general acceptance that small industries needed protection through product reservations, price preference, etc. However, since India’s Eighth Five Year Plan (1992-97), then the Ninth Plan (1997-02) and now the Tenth Plan (2002-07), Indian economy more clearly experienced a transition from more or less restricted domestic economy to a market driven global economy. The era was thus of an increasing competition through growing internationalisation and the challenges before the SSIs have been of both survival and competence on a sustainable basis.

A comparison between pre-liberalisation period in India (1980-81 to 1990-91) and the two post-liberalisation periods (1990-91 to 98-99 and 1998-99 to 2002-03) asserts the canvas of the proposition of the threat of perhaps even dissolution of some section of the SSI sector that is lagging behind the race of the ‘Survival of the Fittest’. The growth rate of production (19.84%) of SSI sector in India was higher during the pre-liberalisation period as compared to the two post periods (which was 17.17% and further came down to 9.93%). Employment generation growth rates also marked similar falls from 5.97% to 4.19% and further down to 3.62%. In contrast to these low-track bestowed performances, SSI’s exports are marked to be picking up from 11.25% to 12.07% and to 13.34%. This is a clear evidence of how R&D, modern technology, cost and price factors, packaging and printing etc. coupled with information technology to extend timely informations of market demand that helps the Export Oriented Units (EOUs) of the sector to keep up with
market competition and economic openness of this age. Admittedly, leaving aside the EOU’s, experiences of leading states with regard to their SSI sector is disturbed with negative trends of number of SSI units, employment, fixed investment and production, in some degree or the other.

Especially over the more recent years (approbated as the Second Generation Reforms), along with the yet another beget of economic relaxations to extend stimulus to higher growth rate of Indian economy, the crusade approbated the large industries than the small ones. However it will be wrong and misleading to state that the SSI sector was not given the catch. The question is whether the catch extended by Government’s policy measures over the recent years were easy and enough for the SSI sector to live upto increasing levels of both domestic and international market competitiveness.

ON GOVERNMENT’S PRESCRIPTION FOR FOR DEVELOPMENT OF SSI SECTOR

The audacity of SSI sector is mainly due to its colossal contribution to country’s GDP. For instance, the sector’s production accounted for 22.85% of GDP and exports marked more than 3% of GDP in the year 2001-02. Presently, the sector has been assigned the target of annual growth of 12% (to achieve 10% growth in the industrial sector) and creation of 4.4 million additional jobs during India’s Tenth Five Year Plan. Clearly thus there lies the fundamental responsibility of the Government to reorient its policy reforms more in favour of the sector. As such the second generation reforms are undergoing with full efficacy and regulatory framework is further relaxed in favour of the larger ones. Along with government’s inability to extend the desired levels of incentives owing to its own financial repressions, the basic requirement of cheap flow of credit, in the form of long-term capital and working capital requirements, in acting as hindrance in a big way.
ON PRESENT STATUS OF SSI SECTOR

Based on the Third All India Census of SSI (2001-02) conducted by Ministry of SSI, GoI under registered SSI units, while about 62% are working units, 38% are the closed ones. Clearly thus, the various problems that these units are encountered with need investigation. Secondly, out of working units, 66% are SSI units and the rest 34% are SSBE. From this it is deducible that the small scale service and business sector have occupied important and significant place in the SSI sector.

Articulating overall performance of SSI sector (1994-95 to 2002-03) the deducible facts are quite alarming. Over this period, there has been the sharpest fall in the growth rate of production, followed by the drop in growth of number of units and lesser extension of rate of employment. The growth of the sector’s exports though have had been associated with wider fluctuations, yet appeared to be more elastic. Interestingly, despite of these falling trends, comparative real growth imprinted that growth trend of SSI sector is still the highest, accompanied by growth trend of manufacturing sector and succeed by trend growth of overall Industry. Yet such higher trend growth of SSI sector appears to be of no consolation specially when we compare pre- and post-liberalisation performances. Economic reforms in effect could not provide any impetus to SSI’s production and employment. Both these two factors marked alarming fall in their respective average growth rates. The only consolation is SSI’s exports which still marked increasing levels of average growth rates.

