

















**Fig. 36.3:**  
**Schemes of**  
**Assistance to**  
**Industry**

	<b>Technical Scheme:</b> Technically qualified or experienced professionals — upto Rs. 7.50 lakh.		<b>Equipment Finance:</b> For procurement of new machinery/equipment by existing industrial units — up to Rs. 90 lakh.
	<b>Special Capital Scheme:</b> Soft loan assistance up to Rs. 4 lakh is available on soft terms along with term loan for technically qualified or experienced persons.		<b>Quality Control Equipment:</b> 100% assistance for setting up quality control facility by existing and new SSI units — up to Rs. 7.50 lakh.
	<b>Seed Capital Scheme:</b> Assistance towards equity on soft terms up to Rs. 15 lakh along with term loan for technically qualified or experienced persons.		<b>Assistance to Ex-Servicemen:</b> Term loan up to Rs. 9 lakh and seed capital up to Rs. 1.80 lakh for gaining self-employment.
	<b>Composite Loan Scheme:</b> Both equipment finance and working capital up to Rs. 50,000 for artisans and rural industries.		<b>Single Window Scheme:</b> Both term loan and working capital together to new tiny and small-scale industrial units — up to Rs. 7.50 lakh towards term loan and up to Rs. 3.75 lakh towards working capital.
	<b>Disabled Entrepreneurs:</b> 100% finance up to Rs. 50,000 to disabled entrepreneurs.		<b>Tourism Related Facilities:</b> Up to Rs. 90 lakhs available for tourism related business ventures.
	<b>Modernisation:</b> For replacement/renovation of equipment for successful units which are in existence since 5 years — assistance up to Rs. 90 lakh.		<b>Mahila Udyam Nidhi Scheme:</b> To set up new industrial projects in SSI sector by women entrepreneurs.
	<b>Electro-Medical Equipment:</b> For qualified Doctors/private nursing homes — up to Rs. 90 lakh.		<b>National Equity Fund Scheme:</b> Assistance towards equity for new projects tiny and small-scale sector — up to Rs. 75,000.
	<b>Nursing Homes/Hospitals:</b> Assistance for full-fledged nursing homes and hospitals — up to Rs. 90 lakh.		<b>Assistance for Marketing:</b> (a) Maximum assistance up to Rs. 3 lakhs per sales van, not exceeding six vehicles per borrower. (b) Assistance up to Rs. 7.50 lakh for setting up new sales outlets.

## **1. INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)**

### ***Incorporation and Purpose***

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long-term credit to industrial concerns in India. IFCI transformed into a corporation from 21st May, 1993 to provide greater flexibility to respond to the needs of the rapidly changing financial system.

## Management

The Board of Directors consists of a whole-time Chairman and twelve directors. The Chairman is appointed by the Central Government after consultation with the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Six Directors are elected by shareholders other than the IDBI.

Financial assistance provided by the IFCI can be in one or more of the following forms:

- Rupee and foreign currency term loans
- Underwriting of share and debenture issues
- Direct subscription to equity
- Guarantees
- Soft loans
- Equipment financing

Projects costing upon Rs 300 lakh are financed by the State Financial Corporations, State Industrial Development Corporations and Commercial banks under the refinance scheme of the IDBI. Only projects costing in excess of Rs 300 lakh are considered for assistance by the IFCI.

## Forms of Assistance

Section 23 of the IFCI Act outlines the types of activities which the Corporation is authorised to undertake. These are indicated below with the year in which it was authorised to undertake each type of activity shown within the brackets.

- (a) Granting loans on subscribing to debentures repayable within a period not exceeding 25 years.  
(1948)
- (b) Underwriting the issue of stock, shares, bonds or debentures by industrial concerns provided that it does not retain any shares, etc., which it may have had to take up in fulfillment of its underwriting liabilities beyond a period of 7 years except with the permission of the Central Government. (now the IDBI)
- (c) Guaranteeing loans —
  - (i) raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the market. (1948)
  - (ii) raised by industrial concerns from scheduled banks or state cooperative banks. (1960)
- (d) Guaranteeing deferred payments due from any industrial concern —
  - (i) In connection with the import of capital goods from outside India.
  - (ii) In connection with the purchase of capital goods within India.
- (e) Guaranteeing loans (with the prior approval of the Central Government) raised from, or credit managements made with, any bank or financial institution in any country outside India by Industrial concerns in foreign currency. (1960)
- (f) Acting as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development (IBRD) in respect of loans granted or debentures subscribed by either of them. (1952)
- (g) Subscribing to the stock or shares of any industrial concern. (1960)

## ***Functions and Lending Policies***

Any limited company or co-operative society incorporated and registered in India which is engaged, or proposes to engage itself, in the manufacture, preservation or processing of goods, or in the shipping, mining or hotel industry, or in the generation or distribution of electricity or any other form of power, is eligible for financial assistance from the Corporation on the same basis as industrial projects in the private and joint sectors.

Public sector projects are also eligible for financial assistance from the Corporations on the same basis as industrial projects in the private and joint sectors.

The assistance may take the form of long-term loans, both in rupees and foreign currencies, the underwriting of equity, preference and debenture issues; subscribing to equity, preference and debenture capital; guaranteeing of deferred payments in respect of machinery imported from abroad or purchased in India; and guaranteeing of loans raised in foreign currency from foreign financial institutions. Financial assistance from the Corporation is available for the setting-up of new industrial projects and for the expansion, diversification, renovation or modernisation of existing ones.

Financial assistance on concessional terms is available for the setting-up of new industrial projects in industrially less developed districts in the States/Union Territories notified by the Central Government.

## ***Sources of Funds***

The main sources of funds of the Corporation — other than its own capital, retained earnings, repayment of loans and sale of investments are borrowings from the market by the issue of bonds, loans from the Central Government and foreign credits.

In its development role, the Industrial Finance Corporation has undertaken various promotional activities. The resources for financing such activities come from the Benevolent Reserve Fund which was created in terms of an amendment of the IFC Act in 1972, and from the allocation of the Interest Differential Funds by the Government. The Interest Differential Funds are received in the form of loans and grants on a 50:50 basis under an agreement entered into by the Government of India with the Government of the Federal Republic of Germany in respect of lines of credit from the Kreditanstalt für Wiederaufbau allocated to the Corporation from time to time. The promotional activities undertaken by the Corporation — which are, no doubt, still modest in their scope — are in consonance with the measure which need to be taken to achieve the objectives of broadening the entrepreneurial base in the country, particularly in less developed areas. The promotional activities undertaken by the Corporation are briefly reviewed here.

The Corporation's Technical Assistance Scheme for training middle level executives of the State financial and development agencies and the senior executives of these organisations continue to elicit a good response because it has been found to be very useful. Since the inception of the scheme in 1971, 78 middle level executives from 33 state level institutions and 43 senior executives from 28 state level institutions have availed themselves of the scheme, which aims at acquainting them with the policies, procedures and practices of the Corporation.

## ***New Promotional Schemes***

In 1989, the Corporation framed two new schemes of promotional activities which encourage new entrepreneurs and technologists to set up their own industries, and which assist in the growth of indigenous technology and small industries. The scheme for encouraging the development of ancillary industries was liberalised.

The present position is that IFCI has fourteen Promotional Schemes, of which eight are consultancy fee subsidy schemes, four interest subsidy schemes and two entrepreneurship development schemes, as per details given below:

### *Consultancy Fee Subsidy Schemes*

- Scheme of Subsidy to Small Entrepreneurs in the Rural, Cottage, Tiny and Small Sectors for Meeting Cost of Feasibility Studies, etc.
- Scheme of Subsidy for Consultancy to Industries relating to Animal Husbandry, Dairy Farming, Poultry Farming and Fishing.
- Scheme of Subsidy for Consultancy to Industries based on or related to Agriculture, Horticulture, Sericulture and Pisciculture.
- Scheme of Subsidy for Promotion of Ancillary and Small Scale Industries.
- Scheme of Subsidy to New Entrepreneurs for Meeting Cost to Market Research/Surveys.
- Scheme of Subsidy for Providing Marketing Assistance to Small Scale Units.
- Scheme of Subsidy for Consultancy on Use of Non-Conventional Sources of Energy and Energy Conservation Measures.
- Scheme of Subsidy for Control of Pollution in the Village and Small Industries Sector.
- Own generation by way of repayment of past borrowings and plough-back of profits.

