

Financial Institutional Assistance and Support to Small-scale Industries in Tamilnadu – A View

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Abstract

The Small Enterprise Information and Research Centre Network (SENET), was launched in April 1997. SENET has been awarded the golden icon national award 2005 for “Best Documented Knowledge Resource” under professional category by the Department of Administrative Reforms and Public Grievances (DARPG), Government of India. In August 1984, the Government of India passed an Act converting the Industrial Reconstruction Corporation of India (IRCI). It is Industrial Reconstruction Bank of India (IRBI) the IRBI was established in March 1985 to take over the IRCI. The IRBI was to function as the principal all India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns. The Tamil Nadu Investment Corporation Limited is an apex state level financial institution primarily intended for assisting the small and medium scale industrial units. Until the 1970's conventional Development Finance Corporations were considered as a main vehicle for channeling loan funds to small industries. The Bank under study may have specialized branches in each district to the loan requirements of the small-scale industries. Adequate delegation of power at the branch level may be given so as to avoid several layers of hierarchy in granting loans to SSI units.

Keywords: Small-scale industries; Small industries development organization; Financial institutions; industries; Tamil Nadu and financial institution

Introduction

The government at both central and state level established various financial institutions to provide non-financial and financial assistances to small-scale industries. As the small-scale industries are weak financial structure, they require non-financial assistances, so that, they could compete with large scale industries. The government established various institutions to provide non-financial assistances exclusively to the small-scale industries. In the same way there are institutions in addition to commercial banks which cater to the financial requirements of small scale industries. In this chapter an attempt has been made to present the various institutions involved in providing financial and non-financial assistances to small-scale industries.

Review of Literature

Inderjit Singh and Gupta, in their book on “Financing of small industry” also pointed out the inadequacy of institutional credit. They concluded that only 5.1 per cent of the borrowers were financed by institutional finance [1].

Kopardekar, attributes excess capacity remaining unutilized in small firms was due to the lack of adequate finance. The lack of adequate finance especially in meeting working capital requirement leads to inefficient utilization of the installed capacity, which in turn leads to inconsistent operation of the units. Many units are not in a position to apportion funds to fixed and working capitals [2].

Rajula Devi, in her article entitled “Small Enterprises for Rural Industrialization Programme and Perspective” found that the problems encountered by the small enterprises were becoming increasingly complex, and the small entrepreneurs were often baffled by a maze of regulatory measures. The woes of the entrepreneurs stem from lack of clear policy perspective. A common view shared by the entrepreneurs and those who were promoters of the growth of small-scale sector was that as long as there was no change in the attitude of policy makers the problems would remain unsolved [3].

Choudhuri, in his study entitled “Capital Structure Planning in Small-Scale Industries”, stated that the recent years had witnessed a democratic expansion of the small business sector in almost all parts of the world. A greater degree of awareness to produce goods and services confirming to national and international standards would be created among the SSIs units. He also observed that the finance was the crucial problem for the survival of SSIs sector. He suggested that adequate institutional credit to SSI should be made available on priority basis. Prompt processing of working capital applications and extension of overdraft facilities were the other recommendations made by him [4].

According to Ravindra Gowda and Shivakanth Shetty [5], being one of the major growth driver of the economy, the biggest challenge before the SMEs in the emerging market scenario is not only to survive but to grow on a sustainable development through either technology transfer or innovations or inter-firm linkages should be emphasized in the light of global competition. Financial infrastructure need to be broadness and adequate inflow of credit to the consideration the growing investment demand. In the context of economic reforms and globalization the small-scale industries must be competitive for their survival and growth otherwise they will perish resulting in colossal waste of scarce resources unemployment and retard the process of industrialization [5].

Objectives of the Study

To analyse the flow of institutional credit to the SSI units in India.

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Received November 20, 2014; **Accepted** February 24, 2015; **Published** April 02, 2015

Citation: Selvaraj N, Balajikumar P (2015) Financial Institutional Assistance and Support to Small-scale Industries in Tamilnadu – A View. Intel Prop Rights 3: 141. doi:10.4172/2375-4516.1000141

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To conclude and suggest measures to ensure more flow of credit to the SSI units on the basis of findings of the study.

Methodology

The secondary data were extensively used to establish the conceptual frame work of the study. The secondary data were collected from various published and unpublished sources such as annual reports of DIC, Lead Bank, TIIC, Chennai, SIDBI, RBI and from relevant Journals, magazines, news papers and websites.

Non-financial assistances to small-scale industries

Small industries continue to remain an important sector of the Indian economy. On seeing the contribution of this sector the government is extending various non-financial assistances to these industries. In the era of globalization small industries have to face the competition directly from the large industries. In this process some of the small units become unviable and sick. As the governments is always for strengthening small-scale industries it not only ensures regular supply of credit but also extends various non-financial assistances by establishing different specialized institutions.

Small Industries Development Organisation (SIDO)

The small industries development organization (SIDO) functions as an apex body concerned with planning the policy and co-ordinating the institutional activities both at the central and state level for implementing programmes for the development of small-scale industries.

SIDO is the nodal agency for formulating, co-ordinating and monitoring the policies and programmes for promotion and development of small-scale industries in the country. It maintains close liaison with the central ministries, Planning Commission, State Governments, financial institutions, voluntary organizations and other agencies concerned with the development of small-scale industries. It provides comprehensive range of facilities and services including, consultancy in techno-economic managerial aspects, training, common facility services, common processing and testing facilities, cooling facilities, and marketing assistance to small scale units. It provides these services through a network of small industrial services institute.

The SIDO provides a comprehensive range of common facilities, technology support services, marketing assistance, entrepreneurial development support, and the here, through its network of 30 Small Industries Service Institutes (SISIs), 28 branches of SISIs, four Regional Testing Centre's (RTCs), seven Field Testing Stations (FTSs), two Small Entrepreneur Promotion and Training Institution (SEPTIs) and one hand tool design development and training centre. The SIDO also has a network of tool rooms and process-cum product development centers (PPDCs) to provide technology and training support. These institutions are run as autonomous bodies, registered as societies under the Societies Act. Over the last 52 years, the SIDO has served a very useful purpose as a catalyst of growth of the micro, small and medium enterprises through its vast network of field organizations spread all over the country [6].

