



A Comparative Study on the Finance Scheme (Short term lending) of SIDBI and Other Financial Institutions

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Abstract

It is, no doubt, true that in the case of underdeveloped countries, the process of transformation, either germinating within the rural segment or bringing the latter within its orbit of influence, will play a crucial role and should, therefore, occupy an important position in their development strategy. It is, however, equally true that the rural and the urban processes are inseparably interwoven in the socio-economic fabric and that the strategies of rural development cannot be operationalized outside the total development process straddling the rural - urban continuum. The growing importance of the financial intermediaries has led the government to realise the necessity of slowly transferring the ownership of some of the important financial institutions from private ownership to state control (Clifford Gomez, 2010: p.11). Accordingly, the Government took initiative for setting up of new financial institutions and to nationalize some existing private financial institutions. As a result, in 1948 the Reserve Bank of India was the first institution that was nationalized by the government. Further, Industrial Finance Corporation of India (IFCI) was the first development financial institution established in the year 1948. This institution was set up by an Act of the Parliament with an objective of providing medium and long-term credit to the industrial concerns in India. It was originally incorporated as statutory corporation but with a view to impart greater operational flexibility as also to enhance its ability to respond to the need of changing financial system, it was incorporated as a company in May 1993 (Mathura et al. 2005: p. 93). Later on, it has been realized that, it was not possible for a single institution to meet the diverse credit needs of small and medium enterprises dispersed in other parts of the country.

Note: SIDBI, NABARD, Micro Credit.

1.1 Introduction

The SIDBI (Small Industries Development Bank of India) is a wholly owned subsidiary of IDBI (Industrial Development Bank of India), established under the special Act of the Parliament 1988 which became operative from April 2, 1990. SIDBI was made responsible for administering Small Industries Development Fund and National Equity Fund that were administered by IDBI before. SIDBI is the Primary Financial Institution for promoting, developing and financing MSME (Micro, Small and Medium Enterprise) sector.

Besides focusing on the development of the Micro, Small and Medium Enterprise sector, SIDBI also promotes cleaner production and energy efficiency. SIDBI helps MSMEs in acquiring the funds they require to grow, market, develop and commercialize their technologies and innovative products. The bank provides several schemes and also offers financial services and products for meeting the individual's requirement of various businesses.

SIDBI is one of the four All India Financial Institutions regulated and supervised by the Reserve Bank; other three are EXIM Bank, NABARD and NHB. They play a salutary role in the financial markets through credit extension and refinancing operation activities and cater to the long-term financing needs of the industrial sector.

SIDBI is active in the development of Micro Finance Institutions through SIDBI Foundation for Micro Credit, and assists in extending microfinance through the Micro Finance Institution (MFI) route. Its promotion & development program focuses on rural enterprises promotion and entrepreneurship development.

The Small Industries Development Bank of India (SIDBI) was set up in 1990 under an Act of Parliament- the SIDBI Act, 1989. The charter establishing SIDBI envisaged SIDBI to be “the principal financial institution for the promotion, financing and development and development of industries in the small scale sector and to coordinate the functions of other institutions engaged in similar activities.”

In order to increase and support money supply to the MSE sector, it operates a refinance program known as Institutional Finance program. Under this program, SIDBI extends Term Loan assistance to Banks, Small Finance Banks and Non-Banking Financial Companies. Besides the refinance operations, SIDBI also lends directly to MSMEs.

State Bank of India is the largest individual shareholder of SIDBI with holding of 16.73% shares, followed by Government of India and Life Insurance Corporation of India.

SIDBI commenced its operations on April 2, 1990, by taking over the outstanding portfolio and activities of IDBI pertaining to the small-scale sector. In pursuance of the SIDBI (Amendment) Act, 2000, and as approved by the Government of India, 51.1 per cent equity shares of SIDBI held by IDBI have been transferred to public sectors banks, LIC, GIC, and other institutions owned and controlled by the central government. Presently SIDBI has 35 banks, insurance companies, investment and financial institutions as its shareholders in addition to IDBI, which continues to hold 49 per cent share in SIDBI.

1.2 Literature Review

Chakrabarty (2010)³⁴ has reported that with increasing competition, introduction of new products and stringent regulatory environment the role of banks needs to change from mere lenders to partners in business. He also mentioned that there is a need for greater participation of banks in the affairs of their constituents by convergence of credit services and non-credit services. Banks should not only provide differentiated products for MSME, but also should provide counseling & guidance to new and established businesses and should extending marketing support.