### *Interest Subsidy Schemes*

- Scheme of Interest Subsidy for Self-Development and Self-Employment of Unemployed Young Persons.
- Scheme of Interest Subsidy for Women Entrepreneurs.
- Scheme of Interest Subsidy for Encouraging Quality Control Measures in Small Scale Sector.
- Scheme of Interest Subsidy for Encouraging the Adoption of Indigenous Technology.

### *Entrepreneurship Development Schemes*

- Scheme for Encouraging Entrepreneurship Development in Tourism and Tourism-related Activities.
- Scheme for Encouraging Self-Employment amongst Persons Rendered Jobless due to Retrenchment or Rationalisation in a Sick Industrial Unit in the Organised Sector Undergoing a Process of Rehabilitation/Revival.

The Consultancy Fee Subsidy Schemes are aimed at providing subsidised consultancy services to industrial units, largely in Village and Small Industries (VSI) sector through Technical Consultancy Organisations (TCOs). The Interest Subsidy Schemes are intended to provide encouragement to self-development and self-employment to unemployed youths, women entrepreneurs, adoption of quality control measures, harnessing the indigenously available technology etc. The Entrepreneurship Development Schemes envisage giving impetus to self-employment in tourism related activities in the small-scale sector, and help in mitigating the sufferings of people, who have to face retrenchment due to implementation of modernisation, rehabilitation and revival plans in the case of potentially viable sick units, by process of retaining or self-employment avenues.

## **2. THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT**

The Preamble to the National Bank for Agriculture and Rural Development Act 1981, sets out the objectives for establishing the new institution. To quote, 'An Act to establish a bank to be known as the National Bank of Agriculture and Rural Development for providing credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto.'



## *Establishment of the National Bank*

The establishment of the National Bank for Agriculture and Rural Development (commonly known as 'NABARD' and referred as the National Bank in this book) was the outcome of the acceptance of the recommendation in this behalf contained in the Interim Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development constituted by the Bank in consultation with the Central Government in 1979. The Bill for setting up the institution was passed by the Parliament in December 1981 and the National Bank came into existence on July 12, 1982.

NABARD came into being with the avowed objective of providing focused and undivided attention to the development of rural India which was, and even now is, crucial to the country's economic progress. NABARD's mandate touches practically every aspect of rural life. As its mission statement underscores, NABARD is to promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives.

The Committee envisaged that the new apex bank would be an organisational service for providing undivided attention, forceful direction and pointed focus to the credit problem arising out of the integrated approach to rural development. The committee recommended that the new bank take over from the Reserve Bank, the overseeing of the entire rural credit system, including credit for rural artisans and village industries, and the statutory inspection of co-operative banks and Regional Rural Banks on an agency basis, the Bank continuing to retain its essential controls. The new bank was to have organic links with the Reserve Bank by virtue of the latter contributing half of its share capital (the other half being contributed by the Central Government), and three members of the Central Board of Directors of the Reserve Bank being appointed on its board, besides a Deputy Governor of the Reserve Bank being appointed as its chairman. The Committee envisaged the role of the Reserve Bank as one of spawning, fostering and nurturing the new bank, in much the same way as it did earlier in the case of the Agricultural Refinance and Development Corporation.

On its establishment, the National Bank has taken over the entire undertaking of the Agricultural Refinance and Development Corporation and has taken over from the Reserve bank its refinancing functions in relation to the State Co-operative Rural Banks. This Bank is now the coordinating agency in relation to the Central Government, Planning Commission, State Governments and institutions at all-India level and State-level engaged in the development of small-scale industries, village and cottage industries, rural crafts, etc., for giving effect to the various policies and programmes relating to rural credit.

## *Capital and Management*

The capital of the National Bank is Rs. 330 crores, subscribed by the Central Government and the Reserve Bank in equal proportions. In terms of the Act, the Board of Directors will consist of fifteen members to be appointed by the Central Government in consultations with the Reserve Bank may maintain and will comprise, beside the chairman and the managing director, three directors from the Central Board of the Reserve Bank, three officials of the Central Government, two officials of the State Governments and five directors from among experts in rural economics, rural development, handicrafts and village and cottage industries, etc., and persons with experience in the working of co-operative banks and commercial banks. The Act provides for constitution by the Board of an Advisory Council consisting of the directors of the National Bank and other persons having special knowledge of subjects which is considered useful to the bank, to tender advice and discharge many functions allotted to it. In effect, the Advisory Council will perform functions similar to those entrusted to the Agricultural Credit Board set up by the Reserve Bank.

## *Operations*

The National Bank is empowered to provide short-term refinance assistance for periods not exceeding 18 months to State Co-operative Banks, Regional Rural Banks and any financial institutions approved by the Reserve Bank in this behalf, for a wide range of purposes, including marketing and trading, relating to rural economy. These short-term loans granted to State Co-operative Banks and Regional Rural Banks, in so far as they relate to the financing of

agricultural operations or marketing of crops, can be converted by the National Bank into medium-term loans for periods not exceeding seven years under conditions of drought, famine or other financing of agricultural operations or marketing of crops, can be converted by the National Bank into medium-term loans for periods not exceeding seven years under conditions of drought, famine or other natural calamities, military operations or enemy action. Likewise, the National Bank may also provide assistance by way of loans and advances up to seven years to the financing institutions where it is satisfied that owing to unforeseen circumstances the rescheduling of any short-term loans and advances made to artisans, small-scale industries, village and cottage industries etc., by the financing institutions is necessary. The National Bank can grant medium-term loans to the State Co-operative Banks and Regional Rural Banks for periods extending from 18 months to 7 years for agriculture and rural development and such other purposes as may be determined by it from time to time subject, in the case of loans to State Co-operative Banks, to their being fully guaranteed by the State Governments as to the repayment of principal and payment of interest. Such guarantees can, however, be waived by the National Bank in certain circumstances.

The National Bank is empowered to provide by way of refinance assistance, long-term loans extending up to a maximum period of 25 years including the period of rescheduling of such loans, to the State Land Development Banks, Regional Rural Banks, Scheduled Commercial Banks, State Co-operative Banks or any other financial institutions approved by the Reserve Banks, for the purpose of making investment loans, as well as for giving loans to artisans, small-scale industries, village and cottage industries, etc. It may also give short-term loans along with long-term loans where such composite loans are considered necessary. Loans for periods not exceeding 20 years can be made to the State Governments to enable them to subscribe directly or indirectly to the share capital of co-operative credit societies. Moreover, the new bank can contribute to the share capital or invest in the securities of any institution concerned with agriculture and rural development.

Since inception NABARD's efforts and endeavours have ushered in integrated rural development leading to equitable growth, reduced rural unemployment and a stronger rural economy.

- Assisted 329.90 lakh households through 2238 lakh SHGS.
- Assisted women entrepreneurs in rural areas.
- Sanctioned Rs.51,283 crore for 2,44,651 projects covering irrigation, rural roads and bridges etc.
- Generated employment for 2334 lakh persons with 10.95 lakh units in 105 districts under DRIP programme.
- Provided rural employment through Cluster Development, Rural Haats, Rural Entrepreneurship, Rural Industrialisation, Skills Upgradation of Handloom Weavers.

Following schemes are under operation:

#### **Attracting Youth to Rural Non-Farm Sector**

The need to promote highly labour intensive industries in rural areas to open wide range of avenues for employment to the rural youth can hardly be overemphasized. And so NABARD has formulated a number of schemes to suit rural artisans, craftsmen and others. Schemes like Assistance to Rural Women in Non-Farm Development (ARWIND), Assistance for Marketing of Non-Farm Products of Rural Women (MAHIMA), Development of Women through Area programme (DEWTA) have been designed to provide exclusive support to various activities undertaken by women in rural areas.

#### **District Rural Industries Project (DRIP)**

NABARD launched DRIP, an integrated area-based credit intensification programme, in collaboration with Government, banks and other development agencies with focus on district. It was introduced in 1993-94 with the objective of creating sustainable employment opportunities in rural areas. Today, it is being implemented in 106 districts all over the country.

#### **Rural Entrepreneurship Development Programme (REDP)**

It was felt necessary to develop the entrepreneurial skills of the rural youth. REDP is a promotional programme supported by NABARD to motivate and train educated unemployed rural youth, to set up their own enterprises. So far, 2.15 lakh persons have been trained under the programme under 7.159 REDPs.

## Marketing

A number of marketing interventions have been made for marketing of Rural Non-farm products since marketing is a key factor in the success of any programme. With the support of NABARD under its various promotional programmes like Rural Haats, Rural Marts, participation in fairs, exhibitions etc., rural artisans and entrepreneurs can get a larger market for their produce and showcase their talent to urban and upcountry markets.