Small-scale Industries Service Institute (SISI)

Small Industries Service Institutes (SISIs) were set up to provide consultancy and training to small-scale enterprises-both existing and prospective. There are 30 SISIs and 28 branches of SISIs in the state capital and other places all over the country. The important functions performed by SISIs are interface between central and state governments,

dissemination of economic information, technical support services, preparation of project profiles, holding of entrepreneurship development programmes, management and skill development programmes, providing advisory services on energy conservation, pollution control, quality control export promotion, market surveys, and the like.

Small-scale industries board

The Small-Scale Industries (SSI) board was setup by central Government in 1954 to facilitate co-ordination and inter-institutional linkages and to render advice to the government on various policy matters concerning the development of SSI sector. The term of the SSI Board is for two years. Industry Associations provide support to the SSI sector and boards provide common platform to raise industry related issues.

Small Enterprise Information and Research Centre Network (SENET)

The Small Enterprise Information and Research Centre Network (SENET), was launched in April 1997. SENET has been awarded the golden icon national award 2005 for "Best Documented Knowledge Resource" under professional category by the Department of Administrative Reforms and Public Grievances (DARPG), Government of India. The scheme of SENET was modified and its scope enlarged to include office automation.

- ❖ To pioneer, create and promote web-based data base of all relevant information, data, and the like, for the benefit of small scale sector;

- ❖ To facilitate easier on-line access to information seekers, especially the small scale sector, by networking to the extent possible, all relevant data from central and state governments, government agencies engaged directly or indirectly in the promotion, development, etc, of the MSME sector, national and state level industry associations, NGOs, etc.

National entrepreneurship development institutes

The entrepreneurship development and training is one of the key elements for the promotion of micro, small and medium enterprises (MSMEs), especially for creation of new enterprises by the first generation entrepreneurs. In order to inculcate the entrepreneurial culture amongst the first generation of entrepreneurs on a regular basis, the Ministry has set up three national entrepreneurship development Institutes namely, National Institute for Micro, Small and Medium Enterprises (NI-MSME) at Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD) at Noida (Uttar Pradesh) and Indian Institute of Entrepreneurship (IIE) at Guwahati, as autonomous societies. These institutes are engaged in developing training modules; undertaking research and training; and providing consultancy services for entrepreneurship development and promotion of MSMEs, including enhancement of their competitiveness.

National Institute of Small Industries Extension Training (NISIET)

The NISIET, formerly known as Central Industrial Extension Training Institute (CIETI), was set up in 1960 at New Delhi as a department of central government under the Ministry of Commerce

and Industry. Its main objective was to provide training to the personnel of the central small industries organization as well as the departments of industries of the state government. Subsequently, in 1962, it was shifted to Hyderabad and converted into an autonomous society. In 1984, the institute was renamed as National Institute of Small Industry Extension Training (NISIET). NISIET's role has largely benefited the India a micro, small and medium enterprises (MSMEs) but also in other the different activities.

National Institute for Entrepreneurship and Small Business Development

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) was set up on 6th July 1983. The basic objectives of the Institute are promotion and development of micro, small and medium enterprises including enhancement of their competitiveness through different activities.

Ministry of Micro Small and Medium Enterprises (MSME)

i. The role of the Ministry of Micro, Small and Medium Enterprises is mainly to assist the States in their effort to promote growth and development of MSMEs and to address common concerns of enterprises.

ii. The formulation and implementation of policies and programmes projects/schemes are undertaken by the Ministry with the assistance of its attached office, public sector enterprise, statutory bodies and autonomous organizations.

iii. The aim of this Ministry is to provide prompt service to citizens through its attached office, public sector enterprise, statutory bodies and autonomous organizations, for accelerating the growth of MSMEs and also to enhance their competitiveness.

iv. The Ministry seeks to fulfill its mission by formulating appropriate policies and designing/implementing support measures in the fields of credit, technological up gradation, marketing, entrepreneurship development and undertaking effective advocacy for these purposes [7].

District Industrial Centre (DIC)

In India a large number of institution and programmes were developed to promote small enterprises. There was hardly any co-ordination among the various agencies. The schemes are very often overlapped. The entrepreneurs had to knock at several doors for necessary guidance and assistance consequently in 1977, industrial Policy Resolution emphasized on providing all assistance to the small industries under one roof. The government as a result introduced the scheme of the District Industries Centre (DIC) in May 1978. The DIC programme was significant step towards rural industrialization. The DIC started actual operation from August 1978.

The DIC consists of one general manager and four functional managers. Out of whom three functional manages will be in the field of economic investigation, credit and village industries respectively. In respect of the fourth functional managers, state government would be free to choose from any of the training programmers, depending on specific requirements of each district [8].

The DICs were established to promote SSI and cottage industries beyond big cities and to generate employment opportunists among rural and backward areas. DICs, presently operating under respective state budgetary provisions extend the following services;

- ✓ Economic investigation of local resources
- ✓ Supply of machinery and equipment
- ✓ Provision of raw materials
- ✓ Arrangements of raw materials
- ✓ Marketing
- ✓ Quality inputs and
- ✓ Consultancy and extension services [9].

The DIC has adopted district planning as an internal tool of management. Lead bank has already prepared district plans for each district, which may be rephrased and implemented by DICs.

As for household industries, artisans and other unorganized sectors of the economy, more detailed case studies will have to be undertaken to assess the problems assessing their economic viability and indicate the lines along which co-ordinate action should be taken by different agencies for the supply of inputs or for improvements in marketing arrangement. Such studies should also suggest how these sectors of the economy may be rendered viable and indicate the institutional arrangements which are necessary for this purpose. These studies, moreover, should be fairly comprehensive and should be undertaken in collaboration with all the agencies which are associated with the development of a particular sector official or no-official [10].

