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Role of Financial Institutions in Promoting Entrepreneurship in Small Scale Sector in Assam

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I. Introduction

The movement of entrepreneurship promotion and development in the past few decades has gone a long way in North East India, particularly in the state of Assam. Both governments and various industrial promotion and support institutions are making considerable efforts to facilitate the process of emergence of new entrepreneurs for setting up enterprises in small scale sector. These efforts involved making attractive schemes for availability of finance and various other assistances including technical know how, training, sales, purchases, etc. It is believed that these efforts have made a favorable impact on the growth of these enterprises in the State as well as in the region. There are today a large number of organizations like North Eastern Industrial and Technical Consultancy Organization (NEITCO), National Institute of Small Industry Extension Training (NISIET) [till it was merged with the Indian Institute of Entrepreneurship (IIE)] and the North Eastern Industrial Consultants Ltd (NECON) who has been actively involved in entrepreneurship development activities in the region. Their efforts have been supported by the North Eastern Council (NEC) in general and financial institutions like Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), North Eastern Development Finance Corporation Limited (NEDFi) and various commercial banks in particular. The present paper in this regard is an attempt to examine the role of financial institutions in promoting small scale and tiny industries in terms of growth of entrepreneurs, enterprises and its contribution to State Domestic Products.

II. Role of Small Industries Development Bank of India

SIDBI was established in April 1990 under an Act of Parliament as a wholly-owned subsidiary of Industrial Development Bank of India and as the principal financial institution for the following three-fold activities:

- Financing the small scale sector by providing:
    i. Indirect assistance to primary lending institutions (PLIs);
    ii. Direct assistance to small scale units; and
- Promoting small industries through development and support services;
- Coordinating the functions of other institutions engaged in similar activities.

The present section of the paper, however, mainly concentrates on financial aspect of SIDBI in promoting entrepreneurship in India in general and Assam in particular.

Financing the Small Scale Sector

Credit is the prime input for sustained growth of small scale sector and its availability is thus a matter of great importance. The main objective of SIDBI has been to provide short term credit/working capital to small enterprises for its day to day requirement for purchasing raw material and other inputs like electricity, water, etc. and for payment of wages and salaries; and long term credit for creation of fixed assets like land, building, plant and machinery. To ensure that financial assistance is made available to small units on easy terms and with hassle-free procedures it has been a matter of policy in SIDBI to identify the areas of gaps in credit delivery system and fill them through devising appropriate new schemes and implementing them. It provides credit to SSIs through a good network of PLIs spread across the State and in the country as a whole under the schemes of indirect assistance in addition to making provision for credit under direct assistance schemes. The assistance under indirect schemes is provided by way of refinance, bills rediscounting, and resource support in the form of short term loans, etc. However, direct assistance is provided under several tailor made schemes through its Regional/Branch offices. The objective behind direct assistance schemes has been to supplement the efforts of PLIs by identifying the gaps in the existing credit delivery mechanism for Small Scale Industries.

Indirect Assistance:

- Loans granted by PLIs for new SSI projects and their expansion, technology up gradation, modernisation, quality promotion etc.
- Loans sanctioned by PLIs to small road transport operators, qualified professionals for self-employment, small hospitals and nursing homes and to promote hotels and tourism-related activities.

Direct Assistance:

- SSI units for new/expansion/diversification/modernisation projects.
- Marketing development projects which expand the domestic and international marketability of SSI products.
- Existing well-run SSI units and ancillaries/sub-contracting units/ vendor units for modernisation and technology up gradation.
- Infrastructure development agencies for developing industrial areas.
- Leasing and hire purchase companies for offering leasing/hire purchase facilities to SSI units.
- Existing export-oriented units to enable them to acquire ISO-9000 Series Certification

Other Specific Assistances:

- IDBI provides loans for importing equipments to existing export-oriented SSIs and to new units having definite plans to enter into export markets.
- It executes confirmed export orders by way of pre-shipment credit/letter of credit and provides post-shipment facilities.
- It also provides assistance to those small scale enterprises (from its Venture Capital Fund) which use innovative indigenous technology and expertise.