## Rural Innovation Fund

In association with Swiss Agency for Development and Cooperation (SDC), NABARD has constituted the "NABARD-SDC Rural Innovation Fund (RIF)" to support innovative projects in Farm, Non-Farm and Micro-Finance Sectors leading to creation of livelihood opportunities for the poor. Government and Non-Government Institutions, corporate bodies, financial institutions and individuals can avail funding support for activities involved in development of new products, processes, prototypes, technology etc. which have the poor in their focus.

## Resources

For its short-term operations, the National Bank will borrow funds from the Reserve Bank in the form of a line of credit under Section 17 (4E) of the Reserve Bank of India Act which permitted the Reserve Bank to grant short-term loans to the Agricultural Refinance and Development Corporation earlier, and which has now been amended suitably by the National Bank for Agriculture and Rural Development Act. For its term loan operations, the National Bank will draw funds, as the Corporation was doing earlier, from the Central Government, the World Bank/IDA and other multilateral and bilateral aid agencies, the market and the National Rural Credit (Long Term Operations) Fund that it has established. To this Fund has been transferred the balance in the National Agricultural Credit (Long Term Operations) Fund maintained by the Reserve Bank. Further contributions would be made annually to the new Fund by the Reserve Bank, in addition to the contributions by the National Bank itself. Provision has been made also for the Central Government and the State Governments to contribute to this Fund from time to time. The balance in the National Agriculture Credit (Stabilisation) Fund has been similarly transferred by the Reserve Bank to the National Bank for credit to the newly established National Rural Credit (Stabilisation) Fund which will be maintained by annual contributions by both the Reserve Bank and the National Bank as well as by contributions from the Central and State Governments from time to time.

The methods of raising funds include sale of bonds and debentures, direct borrowing, acceptance of deposits, and receipt of gifts, grants, etc. The National Bank may borrow foreign currency from any bank or financial institution in India or abroad with the approval of the Central Government which will guarantee such loans.

## 3. THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)



The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long-standing demand from the small-scale sector as an apex-level national institution for promotion, financing and development of industries in the small-scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small-scale industries in the country. As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) in 1986 exclusively for refinancing, bills rediscounting and equity support to the small-scale sector.

## The Environment

Indian economy has been in transition for most part of the last five years: the industrial policy, fiscal policy, public sector policy, foreign investment policy, trade policy and monetary and credit policies have been in various stages of

liberalisation. Decontrol, deregulation and delicensing have given enormous scope for private initiative and market forces to come to play. New relationships within and between different sectors in the economy are being evolved; the small-scale sector has been an important constituent of such a liberalisation in the country, Government of India formulated a set of new policies aimed at harnessing the potential of the small-scale sector in August 1991 — a year-and-half after the establishment of SIDBI. The prescriptions of the policy focused at removal of impediments affecting the growth of small-scale sector together with consolidation of the strengths, in the context of the emerging economic order. SIDBI has been refining its strategies and business policies in alignment with the policy changes which have been taking place at the national level.

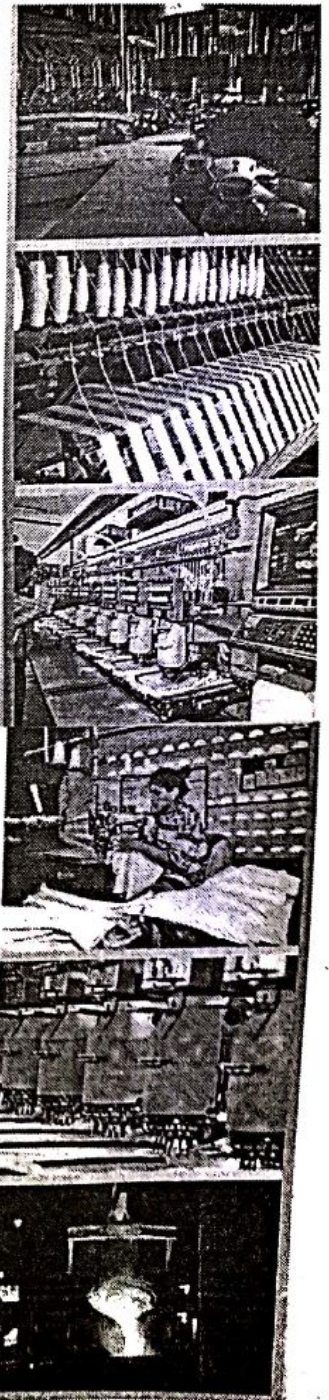
## Operational Strategy

Stepping up of flow of credit to the units in the small-scale sector through direct and indirect financing mechanisms and ensuring speedy disbursement have remained the main plank of the operational strategy of SIDBI. Over the years, the share of direct assistance in the total assistance has steadily gone up.

The new schemes designed and implemented were directed at filling the gaps in the existing credit delivery system focussing on new target groups and activities. These are targeted at addressing some of the major problems of SSIs, in areas such as marketing, infrastructure development, delayed realisation of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalised based on an ongoing review process. The procedures have been simplified with gradual decentralisation and progressive delegation of powers aimed at higher levels of operational efficiency and better customer service.

To mitigate the difficulties faced by SSIs on account of delayed payments, two factoring companies, viz., SBI Factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd. have been established with SIDBI as a partner with 20% shareholding. SIDBI has enlarged the list of institutions eligible for refinance in order to widen its reach. It enrolled itself as an institutional member of Over The Counter Exchange of India (OTCEI). This facilitates SSIs to access capital market through the route of OTCEI in raising resources in a cost-effective manner. SIDBI has also been granted the status of Category I Merchant Banker by Securities and Exchange Board of India. SIDBI extends resource support to Non-Banking Finance Companies by way of lines of credit against their assistance to units in the small-scale sector by way of leasing, hire-purchase and bought-out deals.

The operational priorities of SIDBI, therefore, were to build up a financial portfolio reflecting a high order of health and strength based on quality of assets. SIDBI maintains an organisational structure which is lean, functional and capable of adapting to the state-of-the-art technology to remain efficient and competitive. The strength of SIDBI is reflected in the quality of its portfolio; over 97% of its portfolio consists of standard assets. SIDBI has obtained a high investment grade rating 'AAA' by the The Credit Rating Information Services of India Ltd. for its unsecured bonds. There has been consistent growth in the gross income and profits of SIDBI in the last five years. Though of a modest scale, SIDBI has been transferring to IDBI surplus of its profits after appropriations as return on capital. SIDBI is one of the development financial institutions in the country with a high capital adequacy ratio. It is a matter of satisfaction that in respect of resource mobilisation efforts during the last 5 years, leading international aid giving and lending agencies have lent considerable resource support to SIDBI. There has been a significant shift in approach with regard to working relationship with commercial banks. Besides using the branch network of banks to reach ultimate beneficiaries, SIDBI now focuses on a collaborative effort so as to facilitate



timely flow of credit both by way of term loans and working capital to the small-scale units. To reinforce such a relationship on a lasting basis. Memoranda of Understanding have been signed by SIDBI with many leading banks.

## ***Growing Operations***

From a predominantly refinancing and bills rediscounting institution, SIDBI has emerged as a major purveyor of a wide variety of financial services to the small-scale sector. At present, financial assistance being provided by SIDBI covers direct equity participation, equity type loan on soft terms, term loan, working capital — both rupee finance and foreign currencies, bills discounting, venture capital support and different forms of resource support to banks and other institutions. The proportion of direct assistance in the total portfolio of SIDBI has increased significantly.

## ***Channels of Assistance by SIDBI***

SIDBI's financial assistance to small scale sector have three major dimensions:

- (i) Indirect assistance to primary lending institutions (PLIs)
- (ii) Direct assistance to small units
- (iii) Development and Support Services

### ***Indirect Assistance***

SIDBI's schemes of indirect assistance envisage credit to SSIs through a large network of 913 PLIs spread across the country with a branch network of over 65000. 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.

### ***Refinance***

- The main objective of SIDBI's refinance schemes being enhancement of flow of credit to the SSI sector and augmenting the resources of PLIs, the Bank provides refinance to PLIs against the term loans granted by them for:
  - Setting up of new SSI projects and for expansion, technology upgradation, modernisation, quality promotion, diversification by existing units and rehabilitation of sick SSI units.
  - Small road transport operators, qualified professionals for self-employment, small hospitals and nursing homes, cyber cafes, marketing, industrial infrastructure and to promote hotels and tourism-related activities.
- SIDBI extends Financial Support (Short-Term Loans) to scheduled banks in respect of their outstanding portfolio relating to SSI sector against which no financial support has been availed of from other institutions.