Tamil Nadu Small Industries Development Corporation Limited

Tamil Nadu Small Industries Development Corporation limited (TANSIDCO), an undertaking of the Government of Tamil Nadu, functions with the specification of playing a catalytic role in the promotion and development of micro, small and medium enterprises, the schemes envisaged by TANSIDCO are

- Industrial estate scheme

Development of industrial estates with infrastructure facilities and provision of work sheds and developed plots.

- Raw materials supply scheme
- Marketing assistance scheme
- Export assistance scheme
- Guidance to entrepreneur

The SIDCO promotes industrial estates, wherever there is demand and scope for starting new industries. The rural areas and industrially backward areas which need development are also taken into consideration while selecting the lands.

Financial assistance to small-scale industries

For the successful starting, sustenance and development of any SSIs unit, several critical inputs are essential. The foremost is the environment in which the unit function (invigorating/ stimulating depressing), the economic system and administrative culture access to essential raw materials, right technology, trained personal and training opportunities and existence of market. The most critical input, however, that has remained is, access to finance both for investment in fixed assets and for working capital. It is now accepted increasingly and universally that there is need for ensuring relatively easier access to credit, timely and adequate, need based at affordable rate of interest.

Credit being the most important input in the development process, the need for effective delivery and management of the same is given high priority [11].

It is generally recognized that in developing countries and to some extent in industrialized countries. SSI has limited access to financial sources from banks and other financial institutions. Even today major financing of SSI is done from sources other than institutional mechanism. Financing from own sources and borrowings.

Reserve bank of India

In a country's credit system, the central bank plays a very important role. This is especially so in developing countries, where the role of a central bank is not merely that of regulation of credit, but also one of establishment of an adequate institutional machinery for the provision of credit to the various sectors of the economy. The Reserve Bank of India also played an active role in the establishment of institutions which provide credit to agriculture and industry. In the field of credit for industry, the bank played a vital role in the establishment of the Industrial Finance Corporation of India in 1948, the State Financial Corporation in 1952 and the Industrial Development Bank of India in 1964. In all these institutions, the bank's contribution has been in the form of share capital, loans and management.

An important development which has assisted in the expansion of the flow of credit to small-scale industries was the institution of Credit Guarantee Scheme in July 1960, for loans advanced by banks and other credit institutions. While the risk was borne by the Central Government, the formulation of the scheme and its administration was responsibility of the Reserve Bank of India. The Reserve Bank of India monitors the advances to the priority sector (agriculture, small-scale industries and small road and water transport operators, retail trade and small business, education housing and export) and issues policy guidelines regarding this from time to time.

The Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India limited, now more popularly known as IDBI Bank, was established as a wholly-owned subsidiary of Reserve Bank of India. The foundation of the bank was laid down under an Act of Parliament, in July 1964. The main aim behind the setting up of IDBI was to provide credit and other facilities for the Indian industry, which was still in the initial stages of growth and development. In February 1976, the ownership of IDBI was transferred to Government of India.

The IDBI became the main institution, through which the institutes engaged in financing, promoting and developing industry were to be coordinated. In January 1992, IDBI accessed domestic debt market for the first time, with innovative deep discount bonds, and registered path-breaking success. In the following year, it set up the IDBI Capital Market Services Ltd., as its wholly-owned subsidiary, to offer a broad range of financial services, including bond trading, equity broking, client asset management and depository services [12].

In September 1994, in response to RBI's policy of opening up domestic banking sector to private participation, IDBI Bank limited, in association with SIDBI. In July 1995, public issue of the bank was taken out, after which the government's shareholding came down (though it still retains majority of the shareholding in the bank). In September 2003, IDBI took over Tata Home Finance Ltd. Renamed as 'IDBI Home finance limited', it diversified its business domain and entering the area of retail finance sector.

The year 2005 witnessed the merger of IDBI Bank with the Industrial Development Bank of India Ltd. The new entity continued to its development finance role, while providing an array of wholesale and retail banking products (and does so till date). The following year, IDBI bank acquired United Western Bank (which at that, time had 230 branches spread over 47 districts in 9 states). In the financial year of 2008, IDBI bank had a net income of Rs. 9415.9 crores and total assets of Rs. 120601 crores.

In order to make the IDBI's co-coordinating role more effective, the Narasimhan Committee has suggested that the IDBI should give up its direct financing and perform only promotional apex and refinancing role in respect of other institutions like SFCs. The direct lending function should be entrusted to a separate finance company especially set up for this purpose.

To help the small-scale industries overcome the problem, IDBI has come up with a scheme, called Seed Capital Scheme. It is operated through the agency of notified SIDCs and SFCs. In Tamil Nadu it is operated through TIIC. Projects assisted by commercial banks are also eligible for seed capital assistance. The amount of seed capital assistance per concern shall not exceed 20 per cent of the project cost, subject to a ceiling of Rs. 15 lakhs. The assistance will be in the form of soft loans. The soft loan would be interest free which will carry a service charge of one per cent per annum. No security except the personal guarantee of the promoter is stipulated.

In the case of small-scale industries, requirement of seed capital assistance upto the first Rs. 4 lakhs is expected to be financed by State Financial Corporations from their special capital scheme and only the excess if any, over this amount would be met out of the present scheme.

Financial Assistance by IDBI

The details of financial assistance extended by the IDBI are given in Table 1

1. Annual Report of RBI, 2010-2011.

It is clear from Table 1 that the IDBI's loans sanctions had increased from Rs. 20832.6 crores in 2000-01 to Rs. 36640.0 crores in 2010-11 and during the same period disbursements too had increased from 17476.9 crores to Rs. 40684.4 crores reflecting the rapid industrial and business growth of the country on the one side, and the corresponding increase in the mobilization of resources by the development financial institution on the other. In this the IDBI had a leading role as it has been the apex financial institutions of the country. Its sanctions and

Year	Loans Sanctions	Loan Disbursements
2000-01	26832.6	17476.9
2001-02	15867.9	11012.5
2002-03	5898.2	6614.9
2003-04	3937.7	4986.4
2004-05	10799.0	6183.3
2005-06	26490.0	12483.0
2006-07	19776	14533.0
2007-08	27335.0	23250.0
2008-09	30335.0	25300.0
2009-10	32385.2	27350.2
2010-11	36640.0	29400.0

Sources: 1. Annual Report of SIDBI, 2009.