Development and Support Services

The Bank extends development and support services in the form of loans and grants to different agencies working for the promotion and development of SSIs and tiny industries. Over the years, the initiatives of SIDBI under promotional and developmental activities have crystallized into the following important areas:

- Enterprise Promotion with emphasis on Rural Industrialization
- Human Resource Development to suit the SSI sector needs
- Technology Up gradation
- Quality and Environment Management
- Marketing and Promotion and
- Information Dissemination.

Since early nineties, SIDBI along with NISIET, IIE, NECON, and NEITCO have been playing a major role in sponsoring Rural EDP (REDP) and Woman EDP (WEDP) in various parts of the North East including Assam. A wide spectrum of social groups ranging from the uneducated and underprivileged sections to qualified professionals has been benefited from these programmes. Though the nature of contribution of training has been different across different categories of trainees, many of the "created entrepreneurs" have made their presence felt in their respective fields of activity in the State.

SIDBI and Micro Credit

SIDBI launched a major project, "SIDBI Foundation for Micro Credit" (SFMC) in January 1999 as a proactive step to facilitate accelerated and orderly growth of the micro finance sector in India. It is envisaged to emerge as the apex wholesaler for micro finance in India providing a complete range of financial and non-financial services such as loan funds, grant support, equity and institution building support to the retailing Micro Finance Institutions (MFIs) so as to facilitate their development into financially sustainable entities, besides developing a network of service providers for the sector. While it is striving to accelerate the credit flow to the Micro finance sector it is working in close partnership with the Micro Finance Institutions in the country. SFMC is also poised to play a significant role in advocating appropriate policies and regulations and to act as a platform for exchange of information across the sector. It has chalked out a strategy for ensuring long term sustainable training inputs to the MFIs in the country. It is in contact with leading academic institutions such as IRMA, XIMB and IIFM to ensure that the scope of their current programmes is enhanced to capture the current trends and meet the

demands of the sector. The following programmes are noteworthy and are expected to provide quality manpower to serve the sector:

- IIFM is offering an elective on Micro Finance in its PGDFM programme.
- XIMB is currently offering an elective on Micro Finance in its PGDRM programme and plans to offer a second elective soon.
- IRMA is currently offering a part elective on Rural Finance Management in its PGDRM programme, which has a major focus on Micro Finance.

Institutional Arrangement

Small Scale Industrial Sector is provided working capital by commercial banks and in some cases by cooperative banks and regional rural banks. Term loans are provided by State Financial Corporations (SFCs), Small Industries Development Corporations (SIDCs), National Small Industries Corporation (NSIC) and National Bank for Agriculture and Rural Development (NABARD). Financial assistance from NSIC and to some extent from SIDCs is available in the form of supply of machinery on hire purchase basis/deferred payment basis. Small sized SSI and tiny units also get some term loans from commercial banks along with working capital in the form of composite loans. Refinance to these institutions is provided by the Small Industries Development Bank of India (SIDBI).

Growth of Credit Flow from SIDBI

Table 1 reveals that there has been an increased flow of credit to SSI sector since its inception of SIDBI from 1990-91 to 1997-98. However, the annual growth of disbursement of funds is fluctuating from year to year. The lowest negative growth of -4.50% has been observed in the year 1996-97 as against the highest growth of 26.87% in 1994-95. The annual average growth rate of disbursement during the period from 1990-91 to 1997-98 works out to be 6.76%. The most disturbing trend that is observed is the increasing gap between the sanctioned amount and disbursement.

III. Role of North Eastern Development Finance Corporation Limited

NEDFi is the premier financial and development institution of the North East of India whose main objectives as per its Memorandum of Association are to carry on and transact the business of providing credit and other facilities for promotion, expansion and

modernisation of industrial enterprises and infrastructure projects in the North Eastern Region of India, also carry on and transact business of providing credit and other facilities for promotion of agro-horticulture, medicinal and sericulture plantation, aquaculture, poultry, dairy and animal husbandry development in order to initiate large involvement of rural population in the economic upsurge of the society and faster economic growth of the region. NEDFi aims to be a dynamic and responsive organization to catalyze the economic growth of the North-East. It assists in the efficient formation of fixed assets by identifying, financing and nurturing eco-friendly and commercially viable projects in the region. It strives to achieve highest standard of quality in terms of services to the entrepreneurs by rendering in-depth counseling, timely advices and assistance for building quality enterprises on a sustained basis.