ON THE AGENDA OF GOVERNMENT

The responsibility of promotion and development of small scale industries (SSI) lays primarily with the State/Union Territory (UT) Governments. The vision of the Ministry of SSI is to create an enabling policy environment and put in place corresponding support measures to help the sector meet the emerging challenges of competition and also harness the opportunities, in tandem with the accelerating pace of
liberalisation and globalisation of the Indian economy. The agenda of the Ministry, therefore, includes steps to develop an appropriate policy framework within which supply of credit is improved, better infrastructural facilities are provided and targeted incentives are designed and extended to the enterprises in the sector for their modernisation and technology upgradation, improved market access, entrepreneurship development, skill upgradation and capacity building, both at the level of individual firms and their clusters.

In this respect, SIDBI was established under SIDBI Act 1988 and commenced its operations w.e.f. April 02, 1990 with head quarters in Lucknow and branches all over the country, as a subsidiary of IDBI. It took over the IDBI business relating to small scale industries including National Equity Scheme and Small Industrial Development fund. The objective of establishment of SIDBI, in particular, is to strengthen and broad-base the existing institutional arrangement to meet the requirement of SSI and tiny industries.

ON THE ROLE OF SIDBI

With regard to the role of SIDBI at the apex level, some prominent attention is drawn on following facts that needs due vigil by SIDBI. (a) SIDBI needs to take cognizance of the fact that its total disbursements as percentage of total sanctions have come down by more than 10% over 13 years from 1990-91. (b) With regard to SIDBI’s resource support to Institutions, while it is finding more safe and profitable to invest in ‘Other Institutions’, its support to SFCs/SIDCs has drastically come down (from 45% in 1999-00 to 5.2% in 2002-03). Reason for such drastic fall being, for instance, the net NPA in case of UPFC was as high as 48% as against SIDBI’s total net NPA was 1.51%. Surely such events strike the eye and SIDBI must keep its eye open for such buckle down and need to examine closely its falling resource support to SFCs keeping in view of the vital role of SFCs and adhere to its regulatory norms to reduce the level of NPAs. (c) Disbursements as percentage of sanctions of SIDBI’s Project Related Financing have come down by more than 25% over the 13 years. In this respect, disbursements for marketing reduced drastically, whereas for infrastructure also marked severe fall. Such
attributions pick up the ears and calls for intent re-considerations for such non-fulfillments. (d) Nonetheless, its two schemes for technology development and upgradation collectively though marked fall in sanctions, the disbursements were on the happier note. We suggest that SIDBI needs to engross more on its these schemes on technology development, up gradation and modernisation. Ascriptions in this regard should have been more uplifted and louder as per the call of the day.

ON BANK’S CREDIT TO SSI SECTOR

Following the apex level financial resource support service by SIDBI, at the second tier level it is Bank’s credit to SSI sector. Demarcations in this respect highlighted the fact that while Bank’s credit to SSI sector accounted more than 80% of aggregate outstanding portfolio, SIDBI extended 17% and the rest was by SFCs. Thus, Bank’s role is certainly dominating. Alongside, among Banks, the Public Sector Banks are still extending the lion’s share (about 80%) of credit to SSIs. In sequence, the private sector banks are articulating more than 13%, and the rest is answered by Foreign Banks.

Over the four years of study period, UPFC failed to encourage the SSI sector in U.P. While there had been nominal fall in the number of SSI units sanctioned, there had been more than 10% drop in the share of sanctioned amounts. Its disbursement amounts also fell by more than 5%. Alongside, resource management by UPFC also do not extend a happy position. The falling resource strength of UPFC gets exposed by the fact that there had not been any markable rise in Paid-up Capital and State government loans. These two accounted only 4% and 8% of total resource managed. The highest resource strength of UPFC is its Repayments of loans by Borrowers. This also is at a stagnated level of 54% after handsome rise in 1999-00. The second highest resource strength is gathered through Refinance from IDBI/SIDBI. Here again there is the drastic fall by 10%. Only the third highest resource source of loans from RBI against Bonds & Debentures imprinted nominal rise by 3%.
ON PRIMARY SURVEY BASED PROBLEMS OF SSI UNITS

The basic objective of primary survey of SSI units in Varanasi was to gather first hand informations on the types of various problems faced by these units. Problem areas covered right from raw materials, financial assistances, employment and labour, level of investment and associated problems, to more importantly types of competitions encountered with. The survey was conducted purely on random basis consisting of 168 SSI units engaged in as many as 37 types of different activities. The major problems encountered by them are:

1. While significantly high (65%) maintained that the existing wage rates are high, they also expressed their worry that once the labours are trained in the factory, they bear the risk of drop outs once trained.

