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POST - NATIONALIZATION
vs
POST LIBERALIZATION
The stress and the distress in accessing Finance for Small Industries

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Several developed and developing countries have specific programs to protect and promote small enterprises (Raju1999). While several such initiatives were taken in our country in the past, these measures were embroiled in a maze of controversies and confusion. There are continuing debates on what really constitutes a small enterprise. In India, we viewed small industry as the best form of enterprise and weaved the policy around the small industry. Between the post-nationalization and the post-liberalization, the attitude of Bankers seem to have undergone a metamorphosis. This paper would like to focus on the following issues : (i) gap between policy and implementation in regard to smooth flow of credit for investment, working capital and revival of sick industries. (ii) viability of small industry as worthy of being entertained by the Banks. (iii) the role of RBI.

Many commercial banks could consider financing small industries unprofitable. Gone were the days when the Banks like the State Bank of India, which pioneered the intensive center approach to finance small enterprises in 1960, considered themselves as partners in industrial development along with the entrepreneurs. Now, they consider talking about them sinful. The Chairman, SBI in his Annual Report took pride in mentioning that 85 percent of loans granted to the SSI units were less than Rs.50,000 on average (Bhattacharya 1960). In the year 1962, his successor took credit for introducing the Installment Credit Scheme and forcommencing a study to suggest measures to strengthen the small industry financing activity (Venkatappaiah 1962). He laid emphasis on training his field staff for enlarging this activity within the boundaries of viability and effective supervision. Successive Chairmen took pride in the Bank's efforts in funding the small industries (Dehejia 1968;

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Ramanandarao 1969). Mr. R.K. Talwar continued his predecessors' efforts through innovative schemes, which enticed qualified engineers in the Public Sector undertakings to become small entrepreneurs so that the younger among the engineers coming out of the universities are provided employment opportunities (1970, 1971-76). His successor was candid when he mentioned in the Annual Report (1978): "All industrial units pass through phases of prosperity and adversity. We as bankers have to bear with their fluctuating fortunes".

When an industrial unit is closed down for any reason, national interest demands its speedy reopening by pooling the managerial and financial resources of the various institutions/agencies including the Central Government, the State Government, the financial institutions, the bankers and promoters. The country cannot afford the luxury of allowing industrial capacity to remain idle, with resultant loss of production and employment opportunities. Further more, the longer the period of closure, the more difficult it becomes to revive the unit." Subsequent Chairmen took pride in helping a large number of Entrepreneurship Development Programs.

The concept of development banking is undergoing a structural change as a result of the policy shift towards "competitive banking practices" in keeping with the demands of the new economic policy. This shift has affected development financial institutions, which are caught between having to play a developmental/promotional role by providing credit on soft terms, and at the same time, maintain profitability. Providing adequate institutional credit to SSIs had not been effectively achieved even when priority sector lending was a prime objective of banking policy. This task is likely to become more difficult now in the present policy climate, unless approaches to providing institutional credit for SSIs are thoroughly re-oriented.

The need to ensure international competitiveness of the SSI units in the present global context, will raise the credit requirements of the sector for technological modernization, R & D, etc. This calls for policy

measures to ensure availability of funds with primary lending institutions (PLI) and to restructure existing credit delivery systems to SSIs.

Global Practices in financing SMEs:

If one looks at countries around the globe, there are a wide range of measures designed specifically to provide finance to SMEs through a number of institutions and agencies. Economies as diverse as USA and China promote SME development through various forms of financial assistance. Laws have been enacted to give a statutory basis for these measures. (A summary of the existing policies for financial facilitation for SMEs in several countries is given in the Annexure)

Indian Experience in the post Liberalization regime :

SSI units in the country have grown at a compound rate of 5.7% per annum during 1990-2000. The total long-term credit demand by the sector during the Eighth Plan period (1992-1997) was Rs. 13,700crores according to the Nayak Committee Report (1992). This is estimated to increase to Rs.36,500crores during the Ninth Plan (1997-2002) assuming a real growth rate for the sector at 12 per cent. As pointed out by the Abid Hussain Committee (1997), in view of the proposed change of definition to SSE and coverage of all service sector activities, the requirement of long-term credit of the sector is likely to go up substantially in future. The Long Term Credit from institutional sources at 1997-98 prices was expected to be of the order of Rs.60,833crores by 2001-02 as per Abid Hussain Committee (p.58). The outstandings in working capital were expected to be of the order of Rs.1,83,794crores. The Plan expectations and the Expert Committees' expectations differed vastly. As at the end of March 2000, the outstanding bank credit to SSIs from public sector banks, private sector banks and foreign banks in India aggregated Rs. 47,788crore accounting for a share of 15.6 per cent of net bank credit. The actuals are, therefore, less than 25 percent of the outstandings as at the end of March 2000 in terms of 1997-98 prices. The Abid Hussain Committee was also of the opinion that the share of institutional credit (long-term credit) in the fixed capital formation of the SSI sector should be raised from 55 per cent to about 75 p er cent "until strong equity culture is developed in the sector to tap the capital market for part-financing the long term requirement." (Abid Hussain Committee Report; 56).