Though the North Eastern States of India including Assam is endowed with rich natural resources is yet to experience industrial development on a large scale for many obvious reasons such as large infrastructure deficiency, basic service backlog, high educated unemployment and fluid law and order situation. Seeing the emergence of a new breed of well educated and well informed entrepreneurial class in the recent past the need for a regional development financial institution having grass root knowledge of the region was felt which can provide financial as well as professional guidance to them The Borthakur Committee Report in 1994 conceptualized the formation of a North-Eastern Development Bank to cater to the needs of the North-Eastern Region and to mitigate some of the problems of the region as discussed above. Pursuant to this, the North Eastern Development Finance Corporation Ltd. (NEDFi) was incorporated under the Companies Act 1956 on August 9, 1995 with its registered office at Guwahati, Assam.

NEDFi's Initiatives

Despite unfavorable environment, NEDFi has remained steadfast in its commitment to become the premier financial institution in the North-East and grew into a think-tank for the region including Assam. As a matter of fact, NEDFi has already found its niche as a leader of sorts in innovative financing in the State, a fact that the following examples would amply demonstrate:

- The corporation launched its Micro Credit Finance Scheme to benefit agriculture, fishery, animal husbandry, horticulture and rural industries.
- Its initiatives, the Cane and Bamboo Technology Centre, which is being sponsored by UNDP with NEDFi being the implementing agency, and the Design Centre for Handloom and Handicrafts, were undertaken not only to improve the lot of thousands of rural artisans all over the North-East, but also help promote exports in the sector.
- Establishment of IT Park at Guwahati and an appropriate financing scheme for IT industries to help increase the lending portfolio of NEDFi.
- Making some headway in promoting bio-technology in the region by negotiating with foreign promoters.
- Preparing a master plan for the development of tourism and particularly embarking on a big private sector adventure tourism project.
- Sponsoring a number of studies under the Techno Economic Development Fund, covering a number of areas, including development of cold storage facilities, impoundment of water and development of pumped storage facilities, development of a regional airlines for the region, feasibility of using coal and limestone of Assam and Meghalaya for value-added industry, and the promotion of medicinal plants.

NEDFi' Achievements in Assam

The performance of NEDFi in Assam when examined from the point of view of its sanctioned amount of loans and their disbursements, it is found that the corporation has played a tremendous role in promoting entrepreneurship in the state (Table 2). The sanctioned amount and disbursement of the corporation have increased in the state from Rs. 682 lakh to Rs.3400 lakh and from Rs.615 lakh to Rs.2170 lakh respectively from the period from 1996-97 to 2002-03. One of the disturbing trends that are observed in the state is that the difference between the sanctioned amount and the disbursement is also simultaneously increasing over the period which is not a good sign for small scale industrialization. Similarly the share of Assam in total disbursement of loan in the North East is also decreasing.

IV. Credit Flow of Commercial Banks to SSI and Tiny Sectors

The idea regarding distribution of credit flow to SSI and Tiny sectors from commercial banks can be had from the data presented in Table 3. The table reveals that there has been an increase of 45.6% of net bank credit to SSI and tiny sector during a period of five years from 1995 to 1999. When there is a marginal increase in the share of credit to SSI sector as a percentage of net bank credit it has declined and fluctuating in the tiny sector. The advances to tiny sector increased from Rs.7, 734 crores in 1995 to Rs. 10,273 crores in 1998. The share of tiny sector in the advances to SSI sector has, however, decreased from 29.93% in 1995 to 27.0% in 1998 though RBI guidelines recommends as high as 60% of which 40% to go to tiny units with investment in plant and machinery below Rs. 5 lakhs and another 20% to tiny units with investment in plant and machinery between Rs. 5 lakhs and Rs. 25 lakhs.