### ***Rediscounting***

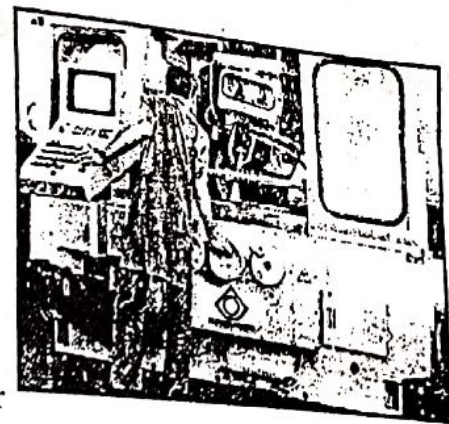
- In order to help the machinery manufactures in the SSI sector and to maximise their sales by offering deferred payment credit to the prospective purchaser users, the Bank operates a Bills discounting Scheme where bills arising out of sale/purchase of machinery discounted by scheduled commercial banks are re-discounted by SIDBI. Facilities under the Scheme are also extended to cover purchases of machinery by Small-Scale Industries.

### ***Direct Assistance***

The objective behind SIDBI's direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for Small Scale Industries, Direct assistance is provided under several tailor-made schemes through SIDBI's 41 Regional/Branch Offices spread across the country.

**Assistance is provided directly for**

- Setting up of new SSI units, small hotels, hospitals / nursing homes
- Technology upgradation and modernisation, expansion, diversification
- Quality upgradation / acquiring of ISO 9000 series certification
- Development of markets for SSI products
- Development of infrastructure for SSI sector
- Pre-Shipment and Post-Shipment Credit & Export Bill Finance
- Discounting of bills of manufacturer-seller in SSI sector, selling either equipments or components
- Factoring services.



### ***SIDBI Offers***

- Financial assistance to SSI units under Technology Development and Modernisation Fund (TDMF) Scheme
- Financial assistance to SSI units in the textile and cotton ginning and pressing sectors for taking up technology upgradation and modernisation under Technology Upgradation Funds Scheme (TUFS)
- Financial assistance to tanneries for taking up modernisation under the Tannery Modernisation Scheme (TMS)
- Twelve per cent capital subsidy on loans advanced to SSI units engaged in select product sub-sectors for technology upgradation by scheduled commercial banks, SFCs and NSIC under Credit Linked Capital Subsidy Scheme
- Short-term loans to Stated Electricity Boards to facilitate their purchases from SSIs and effect payment in time. Discounting of invoices of SSIs supplying their products to large purchaser companies in the public/private sector
- Interest subsidy in respect of certain hotel projects under one, two and three star and heritage category, where loans are sanctioned after approval of projects from the Department of Tourism
- Support to obtain credit rating from accredited rating agencies.

### ***SIDBI's Foreign Currency Assistance Includes***

- Foreign currency loans to import equipment by existing export-oriented SSI units and new units having definite plans for entering export markets
- Foreign currency loans to execute confirmed export orders by way of pre-shipment. credit/letter of credit and post-shipment credit facilities
- Pre-shipment and Post-shipment Credit in Rupees terms to exporting SSIs for greater flexibility
- Export bills financing in foreign currency.

### ***SIDBI's Venture Capital Includes***

- Assistance to small-scale entrepreneurs using innovative indigenous technology and expertise
- Contribution to corpus of other venture funds
- Promotion of State level venture capital funds and a National Venture Fund for Software and IT Industry dedicated to small-scale units in Software/IT industry
- SIDBI has entered into a Memorandum of Understanding with Small Enterprise Assistance Funds of United States of America.

## ***Lines of Credit are Established by SIDBI in Favour of***

- State Financial Corporations
- State Industrial Development Corporations
- State Small Industries Development Corporations (for supplying raw material and extending marketing support to SSI units)
- Factoring Companies (to factor receivables of SSIs)
- National Small Industries Corporation Ltd.

## ***Development and Support Services***

- The bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallised into the following important areas:
- Enterprise Promotion with emphasis on Rural Industrialisation.
- Human Resource Development to suit the SSI sector needs
- Technology Upgradation
- Quality and Environment Management
- Marketing Promotion, and
- Information Dissemination.

## ***Enterprise Promotion is Supported Through***

- **Micro Credit Scheme**

Having encouraged by the result and to accord focused attention for increasing flow of funds to the poor through sustainable micro finance institutions (MFIs), SIDBI launched a SIDBI Foundation for Micro Credit on November 27, 1998. The foundation presently functioning as a department of the Bank commenced its operations in January 1999 with an initial corpus of Re. 1 billion. The mission of the Foundation is "to create a national network of strong, viable and sustainable micro finance institutions from the informal and formal sectors to provide micro finance services to the poor, especially women." The new approach not only envisages financial assistance but also strives to build and strengthen the management capabilities of the micro finance practitioners and related institutions through customised capacity building inputs for achieving sustainability, economies of scale, desired outreach, etc. SIDBI Foundation has taken a lead in the country by initiating a pioneering effort for 'capacity assessment rating' of NGOs/MFIs.

- The foundation has entered into an agreement with International Fund for Agricultural Development (IFAD), Rome for upscaling its operations. Earlier, SFMC had signed a MoU with Department for International Development (DFID), UK for grant support for financing various capacity building initiatives of the Foundation as well as MFIs. The Foundation has drawn up a comprehensive action plan with a view to mainstreaming the micro finance and providing capacity building support to the micro finance institutions.

- **Rural Industries Programme**

Rural Industries Programme (RIP) has been designed to provide a cohesive and integrated package of basic inputs like information, motivation, training and credit, backed by appropriate technology and market linkages. The programme is executed through Non Governmental Organisations, Technical Consultancy Organisations and development professionals.

## *Micro Credit*

Realising the potential of micro finance in stimulating economic growth and also to serve its mandate for promoting, financing and developing small and micro enterprises in India, SIDBI formulated and launched Micro Credit Scheme during 1994. Encouraged with the success of pilot phase of MCS, the Bank launched its new initiative, namely, SIDBI Foundation for Micro Credit during January 1999 for channelising funds to the poor.

SFMC's mission is to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sector to provide micro finance services to the poor, especially women. Considering the nascent stage of development of micro finance in India as also absence of supporting infrastructure/resources, SFMC's mandate is to develop, nurture, stabilise and establish the micro finance system in the country not merely by extending financial assistance, but also by way of their capacity development. Accordingly, the Bank had formulated a multi-pronged strategy for holistic development of the micro finance sector.

## *Support Services*

Over the years, the scope of promotional and developmental activities has been enlarged to encompass several new activities. Technology adoption, technology exchange, transfer and upgradation, quality promotion, enlarging marketing capabilities — both domestic and international, entrepreneurship development, management development, environment management, rural industrialisation, support to self-help groups, information dissemination through publication of project profiles for tiny and hi-tech small industrial units are now covered under promotional and developmental services. In such activities, SIDBI operates in collaboration with voluntary organisations, non-government organisations, technology firms, consultancy organisations and multilateral/international agencies to enhance the level of overall impact of such activities on the sector.

## *The Impact*

The overall economic impact of SIDBI's operations is quite significant. The visible impact of promotional and developmental activities of SIDBI in select clusters of SSIs such as lock, leather, glass, brass and readymade garments has been noticeable with commensurate improvement in overall productivity, product quality levels and process standards in such clusters. Significant achievements made in these spheres will be buttressed with new initiatives in the years to come.

## *Expansion of Delivery Channels*

In view of its limited physical infrastructure and greater thrust on retail SME business, the Bank has been trying to innovate and find out new ways and means of reaching out to a large number of SSI/SME clients. Towards this, the Bank used 'Channel Arrangement' to improve its credit delivery reach and took help of reputed NBFCs by resorting to co-branding model, sourcing of business, referral arrangements, etc. The Bank also entered into securitisation deals with select intermediaries which helped in augmenting the resource base of the intermediaries, thus furthering their on lending to more number of units. In line with the strategy of the Bank to increase its branch network at important industrial clusters/towns so as to tap direct credit business as also to deliver efficient service to small and medium enterprises, the Bank opened 12 new Retail Branches. These arrangements are expected to facilitate SIDBI's retail business growth in coming years and further strengthen the delivery channel and outreach of the Bank.

