

Indirect Assistance Schemes of SIDBI for Industrial Development and Growth

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Abstract:

Since its inception, the Bank has been shouldering a wide range of responsibilities entrusted to it, by assisting the entire spectrum of the SSI sector including the tiny, village and cottage industries. The range of assistance covers promotional, financing and extension of support services through suitable schemes tailored of to meet the requirements of the setting up of new projects, expansion, diversification, modernization and rehabilitation of existing units. SIDBI's schemes of indirect assistance envisage credit to SSIs through a large network of branches. The assistance is provided by way of refinance, bills rediscounting and resource support in the form of short-term loans, line of credit in lieu of refinance, etc. The main objective of SIDBI's refinance schemes is enhancement of flow of funds to the SSI sector through augmenting the resources, of Primary Lending Institutions (PLIs). SIDBI provides resource support by way of short-term loans, line of credit, etc. to intermediaries, viz, State Financial Corporations, (SFCs), State Industrial Development Corporations (SIDCs), State Small Industries Development Corporations (S SIDCs), Non-Banking Financial Companies (NBFCs) for leasing/Hire-purchase, Banks, factoring companies and to specialized institutions and corporate entities engaged in the promotion and development of small-scale industries.

Key Words:

Indirect Financial Assistance; New Projects, Refinance Schemes, Bills Rediscounting

Introduction:

Small Industries Development Bank of India serves as a principal financial institution for the promotion, financing, development of Industries in the small scale sector and co-ordinates the functions of institutions engaged in similar activities. Since its inception, the Bank has been shouldering a wide range of responsibilities entrusted to it, by assisting the entire spectrum of the SSI sector including the tiny, village and cottage industries. The range of assistance covers promotional, financing and extension of support services through suitable schemes tailored of to meet the requirements of the setting up of new projects, expansion, diversification, modernization and rehabilitation of existing units. As an apex financial institution, the Bank is empowered under the Act to formulate suitable strategies for the extension of financial and support. services to small-scale industries all

over the country through strengthening and expansion of its own branches and existing network of institutions engaged in financing and development of the small-scale sector. While continuing with the initial Schemes operated under Small Industries Development Fund, the approach of SIDBI broadened gradually by taking initiatives to identify gaps in the existing credit delivery system and to devise schemes for direct lending to SSI units in order to supplement the efforts of Primary Lending Institutions (PLIs). The lending operations of SIDBI are also supplemented with promotional and developmental activities aimed at facilitating entrepreneurial skills and strengthening the SSI sector order to enable it to meet the emerging challenges of the liberalized economy. Realising the need to meet the growing demands of the sector in accordance with the Government policies, SIDBI has recently changed its Business Model with thrust on direct credit to emerge as one stop shop for Small and Medium Enterprises. The changed business model is also expected to supplement the Bank's refinance as well as resource support operations. The Micro, Small and Medium Enterprises Development Act, 2006 further opens new vistas of business opportunities for the Bank. SIDBI fosters Small industry development by providing direct and indirect financial assistance.

Schemes for Indirect Assistance:

SIDBI's schemes of indirect assistance envisage credit to SSIs through a largenetwork of over 950 Primary Lending Institutions spread across the country with a branch network of over 70,000. The assistance is provided by way of refinance, bills rediscounting and resource support in the form of short-term loans, line of credit in lieu of refinance, etc.

(a) Refinance

The main objective of SIDBI's refinance schemes is enhancement of flow of funds to the SSI sector through augmenting the resources, of Primary Lending Institutions (PLIs). The Bank provides refinance against term loans granted by eligible PLIs to SSI units. The loans given for setting up of industrial projects, expansion, technological upgradation, modernization, quality promotion, diversification, rehabilitation of sick SSI units, etc. are eligible for refinance. Loans sanctioned by PLIs to small road transport operators, qualified professionals for self-employment, infrastructure development, small hospitals and nursing homes and to promote hotels and tourism related activities also qualify for refinance assistance. Refinance Scheme have been the main channel of extending SIDBI's assistance to SSI sector. The Bank has also designed schemes for extending financial assistance to artisans, village and cottage industries and small units in the tiny sector. The Bank is quite able to have access to a vast geographical area of the country as the assistance is channelized through PLIs. The eligible PLIs include State Financial Corporations, State Industrial Development Corporations, Scheduled Commercial Banks both in the public and private sector, State Co-operative Banks, Scheduled Urban Co-operative Banks and Regional Rural Banks. SIDBI has endeavoured to increase the coverage of target groups by enlisting more and more PLIs for routing the assistance.

In order to cater to the financial needs of specific groups, the Bank operates a number of specialized schemes like Composite Loan Schemes (CLS), Single Window Scheme (SWS), Scheme for SC/ST and physically handicapped persons, Refinance Scheme for Technology Development and Modernisation, Scheme for Small Road Transfer Operators, Refinance Scheme for Textile Industry under Technology upgradation fund, Refinance Scheme for Rehabilitation of Sick Industrial Units and soft loan schemes like National Equity Fund, Self-Employment for Ex-servicemen, Scheme and Mahila Udyam Nidhi Scheme, etc. Some of the specialized schemes like Composite Loan Scheme and Single Window Scheme endeavour to provide both term loans and working capital assistance under one roof. Composite Loan scheme is specially targeted towards artisans, village and cottage industries and tiny sector units. Single Window Scheme caters to the requirements of projects having a venture outlay. Both these schemes ensure that the assistance covering term loan and working capital is provided to the SSI sector from a single institution. The Refinance scheme for Technology Development and Modernization has been tailored to cater to the needs of modernization, technology upgradation and quality improvement for SSI units.