2. Their problem is not only of acquiring raw materials from far sources but also the biggest problem is high price of raw materials, which certainly results into cost escalation and affects the ultimate price of their products. The price factor seems to be a serious problem because about 46% of SSI units are further subjected to their vital problem of marketing.

3. While majority SSI units acknowledged the need of financial assistances for general purposes, in sequence financing of plant and machinery, purchase of raw materials and even for meeting marketing finance was called for. Alongside, bearing upon the problems associated with it, almost 60% of activities still maintain that the existing interest rate burden is high.

4. What is much striking is the fact that 33 out of 37 activities expressed their anxiety over their most serious problem of meeting the working capital requirements.

5. Reckoning with types of competition faced by these SSI units, 23 out of 37 activities leveled market price competition as their main anxiety. Followed by it are the competitions encountered by other district/State products. Variety of product in the market is their third form of competition. Truly, burdened by higher cost of raw
materials, and constrained by low scale of production together with lack of technology (faced by 12 out of 37 activities), ultimately get translated into factor price competition. Further, their inability to ensure variety of products, proper packaging and advertisement put these units at a lower step in the competition. Finally, around 11% of activities are also exposed to international competition arising from foreign products.

**ON PROSPECTS OF SSI SECTOR**

The second generation of economic reforms is underway with vigour. Liberalisation of key sectors is gaining momentum. Regulatory and legal framework is relaxed to provide further impetus to growth of the economy. Over the past decade, Indian economy has undergone transition phase witnessing the challenges of more free and market oriented environment of the liberalised era. Being one of the major growth drivers of the economy, the biggest challenge before the SSIs in the emerging market scenario is not only to survive but also to grow on a sustainable basis with competence. India’s Ninth Plan and the Tenth Plan continued with its significant dependence on growth rate of SSI sector for economy’s overall growth and for industrial and export growth. The target of doubling India’s per capita income by the end of first decade of the current millennium (i.e. by the year 2010) along with the current thrust of greater participation by private sector in the development process, provide due opportunity as well as responsibility on SSI sector to contribute towards achievement of this target.

Consequently, not only to bear upon both national and international market competitions but also to fulfill the economy’s warranted growth rates, the forthcoming years will be of more importance for the SSI sector mainly due to the accelerated pace of deregulation of financial sector. To grow with strength, not only proper flow of financial resource support service is necessary for the SSI sector, but also such financial services should be less burdensome. The undergoing metamorphic changes in the Indian financial system must take care of this. Undoubtedly, financing of infrastructure, plant and
machinery, expansion and modernisation, technology upgradation, marketing, R&D are bound to be the major focus areas, which should necessarily be comprehended for apprehension of future prospects of SSI sector. Especially over the more recent years, with continued beget of economic relaxations to extend stimulus to acquire higher economic growth, policy measures favoured the big industries more than the small ones. However, it will be misleading to state that the SSI sector has not been given the opportunity-catch. The question is whether the catch extended by government’s policy measures over the recent years was enough and easy for the SSI sector to not only live up to the market competitions but also bear the burden of financial assistances (term loans). As a matter of solicitude, this has not been the case. The translations at the apex level by SIDBI extend enough evidences. The falling shares of disbursements as percentage of sanctions by SIDBI, increasing levels of refinance assistances to Bank and subsequent drastic reduction in favour of SFCs and SIDCs, its greater priority of resource support to ‘other institutions’, the downward trend of disbursements of project related financing amply extend evidences. Furthermore, our primary survey on the problems of SSI units also highlighted this fact that majority of SSI units still find it much burdensome to bear the interest rate burden of term loans. Hence lies the need for the policy makers to make financial services more mark-down for the SSIs to enable them to bear and sustain the interest burden. This must be the focal point of liberalised financial system of Indian economy.

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