## **4. LIFE INSURANCE CORPORATION OF INDIA**

The Life Insurance Corporation of India (LIC) was set up under the LIC Act in 1956, as a wholly-owned Corporation of the Government of India, on nationalisation of the life insurance business in the country. LIC took over the life

insurance business from private companies to carry on the business and deploy the funds in accordance with the Plan priorities. LIC operates a variety of schemes so as to extend social security to various segments of society and for the benefit of individuals and groups from the urban and rural areas. The Committee on Reforms in the Insurance Sector set up by the Government has recommended privatisation and restructuring of LIC with Government retaining 50% stake. The Committee has also suggested that foreign companies be allowed to conduct life insurance business in the country through joint ventures with Indian partners.

According to the investment policy of LIC, out of the accretion to its Controlled Fund, not less than 75% has to be invested in Central and State Government securities including Government-guaranteed marketable securities in the form of shares, bonds and debentures. LIC extends loans for the development of socially-oriented sectors and infrastructure facilities like housing, rural electrification, water supply, sewerage and provides financial assistance to the corporate sector by way of term loans and underwriting/direct subscription to shares and debentures. LIC also extends resource support to other financial institutions by way of subscription to their shares and bonds and also by way of term loans.

## **5. GENERAL INSURANCE CORPORATION OF INDIA**

The General Insurance Corporation of India (GIC) was established in January 1973 on nationalisation of general insurance companies in the country. GIC has four subsidiaries, viz., National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Fire & General Insurance Co. Ltd. and United India Insurance Co. Ltd. GIC and its subsidiaries operate a number of insurance schemes to meet the diverse and emerging needs of various segments of society. In the recent past, GIC and its subsidiaries devised several need-based covers to keep pace with the new liberalised economic environment. The investment policies of GIC and its subsidiaries have been evolved within the ambit of the provision 27(B) of the Insurance Act 1938 and guidelines issued by the Government from time to time. According to Government guidelines, 70% of the annual accretions to their investible funds are required to be invested in socially-oriented sectors of the economy. Since April 1976, GIC has been participating with other financial institutions in extending term loans to industrial undertakings and providing facilities for underwriting/direct subscription to their shares and debentures.

## **6. EXPORT-IMPORT BANK OF INDIA**

The Export Import Bank of India (Exim Bank) was set up on January 1, 1982 by an Act of Parliament as the principal financial institution for promotion and financing of India's international trade. Exim Bank finances exporters and importers, co-ordinates the working of institutions engaged in financing export and import of goods and services, finances export-oriented units and undertakes promotional activities necessary for international trade. It has a menu of 23 major programmes to meet the needs of different customer groups, viz., Indian exporters, overseas entities and commercial banks. Exporters can avail of pre-shipment credit, supplier's credit, overseas investment finance, export product development loans, loans for export product development loans, loans for export marketing, bulk import finance and investment vendors development finance. Foreign Governments and agencies are offered buyers' credit and lines of credit. To commercial banks in India, Exim Bank offers export bills rediscounting facility, refinance of suppliers' credit and refinance of term loans in respect of export-oriented units. It also participates in guarantees issued by commercial banks on behalf of Indian project exporters.

Besides providing finance, EXIM Bank promotes exports through advisory and information services to exporters on procurement practices and bidding procedures of multilateral institutions, country risk analysis, merchant banking and marketing focussed on catalysing exports of non-traditional products to developed countries.

## **7. KHADI & VILLAGE INDUSTRIES COMMISSION**

The Khadi and Village Industries Commission (KVIC), established by an Act of Parliament in 1956, is engaged in the development of khadi and village industries in rural areas. It has under its purview 26 village industries besides

khadi. After amendment to the KVIC Act in July 1987, the scope for coverage of activities was widened and as a consequence 70 more new village industries were identified and brought under its fold for implementation. The main objectives of the KVIC are providing employment in rural areas, skill improvement, transfer of technology, building up of strong rural community base and rural industrialisation. The significant characteristics of khadi and village industries under the purview of KVIC lie in their ability to use locally available raw materials, local skills, local markets, low per capita investment, simple techniques of production, which can be easily adopted by the rural people, short gestation period and above all production of consumer goods. KVI activities serve the poorest of the poor comprising scheduled castes, scheduled tribes, women, physically handicapped and minority communities in difficult, inaccessible hill and border areas.

The development programmes of khadi and villages industries are implemented through 30 State Khadi and Village Industries Boards which are statutory organisations set-up under State legislation, 2,320 institutions registered under Societies Registration Act, 1860 and 29,813 Cooperative Societies registered under State Co-operative Societies Act. KVIC also assists individuals through State KVI Boards. KVI programmes now cover more than 2.1 lakh villages in the country.

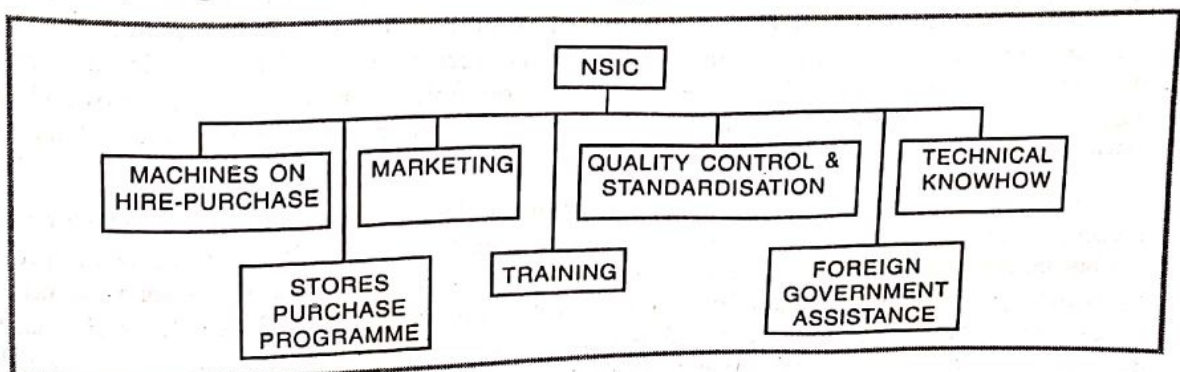
Some of the notable developments in KVI activities during 1991-92 are — extension of special programme aimed at intensive development of KVI through area approach under tie up with District Rural Development Authority (DRDA) to more number of districts, improvement and upgradation of KVI technology and quality of products, establishment of linkage with an export company for exporting KVI technology on hand-made paper and gur khandsari on turn-key basis, initiation of steps for tapping distribution network of big business houses for marketing KVI products, introduction of fabric-painted khadi ready-made garments, development of modified version of new model charkha by replacing all its metal parts with high quality nylon and reinforced fibre material and development of mini honey processing unit.

## **8. NATIONAL SMALL INDUSTRIES CORPORATION LTD.**

The National Small Industries Corporation Ltd. (NSIC) was set-up by the Government of India in 1955 with the objective of promoting and developing small-scale industries in the country. Various activities undertaken by NSIC include supply of indigenous and imported machines on easy hire-purchase and lease terms, marketing of the products of small industries on consortia basis, export marketing of small industries products, developing export worthiness of small-scale units, enlistment of small-scale units for participation in Government stores purchase programme, development and modernisation of prototypes of machines, equipment and tools, supply and distribution of indigenous and imported raw materials, training in various technical trades and co-operation with other developing countries in setting-up of small-scale projects on turn-key basis.