Some of the key recommendations of the Nayak Committee to enhance the flow of credit to the SSI sector were as follows:

The entire sector (upto Rs. 60lakh investment in plant and machinery) is entitled to priority sector lending of the banks. At least 40 per cent of the loans to the SSI have to be directed towards the cottage, KVIC units, artisans and tiny industries.

SSI units are entitled to working capital of a minimum of 20 per cent of their projected sales turnover but not exceeding Rs. 100lakh of their fund based needs.

It was found that the SSI sector was getting working capital worth 7.8 per cent of its turnover in 1995-96, a decline from a figure of 8.1 per cent in 1991-92.

At present, for loans above Rs. 2lakhs, interest-rates have been de-regulated.

A Credit Guarantee Scheme (to ensure guarantee coverage of collateral-free loans) has been initiated for SSIs to cover loans up to Rs.25lakhs from the banking sector, to be implemented through SIDBI with an initial budgetary provision of Rs. 100crore.

In this backdrop, look at what is happening during the last few years: The two-day National Conference on Small Industries (2000 and 2001) echoed the lack of cooperation, and unhelpful attitude many a time bordering on apathy on the part of the commercial banks. There were eighteen State Ministers who made a fervent appeal to the financing institutions to change their attitude to lending for the SSI and Rural and Cottage industries. The Table below would substantiate those concerns.

Amount in Rs.crores

	End of Mar 1996	End of Mar 1997	End of Mar 1998	End of Mar 1999	End of Mar 2000	Growth Rate (in %)
Net Bank Credit	1,84,381	1,89,684	2,18,219	2,46,203	2,92,943	58.88
Credit to SSI	29,485	31,542	38,109	42,674	45,788	55.29
No. SSI Accounts (in lakhs)	33.77	N.A	29.64	26.24	22.72	-32.72
SSI credit as %age	15.99	16.6	17.5	17.33	15.63	- 2.3
Average Credit per account	87311.22	N.A	128572.87	162629.57	201531.69	

Source: Compiled from 1. Annual Reports of the RBI, 1996–2000, 2. Reports on Currency & Finance, & 3.Statistical Tables related to Banks in India, for the respective years (Reserve Bank of India).

During the conference, the Executive Director, Reserve Bank of India mentioned that there was an annual growth of 11 percent in the outstanding credit for the SSIs from the Public Sector Banks during the past five years. But, if one were to go through the number of accounts, the concerns echoed at the Conference would seem very well founded. There is a decline in the number of accounts by nearly 33 percent during the same period. The average credit per account, however, has gone up. This would simply mean that Banks have gone in for high value SSI advances with better collaterals and still landed up in the NPAs. Therefore, the reasons for the bulging NPAs lie in poor appraisal, inadequate and untimely releases, and poor follow-up, delayed payments and only to some degree with the errant borrowers. Why did this volt face occur? I thought of looking into the reasons for this eroding emphasis on this most vital sector of the economy, which should now be poised for taking a more aggressive position in the industrial production climate of the country.

Manufacturing units in the small-scale sector continue to be dogged by problems in securing bank loans, in spite of a series of directives from the Reserve Bank Of India (RBI) to banks to gear up their machinery. Every Finance Minister, in the post-liberalization era, announced some measures or the other to bolster the confidence of the small-scale entrepreneurs acknowledging the fact that they make a significant contribution to exports and employment generation. Not a single meeting or conference on the SSI ends up without talking of technology up-gradation and modernization as essential to compete effectively in an era of increasing globalization. But such technological up-gradation costs money and for the majority of the SSI units, Banks are the only source of cash in terms of loans. Emboldened by the recent policy announcements, several units approached their bankers for enhanced loans only to be turned back with the same arguments they have been faced with in the past. Banks, apparently, still nurse the phobia that SSI units can turn sick much faster than any other sector. These Banks invariably ask for additional collateral securities (only those in urban or metropolitan areas), which alone would according to their perception, are easily realisable. Every enhancement in limit should, as far as possible, be covered by additional collateral of 150% margin. The other side of the coin indicates that the bank managers are being termed 'lazy' for not venturing into the field to conduct viability studies of activities for which the loans are being sought, with the result that financially sound entities are given the brush-off.