Table 1: Financial Assistance to Small-scale industries by IDBI from 2000-2001 TO 2010-2011. (Rs. In. Crores)

disbursements have declined rapidly during 2005-06 and increased thereafter during the study period.

Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI), a wholly-owned subsidiary of Industrial Development Bank of India (IDBI), set up by an Act of Parliament, is the principal financial institution for the promotion, financing and development of industry in the small, tiny and cottage sectors and for co-ordinating the functions of the institutions engaged in similar activities. The outstanding portfolio and activities of IDBI pertaining to the small-scale sector and has emerged, over the years as the main purveyor of credit to small, tiny and cottage sector [13].

The SIDBI discounts and rediscounts bills arising from the sale of machinery or manufactured by, industrial concerns in the small-scale sector. It also provides seed capital/soft loan assistance under national equity fund, Mahila Udyam Nidhi and seed capital schemes through specified lending agencies.

The SIDBI further grants direct assistance as well as undertakes refinancing of loans extended by primary lending institutions for financing export of products manufactured by industrial concerns in the small-scale sector.

The SIDBI extends financial support to the National Small Industries Development Corporation for providing scarce raw materials to SSI units and marketing their end products. It also extends financial support to national small industries corporations for providing leasing hire purchase and marketing support to SSI units.

The financial assistance of the SIDBI to the small-scale units scattered through out the country is channeled through the existing credit delivery mechanism comprising of state financial corporations, commercial banks, cooperative banks and Regional Rural Banks which have a vast net-work of branches in the country.

The year-wise sanction and disbursements made by the SIDBI since its establishment are given in Table 2.

The average percentage of disbursement to sanction is 75.37 per cent. Table 2 shows that except during 2001-02, 2003-04 and 2006-

07 the growth rate of amount of loan sanctioned by the SIDBI have been positive. The amount of loan sanctioned increased from Rs. 8879.8 crores in 1998-99 to Rs. 10903.5 crores in 2002-03. But in the year 2003-04 it decreased to Rs.8246.3 crores and those after increased every year to each Rs. 42223.3 crores in 2010-2011. The growth rate of amount of loan disbursement by SIDBI has been positive. The amount of loan disbursed increased from Rs. 6285.2 crores in 1998-99 to Rs. 38824.4 crores in 2010-2011.

Besides extending financial assistances to SSI, the SIDBI coordinates the functions of other institutions engaged in similar activities. Since inspection the SIDBI has strived to encase the inherent strength and resistance of SSI with innovative measures and initiatives. The SIDBI is predominantly a refinancing institution, activating its lending operations through refinancing bill discounted, lines of credit and resource support mechanisms through banks and state finance institutions. The SIDBI's lending operations are supplemented with promotional and developmental activities.

Industrial Finance Corporation of India Limited (IFCI)

The Industrial Finance Corporation of India Limited (IFCI), the first development finance institution set up in 1948 and since July 1, 1993, it has been brought under companies Act, 1956. The IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans, under writing/ direct subscription to shares / debentures. It guarantees and also offers financial services through its facilities for equipment procurement, equipment leasing and finance to leasing and hire-purchase companies. It also provides merchant banking.

The IFCI has started new promotional schemes, such as (a) interest subsidy schemes for women entrepreneurs (b) consultancy fee subsidy schemes for providing marketing assistance to small-scale industry and (c) encouraging the modernization of tiny, small-scale industries. The IFCI has also taken in the development of backward districts, throughout the country.

As part of promotional activities IFCI technical assistance for ancillary and small scale industries. The main objective of the scheme is to encourage the growth of ancillary and small-scale industries which manufacture intermediate goods and components or provide services

Year	Sanctions	Growth Rate of Sanctions (Percentages)	Disbursements	Growth Rate of Disbursements (Percentages)	Percent of Disbursement to Sanction
1998-99	8879.8	-	6285.2	-	70.78
1999-00	10264.7	15.59	6963.5	10.79	67.84
2000-01	10820.6	5.41	6441.4	-7.49	59.52
2001-02	9025.5	-16.58	5919.3	-8.10	65.58
2002-03	10903.5	20.80	6789.4	14.69	62.27
2003-04	8246.3	-24.37	4414.2	-34.98	53.53
2004-05	9090.6	10.24	6187.8	40.17	60.07
2005-06	11974.8	31.72	9099.8	47.06	75.99
2006-07	11102.3	-7.28	10225.4	12.36	92.10
2007-08	16146.3	45.43	15099.3	47.66	93.51
2008-09	29216.7	80.94	28317.8	87.54	96.92
2009-10	35545.2	21.66	31941.9	12.79	89.86
2010-11	42223.3	18.78	38824.4	21.54	91.95

- Sources: 1. The SIDBI Annual Report-Variou Issues.
2. The IDBI Report on Development Banking in India.
3. The RBI Annual Report, 2010-2011.

Table 2: Assistance Sanctioned and Disbursed by Sidbi. From 1998-1999 to 2010-2011 (Rs. In Crores)

to units in the medium and large-scale sector according to designs specification and quality standards given to them by such larger units.

The year-wise loan sanctioned and loan disbursements made by the Industrial Finance Corporation of India limited to small-scale industries are presented in Table 3.