Total Credit Flow from Commercial Bank to Assam

Assam in the North East is the major beneficiary as regards total flow of funds from commercial banks is concerned (Table 4). Total credit has increased from Rs. 2941.4 crores to Rs. 9822.8 crores from the period from 1996-97 to 2002-03. In the entire period the State alone has taken 78% of total credit disbursed to the entire North East Region. However, if we examine from the point of view of per capita credit flow it is lagging much behind. When per capita flow of credit to North East as a whole is Rs. 12391 Assam is having a very low per capita credit of Rs. 2870 which is almost 23% of the NE average. Though by any standard Assam is lagging behind but it has been able to establish a number of SSI units due to easy flow of funds either from commercial banks or from NEDFi or SIDBI. There exists a positive significant correlation between flow of funds and number of units established in the State (Table 5). There are about 517 entrepreneurs who are trained under joint sponsorship of NEC-IDBI-SIDBI in Assam of which 147 of them have established their units. Assam is the second best state next to Nagaland as far as percentage of trained entrepreneurs establishing their SSI units in the region. If we examine the performance of Assam from the point of view of establishments of SSI units by trained entrepreneurs who were financed by commercial banks it is again lagging behind Arunachal Pradesh (Table 6).

IV. Role and Steps taken by RBI for the Development of SSI Sector

Credit to SSI sector is monitored periodically by Reserve Bank of India, Department of SSI and National Advisory Committee of SIDBI, State Level Bankers Committee and District Level Coordination Committees of the Bank.

a. The Central Government on the recommendation of RBI has raised the investment limit for SSIs from Rs.60 lakhs to Rs.300 lakhs and for tiny units from Rs.5 lakhs to Rs.25 lakhs.
b. Public sector banks have been advised to make it operational more specialized SSI branches at centers where there is a potential for financing many SSI borrowers.
c. To extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements (both term loan & working capital) of SSIs.
d. With a view to moderating the cost of credit to SSI units, banks are advised to accord SSI units with a good track record the benefits of lower spread over the Prime Lending Rate.
e. In order to take expeditious decision on credit proposals of SSI units, banks have been advised to delegate enhanced powers to the branch managers of the specialized SSI branch so that most of the credit proposals are decided at the branch level.

Initiatives Announced in 1999-2000

a) Launching of A New Credit Insurance Scheme

Inability to provide adequate security to banks and low recovery are often sighted as major constraint in flow of investment credit of SSI units. The problem is more acute for export oriented and tiny sector enterprises. To alleviate this problem, a new credit insurance scheme has been launched.

b) Enhancement of Limit of Composite Loan Scheme

The composite loan scheme of SIDBI and commercial banks is designed to ease operational difficulties of the small borrowers by providing them term loan and working capital through a single window. The limit for composite loans currently at Rs. 2 lakhs has been enhanced to Rs. 5 lakhs.

c) Enhancement of Limit of Working Capital

For SSI units the working capital limit is determined by the banks on the basis of simple calculation of 20% of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 Crores to Rs. 5 Crores.

High Level Committee for Credit (Kapur committee)

In December 1997, RBI appointed a One-Man Committee under the Chairmanship of Shri S.L. Kapur, former Secretary (SSI), Government of India, to suggest measures to improve the delivery system and simplify the procedures for credit to small scale industrial sector. The Committee submitted its report to RBI on 30th June, 1998. The committee made 126 recommendations out of which RBI has already accepted 40 recommendations for implementation. Some of the major recommendations of the Committee are:

i. Special treatment to smaller among small industries;
ii. Enhancement in the quantum of composite loans;
iii. Removal of procedural difficulties in the path of SSI advances;
iv. Sorting out issues relating to mortgages of land including removal of stamp duty and permitting equitable mortgages;
v. Allowing access to low-cost funds to Small Industries Development Bank of India (SIDBI) for refinancing SSI loans;
vi. Non-obtaining of collaterals for loans up to Rs.2 lakhs;
vii. Setting up of a collateral reserve fund to provide support to first party guarantees;
viii. Setting up of a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan and urban areas;
ix. Change in the definition of sick SSI units;
x. Giving statutory powers to State Level Inter-Institutional (SLIIC);
xi. Setting up of a separate guarantee organization and opening of 1,000 additional specialized branches; and
xii. Enhancement of SIDBI's role and status to match with that of National Bank for Agriculture and Rural Development (NABARD).