A few of the entrepreneurs interviewed by me came up with the evidence of a lackadaisical attitude of the field officers in dealing with the proposals for enhancement of the limits. A unit enjoying Rs.10lakhs cash credit limit against stocks and receivables against a margin of 25 percent is slashed with an increased margin requirement of 40 percent for the enhancement in the cash credit limit of Rs.10lakhs to 15lakhs against the receivables. The reasons for enhancement in the margin were neither discussed nor explained by the sanctioning authority before slapping them on the entrepreneur. This should happen at a branch that is classified, as a specialized branch for financing small industries is all

the more surprising. Taken on per bank basis, loans to SSIs now amount to 8.1 percent against 43.2 percent to medium and large industries in the core sector. The disparity in bias viewed in the background of NPAs coming up in the large and medium sector is all the more surprising. The Joint Parliamentary Committee on SSI noticed that only 14 percent of the 3.1mn units are receiving bank credit. The Banks say even out of these, 50 percent turn out sick.

I am reminded of the old adage: "if you owe the bank $100, you have a problem. When you owe a million dollars the bank has a problem." The small industries that come in the former category have, therefore, a real problem. The lending systems are still asset-oriented and influenced by the powers that be. The Nayak Committee recommended a minimum of five cycles of the working capital in a year. Those that pretend adhering to the norm swear by it; no more and no less. The word minimum is removed from their dictionary. Several industries, particularly the agro-based, have huge procurement operations during the season and the procured raw material needs to be stored till the next season arrives. Some bank branches refuse to entertain argument on the norm. Higher authorities do not normally apply and enforce their discretion in dealing with such issues for reasons best known to them. Why are all these things happening only in the small industry sector? The norms for financing small industries are always close to the chest of the field officers and managers and are held specific to individuals rather than activities. The banks hardly give reasons for considering a particular unit as unviable—more so, in writing to the unit that applied for the loan. A summary of the implementation status of credit policy in regard to the SSI Sector is presented herewith:

CREDIT POLICY IMPLEMENTATION - REVIEW

Item	Implementation Status
1. NAYAK COMMITTEE RECOMMENDATIONS ON 20% (minimum) of turnover as credit for Working Capital. Threshold limit – Rs. 5Crores.	BANKS FOLLOW AT WILL. NON-COMPLIANCE DOES NOT ATTRACT ANY PENALTY from the RBI. Still, on average, only 8-10 percent of turn over is granted as working capital (S P Gupta Committee)
2. Specialized SSI Branches opened as part of the seven point plan announced in the budget speech the Union Finance Minister for 1995-96 (389 specialized Branches Opened) of 100 Specialized branches cater to > 2000 units.	Data on the number of units has not been put out either by the RBI or the PSBs. Even at 2 lac of units for 100 branches, the the year number of units at macro level should have gone up and not Each gone down. But, the number to has actually gone down.
3. Out of total funds available for SSI Banks were asked to make available credit as follows : 40% - for units with investment in machinery up to Rs 5 lacs. 20% - for units with investment in plant and machinery up to Rs 5-25lacs 40% - for units with investment in plant and machinery > 25lacs. (1997-98)	Actual: No data is made Sector, available for review under these parameters. But number of units is on the decline by plant & 34% at the macro level. during 1993 – 2000.
4. Composite loan Scheme of SIDBI ceiling raised to Rs 2lacs.	The effect of this increase is not even marginal.
5. TDMF scheme of SIDBI at PLR of SIDBI	Amount lent: Rs.15.13crores during 2000-01constituting 51.4 percent of the previous year and 0.23 percent of the overall operations.
6. Credit Guarantee Trust Fund Non-collateralized loans. Threshold limit rose to Rs.25lacs.	It took one full year to enroll 28 banks. Those that have become members have sanctioned Rs.150crores in 12 months for approximately 2800 units – an average of Rs.5.36lacs per unit. Amount actually disbursed may vary.
7. Kapur Committee gave 126 recommendations. (1999)	RBI accepted only 35 and the rest were still under examination.
8. Units with good track record to get cover lower spreads over PLR.	No data is made available either in SIDBI or RBI Annual reports or any Commercial Bank annual report.
9. Total sick units including	No / Amount
a. Village industries and loans to SSI under PMRY scheme i.e. below Rs.1lac (March 1998)	2,21,536 / Rs.3856.4cr
b. Potentially viable considered for revival	18,686 / Rs.455.96cr Data not Available on the number actually rehabilitated. Average time taken to decide on rehabilitation is reported to be 6-24 months.
10. SFC Acts were to be amended for restructuring them as per Khan Committee recommendations.	Action yet to be initiated and SIDBI is reported to be actively involved in the exercise.
11. Sub-limit of working capital loan of large industry to cover supplies by SSIs	There is no evidence of a single Bank having followed this recommendation.