The IFCI has played a pioneering role in financing private sector investment and has a big hand in the rapid industrial development of India. The industrial concerns have not always found it easy to raise funds from the market for long-term requirements. Under these circumstances, the IFCI has rendered considerable service to the Indian industries. Table 3 shows that both loans sanction and loan disbursements expanded till 1990-91 and in 2000-01 sanction and disbursements of loans by IFCI amounted to Rs. 1766.5 crores and Rs. 2156.8 crores and respectively, and in the year 2002-03 sanction and disbursements was Rs. 1960.0 crores and Rs. 1779.9 crores and in the year 2010-2011 the sanction was Rs. 13208.5 crores and the disbursements was Rs. 8399.4 crores respectively.

Industrial Investment Bank of India (IIBI)

The Industrial Investment Bank of India IIBI, (erstwhile Industrial Reconstruction Bank of India) (IRBI) was set up in 1985 under the IRBI Act, 1984 as the principal credit and reconstruction agency for aiding rehabilitation of sick and closed industrial units. However with the setting up of Board for Industrial and Financial Reconstruction (BIFR), the role of IRBI became irrelevant and as a sequel to that government of India decided to convert IRBI into a full fledged all-purpose development finance institution. IFCI had sanctioned reconstruction assistance of Rs. 266 crores to 242 sick or closed industrial units and had disbursed Rs. 185 crores. The corporation charges concessional rate of interest.

In August 1984, the Government of India passed an Act converting the Industrial Reconstruction Corporation of India (IRCI). It is Industrial Reconstruction Bank of India (IRBI) the IRBI was established in March 1985 to take over the IRCI. The IRBI was to function as the principal all India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns [14].

The IRBI has diversified activities into ancillary lines such as

Year	Loan Sanctions	Loan Disbursements
1970 - 71	32.3	17.4
1980 - 81	206.6	108.9
1990 - 91	2429.8	1574.3
2000 - 01	1766.5	2156.8
2001 - 02	777.6	1074.4
2002 - 03	1960.0	1779.9
2003 - 04	1391.6	278.0
2004 - 05	-	91.0
2005 - 06	-	187.0
2006 - 07	1050.0	550.0
2007 - 08	2550.5	2280.0
2008 - 09	4015.0	3311.0
2009-10	7007.2	6045.4
2010-11	13208.5	8399.4

Sources: 1. The IDBI Report on Development Banking in India.
2. Economic Survey of the Government of India 2011.
3. Annual Report of the RBI, 2010-11.

Table 3: Financial Assistance to Small-scale Industries by IFCI (Rs. in Crores).

Year	Loan Sanctions (Rs. In Crores)	Loan Disbursements (Rs. In Crores)	Percentage of Loan Disbursements to Total Sanctions
1970-71	49.6	33.5	67.54
1980-81	370.5	248.0	66.93
1990-91	1863.9	1270.8	68.13
1995-96	4188.5	2961.1	70.69
2000-01	2012.0	1979.0	98.35
2001-02	2210.2	1749.6	79.16
2002-03	1855.9	1454.0	78.34
2003-04	1133.8	856.8	75.56
2004-05	1253.0	1100.0	87.78
2005-06	1372.2	1165.0	84.90
2006-07	1491.9	1308.2	87.68
2007-08	1661.1	1483.2	89.29
2008-09	1881.3	1758.4	93.46
2009-10	1975.5	1823.4	92.30
2010-11	2094.7	1988.0	94.90

Sources: 1. Annual Report on Development Banking in India, IDBI.
2. Annual Report on the RBI, 2010-11.
3. The SIDBI Annual Report-Variou Issues.

Table 4: Loans Sanctioned by State Financial Corporation to Small Scale Industries Sector.

consultancy services, merchant banking and equipment leasing all these activities were incidental and allied to its task of rehabilitation of sick industrial units.

State Financial Corporations (SFCs)

The Central Government passed in 1951 the State Financial Corporation Act along the lines of the IFC Act provide at the state level long term finance to medium and small scale industries. This is of course a permissive legislation enabling each state government to set up its own state financial corporations.

Industrial Finance Corporation of India was set up in 1948 to cater to the needs of large industrial concerns. After its introduction in August 1952, the first corporation was registered in Punjab in February 1953. They can render financial assistance only to limited companies and co-operative societies.

The main function of SFCs is to provide finance by way term loans, direct subscriptions to equity, debenture, seed capital and discounting of bills of exchange the functioning of these state level financial institutions are beset with problems on account of political interference, non-performing loans and inefficient huge non-performing assets putting their efficient management in jeopardy. The SFCs Amendment Act (2000) becomes effective from September 2000 to improve functioning of SFCs. The amended act infuses greater flexibility to cope with the challenges post by the deregulated financial systems.

The governments also setup a committee under D.O. Gupta to look into the functioning of the State Financial Corporations. This was a sequel to the observations of the Abid Hussein Committee to strengthen the role of State Financial Corporations and to examine ways for restructuring and revitalization. The Committee in its report submitted in January 2001 indicated that future business of the SFCs would be affected by stiff competition emerging in the financial system and suggested various measures for restructuring and recapitalization. The SIDBI also suggested ways for restructuring operations of State Financial Corporations.

Table 4 shows the trend in financing SSI units by the State Financial Corporation to SSI sector.

Table 4 shows that the total sanction to the SSI increased from Rs. 49.6 crores in 1970-71 to Rs. 1212.0 crores in 2000-01 and Rs. 2094.7 crores in 2010-11. The total sanctions increased to 70.69 per cent in 1995-96 to SSI sector and it was high in the year 2000-01. The reasons can be attributed to the lack of generation of adequate resources. Defaults in loans on a large-scale have reduced the availability of funds for recycling and onward lending. It is also observed that State Finance Corporations increased borrowing from commercial banks by way of bonds and debentures simultaneously, the resource support from SIDBI/ IDBI declined considerably.

The SFCs have been playing a significant role by giving term loans and other facilities to small-scale industries. In order to spread their activities, the SFCs should open more branches in urban and semi-urban areas and co-ordinate the financing activities in close collaboration with the banks in their area of operations.