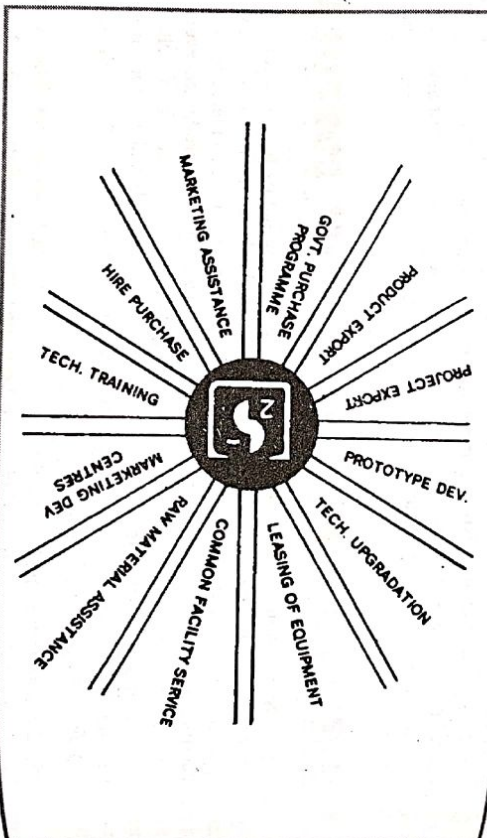
Formerly, the Corporation had four subsidiary corporations at Delhi, Mumbai, Kolkata and Chennai. However, since 1961, all the subsidiary corporations have been amalgamated with the main Corporation, and three Branch Offices have been set-up at Mumbai, Kolkata and Chennai. The Delhi subsidiary corporation has been merged with the parent Corporation, and its work is looked after by a separate Delhi Cell set-up in it. The National Small Industries Corporation provides a complete package of financial assistance and support in the following areas:

**Fig. 36.5:**  
Activities of  
National Small  
Industries  
Corporation (NSIC)



- Supply of both indigenous and imported machines on easy hire-purchase terms. Special concessional loans have been introduced for units promoted by entrepreneurs from weaker sections of the society, women entrepreneurs, ex-servicemen and those units located in the backward areas.
- Marketing of Small Industries products within the country.
- Export of Small Industries products and developing export worthiness of Small-Scale Units.
- Enlisting competent units and facilitating their participation in Government Stores Purchase Programme.
- Developing prototypes of machines, equipment and tools which are then passed on to Small-Scale Units for commercial production.
- Technical training in several industrial trades, with a view to create technical culture in the young entrepreneurs.
- Development and upgradation of technology and implementation of modernisation programmes.
- Supply and distribution of indigenous and improved raw materials.
- Supply of both indigenous and imported machines on easy lease terms to existing units for diversification and modernisation.
- Providing of Common Facilities through Prototype Development & Training Centres.
- Setting-up Small-Scale Industries in other developing countries on turnkey basis.

Fig. 36.6:  
A Unique Package  
of Assistance for  
Small  
Entrepreneurs



With a view to giving a fillip to development efforts and to supplement the activities of State Small Industries Corporations and District Industries Service Institutes, the NSIC has opened its offices in some of the States in which the (NSIC) Corporation has been hitherto under-represented. In the central region, offices have been opened in Bilaspur and Raipur in Madhya Pradesh. Four development executives and six field inspectors have been recently posted in the backward areas of the western region to serve as "contact points" and to work in close co-operation with DICs and other developmental agencies in the area. Of these, three field inspectors have been posted in Raigad, Ranagiri, Satara, Yeotmal, Chandrapur, Bhandara, Buldhana, Aurangabad, Nanded, Nandurbag, Beed, Osmanabad, etc. — all backward districts in Maharashtra.

The NSIC has taken up the challenging task of promoting and developing small industries almost from the scratch and has adopted an "integrated approach" to achieve its socio-economic objectives. It has created a proper "industrial" atmosphere and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment for purposes of modernisation and/or diversification. The small unit, because it is small, is always short of resources. The NSIC, therefore, supplies machinery and equipment, marketing inputs and technical support to small units. And so the seedling comes up as a "factory" which provides jobs for the unemployed or underemployed.

Over the years and particularly during this decade, the NSIC, with its deliberate and concentrated efforts, has developed an unsurpassed reputation of an effective and efficient nodal agency for providing assistance to the vibrant Small-Scale sector. All these years, through its dynamic approach and the package of assistance, it has been significantly contributing to the development of entrepreneurs, building up of strong industrial base, spreading of technical culture, promoting balanced regional growth, development of rural and backward areas, etc. as well as in employment generation, in all parts of the country.

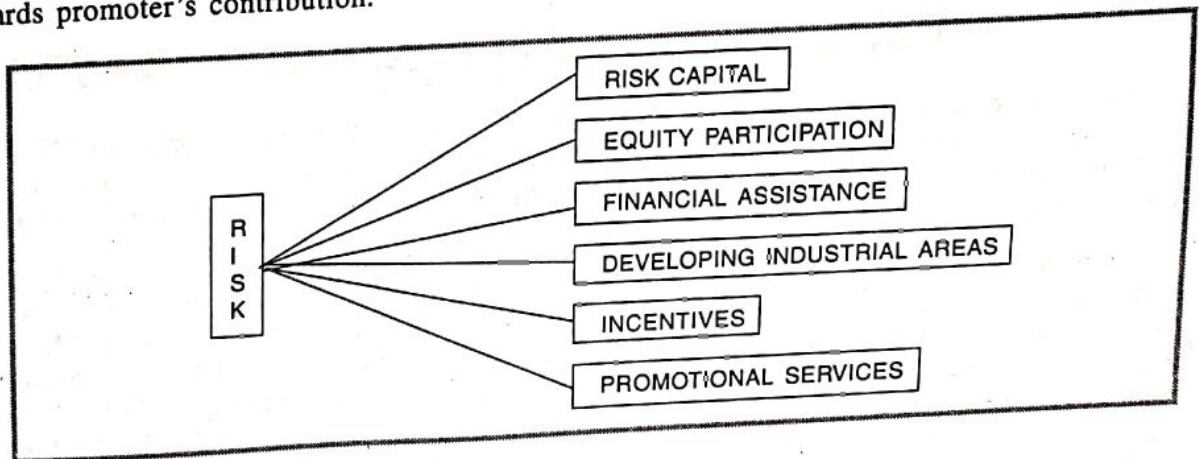
## 9. STATE INDUSTRIAL DEVELOPMENT CORPORATIONS

The State Industrial Development Corporations (SIDCs) were established under the Company Act, 1956 in the sixties and early seventies as wholly-owned State Government undertakings for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription to shares/debentures and guarantees. They undertake a variety of promotional activities such as preparation of feasibility reports, industrial potential surveys, entrepreneurship development programmes and developing industrial areas/estates. SIDCs' activities sector in collaboration with private entrepreneurs or as wholly owned subsidiaries. The SIDC's activities have now widened to include equipment leasing, providing tax benefits under State Government's Package Scheme of Incentives, merchant banking services and setting-up of mutual funds. Some of the SIDCs also offer a package of developmental services such as technical guidance, assistance in plant location and coordination with other agencies.

Of the 28 SIDCs operating in the country, nine are twin-function SIDCs functioning also as SFCs to provide assistance to small-scale units as well as act as promotional agencies. The twin-function SIDCs are in Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Goa, Pondicherry and Sikkim. Seven SIDCs are also involved in infrastructure development and other extensions services for the small sector.

The SIDCs are agent of IDBI and SIDBI for operating its seed capital scheme. Under the scheme, equity type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

**Fig. 36.7:**  
**Functions of SIDCs**



The major functions of these Corporations include:

- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance;
- Grant of financial assistance to industrial units by way of loans, guarantees and of lease finance by some Corporations;
- Administering incentive schemes of Central/State Governments;
- Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs; and
- Developing industrial areas/estates by providing infrastructure facilities.

Since the actual range of activities being undertaken by individual SIDC depends upon the specific responsibilities entrusted by the respective State/Union Territory, there is considerable diversity in activities among the different SIDCs.

## **10. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS**

The State Small Industries Development Corporations (SSIDCs) established under the Companies Act, 1956, are State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the State/Union Territories under their justification. SSIDCs enjoy operational flexibility and can undertake a variety of activities for development of the small sector. As at present, 18 SSIDCs are in operation.

Some of the important activities undertaken by SSIDCs include: (i) procurement and distribution of scarce raw materials, (ii) supply of machinery on hire-purchase basis, (iii) providing assistance for marketing of the products of small-scale units, (iv) construction of industrial estates/sheds, providing allied infrastructure facilities and their maintenance, (v) extending seed capital assistance on behalf of the State Governments, and (vi) providing management assistance to production units.

A change in the role of SSIDCs has been prompted by the new Industrial Policy. SSIDCs are gearing up to change themselves from raw material distributors to organisations that will take care of various aspects of small industry development, especially marketing. SSIDCs would, thus, help the tiny and small industries increase their market share. The new policy calls for establishment of counselling and common testing facilities and provision of a mechanism to allow corporation of the latest technology in the small sector. SSIDCs are also planning to set-up centres for display of/and information dissemination on SSI products, and for providing small office spaces for SSIs in need.

Information for the analysis/discussion that follows, pertains to 11 SSIDCs located in Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Jammu & Kashmir, Himachal Pradesh, Kerala, Punjab, Rajasthan and Tamil Nadu.