Gupta, (1978) in "Institutional Financing of Industry in India" has examined the structure of the industrial financing system in India with special reference to the role of specific financial institutions viz; banks, Life Insurance Corporation, investment trusts and development banks. The study found that the principal feature of the pre-independence industrial financing organization in India was the closed circle character of industrial securities market. It was devoid of participation by intermediary financial institutions in the long term financing of the industry. As a result, the industry had a very restricted access to outside savings and had perforce to depend primarily on internal savings. But after independence, with the 23 nationalization of RBI. SB) and LIC. public sector occupied a commanding position in the distribution of credit and finance.

Pareek, (1978) in his study "Financing of Small Industries in Developing Economy" explained the role of various agencies of development banks to harness the financial need of small industries. The study found that most of units were quite ignorant about the incentives and facilities available. Further, poor coordination was found among the promotional agencies. The small scale industries had not received due attention in financing by the financial institutions. The author has suggested that financial institutions should give preference to small scale industries in financial assistance and must improve the lending operations to be provided in time, and far from unnecessary queries.

Bansal, (1984) in the study "Role of UPFC in financing Industrial Growth in UP - An Analysis" has tried to

assess the role of UPFC in industrialization of the state. Its working has been analyzed with regard to its purpose, size, mode of assistance, industries and regions assisted. The study revealed that the UPFC has sanctioned lesser per capita loans in proportion to the state population than FIs in other states. It should therefore, liberalize its investment policy. UPFC has done well in removing the regional disparity by assisting 50 percent projects belonging to the backward areas. 75 percent of the amount has been given to small scale sector. The study suggested adopting a liberal attitude towards co-operatives and public sector units, granting assistance to a larger number of labor-oriented projects, increasing assistance to SC and ST entrepreneurs and lowering the rate of interest.

1.3 Objective of the Study –

- To Analyses the Current Performance of SIDBI in the development of MSMES in Uttar Pradesh.
- To Analysis the effectiveness of Short Terms lending of SIDBI and other Financial Institutions in MSMEs in Uttar Pradesh.
- To evaluate the Current policies and schemes of SIDBI for the MSMEM in Uttar Pradesh.

1.4 Research Design

This is a descriptive study. The data and the other information required for the study were collected from both primary and secondary sources. Primary data were collected from the respondents directly, using a structured interview schedule and the secondary data were collected from various sources including libraries, journals, newspapers and websites.

1.4.1 Sample Design

A stratified random sampling was adopted for the collection of data from the sampling respondents. Sampling data were collected from the MSM Entrepreneurs, trainees and officers using the schedule of interviews. The sample design for the study is given below:

1.4.2 Population/Universe

All the working MSMEs which are registered as MSMEs upto 31-03-2018 are taken as population for the purpose of the study. This study will be based on 2009-10 to 2017-18 data.

1.4.3 Selection of sample units

MSME units in the selected districts were divided into two categories. They are: Units, which received financial MSME assistance directly or indirectly from SIDBI and by other agencies. 10units from each group were selected from selected districts on simple random sampling technique.

1.5 The Current Performance of SIDBI in the Development of MSMES in Uttar Pradesh.

In the developing countries, small scale industries can play a key role in the achievement of national economic objectives that include an increase in the supply of manufactured goods, the promotion of capital formation, the development of indigenous enterprises and skills and the creation of employment

opportunities. Their main socio-economic goals include remedial measures in order to reduce the regional imbalances within the country. Their major socio-political aims include wider distribution of socio-economic and political power, creation of opportunities for people with initiative to rise by their own ability and hard work. Small scale industries constitute a key link in the process of the socio-economic transformation of the underdeveloped social structures. It is, no doubt, true that in the case of underdeveloped countries, the process of transformation, either germinating within the rural segment or bringing the latter within its orbit of influence, will play a crucial role and should, therefore, occupy an important position in their development strategy. It is, however, equally true that the rural and the urban processes are inseparably interwoven in the socio-economic fabric and that the strategies of rural development cannot be operationalised outside the total development process straddling the rural - urban continuum.