Tamil Nadu Industrial Investment Corporation Limited (TIIC)

The Tamil Nadu Investment Corporation Limited is an apex state level financial institution primarily intended for assisting the small and medium scale industrial units. TIIC provides loans up to Rs. 150 lakhs for acquiring fixed assets to the new industrial units coming up in the state, as well as assistance upto Rs.250 lakhs for expansion, modernization and diversification of small and medium units, from April 1, 2000 the minimum financial assistance provided by the TIIC in Rs. 25000 and maximum amount is Rs. 8 crores.

Apart from this the TIIC acts as a modal agency to separate various subsidy schemes in the state. It has also introduced “Leasing finance/hire purchase scheme” and the like. It also undertakes “Merchant Banking” to provide non- financial based services such as appraisal of projects and advice on the public issues. TIIC assists technically qualified persons and educated unemployed to establish their own industry. It offers special schemes for modernization, computerization, research and development and rehabilitation, of sick units. The TIIC provides finance for the purchase of equipment and generator. Finance is also providing for setting up industrial estates.

Under Mahila Udyam Nidhi schemes, the TIIC provides loan to first generation women entrepreneurs to set up small-scale units. Under single window scheme, the TIIC meets the complete financial requirements of both equipment finance and working capital of small scale industries [15].

Table 5 gives details of sanction and disbursement of loans to SSI units in Tamil Nadu.

It is observed from Table 5 that the TIIC has sanctioned loans to the SSI units which ranged from Rs. 10517.80 lakhs in 1998-1999 to Rs. 61253.00 lakhs in 2010-2011. A steady increase of sanctions and disbursement was found from 1998-1999 to 2010-2011. The percentage of disbursed amount to sanctioned amount varied between and 79.53 per cent during the study period.

Financing of SSI by commercial banks

Until the 1970's conventional Development Finance Corporations were considered as a main vehicles for channeling loan funds to small industries. But these institutions were found to be too centralized, the access to finance on a widely dispersed basis from commercial banks,

Year	Sanctions	Disbursement	Percentage of Disbursement to Sanction
1998-99	10517.80	8365.25	79.53
1999-00	18939.88	13961.22	73.71
2000-01	28852.12	20021.18	69.39
2001-02	21278.00	18794.00	88.32
2002-03	15140.00	12668.00	83.67
2003-04	20030.00	13983.00	69.81
2004-05	24849.84	17954.15	72.25
2005-06	33271.92	23550.12	70.76
2006-07	38161.15	24865.00	65.16
2007-08	43051.23	26180.00	60.81
2008-09	47941.34	31775.92	66.28
2009-10	56363.42	37371.89	66.30
2010-11	61253.00	42967.86	70.15

Sources: 1. Annual Report of the TIIC (1998 to 2011).

2. Tamil Nadu Industrial Investment Corporation Limited, Chennai.

Table 5: Assistance Sanctioned and Disbursement of Loans to ssi units by tiic in Tamil Nadu (Rs. in Lakhs).

with their vast network of branches, naturally emerged as an important alternate institutional source of SSI financing. The commercial banks are able to attract local domestic saving and respond quickly to the demand of the SSI units by offering greater variety of services. However, with the strengthening of capital base of development financial institution by the government, commercial banks started referring long term loans to them and remained content in financing working capital needs.

For a long period, commercial banks did not come forward to extend financial assistance to the small-scale industries because of the SSIs weak economic base. The first lead in this regard was taken by the State Bank of India, in consultation with the Reserve Bank of India in March 1956 by setting up a pilot scheme for the provision of credit for small-scale industries. In the beginning, the scheme was confined to 9 branches of the SBI, which was later extended to all the branches of the SBI. The commercial banks started taking initiation in financing SSI's in a greater way only after the bank nationalization in July 1969.

Normally, the commercial banks provide assistance for working capital requirements of the SSI's over the years. They have also started providing 'term' finance as is indicated by the data compiled by the RBI that of all the advances given to the SSI's by the commercial banks, the share of the term loan accounted for nearly 30 per cent. A notable feature in the financing of SSI's has been the introduction of the "Lead Bank Scheme", by the RBI. Under this scheme each district has been allotted to one scheduled commercial bank for the intensive development of banking facilities. The introduction of "Credit Guarantee Scheme", in 1960, was a big fillip in the filed of commercial banks' financing to SSI's initially, this scheme was introduced in 22 district on an experimental basis. Latter, it was extended to all over the country.

The availability of credit to the SSI sector improved further with the stipulation on foreign banks to extend at least 10 per cent of their net bank credit to the SSI sector and to deposit the shortfall, if any, with the small industries development bank of India (SIDBI).

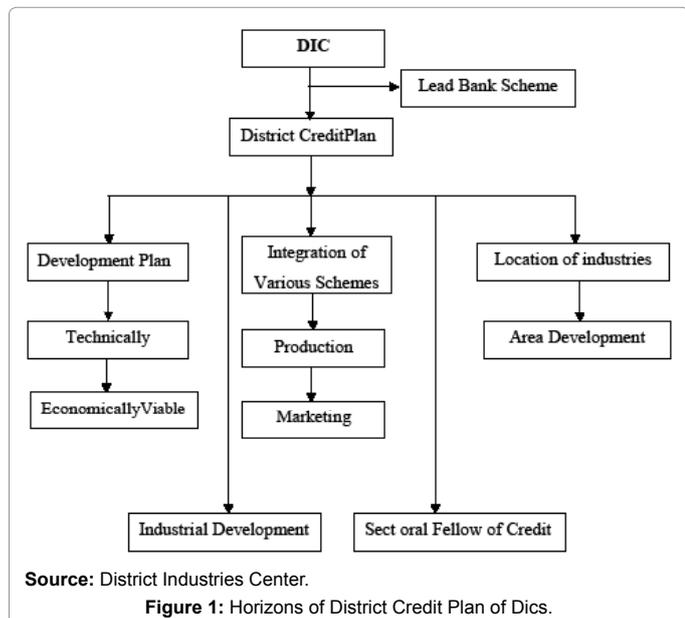
The small-scale industry is considered to be one of the priority sectors. Banks are expected to lend small-scale industries just as they finance agriculture. Over the period of years, the share of advance to small scale industries in total priority sector advances has been on the increase.