Other special schemes like National Equity Fund and Mahila Udyam Nidhi are aimed at expanding the entrepreneurial base and strengthening tiny units. Under these schemes, assistance is provided on flexible terms with laying particular emphasis on promotion of women entrepreneurship. Refinance is one of the important elements of SIDBI's overall operations. Different types of refinance schemes (including Line of Credit in Lieu of Refinance and short-term Loans to banks) taken together constitute the single largest product of SIDBI. The refinance portfolio constitutes almost 50 percent of the total assistance provided by SIDBI. The Bank provides refinance assistance through three categories of institutions: banks, State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs).

B) Bills Financing Through Bills Rediscounting Scheme

Bills Financing Schemes of SIDBI consist of Bills Rediscounting Scheme and Direct Discounting of Bills for components and equipment's. Both schemes aim at facilitating the quick realization of receivables by SSIs and play a significant role in SIDBI's overall assistance. These schemes have been quite popular among the SSIs. With minor deviations, there has been an impressive growth in assistance under the bills financing schemes. Actually the Bills Financing Schemes of SIDBI are aimed at mitigating the problem of delayed payments to SSIs. So far as Bills Rediscounting Scheme is concerned, the Bank operates it with the object of helping manufacturers in the SSI sector to maximise their sales by offering deferred payment credit facilities to the prospective purchaser-users. Facilities under the scheme are also extended to cover purchases of machinery by SSIs. Under the Scheme, bills of exchange and promissory notes arising out of the sale or purchase of machinery by industrial concerns in the small-scale sector are discounted. Short-term Bills Rediscounting Scheme facility is also provided against Inland Supply Bills of SSIs to enable small units to sell on credit terms and to encourage bills culture in the

country. This type of Bills Rediscounting Scheme against Inland Supply Bills of SSIs was launched for the first time during the year 2006-07. The scheme envisages rediscounting facility by SIDBI to banks in respect of inland short-term bills arising out of credit sales made by SSI units and discounted by them. The cumulative assistance of SIDBI under Bills rediscounting scheme since inception amounted to Rs. 4,879.18 crore of sanctions and Rs. 4,353.24 crore of disbursements. During 2013-14, the sanctions and disbursement under the scheme at Rs. 15.00 crore and Rs. 14.95 crore were much lower than the sanctions and disbursements of Rs. 65.37 crore and Rs. 64.59 crore, respectively during the previous year. One of the important features of Bills Financing, as shown by Table 5.3 was a sharp fall in the amount of assistance under Bills Rediscounting Scheme. In the very first year of working, SEDBI sanctioned and disbursed Rs. 655.00 crore and Rs. 593.60 crore respectively under Bills Rediscounting Scheme. It came down to merely Rs. 0.56 crore and Rs. 0.48 crore during 2012-13, showing the unpopularity of the scheme. Bills Rediscounting Scheme against Inland Supply Bills of SSIs started for the first time during the year 2006-07 became more popular in the succeeding years. During 2012-13, the sanctions and disbursements under the scheme at Rs. 64.81 crore and Rs. 64.11 crore were almost twelve times higher than the sanctions and disbursements of Rs. 5.61 crore and Rs. 5.50 crore, respectively during the starting year 2006-07. But during the year 2013-14, the scheme got a setback and the amount of assistance was limited to almost 23 percent of the previous year.

C] Resource Support to Institutions and Agencies engaged in financing SSIs : SIDBI provides resource support by way of short-term loans, line of credit, etc. to intermediaries, viz, State Financial Corporations, (SFCs), State Industrial Development Corporations (SIDCs), State Small Industries Development Corporations (S SIDCs), Non-Banking Financial Companies (NBFCs) for leasing/Hire-purchase, Banks, factoring companies and to specialized institutions and corporate entities engaged in the promotion and development of small-scale industries. The main object of extending necessary resource support for lending to SSI units is to augment resources of the institutions engaged in financing and promotion of the small scale sector in the country. It was needed to extend the scope of Resource Support Scheme to State Electricity Boards (SEBs) and Power Corporations in order to help a large number of SSIs to mitigate their delayed payment problems in respect of supplies made to SEBs. Consequently, the Bank introduced a simplified scheme during the year 1999-2000 for providing short term loans (STL) to SEBs and the central/ state power generation, transmission and distribution corporations or such other entities to facilitate their purchase from SSIs and effect payment in time. The Resource Support to Institutions Scheme indirectly accelerated the process of promotion and development of SSI sector remarkably.

Conclusions:

The SIDBI has been providing indirect finance schemes for the SSI in various forms. Still much needs to be done in this area. No assistance in form of short-term loan was sanctioned by SIDBI to SEBs/Power Corporations under resource support scheme during

some years like in 2014-15. Total amount of sanctions and disbursements in form of resource support to institutions during 2014-15 was also much lower. Such a downward trend may lead to check the object of the scheme. Except for some minor hiccups some the specialized schemes like Composite Loan Scheme and Single Window Scheme endeavour to provide both term loans and working capital assistance under one roof. Composite Loan scheme is specially targeted towards artisans, village and cottage industries and tiny sector units. The SSI units have benefitted the maximum through refinance schemes which is a welcome move.

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