The Small Industries Development Bank of India (SIDBI), a bank specially set up to assist the small industries, does not also appear to be nearer to the avowed expectations if we were to go by the figures put out in the Annual Report 2000-01. The disbursements during the previous year were 67.84 percent while in the current year they were 59.5 percent of the sanctioned amounts. Their refinance portfolio also does not speak well. Banks and SFCs avail refinance from the SIDBI for the amounts actually sanctioned by them to the small industry units. The reasons are two-fold. The banks do not find the need for refinance as they are mostly flush with funds at secured at a cheaper rate from the market than the rate of interest at which the SIDBI offers. The SFCs, whose ability to lend itself has eroded due to their inherent and accumulated weaknesses, have taken limited recourse to this facility. The SIDBI attributes the lag in disbursements to the 'industrial slowdown in the economy'. Project Financing improved in terms of the disbursements over last year and project financing is the direct lending portfolio of the Bank where the threshold limit of loan is Rs.100lac per borrowing unit. The reason for the fall in sanctions in this portfolio has, of course, not been mentioned. It could be because of first, the nature of catch: the really small scale as per the definition of the Government of India cannot access credit directly from the SIDBI; second, the recession and third, cumbersome procedures coupled with high rates of interest compared to the commercial banks. The small industries say that the Bill Finance is availed more by the large industry than the small industry. SIDBI, as a legatee of the IDBI, is more comfortable with lending under this portfolio. Many a commercial bank, therefore, say that the SIDBI can't point out a finger at them as four fingers are directed to itself. If financing a small industry is a good commercial proposition, there is no reason for the banking institutions hesitating to go near them. This paper tried to take the example of three public sector banks' branches where intensive financing of small industries has been done. In each of these branches, the portfolio of financing small industries has been examined in terms of the total business and their share in the profits of the branch netting out the proportional expenses under all activities.

Apriori, let me place before you, the types of services rendered by the Banks and the charges levied by the Banks that would unfold the income-earning opportunities available for the Banks.

1. Contractual obligations from the borrowers by way of interest and penal interest for any deviant behaviour for the term loans and working capital enjoyed by them.

2. Inspection charges: Some Banks debit actual inspection charges incurred by the field officers and managers while others levy a uniform charge and these recovered expenses go for credit of the Banks' profit and loss accounts.

3. Charges for collection of outstation cheques and bills are collected invariably upfront and these vary depending on where the branch is located: whether rural or non-rural.

4. The SSI units invariably purchase drafts, banker's cheques, pay orders, telegraphic transfers for which also there are specified charges.

5. Likewise, issue of duplicate drafts, cancellation/revalidation of drafts attracts special charges.

6. Several units seek guarantees against payment of Earnest Money Deposit or other obligations to their clientele. The issue of these guarantees attracts commission. Even if these guarantees are backed by 100 percent fixed deposit or deposit and collateral security of acceptable tenor, a minimum of Rs.100 plus 2to3 percent of the guaranteed amount is collected as commission. Many banks extend concessions in commission where these guarantees are fully secured by 100 percent cash margin for the period of the guarantee.

7. Processing charges for processing the loans-whether term loan or working capital or both- will be levied for all borrowers other than those that carry a loan obligation of up to Rs.25,000. They range from a minimum of Rs.100 to Rs.0.5million.

8. Quite a good number of units prefer to issue standing instructions either for payment of credit cards or for continuing recurring deposits or transfer of funds to principal's accounts. All such transfers either within the branch or outside carry additional charges ranging from Rs.4 to Rs.5 for every transaction.

9. Some units would like to entrust the custody of their scrips for safety purposes (Safe Custody) and these attract specific charges ranging from Rs.1 to 20 per annum per piece depending on the scrip or a sealed cover.

10. Every stop-payment instruction carries a charge of Rs.10 per instrument.

11. Issue of cheque book entails payment of Rs.100. A unit that would like to transact every item of business through the account will have to pay this penalty.

12. Some Banks levy charges for presentation of Usance Bill for acceptance at Rs.25 per bill.

13. All enquiries relating to old records, older than 12 months, would entail a search and delivery fees of Rs.10 per item.