Table 6 gives details of bank credit to priority sector advances in India during 1998-1999 to 2009-2010.

Table 6 shows the bank credit to priority sector in India. The priority sector advances ranged from Rs. 114611 crore in 1998-99 to Rs. 1037478 crore in 2009-10. It is observed that there was a steady increase in priority sector advances from 1998- to 2010. Agricultural advances by banks ranged from Rs. 39634 crore in 1998-09 to Rs. 401970 crore in 2009-10. The Figure 1 in the Table indicates a steady increase in advances to agriculture sector during the period from 1998-99 to 2009-10. The share of advances to agriculture in priority sector advances has

Year	Priority Sector Advances	Advance to Agriculture	Advance to Small Scale Sector
1998-99	114611	39634 (34.6)	48483 (42.3)
1999-00	131827	48381 (33.7)	52814 (40.1)
2000-01	154414	51922 (33.6)	56002 (36.3)
2001-02	175259	60761 (34.7)	57199 (32.6)
2002-03	211609	73518 (34.7)	60394 (28.5)
2003-04	263834	90541 (34.3)	65855 (25)
2004-05	374953	124269 (33.1)	74189 (19.8)
2005-06	510178	173972 (34.1)	91212 (17.9)
2006-07	635966	230377 (36.2)	117880 (18.5)
2007-08	747380	275342 (36.8)	204892 (27.4)
2008-09	915886	338656 (37.0)	259998 (28.4)
2009-10	1037478	401970 (38.6)	315104 (26.95)

Note: Figures in bracket represent percentages to Priority Sector Advances.
Sources: 1. Annual Report of the RBI, 2009-10.
 2. Compiled from the RBI Report on Trends and Progress of Banking in India.
 3. Hand Book of Statics on India Economy.
Table 6. Bank Credit to Priority Sector in India (Rs. in Crores).



been fluctuating during the same period. Whereas advances to small scale sector, increased from Rs. 48483 crores in 1998-99 to Rs. 315104 crores in 2009-10. The share of SSI advances in priority sector lending has been steadily declined from 42.3 per cent in 1998-99 to 26.95 per cent in 2009-2010.

Institution-wise Share of Advances to SSI Sector in India

The share of different institution which lend to SSI sector in India from 1998-1999 to 2009-2010 is shown in Table 7.

It is observed from Table 7 that the credit flew to the SSI sector by the banking sector in India exhibited an increasing trend. The total amount of credit stood at Rs. 51520 crores in 1998-99 (which is the lowest) and gradually increased to Rs. 364012 crores in 2009-10 (which is the maximum). At the same time the major share of credit to the SSI sector has been from public sector banks. The total value of credit from public sector banks exhibited an increasing trend. It was Rs. 42591 crores in 1998-99 which rose to Rs. 278398 crores in 2009-2010.

Private sector banks also play an important role in financing the SSI sector. Their contribution increased from Rs. 6451 crores in 1998-99 to Rs. 64534 crores in 2009-10. The total amount of finance to the SSI sector by foreign banks stood at Rs. 2460 crores in 1998-99 and increased to Rs. 21080 crores in 2009-2010.

Institution-Wise Lending to SSI Sector in Tamil Nadu

The share of different institution which lend to the SSI sector in Tamil Nadu from 1998-1999 to 2009-2010 is presented in Table 8.

Table 8 presents the institution-wise share of advances to small-scale industries in Tamil Nadu during the period 1998-99 to 2009-10. The advances made by public sector banks to SSI ranged from Rs. 1324.29 crores in 1998-99 to Rs. 5040.04 crores 2009-10. The share of public sector banks in total advances varied from 57.16 per cent in

Year	Public Sector Bank	Private Sector Bank	Foreign Banks	Total
1998-99	42591 (82.70)	6451 (12.52)	2460 (4.78)	51520 (100)
1999-00	46045 (80.73)	8000 (14.03)	2990 (5.24)	57035 (100)
2000-01	48445 (80.32)	8158 (13.52)	3716 (6.16)	60319 (100)
2001-02	49743 (79.06)	8613 (13.69)	4561 (7.25)	62917 (100)
2002-03	52988 (83.24)	6857 (10.77)	3809 (5.99)	63564 (100)
2003-04	58311 (81.89)	7590 (10.66)	5307 (7.45)	71208 (100)
2004-05	67634 (81.27)	8668 (10.42)	6914 (8.31)	83216 (100)
2005-06	82426 (81.38)	10422 (10.29)	8437 (8.33)	101285 (100)
2006-07	102558 (80.55)	13139 (10.32)	11626 (9.13)	127323 (100)
2007-08	151142 (70.78)	46914 (21.97)	15482 (7.25)	213538 (100)
2008-09	191404 (74.73)	46667 (18.22)	18056 (7.05)	256127 (100)
2009-10	278398 (45.3)	64534 (38.2)	21080 (16.5)	364012 (100)

Note: Figures in Bracket Represent Percentages to Priority Sector Advances.
Source: Consolidated RBI Report on Trend and Progress of Banking in India, 1998 to 2010.

Table 7: Institution-wise Share of Advances to ssi Sector in India (Rs. in Crores).

