



## Sidbi Lending Policies for Micro, Small and Medium Enterprises in India

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### ABSTRACT

*The small scale industry which plays a key role in the Indian economy in terms of employment and growth has recorded a high rate of growth since independence. Today, there is a global recognition for the small enterprises as they could very well be or become the backbone of the economy. The central discussion of this paper highlights the recent amendments done by SIDBI in their policies for Micro, Small and Medium Enterprises and to review whether earlier policies have implemented effectively or not.*

**Keywords : Industrialization, Small-Scale Industries (SSIs), SIDBI, Micro finance, SME**

### INTRODUCTION OF MICRO, SMALL AND MEDIUM ENTERPRISES

Micro, small and medium enterprises are playing important role in current economic scenario, they are using their resources and capacity for employment generation, technological innovation, and promotion of inter-sectorial linkages, raising exports and developing entrepreneurial skill. It is difficult to set up big plant for large scale industries but it is easy to develop different activities and financial schemes for small scale industries because small scale industries are having locational flexibility which reduces the regional imbalance. In contrast, large Enterprises need large amount of capital and they focuses on particular regional area, which affects the overall development of region.

The profitability of credit to MSMEs in India is poorly estimated by commercial banks according to Financial Services Volunteer Corps (FSVC), New York, "The potential of SME lending has not been rightly understood by banks here. They need to go beyond the mandatory SME lending, and should lend on their own significantly" says Mr. J. Andrew Splinder, CEO of the Organisation.

### DEFINATION AND MEANING OF MICRO, SMALL AND MEDIUM ENTERPRISES

- (a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:-
- i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
  - ii) A small enterprise if an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crores; and
  - iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs. 10 crore.
- (b) Enterprises engaged in providing or rendering of services and whose investment in equipment ( original cost excluding land and building and furniture, fitting and other items not directly related to the service rendered or as may be notified under the MSMED Act 2006)
- i) A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh
  - ii) A small enterprise is an enterprise where the investment in equipment is more than 10 lakhs but does not exceed Rs. 2crore

- iii) A medium enterprise is an enterprise where the investment in equipment is more than 2 crore but does not exceed Rs. 5 crore

### OBJECTIVE OF THE STUDY

1. To highlight the recent amendments done by SIDBI in their policies for Micro, Small and Medium Enterprises.
2. To review whether earlier policies have implemented effectively or not.

### HYPOTHESIS

Financial demand for MSME units is increasing day by day but disbursement of the same is not done properly.

### ROLE OF SIDBI IN PROMOTING MICRO, SMALL AND MEDIUM ENTERPRISES

SIDBI stands for Small Industrial Development Bank of India; it is the principal financial institution for the promotion, financing and development of the industry.

- SIDBI takes business initiative and maintain pace of its growth by sanctioning and disbursing loans to small and medium enterprises. Major initiative taken by SIDBI was Credit Guarantee Fund Trust for small industries and launching and Incubation of Centres etc.
- SIDBI set up its subsidiary company called SIDBI Venture Capital Ltd (SVCL), it is an asset management company who helps small entrepreneur financially and advise them in critical condition.
- SIDBI set up rating company called Small, Medium Enterprises Rating Agency (SMERA) which helps to provide transparent and reliable rating and risk profiling.
- SIDBI even helps sick units of SME's not even financially but with advisory services too. For this purpose, India SME Asset Reconstruction Company Ltd (ISARC) was set up. ISARC helps micro, small and medium enterprises by unlocking their non-performing assets and converting them for productive use.

**Regulatory system developed for the growth of MSME:-**  
RBI took major decision to use his power over banking companies to control advances given to MSME sector. Mainly 27

public, private and foreign banks are helping small enterprises with financial situations. As per RBI's directive, the financing of small enterprises including tiny and traditional industrial activities come under the administrative category of 'loans to small scale industries'.

#### Features of Report:-

1. Schedule commercial banks are expected to give credit to the priority sector which is 40% of the net bank credit ,
2. Bank must fix a self –set target for growth in advance to small scale sector.
3. RBI appointed standing advisory committee to observe flow of institutional credit to the SME sector in 2007, Even working group has been constituted with Dr. K.C. Chakrabarty as Chairman and representatives from banks and SIDBI to examine whether rehabilitation of sick units of SME are properly done or not.
4. State Financial Companies (SFCs) were adversely affecting their credit flow of loans and debentures because they extended working capital loans to Small Scale Industries which ultimately turn into non-performing asset due to improper project appraisals and lack of follow up and supervision.
5. Nearly 139 Regional rural banks and co-operative banks are used to promote schemes of Small Industries Development Corporation, NABARD, NISC, NABARD credit is entirely in the form of refinance.
6. According to Rangarajan committee appointed by RBI, major suggestion was to develop monitoring mechanism to assess the quality and quantum of financial disbursement of banking services.
7. Based on interim report of the committee on financial inclusion, the union budget proposed creation of two funds of Rs. 500 crore each with NABARD called as Inclusion Fund and Financial Inclusion Technology Fund. Out of 32 existing funds, 15 are maintained and implemented by NABARD and 7 by SIDBI. However, 13 funds are related to MSME only.
8. All banks are charging interest rates slightly higher than the benchmark prime lending rate of banks which is 1-1.5% so maximum SME units can use the facility. Even banks get income through SME units through fee based functions.

