

Role Of Small Industries Development Bank: An Overview

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Abstract: The Small Industries Development Bank (SIDBI) of India plays a vital role in the growth of our country in creating employment, exports, gross industrial value of output, gross value added, investment in fixed assets, contribution to GDP, and giving boost to manufacture, service and infrastructure sectors. The opportunities in this sectors are enormous due to the factors like Less Capital Intensive, Extensive Promotion & Support by Government, Reservation for Exclusive Manufacture, Funding by way of Finance & Subsidies, Reservation for Exclusive Purchase by Government, Export Promotion, great demand in the domestic market, export potential and so on. The Small Industries Development Act, 2006 has given choice to a gradual strengthening of Indian economy. In this research paper we give a brief review of the overall performance of the Small Industries Development Bank of India (SIDBI) and acting as the nodal agency of Government of India. Its main aim is to emerge as a single window for meeting the financial and developmental needs of the MSME sector to make it strong, vibrant and globally competitive, to position SIDBI Brand as the preferred and customer - friendly institution and for enhancement of share - holder wealth and highest corporate values through modern technology platform. It act as financial intermediaries, banks exist by virtue of their abilities to minimize transaction costs through enjoying economies of scope and scale and by aggregating uncorrelated demand. In comparison to commercial banks, development banks generally have a more special-purpose and remedial function in providing finance to assist in the economic development of some sector or sectors, and this role is particularly important in the case of developing nations. Compared to conventional banking establishments, further distinctive features of development banks are that they are initiated and sponsored by governments. In this research paper we analysis the work of SIDBI and advantages to customer.

Keywords: SIDBI, MSME, Financial Sector, Shares, Commercial Banks.

Introduction: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities. It offers term loans, as well as investment products, such as sub-debt, equity, convertible debentures, optionally convertible cumulative preference shares,

zero coupon bonds, etc. for the service sector; loan facilitation and syndication service; various financing schemes for sustainable development for energy service companies and original equipment manufacturers; energy efficiency project financing; and growth capital and equity assistance schemes that provide assistance in the form of mezzanine/convertible instruments, subordinated debt, and equity. The company also offers receivable finance schemes that cover discounting of bills of exchange/invoices arising out of the sale of

indigenous components, parts, sub-assemblies, accessories, and intermediates; flexible assistance for capital expenditure; finance for modernization that includes technology fund schemes for textile industries, credit linked capital subsidy schemes, integrated development of leather sector schemes, schemes for food processing industries, and technology and quality support; government subsidy schemes; revolving funds for technology innovation; poorest states inclusive growth programs; and micro finance services to the economically disadvantaged people, such as women. In addition, it manages venture capital funds for providing venture capital assistance to MSMEs in the areas of auto components, textiles, life sciences, clean technologies, retailing, light engineering, information technology, services, etc.; composite loan schemes; and institutional products and services. Small Industries Development Bank of India was founded in 1990 and is based in Lucknow, India.

Role of SIDBI

SIDBI's vision is to emerge as a single window for meeting the financial and developmental needs of the Micro, Small and Medium Enterprises sector (MSMEs) so as to make it strong, vibrant and globally competitive with a view to contributing to the process of economic growth, employment generation and balanced regional development. Accordingly the Bank has evolved a range of products and services to the MSMEs sector namely Direct Credit Schemes, Bills Finance Schemes, Refinance Schemes, International Finance, Micro Finance, Government Subsidy Schemes, Promotional and Development Activities, Schemes for Women Entrepreneurs, Micro Finance Institutions etc. SIDBI provides direct and indirect assistance---direct assistance being channelized to beneficiaries through

specially designed schemes under project financing, equipment financing, infrastructure financing and bills discounting schemes; while indirect assistance through the intermediaries of banks and other financial institutions mainly by way of refinancing and rediscounting.

Additionally the Micro, Small and Medium Enterprises Development Act, 2006²⁵ was enacted by the government to provide for facilitating the promotion and enhancing the competitiveness of Micro, Small and Medium Enterprises and for matters connected therewith and incidental thereto. RBI also has taken several measures to enhance the credit delivery to the MSME sector, particularly by providing a refinance amount of Rs. 7000 crores to the SIDBI (under section 17 (4H) of the RBI Act, 1934) in December 2008, which could be made available against:

- a) SIDBI's incremental direct lending to MSME, and
- b) SIDBI's loan to banks, NBFCs and State Financial Corporations against latter's incremental loans and advances to MSMEs.