14. In case of borrowers enjoying limits of Rs.10million, a commitment charge of 1 percent per annum is levied on the unutilized portion of the sanctioned limit.

15. Ledger folio charges will be levied on cash credit and overdraft accounts for all loans beyond Rs.25000 if the folios cross the limit of three per account.

16. Letters of Credit – both inland and foreign, carry with them a minimum commission.

After levying most of these charges and after recovering the actual postage and telegraphic expenses incurred on the account, the banks cribbing that they are ending up with huge losses whenever they finance a small unit would patently seem unjustifiable.

Let me now factor into this exercise the loan losses arising from the non-performing assets. NPAs arising from the loans below Rs.2lakhs in terms of numbers account for nearly 30-50 percent and around 5-7 percent in terms of the amount in the SSI sector. Most of them qualify only for a write-off but litigation puts them to an elongated process and leads to bulging of outstandings in terms of claims made on the units. To site an example, a bad loan of Rs.2lakhs ends up at a claim level of Rs.4to5lakhs within five years. Irrespective of the circumstances leading to this status of the account, such units are at a non-negotiable end to arrive at a compromise with the banks for reduction in outstanding. In a few States, Lok Adalats are helping the settlements (e.g., Gujarat and Punjab). All such earnings naturally eat up the interest earnings made on the small industry portfolio. They do not, however, render the portfolio itself as unprofitable exercise:

BANK-BRANCH ASSESSMENT-(SSI)

1998-1999 **Rs.lakhs**

Bank Branch	Total Volume of Business	Volume of Advances	Advances to SSI	Branch Profits *	Interest Earnings from the SSI &RT	Other Earnings	Total Earnings from the SSI	NPAs
1x	1538	672	518	69.7	118.4 (71.97%)	46.1 (28.03%)	164.5	98
2x	11273	6837	5942	199.4	921.2 (60.80%)	593.8 (39.2%)	1515	216
3x	29406	13245	10119	1438.2	1984.1 (63.94%)	1118.5 (36.06%)	3102.6	1245

* *Includes transfer pricing and earnings on government transactions.*

1x is a 9 year old Branch

2x is a 15 year old Branch

3x is a 33 year old Branch

NPA accumulations after 1993-94 constitute 80 percent of the volume.

A nine-year old branch, i.e., a branch opened in the post-liberalization era with a focus on lending for the SSI sector, has outstanding credit of Rs.51.8mn constituting 77 percent of the total advances. It has accumulated 18.9 percent NPAs during this short period of its existence. The second branch of another public sector bank with 15 years' standing, had a portfolio of 86.9 percent of the advances to the SSI sector and had only 3.6 percent of NPAs from this sector. Yet another public sector bank branch, again exclusively catering to the SSIs with a threshold loan limit of Rs.2.5mn per borrower, had a loan portfolio of 76.4 percent and NPAs of 12.3 percent in the same sector, while the remaining lending portfolio contributed to as much of the NPAs. The new generation branch has accumulated higher volume of NPAs in an era of non-insistence on specific targets in the sector. It had lent against heavy collaterals, which affirms the oft-repeated criticism against the banks that they are not devoting enough attention on adhering to principles of sound lending. The non-collateralized NPAs constitute around 8to10 percent of the total NPAs is another interesting factor I noticed at all these branches. Since heavy collaterals back most of the NPAs, these banks prefer to have all of them settled through Debt Recovery Tribunals. No branch manager or his/her bosses do not want to face any retribution on violable accountability, vicarious responsibility and more importantly, the ghost of CBI or CVC.

Recent experience of recovery by a State Finance Corporation in Andhra Pradesh is worth looking into. Section 29 of the SFC Act empowers the Corporation to proceed against the securities and auction them in the public. But most such auctions end up in collusion among the bidders putting the corporation to great loss as even the principal amount could not be recovered in many an instance. Therefore, the Managing Director decided to call up the Partners/Directors of the default units to find out their interest in repayment of their obligations under one time settlement in preference to the protracted litigation. In most of such cases, the net worth of the unit was negative and the Managing Partner or the Managing

Director would have nothing to lose. It was only the partners or directors or guarantors who offered collateral would have to suffer the loss. The bait was that each of the partners or directors as the case may be would be freed from their obligation and their securities released if they agree to credit into the loan account a reasonable portion of their outstandings. The trick worked. He could recover much more than the amount he could have got through such settlement only through negotiation with the Managing partner or the Managing Director. Most of the legal advisors of Banks do not approve this method on the ground that the liability of the guarantor is coextensive with that of the principal borrower and therefore both borrower and guarantor should be proceeded against Jointly and severally at the same time.