Table 1
Growth of Credit Flow from SIDBI to SSI Sector

(Rs. in crore)

Year	Sanction	Disbursement	Sanction-Disbursement Gap	Growth of Disbursement (%)
1990-91	2410	1839	571	-
1991-92	2847	2028	819	10.23
1992-93	2909	2146	763	5.82
1993-94	3357	2672	685	24.51
1994-95	4706	3390	1316	26.87
1995-96	6066	4801	1265	41.62
1996-97	6485	4585	1900	-4.50
1997-98	7484	5241	2243	14.31

Table -2
Sanctions and Disbursements of NEDFi to Assam
(till 31/3/2003)

(Rs. in lakhs)

Year	Sanction			Disbursement			Sanction-Disbursement Gap in Assam
	Assam	NE Total	Share of Assam	Assam	NE Total	Share of Assam	
1996-97	682	682	100.00	615	615	100.00	67
1997-98	1164	1923	60.53	227	355	63.94	937
1998-99	2198	2798	78.56	1062	1217	87.26	1136
1999-00	1725	3495	49.36	932	1463	63.70	793
2000-01	3944	8324	47.39	3360	5046	66.59	584
2001-02	3173	6304	50.28	2472	5079	48.67	701
2002-03	3400	6364	53.43	2170	5110	42.47	1230
Total	**16286**	**29890**	**54.49**	**10838**	**18885**	**57.39**	**5448**

Table-3
Credit of Commercial Banks to SSI and Tiny Sectors in India

(Rs. in crore)

Credit to	At the end of March				
	1995	1996	1997	1998	1999
SSI Sector	25,8431 (15.29)	29,485 (15.99)	31,542 (16.6)	38,109 (17.5)	42,674 (17.33)
Tiny Sector	7,734 (29.93)	8,183 (29.93)	9,515 (30.2)	10,273 (27.0)	NA
Net Bank Credit	1,69,038	1,84,381	1,89,684	2,18,219	2,46,203

Figures in parentheses represent percentages

Table-4
Total Credit Flow from Commercial Banks to Assam

Year	Per Capita Credit			Total Credit		
	Assam	NE Total	Share of Assam	Assam	NE Total	Share of Assam
1996-97	852	5266	16.18	2118.0	2941.4	72.01
1997-98	912	5448	16.74	2307.3	3179.9	72.56
1998-99	1065	6432	16.56	2739.9	3774.5	72.59
1999-00	1144	6667	17.16	2994.0	4046.7	73.99
2000-01	1411	7593	18.58	3759.8	4932.8	76.22
2001-02	2988	11697	25.55	8098.1	9735.6	83.18
2002-03	2870	12391	23.16	7913.2	9822.8	80.56
Total	-	-	-	**29930.3**	**38433.7**	**77.88**

Source: CMIE, Money and Banking, Economic Intelligence Service, Sept. 2004, pp. 163-164.

Table-5
Credit Flow and Growth of SSI units in Assam

Year	No. of SSI Units	Commercial Bank		NEDFi (Rs. in lakh)
		Total Credit (Rs. in crores)	Per Capita Credit (Rs.)	
1996-97	12805 (47.8)	2118.0	852	615
1997-98	18367 (48.98)	2307.3	912	227
1998-99	20035 (56.50)	2739.9	1065	1062
1999-00	21514 (55.40)	2994.0	1144	932
2000-01	23132 (54.11)	3759.8	1411	3360
2001-02	23637 (53.47)	8098.1	2988	2472
2002-03	-	7913.2	2870	2170

Source: Basic Statistics of NE Region 2002, p.211 and CMIE.

Table-6
No. of Entrepreneurs Trained and SSI Units Set Up in Assam and other NE States
(April 1994 to March 2002)

State (1)	NEC-IDBDI-SIDBI Sponsored			NEC-IDBDI-SIDBI Sponsored and Commercial Bank Financed		
	Entrepreneurs (2)	SSI Units (3)	Col.3 as % of Col. 2 (4)	Entrepreneurs (5)	SSI Units (6)	Col.6 as % of Col.5 (7)
Arunachal P.	323	82	25.4	172	41	23.84
Assam	517	147	28.4	410	53	12.93
Manipur	322	52	16.1	153	18	11.76
Meghalaya	253	51	20.2	193	17	8.81
Mizoram	119	24	20.2	100	14	14.00
Nagaland	143	44	30.8	143	20	13.99
Tripura	215	45	20.9	180	24	13.33
NE Total	1892	445	23.5	1351	187	13.84

Source: Basic Statistics of NE Region 2002, p.211 and CMIE.

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