## **11. STATE FINANCIAL CORPORATIONS**

State Financial Corporations (SFCs), operating at the State-level, form an integral part of the development financing system in the country. They function with the objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth, catalysing higher investment, generating greater employment opportunities and widening the ownership base of industry.

At present, there are 18 SFCs in the country, 17 of which were set up under the SFCs Act, 1951. Tamil Nadu Industrial Investment Corporation Ltd., set up in 1949 under the Companies Act as Madras Industrial Investment Corporation also functions as a full-fledged SFC. SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees, and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, special target groups like SC/ST, women, ex-servicemen, physical handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc. Over the years, the SFCs have extended their activities and coverage of assistance.

### ***Concerns Eligible for Assistance***

Industrial concerns eligible for financial accommodation under the State Financial Corporation Act, 1951 are those which are engaged in the following activities: (a) Manufacture of goods; (b) preservation of goods; (c) processing of goods; (d) mining; (e) generation of distribution of electricity or any other form of power; (f) hotel industry; (g) transport of passenger or goods by road or by water or by air; (h) maintenance, repair, testing or servicing of machinery of any description of vehicles or vessels or motor boats or, trawlers or tractors; (i) assembling, repairing or

packing any article with the aid of machinery or power; (j) the development of any contiguous area of land as an industrial estate; (k) fishing or providing shore facilities for fishing or maintenance thereof; (l) providing special or technical knowledge or other services for the promotion of industrial growth.

SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, social target groups like SC/ST, women, ex-servicemen, physically handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc.

## ***Objectives and Functions***

- The main function is to provide term loans for the acquisition of land, building, plant and machinery, pre-ops and other assets.
- Promotion of self-employment.
- To encourage new and technically/professionally qualified women entrepreneurs in setting up industrial projects.
- To finance expansion, modernisation and upgradation of technology in the existing units.
- To provide financial assistance for the rehabilitation of sick units financed by the Delhi Financial Corporation.
- To assist for the promotion or expansion of industry by the rural and urban artisans.
- To provide financial assistance for transport vehicles strictly for captive use, depending on the requirement of the projects.
- Providing seed capital assistance under the scheme of Industrial Development Bank of India.
- Providing soft-term loan to cover the equity gap to help small-scale industrial units.
- Undertaking the various promotional activities, including the organisation of entrepreneurial development programmes and seminars etc.
- Interest subsidy for self-development, self-employment of young persons, adoption of indigenous technology in small and medium sector and encouraging quality control measures in small-scale industry is also admissible to the extent of Rs. 5 lakhs.
- To promote development institutions in the state/region which will accelerate the process of socio-economic growth.

## ***Assistance***

The state financial institutions offer a package of assistance to entrepreneurs to enable them to translate their project idea into a reality. The package of assistance may be broadly classified into two types of services, developmental and financial. In addition, some SFCs also implement package schemes of incentives to motivate and encourage entrepreneurs.

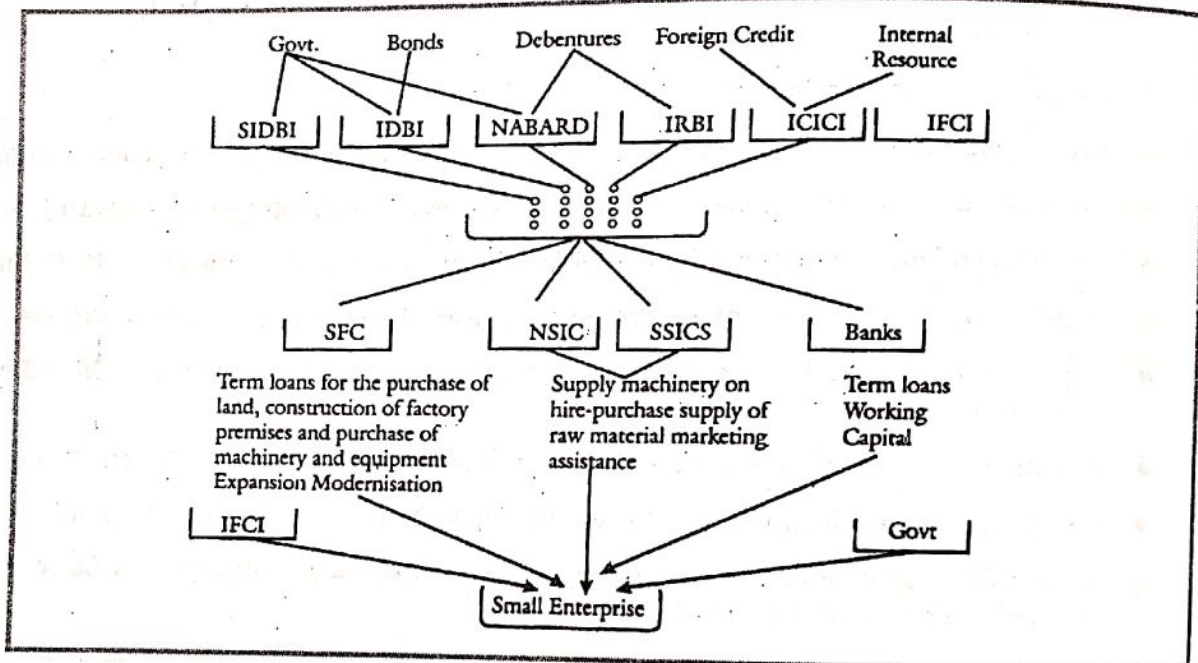
## ***Commercial Banks***

The Scheduled Commercial Banks (SCBs) in the country comprise State Bank of India and its associate banks (8), nationalised banks (19), IDBI Ltd., private sector banks, regional rural banks and foreign banks. The SCB status entitles the banks to avail of certain facilities from RBI such as refinance, loans and advances as also grant of authorised dealer's licence to handle foreign exchange business. Correspondingly, banks also have certain obligations such as

maintenance of Cash Reserve Ratio, Statutory Liquidity Ratio and follow various banking regulations. As on March 31, 2006, the total number of branches of SCBs stood at 69,616; of these 30,754 (44.2%) of the total were in rural areas.

Commercial banks provide short-term and medium-term financial assistance. The short-term credit facilities are granted for working capital requirements of units like those for raw materials, goods-in-process, finished products, bill receivable and book debts. The medium-term loans are granted for the acquisition of land, construction of factory premises, purchase of machinery and equipment and pre-operative expenses. These loans are generally granted for periods for 5 to 7 years. They also establish letters of credit on behalf of their clients favouring suppliers of raw material/machinery (both Indian and foreign) which extend the bankers' assurance for payment and thus help their delivery. Certain transactions, particularly those in contracts of sale to government departments, may require guarantees, being issued in lieu of security earnest money deposits for release of advance money, supply of raw materials for processing, full payment of bills on assurance of performance etc. Commercial banks issue such guarantee also.

**Fig. 36.8:**  
**Types of Assistance**  
**Extended by Banks**



Commercial banks provide finance both for medium-term as well as working capital. More than 25 lakh accounts are in operation. Banks provide finance through varied tailor-made schemes to foster the development of small-scale industries in consonance with national objectives. A schematic financial outlet of banks is presented in Fig. 36.9 and Fig. 36.10.

The banks in India do not merely extend term loans to qualifying entrepreneurs for their viable projects but look on themselves "as companies in the business of enterprise-creation, and towards that end, they are prepared to provide all assistance at the stages of project conception, formulation, presentation for assistance and for successful implementation." They even provide counselling, information on marketing, technology and other related fields. There is a lot of "project counselling" and "financial counselling" also so that the projects are not only successfully commissioned and their loans recovered but also that the projects are efficiently managed and grow on long-term basis. Thus, the commitment of the development banks to the sources of the enterprises is "total encompassing each stage of the project cycle." The development banks have also been able to guide the Indian promoters to professionalised management.