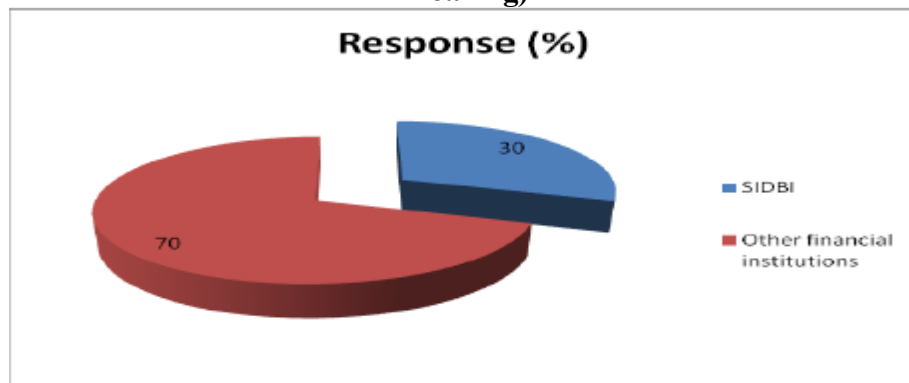
Small Scale Industries, likewise, permit the tapping of resources including entrepreneurship, capital, labour, and raw materials, which, otherwise, would remain idle without proper orientation and support. These industries may attract people who, because of lack of technological and managerial know - how and ignorance of the prospects offered by industry would remain in their present occupations or be engaged in less risky activities. Thus small scale industries are a major source of employment in most townships, sustaining small communities economically viable and contributing to the prosperity of the area.

Table No. 1.1:
Financial Institution Preferred for Finance Scheme (Short Term Loaning)

Financial institutions	Frequencies	Percentage (%)
SIDBI	120	30
Other financial institutions	180	70
Total	300	

Figure No.1.1 :

Financial Institution Preferred for Finance Scheme (Short Term Loaning)



The data in table no 1.1 shows that there are total 300 respondents. Among the 300 units 120 respondents i.e. 36% have availed finance scheme (short term loaning) from SIDBI and 332 respondents i.e. 62.40% have not availed finance scheme (short term loaning) provided by financial institutions. It is inferred most of the respondents have not availed finance scheme (short term loaning) intended by financial institutions. The percentage is 62.40%.

Table No. 1.2

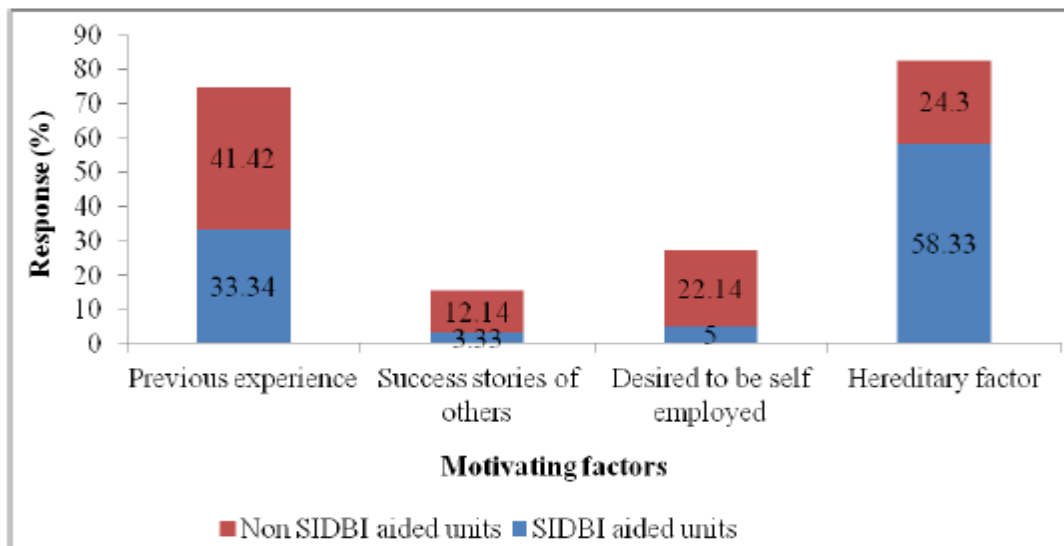
: Motivating Factors for Starting Business

Motivating factors	Response	SIDBI aided units		Non SIDBI aided units	
		Frequencies	Percentage (%)	Frequencies	Percentage (%)
Previous experience	78	20	33.34	58	41.42
Success stories of others	19	2	3.33	17	12.14
Desired to be self employed	34	3	5	31	22.14
Hereditary factor	69	35	58.33	34	24.3
Total	200	60		140	

Note: SIDBI aided units and Non SIDBI aided units have been taken as sample where SIDBI aided units are 60 and Non SIDBI aided units are 140. Hence N is taken here as 200.