Year	Public Sector Banks (Rs. In Crores)	Private Sector Banks (Rs. In Crores)	Other Agencies (Rs. In Crores)	Total
1998-99	1324.29 (57.16)	601.08 (25.95)	391.24 (16.89)	2316.61 (100)
1999-00	1754.69 (67.25)	464.57 (17.81)	389.74 (14.94)	2609.00 (100)
2000-01	2013.50 (67.73)	523.23 (17.60)	436.12 (14.67)	2972.85 (100)
2001-02	2355.62 (68.83)	580.38 (16.96)	486.24 (14.21)	3422.24 (100)
2002-03	2548.23 (65.26)	904.99 (23.17)	451.76 (11.57)	3904.98 (100)
2003-04	2502.42 (61.04)	1035.99 (25.27)	561.29 (13.69)	4099.70 (100)
2004-05	2889.66 (71.07)	676.15 (16.63)	499.85 (12.30)	4065.16 (100)
2005-06	2981.31 (66.27)	986.95 (21.94)	530.35 (11.79)	4498.81 (100)
2006-07	3591.48 (70.46)	1049.65 (20.60)	455.48 (8.94)	5096.61 (100)
2007-08	3919.46 (68.43)	965.77 (16.96)	809.17 (14.21)	5694.41 (100)
2008-09	4471.87 (71.07)	1046.39 (16.63)	773.94 (12.30)	6292.21 (100)
2009-10	5040.04 (73.15)	1057 (15.35)	792.35 (11.50)	6890.01 (100)

Note: Figures in Bracket Represent Percentages to Priority Sector Advances.

Source: Annual Report on Money and Banking, Center for Monitoring Indian Economy, November-2010.

Table 8: Institution -Wise Share of Advances to ssi Sector in Tamil Nadu.

1998-99 to 73.15 per cent in 2009-10. The private sector banks made advances to the SSI sector ranged from Rs. 464.57 crores in 1999-2000 to Rs. 1057.62 crores in 2009-10. The share in total advances declined from 25.95 per cent in 1998-99 to 15.35 per cent in 2009-10. In the case of the other agencies, the advances to the SSI sector ranged from Rs. 391.24 crores in 1998-99 to Rs. 792.35 crores in 2009-10. The share of advances given by other agencies in total advances fluctuating between 8.94 per cent and 16.89 per cent during the study period.

Export-Import Bank of India (EXIM BANK)

The EXIM bank in India was established on January 1, 1982 for financing, facilitating and promoting foreign trade in India. Besides, EXIM Bank also discharges duties of co-ordinating the activities of various financial institution, providing finance for export and import of goods and services. Besides India, this bank also manages finances to third world countries for export and import of goods and services. The Government of India wholly owns EXIM Banks of India. On March 31, 1994 the paid-up authorized capital of EXIM bank increased from Rs.500 crores to Rs. 1000 crores. During the year ended 31 march, 2005, EXIM bank sanctioned loans of Rs. 15833 crores while disbursement amounted to Rs. 11435 crore. The export oriented small scale industries get financial assistance from this bank.

Export Credit Guarantee Corporation (ECGC)

The corporation supports and strengthens export drive (a) by providing average of risk insurance to exporters against loss in export of gross and services and (b) by offering guarantee to banks and financial institutions to enable exporters to obtain better facilities from them. For enabling the small-scale sector to participate to a greater extent in the export activities of the country, the ECGE provides special facilities to small-scale exports by offering a higher percentage of cover and procedural relaxation under its polices and guarantee.

Summary of Findings

The IDBI's loan sanctions to small-scale industries increased from Rs.26832.6 crore in 2000-2001 to Rs.36640.0 crore in 2010-2011, the disbursements increased from Rs. 57.6 crore to Rs. 40684.4 crore, during the same period.

The Small Industries Development Bank of India (SIDBI) achieved the disbursement to sanction ratio of 75.37 per cent during the study period. The amount of loan sanctioned has increased from Rs. 8879.8 crore in 1998-99 to Rs. 42223.3 crore in 2010-2011. The amount of loan disbursed has increased from Rs. 6285.2 crore in 1998-99 to Rs. 38824.4 crore in 2010-2011.

The Industrial Finance Corporation of India (IFCI), has a big hand in the rapid industrial development of India. The industrial concerns have not always found it easy to raise funds from the market for long-term requirements. The sanction and disbursements are Rs. 1960.0 crore and Rs. 1779.9 crore respectively in the year 2002-03 which increased to Rs. 13208.5 crore and Rs. 8399.4 crore, respectively in the year 2010-2011.

The amount of loan sanctioned by the State Financial Corporations (SFC) to the SSIs increased from Rs. 49.6 crore in 1970-71 to Rs. 2094.7 crore in 2010-2011. The annual increase in sanctions was less than one per cent during the study period.

TIIC has sanctioned loans to the SSIs ranging from Rs. 10517.80 lakhs in 1998-1999 to Rs. 61253.00 lakhs in 2010-2011. The percentage of the disbursed amount to the sanctioned amount varied from 60.81 to 88.32 per cent in 1998-1999 to 2010-2011.

The bank credit to the priority sector advances in India ranged between Rs. 114611 crore in 1998-99 and Rs. 1037478 crore in 2010-2011.

The bank credit to the SSIs sector by the banking sector in India exhibited an increasing trend. The total amount of credit stood at Rs. 51520 crore in 1998-99 and gradually increased to Rs. 364012 crore in 2010-2011.

The advances made by the public sector banks to the SSIs ranged from Rs. 1754.69 crore in 1998-99 to Rs. 5040.04 crore 2010-2011.

The private sector banks made advances to the SSI sector ranging from Rs. 464.57 crore in 1998-99 to Rs. 1057.62 crore in 2010-2011.

Suggestions

The Bank under study may have specialized branches in each district to the loan requirements of the small-scale industries.

Adequate delegation of power at the branch level may be given so as to avoid several layers of hierarchy in granting loans to SSI units.

The regular repayment of loans by SSI units may be rewarded by the bank under study with increase in the loan amount and reduction in the rate of interest for further loans.

The Commercial Banks may also sanction loans even to unregistered small units on the basis of the viability of the project.

Conclusion

The Governments both central and state-have setup several institutions and centers to support small scale industries. Their functions include project appraisals, construction of infrastructure facilities, distribution of raw materials, provision for machinery on

hire-purchase scheme, reservation of items for production by small scale industries, and the like. A number of financial institutions offer different schemes to relieve the financial burden of the small-scale units. Industry wise lending to SSI at all the India level, Tamil Nadu have been discussed in order to give a comprehensive picture of the financial support available to SSI.

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