The Banks also derived full advantage of the proviso that they can make good the shortfall in lending targets for the priority sectors by way of subscription to NABARD RIDF & SIDBI Bonds.

It is almost clear that the lenders did not think through the reforms process and stuck to their age-old technique of name-based lending. The risk in lending for an activity like the small industry is not institutionalized by widely circulating the norms for lending on one hand and through intensive training on the other. To seek a recluse in the portfolio's nature, treating it as unprofitable is nothing but hypocrisy. The problem lies with the Banks and the solutions should also be found in their own vaults. Apart from the change in the mind-set that could come about only when the controlling authorities are sincere in their instructions, a few other solutions could be thought of as follows: There must be frequent interfaces between the entrepreneurs and the field level officials in all the training programs concerning them and the case method should be widely used. Further, accountability for non-compliance of liberalized norms should seep into the performance evaluation system of the banks when alone one can see the prospect of improvement of the lending scenario for the sector.

A few steps that could provide some relief to the agonizing SSIs are:

1. The norms of lending should be displayed in every specialized SSI branch.

2. Application forms should be available for the asking either at the District Industries Centers or the financing branches. They can even be priced but should be made available.

3. Within reasonable time, say, two weeks, the Branch Manager or the Credit analyst should convey decision regarding the application for loan. Any rejection should be in writing providing rationale for rejection. If the entrepreneur were to differ from the decision, he should have an independent authority other than the immediate higher authority, to whom a reference could made for a review and such authority could be in the shape of an Ombudsman. This Ombudsman could enlist the services of a functional specialist to take a review.

4. Any application for enhancement or unfunded limits should be decided within one week if all the data required for such a decision could be made available along with the application, without seeking additional security unless there is erosion in the net worth or margins.

5. "Sickness" should be redefined and treatment should commence at the incipient stage and not when a unit is dead. Some of the symptoms are:

   (1) Shortfall in projected turnover

   (2) Reduction in capacity utilization

   (3) Inventory pileup

   (4) Erosion in margins

   (5) Return of bills / cheques

   (6) Poor maintenance of books of accounts

   (7) Arrears of loan installments.

   Early warning signals, when properly acted upon by both the entrepreneur and financing institution, it is the economy that gains.

6. General recessionary trends in the industry should be given a treatment different from the above as the ability of the small industry to withstand it will be less than that of the large industry.

7. DRT's have proved ineffective because of lack of

   a. support in terms of appointment of judges

   b. support staff

   c. stationery, and

   d. problems in implementation of awards for want of Recovery Offices.

   As suggested by the Gupta Committee this Ombudsman specially appointed by the RBI could also be approached for recovery proceedings against the defaulting borrowers with loan limits of less than Rs.10lakhs.

8. Government of India should bring about changes in the Bankruptcy laws to provide for an easy exit route for failed entrepreneurs.

While directed or behest lending needs to be abhorred in mature economies, in India, the financial system does not seem to have that maturity. This has been amply demonstrated at the way in which the scams have been occurring in the sector and the perspectives of the Banks to see their lending portfolios as necessary supports to the basic economic goals of the nation. When the Banks and financial institutions are unable to assign due priorities to their portfolios, the Central Bank of the country has an obligation to take up the task of enjoining upon the system the need to conform to the national priorities. The crying need is the change in the process of boundary management of the Reserve Bank of India.

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ANNEXURE

Financial Facilitation for SMEs

COUNTRY	USA
Provisions of the Act/Implementing Agency	**Small Business Act** – (Public Law 85-536 as amended) 7(a) Loans to Small Business concerns Allowable Purposes, Qualified Business Restrictions and Limitations
Details	- Levels of Participation in Guaranteed Loans by the Small Business Administration are 75% of the outstanding loan in excess of US$1,00,000; 80% of the balance outstanding for amounts less than US $1,00,000. - The maximum interest rate for a loan under the preferred lenders program will not exceed the current average market yield on outstanding marketable obligations of the US. - The total amount committed to the borrower from business loan and investment fund established by the Act (by participation or otherwise) shall not exceed US $ 7,50,000 - Guarantee fees is also ranging between 3 and 3.5% depending on the extent of participation for the loans of less than $80,000 the guarantee fee is restricted to 2%.
Provisions of the Act/Implementing Agency	**Small Business Investment Act of 1958** (Public Law 85 – 699 as amended) Section 102
Details	The purpose of this Act is - to stimulate and supplement the flow of private equity capital and long- term loan funds which small business concerns need for the sound financing of their business operations and for their growth expansion and modernization, and which are not available in adequate supply.