Figure No.1.2:

Motivating Factors for Starting Business



The data in table no.1.2 reveals the motivating factor of total 200 respondents. Out of which 60 are SIDBI aided units and 140 are Non SIDBI aided units. Among the 60 SIDBI aided units, the respondents for previous experience are 20 i.e. 33.34%, the respondents for success stories of others are 2 i.e. 3.33%, the respondents for desired to be self employed are 3 i.e. 5% and the respondents for hereditary factor are 35 i.e. 58.33%. Among the 140 Non SIDBI aided units, the respondents for previous experience are 58 i.e. 41.42%, the respondents for success stories of others are 17 i.e. 12.14%, the respondents for desired to be self employed are 31 i.e. 22.14% and the respondents for hereditary factor are 34 i.e. 24.30%. It reveals that mostly respondents of SIDBI aided units are motivated by hereditary factor which are 35 i.e. 58.33%. On the other hand mostly respondents of Non SIDBI aided units are motivated by previous experience which are 58 i.e. 41.42%.

Table No. 1.3

Classification of Units on the Basis of Financial Aiding Institutions

Type	Response	SIDBI aided units		Non SIDBI aided units	
		Frequencies	Percentage %	Frequencies	Percentage%
Company	56	17	28.33	39	27.86
Partnership	96	26	43.34	70	50
Sole proprietor	48	17	28.33	31	22.14
Total	200	60	140		

Note: SIDBI aided units and Non SIDBI aided units have been taken as sample where SIDBI aided units are 60 and Non SIDBI aided units are 140. Hence N is taken here as 200.

Figure No. 1.3

: Classification of Units on the Basis of Financial Aiding Institutions

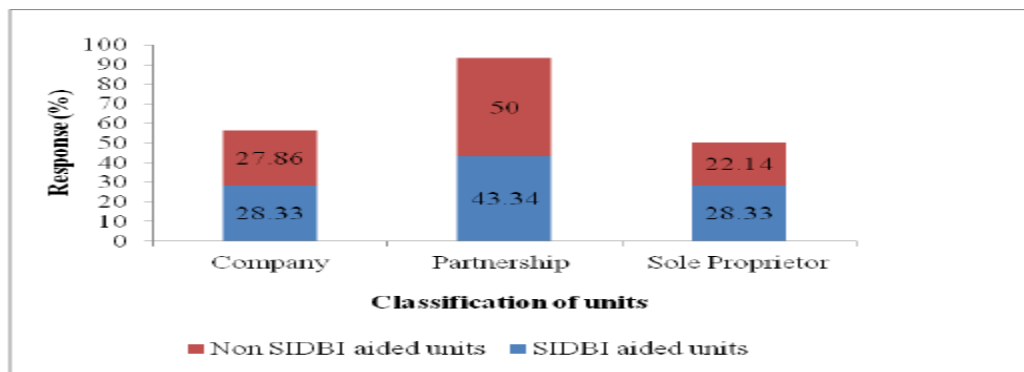


Table No.1.4

Composite Score for Units on the Basis of Financial Aiding Institutions

Degree of satisfaction	Weights	SIDBI aided units				Non SIDBI aided units			
		Freqency	A	B	C	Freqency	X	Y	Z
Company	1	17	1*60=60	60-119	17	17	1*140=140	140-279	39
Partnership	2	26	2*60=120	120	52	52	2*140=280	280	140
Sole proprietor	3	17	3*60=180	121-180	51	51	3*140=420	281-420	93
Total					120				272

Note: A= computation of values for SIDBI aided units, B= Range for different responses for SIDBI aided units, C= Value for responses for SIDBI aided units (C = weights * frequency).

X= computation of values for Non SIDBI aided units, Y= Range for different responses for Non SIDBI aided units, Z= Value for responses for Non SIDBI aided units (Z = weights * frequency). The data in the Table 1.4 shows that in SIDBI aided units computed value is 120 which fall in Partnership. On the other hand Non SIDBI aided units computed value is 272 which fall in sole proprietor. It reveals that most of the respondents are from partnership within SIDBI aided units and most of the respondents are from sole proprietor in Non SIDBI aided units.

1.6 Conclusion of the Study

SIDBI is providing the effort in a better manner in comparison to other financial institutions so that SSIs that can perform in the market efficiently. SIDBI is not only providing financial assistance but it is also supporting the SSIs in different dimensions. Further it is also found that the SSIs which have taken the finance by SIDBI have gotten more improvement in their quality and quantity of their manufactured goods. Similarly they have also enhanced their marketing activities to meet the customer demand. The study also reveals that in the event of default the SIDBI is providing the effective efforts to support the SSIs So that they can recoup by their financial weakness. On the other hand it is also found SIDBI is holding the second position in nine

consecutive years since 2004 - 2006 to 2012 - 2013 with respect to disbursement of loan amount. Further study also clears that SIDBI requires more mortgage while financing and its sanctioned loan amount limit is also very low. The time lag taken for financing and the behaviour of officials of SIDBI is also less satisfactory.

1.7 References

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