#### FINDING OF THE STUDY

**Table 1.1 : Overall Operations Schemes FY 2009-10 FY 2010-11 ( crore)**

Schemes	Financial year 2009-10		Financial year 2010-11	
	Sanction loan	disbursement	Sanction loan	disbursement
<b>A. Indirect Credit</b>				
Refinance	19,926.09	18,584.82	24,337.42	24,115.94
Micro finance	2,972.35	2,671.61	858.93	851.43
Resource support to institution	2003.94	1,501.60	810.00	980.00
Sub-total	<b>24,902.38</b>	<b>22,758.03</b>	<b>26,006.35</b>	<b>25,947.37</b>
<b>B. Direct Credit</b>				
Term Loan under Direct Credit	4,153.20	2,849.13	6,836.86	3,799.92
MSME Receivable finance	6,332.19	6,154.24	8,906.62	8,722.15
Other credit facility	133.57	156.57	463.89	326.45
Sub-total	<b>10,618.96</b>	<b>9,159.94</b>	<b>16,207.37</b>	<b>12,848.52</b>
TOTAL CREDIT (A+B)	<b>35,521.34</b>	<b>31,917.97</b>	<b>42,213.72</b>	<b>38,795.89</b>

Source: - annual report of SIDBI 2010-2011

#### Indirect credit

The above table shows that total credit facility provided by the SIDBI to Micro , Small and Medium Enterprises for the development purpose which is specifically for the two years i.e. 2009-10 and 2010-11.

In indirect credit facility provided by SIDBI, we can see that refinance capital is more than micro finance and resource support to the institution. Refinance credit sanction amount has increased from Rs. 19,926.09 crore in year 2009-10 to Rs.24337.42 in year 2010-11 which rise by 122.14% and even refinance credit actual disbursement increased from Rs. 18,584.82 crore to Rs. 24115.94 crore which comes to 129.76% rise. But actual sanction amount and disbursement amount doesn't match which shows that not all applicant are getting financial assistance but gap between sanction amount and disbursement amount is getting smaller.

Micro finance, in year 2009-10, is Rs.2972.35 crore sanction amounts and disbursement amount is Rs. 2617.61 crore and which fall drastically and settled at Rs. 858.93 crore sanction amounts and Rs. 851.43 crore as disbursement amount which is just 28.89% of the original sanction amount. It seems that micro finance demand is decreasing over a period.

There is huge difference between amount sanctioned and its disbursement i.e. Rs. 2003.94 crore and its disbursement is Rs. 1501.60 crore in 2010-11 which is nearly 75% of the credit sanctioned. In year 2010-11, sanctioned amount is less than the actual disbursement amount, only Rs. 810 crore amounts was sanctioned and total disbursement was Rs. 980 crore which is nearly 120%. But the overall fall in sanctioned amount and disbursement amount (i.e. from 2003.94 crore to Rs. 810 crore) in one year shows that SIDBI is focusing on direct credit method and reducing its dependency on indirect credit to the MSME sector.

#### Direct credit

Term loans sanctioned and their disbursement is not matching as usual. In year 2009-10, term loan sanctioned was Rs.4153.20 crore and its disbursement was Rs.2849.13 crore which is just 68.6% of sanctioned amount. Even in year 2010-11, sanctioned amount is Rs.6836.86 crore and actual disbursement amount is Rs.3,799.92 crore which is mere 55.58%.

In MSME receivable finance, sanctioned amount for year 2009-10 is Rs. 6332.19 crore and disbursement of the same is Rs.6154.24 crore which is 97% of the sanctioned amount. In year 2010-11, we can see that sanctioned amount is Rs.8906.62 crore and disbursement amount is Rs. 8722.15 crore which is 98% of sanctioned amount. There is increase in disbursement amount in one year which is nearly 142%.

After overall review of the above table, it can be seen that total credit amount sanctioned in year 2009-10 is Rs.35,521.34 crore and disbursement amount is Rs. 31,917.97 crore which comes to 89.86%. Similarly, in year 2010-11, we can see that total credit sanctioned amount is Rs. 42,213.72 crore and disbursement amount is Rs. 38,795.89 crore which comes to nearly 92%.

There is increase in sanctioned amount and actual disbursement amount in total credit but there is still no 100% disbursement of sanctioned amount which shows that the policies made for the purpose of micro finance have not implemented properly.

#### RECOMENDATIONS

1. SIDBI should adopt the flexible lending practices and try to utilize the sanctioned loan amount to the fullest. Recently banks have adopted the practices like by grading SME performance and sanction credit according to grades.

2. SIDBI should provide maximum indirect as well as direct financial assistance to MSME units. Indirect finance should be given equal weightage as direct finance. Indirect finance reaches to more SME units as there are many banks and financial institution scattered in rural and semi urban areas and they can help develop that area effectively.

3. The major reason behind the development of micro and

small scale industries is to reduce unemployment and poverty which is major problem of India. According to the reason, SIDBI should take proper steps to develop rural area as maximum population is located there and this will reduce the population problem of urban areas too. SIDBI should come up with more policies like woman employment in rural areas.

4. According to finding, micro finance is behind its target and not reaching many people who are in need of such facility. SIDBI should come up with different ways to assist small scale units in rural areas or they can use schemes like Self Help Group –Bank linkage programmes in such areas.

5. Government is making so many policies for the development of MSME sector but implementation of the same is not done properly as there are many banks facing the problem of credit risk and do not want to involve in such activities because of lower income. Government should encourage such banks with extra benefits so they can wilfully come up with different schemes to attract more micro, small and medium enterprises to take financial assistance.

#### CONCLUSION

It has been seen that SIDBI is not using its indirect credit facilities properly through rural banks and co-operative banks because micro finance is showing huge setback in year 2010-2011. Banks and financial organisations are still not fully utilising their sources to develop micro, small and medium industries of our country. Banks are concentrating on composite loans and bulk loans which results in fall of micro finance to the MSME sector. It seems that SIDBI is finding it difficult to cope up with situation. SIDBI is changing image of MSME sector by making it a profit making sector and not a non performing asset. This helps to change the point of view of banks and entrepreneurs as SIDBI is the link between those two.