Provisions of the Act/Implementing Agency	Section 304 : Provision of Equity Capital for Small Business Concerns
Details	- to provide a source of equity capital for incorporated and unincorporated small-business concerns.
Provisions of the Act/Implementing Agency	Section 305 : Long Term loans to Small Business Concerns.
Details	- each company is authorized to make loans to incorporated and unincorporated small business concerns - The Maximum rate of interest for the company's share of any loan shall be determined by the Administration.

COUNTRY	JAPAN
Provisions of the Act/Implementing Agency	Small Business Finance Corporation (1953)
Details	- Diversification of special guarantee system against credit crunch (1999) - System development for direct financing (1999) - Limited partnership Act for venture capital Investment (1998)
Provisions of the Act/Implementing Agency	SME Credit Insurance Law(1953)
Details	- System Development for direct financing (1999)
Provisions of the Act/Implementing Agency	Establishment of Credit Supplementation System for SME's
Details	- Limited Partnership Act for venture capital investment (1998)

Provisions of the Act/Implementing Agency	Law on Supporting Business Innovation of SMEs(1999) Law on Financial Assistance to introduce New Equipment for Small Business (1999) **New Small and Medium Enterprise Basic Law** (Revised December 3, 1999) Articles 23 and 24.
Details	Article 23 : Smooth Supply of funds: - **The state shall take the necessary measures to strengthen the functions of government related financial institutions, to fulfill credit, supplementary activities and to provide guidance on appropriate financing to SMEs by private financial institutions to supply funds to SME smoothly.** - Article 24: Replenishment of owned capital - The state shall take the necessary measures to strengthen the system for smooth investment in SMEs and optimise their tax burden to replenish their owned capital and to help strengthen their management fundamentals.
COUNTRY	**CHINA**
Provisions of the Act/Implementing Agency	Statute for development of medium and small business (February 4, 1991) Article 9
Details	- Article 9 : The central competent authority shall set up a medium and small business development fund with the use thereof to be confirmed to the following fields: - To finance the operating expenses required for carrying out assistance plans - To take part in investment and development projects or provide assistance. - To make investment in medium and small business development companies

	- Other purposes relating to the furtherance of a sound development of medium and small business and as specified in this statute. - To enhance the functions of financial institutions and credit bonding enterprises to provide financial facilities and guaranty to M & S business
Provisions of the Act/Implementing Agency	Chapter II: Financing Facility and Guaranty Articles 13-23
Details	**Article 14** - **All banks shall elevate the ratio of financing to be provided to M & S business** **Article 16 :** - **"Special Financing"** facilities for R & D, pollution control, new products, upgrading quality, factory relocation any other special projects. **Article 17 :** - **"emergency financing facilities"** for M & S business - Loans as revolving fund in support of production and sales during periods of significant economic crisis - Loan for recovery during significant natural disaster - Other loan to cope with emergency events **Article 19 :** - with regard to the bad debts resulted from causes not attributable to intentional act, gross negligence or malpractice they shall be fully indemnified from damage liabilities and exempt from disciplinary measures.

COUNTRY	REPUBLIC OF KOREA
Provisions of the Act/Implementing Agency	**Small and Medium Industry Basic Act** (as amended in 1982) Article 25 : Securing Small and medium Industry Finance.
Details	**Article 25:** (1) The government shall in order to smoothly finance small and medium entrepreneurs, devise policies necessary for increasing supply of financial and credit funds, establishment of small and medium industry circulation fund, functioning banking institution solely serving the small and medium industry and borrowing of foreign capital, and the **Government shall secure every fiscal year a fund required for the banking institution solely serving the small and medium industry as a financial fund.** (2) The Government shall devise policies for improving loan conditions of small and medium industry fund and securing **credit guarantee system.** (3) The Government shall, in order to make the small and medium industry finance conform to the policies prescribed in this Act, draw up a standard of operation for small and medium industry fund, and shall devise policies necessary for strengthening guidance over banking institution concerned.
Provisions of the Act/Implementing Agency	Korean Fund Assistance System
Details	Sources: (a) Financial Institutions (b) Bank of Korea (c) Government's public fund assistance system