The Bank has expanded its activities, including direct credit to the MSMEs through 100 branches in all major industrial clusters in India. They introduced a product called 'transformation loan' in 2003 to enable the Micro Finance Institutions to transform from an informal set up to more formal entities. It also supports nurture of potential 'local community based organizations' through two---tier NGOs or Micro Finance Institutions. The Bank has floated many entities to perform similar functions namely:

- Credit Guarantee Fund Trust for Micro and Small Enterprises
- MSME (Refinance) Fund and MSE (Risk Capital) Fund

- SIDBI Foundation for Micro Credit (SFMC)
- SIDBI Venture Capital Ltd.
- SME Rating Agency of India Ltd.
- India SME Asset Reconstruction Company (2009)

Moreover, SIDBI has to its credit various promotional and developmental activities chiefly Rural Industries Programme, Entrepreneurship Development Programme, Management Development Programmes and Technology Upgradation Programmes. Henceforth, SIDBI has been capable of retaining its position among top 30 development banks of the world, as per the ranking of *The Banker*, London.

Responsibility of SIDBI

The main jobs of the SIDBI are as under:

A. Providing Loans and Advances:

- 1) Yielding of loans and advances Financial Corporation, Industrial Development Corporation, Small Industries Corporation, Cooperative Bank or such other financial institutions, of any loans or advances granted to industrial concerns in the small scale sector by such corporation, bank or institution, which are repayable within a period not exceeding twenty five years;
- 2) Granting lines of credit or loans and advances to any Corporation, Development or such other financial institutions;
- 3) Granting loans and advances (a) to any person exporting; or (b) to any person outside India, in connection with the export; or (c) for the execution of turn--key projects outside India by any industrial concern in the small scale sector;
- 4) Granting loans and advances to a scheduled bank or any other bank or

- such financial institutions by way of refinance of loans and advances granted by it for purposes of export;
- 5) Granting loans and advances to any person for purposes of investment in any industrial concern in the small scale sector;
 - 6) Granting lines of credit to the Government of any foreign State or any financial institution or person outside India for the purpose of export or import;
 - 7) Compromising loans and advances to any industrial concern in the small scale sector or subscribing to, or purchasing or underwriting the issue of stocks, shares, bonds or debentures of, any such concern; provided that nothing contained in this clause shall be deemed to preclude the Small Industries Bank from granting loans or advances to, or subscribing to the debentures of, an industrial concern in the small scale sector, the amounts outstanding thereon may be convertible at the option of the Small Industries Bank into stocks or shares of that concern within the period the loan, advance or debenture is repayable.

But they cannot grant any loan or advance or other financial accommodation on the security of its own bonds or debentures. According to section 43 of the SIDBI Act, the validity of any loan or advance granted by the Bank in pursuance of the provisions of the Act shall not be called in question merely on the ground of non---compliance with the requirements of such other law as aforesaid or of any resolution, contract, memorandum, articles of association or other instrument.

B. Managing:

- 1) Accepting, discounting or rediscounting bills of exchange and promissory notes made, drawn,

- accepted or endorsed by industrial concerns in the small--scale sector or by any person selling products manufactured by an industrial concern in the small scale sector;
- 2) Accepting, collecting, discounting, rediscounting, purchasing, selling or negotiating in or outside India, bills of exchange or promissory notes arising out of transactions, relating to export or import and granting of loans and advances in or outside India against such bills or promissory notes;
 - 3) Granting, opening, issuing, confirming or endorsing letters of credit and negotiating or collecting bills or other documents drawn thereunder;
 - 4) Transferring for consideration any instrument relating to loans and advances granted by it to any industrial concern in the small scale sector;

C. Handling with Stocks, Shares, Bonds Or Debentures:

- 1) Subscribing to, or purchasing stocks, shares, bonds or debentures of, any State Financial Corporation, State Industrial Development Corporation, State Small Industries Corporation, National Small Industries Corporation or such other financial institutions as may be approved by the Board in this behalf;

D. Supporting Job:

- 1) Planning, promoting and developing industries in the small scale sector;
- 2) Promoting, forming or conducting or associating in the promotion, formation or conduct of companies, subsidiaries, societies, trusts or such other association of persons as it may deem fit;

- 3) Undertaking activities for promotion of industry in the small scale sector including entrepreneurial development programmes, raw material purchase, marketing support and promotion of, or financial support to, agencies engaged in such activities;
- 4) Acquiring, with the approval of the Central Government, the undertaking including the business, assets and liabilities of any institution the principal object of which is the promotion or development of industry in the small scale sector in India, or the grant of financial assistance for such promotion or development;
- 5) Providing technical, legal, marketing and administrative assistance to any industrial concern in the small scale sector or any person for promotion, management or expansion of any industrial concern in the small scale sector;

E. Correspondence Functions:

- 1) SIDBI behaves as an agent of (a) the Central Government or of the Reserve Bank or of the Development Bank, or (b) such other Government or person as the Board may authorise;
- 2) Opening of any account in any bank in or outside India or making of any agency arrangements with, or acting as an agent or correspondent of, any bank or other institution in or outside India;