## SSI Financing

### Bank's Commitment

1. Acknowledgment of loan applications by branches.
2. To issue applications accompanied by checklists.

Fig. 36.9:  
Types of Assistance  
Extended by  
Commercial Banks

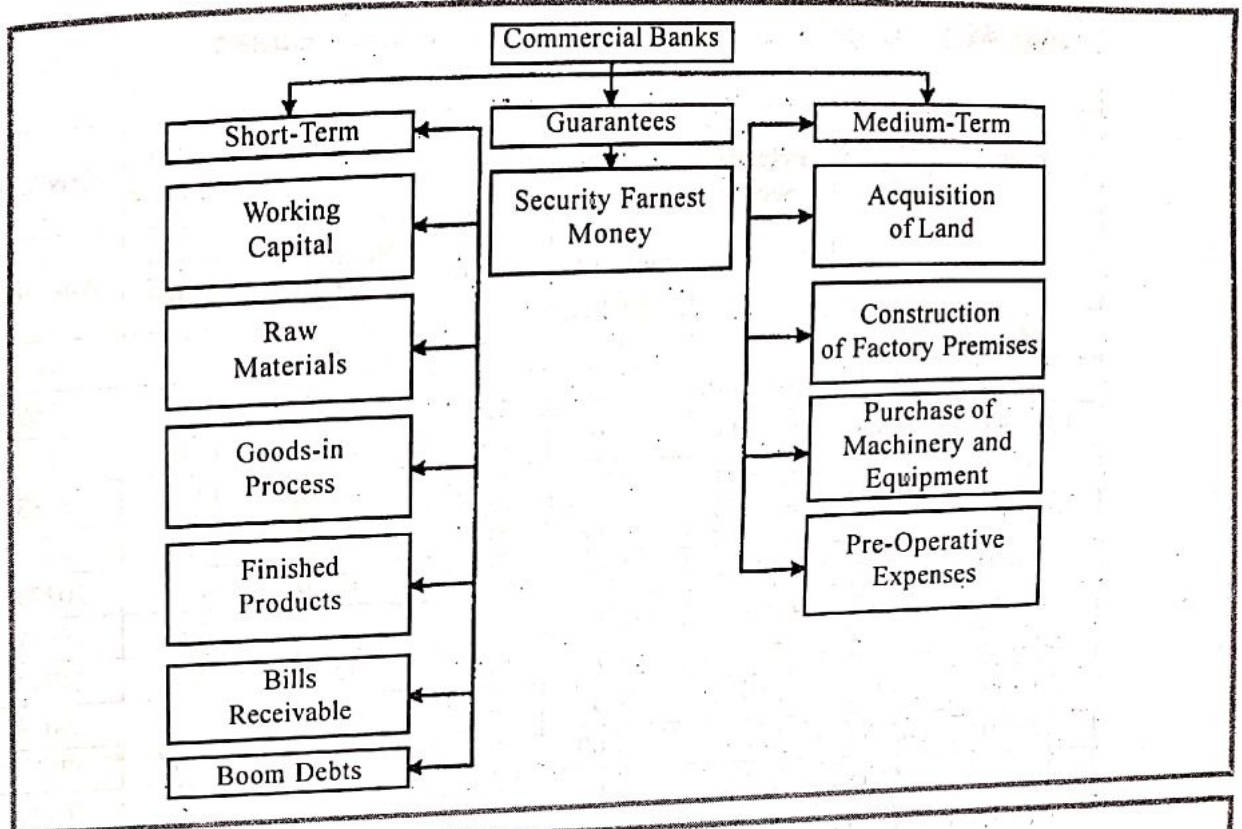
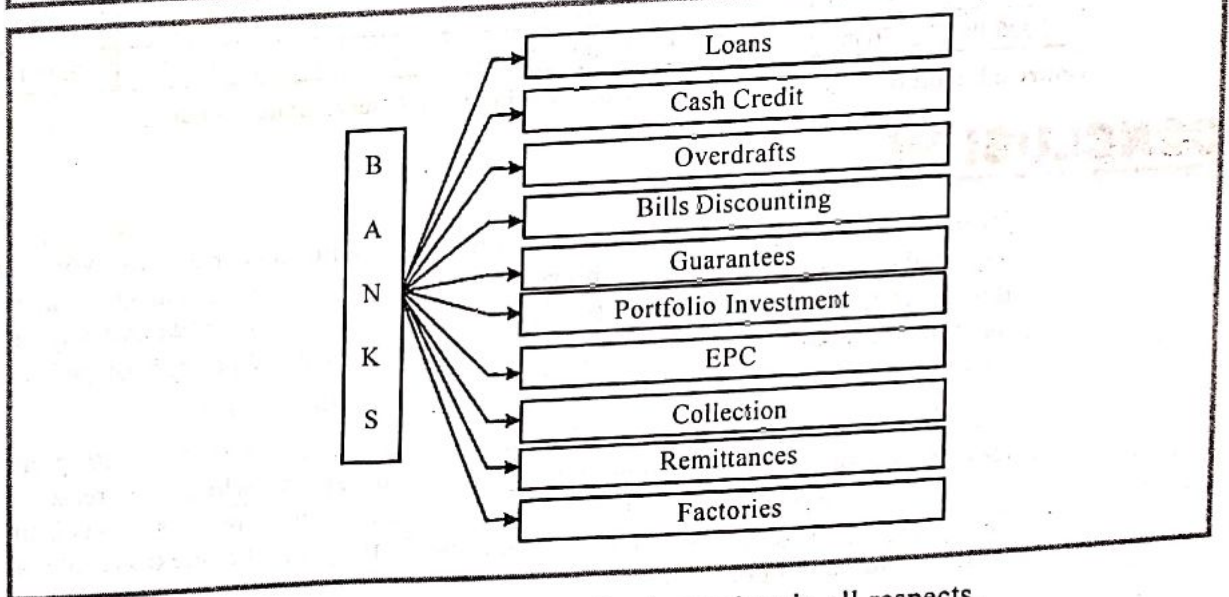


Fig. 36.10:  
Finance by  
Commercial Banks



3. To comply with time norms for disposal of applications, received complete in all respects.

2 weeks for loan upto Rs. 25,000/-.

4 weeks for loan upto Rs. 5 lakhs.

8-9 weeks for loan over Rs. 5 lakhs.

Total outstanding gross bank credit (food and non-food) was at Rs. 17,33,675 crore on December 22, 2006.

Outstanding investments of banks in Government and other approved securities stood at Rs. 7,32,022 crore.

The outstanding gross bank credit to industrial sector stood at Rs. 15,76,982 crore as on end September 2006.

The outstanding bank credit to small-scale industries increased by 39.9% to Rs. 94,934 crore, whereas credit to medium and large industries increased by 24.3% to Rs. 5,01,960 crore. The medium and large industries claimed 80.5% of the total outstanding credit to industrial sector.

Given the importance of the SME sector in the overall economy, especially its employment generation potential, the RBI has been making constant efforts to increase the credit flow to SMEs.

Table 41.1 Credit to SSI Sector: Public Sector Banks								(Rs. Crore)
Year	Net Bank Credit	Credit to Priority Sector	Credit to SSI		% Share of SSI Credit		Credit to Tiny Sector	
			SSI Accounts (lakh)	Amount	Net Bank Credit	Priority Sector	Amount	% to SSI
1	2	3	4	5	6	7	8	9
1994-95	140714	52945.0	30.19	21561	15.30	40.72	5869	27.22
1995-96	169038	61794.0	32.25	25843	15.29	41.82	7734	29.93
1996-97	184381	69609.0	33.77	29485	15.99	42.35	8183	27.76
1997-98	189684	79131.2	31.44	31542	16.60	39.86	9515	30.17
1998-99	218219	91318.6	29.64	38109	17.50	41.73	10273	26.96
1999-00	339477	114611.0	93.91	48483	14.28	42.30	28837	18.23
2000-01	292943	154414.0	22.72	55972	15.20	36.24	24742	44.20
2001-02	349064	171484	19.00	54268	13.8	32.31	26019	43.26
2002-03	485271	199786	17.00	52646	10.8	28.68	27030	42.96
2003-04	560819	244456	17.00	58311	10.4	22.18	26937	42.32
2004-05	717419	307046	18.00	67999	9.5	20.08	27555	38.82
2005-06	1017656	410379	19.00	82434	8.1	19.85	28000	34.14

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

## CONCLUSION

Over the years, a well-knit structure of financial institutions (FIs) has evolved in the country providing financial underwritings/direct subscription to shares/debentures and guarantees. These institutions have developed and introduced a variety of new products and services. FIs and commercial banks have provided assistance of over Rs. 22 lakh crore to entrepreneurs. Over 82 per cent of their assistance was for fostering private entrepreneurship and innovation.

The financial institutions are striving to accelerate the promotion of entrepreneurial activities, fostering branded ventures both in manufacturing and service sector, which are created on solid foundation — led down processes and best practices, building a strong culture, increasing visibility, setting net working and laying down strong technological reorientation. In the present context the role of the financial institution is quite unique and outstanding.