F. Authentic Certification Provider

- 1) Guaranteeing loans raised from, or credit arrangements made with, any bank, financial institution or other lending agency in any country outside India in foreign currency,

- with the approval of the Central Government, by industrial concern in the small scale sector;
- 2) Guaranteeing deferred payments due from any industrial concern in the small scale sector;
 - 3) Guaranteeing (a) loans raised by industrial concerns in the small scale sector which are floated in the public market, or (b) loans raised by any industrial concern in the small scale sector from any scheduled bank or State Cooperative Bank or State Financial Corporation or State Industrial Corporation or such other financial institution;
 - 4) Guaranteeing the obligations of any scheduled bank or State Cooperative Bank or State Financial Corporation or State Industrial Development Corporation or State Small Industries Corporation or such other financial institutions arising out of, or in connection with, underwriting the issue of stocks, shares, bonds or debentures of any industrial concern in the small scale sector;
 - 4) Providing technical and financial consultancy, merchant banking and extension services;
 - 5) Leasing, subleasing or giving on hire or hire purchase any movable or immovable assets to any industrial concern in the small scale sector;
 - 6) Doing any other kind of business which the Central Government may, on the recommendation of the Board authorise;
 - 7) Doing such other acts and things as may be incidental to, or consequential upon, the exercise of its powers or the discharge of its duties under the Act or any other law for the time being in force including sale or transfer of any of its assets.

Any fund (including the Small Industries Development Assistance Fund or the Small Industries General Fund or others) or any account of the Bank that is not for the time being required for the transactions of the business may be utilized by the Bank for investment, whether by way of deposits in Bank or otherwise.

G. Miscellaneous Job:

- 1) Financing export from or import into India of machinery, equipment or other assets including vehicles, ships and aircrafts on lease, sublease or hire purchase basis by or for any industrial concern in small scale sector;
- 2) Buying or selling or, or entering into such other dealings in, foreign exchange, as may be necessary for the discharge of the functions of the Bank;
- 3) Providing factoring services to any industrial concern in the small scale sector;

All the rights and interests of the Bank can be transferred by them wholly or partly, by the execution or issue of any instrument or in any other manner; and in turn by way of such transfer and assignment they are entitled to acquire the rights and interests of any public financial institution as defined in section 4A of the Companies Act, 1956.

The SIDBI Act also provides for a provision for transfer of part of business (assets and liabilities, rights, interests, privileges and obligations) of the Industrial Development Bank of India (IDBI) relating to the Small Industries Development Fund and the National Equity Fund, to the Bank for which, the

Bank needs to pay to the IDBI such amount and it shall be on such terms and conditions as the latter may determine. By way of this transfer, all the contracts, deeds, bonds, agreements, powers of attorney, grants of legal representation and other instruments of whatever nature to which IDBI is a party or which are in their favour will be of full force and effect against or in favour of the Bank. Normally, if any suit, appeal or other legal proceeding of whatever nature is pending, the same shall not abate, be discontinued or be in any way be prejudicially affected by reason of the transfer to the Bank; but the suit appeal or other proceeding may be continued, prosecuted and enforced

All the receipts of the Bank other than those which are credited to the Assistance Fund are to be credited to, and all payments by the Bank other than those which are to be debited to the Assistance Fund are to be made out of this Fund by or against the IDBI and the Bank or, if the Central Government by order in writing so directs, by or against such one of them, as may be specified in such order.

For the efficient performance of its functions, the Bank is empowered to appoint such number of officers and other employees and determine the terms and conditions of their service, as they deem proper and desirable. Moreover, IDBI may, in public interest, transfer to the Bank a few of its staff who are considered relevant and suitable for their functions, before the expiry of six months from the appointed day, as on deputation with the Bank.

Conclusion:

The role played by SIDBI in the growth of our country by creating employment, increasing exports, enhancing gross industrial value of output, through investment in fixed assets, contribution to

GDP, and giving boost to manufacture, service and infrastructure sectors, is vital. All in all we can say that SIDBI plays a significant role as the growth engines of the Indian Economy. In fact, it plays a critical role in the socio-economic development of the country. Their main objectives have been providing loan to upgrade the small scale businesses, low investment, Import substitution, export earnings, labor intensive mode of production, capacity to develop indigenous technology and high contribution to domestic production. The biggest problem of SIDBI is the unduly advantages taken by large industry players. The other problems are lack of infrastructure inputs and banking support. Now it is obvious that SIDBI is striving to be on par with their counterparts in technology development. It is worth to say that RBI and Indian Govt. support them through prompt action but still it needs a bit uplift to grow up not only in technologically, but otherwise too. SIDBI still face the problem of obtaining the timely and affordable credit. These developmental initiatives would not only address the emerging needs of the sector, but also will create employment opportunities & growth in Indian economy.

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