Provisions of the Act/Implementing Agency	Korean Venture Fund
Details	- to encourage domestic financial institutions and foreign venture capital to expand their investments in private venture funds
Provisions of the Act/Implementing Agency	Joint Venture investment fund
Details	- Government and private sector to jointly create this fund of US $ 689 million
Provisions of the Act/Implementing Agency	Credit Guarantee certificates to SMEs with Act/ weak securities
Details	- Through credit guarantee institutions
Provisions of the Act/Implementing Agency	Government screening supervision and public notification of KOSDAQ market
Details	- To strengthen financing role for SMEs and venture enterprises.
Provisions of the Act/Implementing Agency	Government reinforces registration procedures related to venture capitals
Details	- To help lay a sound foundation for investment in SME's
COUNTRY	**PHILIPPINES**
Provisions of the Act/Implementing Agency	SME Act- Republic of the Philippines (Republic Act as 6977 – as amended by RA 8289) May 6, 1997 **Section 8 : Power and functions of the SME development Council(SMEDC)**
Details	**Section 8:** (6) – to enable greater access to credit

	through a simplified multi – agency financing program - to encourage development of other modes of financing such as leasing and venture capital activities - to provide effective credit gurantee systems (7) – provisions of concessional interest rates, lower financing fees which may include incentives for prompt audit payments - provisions of bankruptcy preventive measures through the setting up of a mutual relief system for distressed enterprises, and the establishment of measures such as insurance against extraordinary disasters.
Provisions of the Act/Implementing Agency	Section II Creation of Small Business Guarantee and Financial Corporation(SBGFC)
Details	- To Source and adopt development initiatives for globally competitive SMEs in terms of finance, technology etc
Provisions of the Act/Implementing Agency	Section 13 : **Mandatory Allocation of Credit Resources to SMEs**
Details	- **For the period of ten years from the date of effectivity of this Act, lending institutions whether public or private shall set aside at least 6% and atleast 2% for small and medium enterprises respectively of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for SME credit**
Provisions of the Act/Implementing Agency	Section 14 : Penal clause

Details	- The Bangko Sentral ng Pilipinas shall impose administrative sanctions and other penalties on lending institutions for non-compliance with provisions of this Act including a fine of not less than P500,000 each. - The Bangko sentral ng pilipinas shall require lending institutions covered by this Act to furnish to the SMED council on quarterly basis regular reports on their compliance with the above provisions on the mandatory credit allocation to SMEs and expeditiously act on the council report of non – compliance therewith.
COUNTRY	**MALAYSIA**
Provisions of the Act/Implementing Agency	MARA – Majlis Amanah Rakyat (Council of trust for the people) - an instrument of Government - Loans
Details	**To provide financing to both newly established business and for expansionary proposal** **[from less than $ RM 10,000 to a maximum RM of 1.0 million]** - for franchising, manufacturing, recreational and training facilities for tourism, R & D and KT Projects - Repayment period: upto a maximum of 15 years.
COUNTRY	**INDONESIA**
Provisions of the Act/Implementing Agency	**Small Business Act (1995) Chapter VI Finance and Security Article 21 , 22 & 23**
Details	**Article 21: The Government, the industry and the community will provide financing encompassing**

	- Bank credit - Loan from non – bank financial institution - Venture capital - Loan from the allocated fund which originated from the profits of the state owned company (BUMN) - Deed - Other expenditures Article 22: Implementation: - to upgrade the capability in accumulating self capital - to upgrade the capability in developing the feasibility study - to upgrade the financial management capability - to establish and develop the security - institution Article 23: Small Business financing can be secured by the state owned and /or private security institution.
COUNTRY	**THAILAND**
Provisions of the Act/Implementing Agency	**The Small and Medium Enterprise Promotion Bill (approved by Senate in December, 1999)**
Details	Section III (1) the fund has the following sources: initial capital from the Government
Provisions of the Act/Implementing Agency	**Section III : SME Promotion fund**
Details	- Annual subsidy allocated by the Government

	- Money or property donated - Gains or revenues of the fund (1) the funds may be allocated as expenditure of SME promotion - loans of SMEs or groups of SMEs to establish or improve efficiency - to provide assistance to operational units in matters of necessity or urgency. - support, subsidise and joint venturing in the business of SMEs or groups of SMEs for establishment and expansion of business, R & D, and promotion of overall efficiency. (3) The SME promotion fund shall be a policy – oriented fund that supports the task of SME promotion according to the policy and operational plans for SME promotion.
Provisions of the Act/Implementing Agency	Industrial Finance Corporation of Thailand (IFCT)
Details	To support financing to SMEs - to provide development capital to 70,000 villages to support local enterprises.
Provisions of the Act/Implementing Agency	Strategy to strengthen financial support system for SMEs
Details	- **Expand and develop credit guarantee system for SMEs** - Develop existing specialized financial institutions into an SME Bank - Establish venture capital fund for SMEs - Establish SME promotion fund - Strengthen financial advisory services for SMEs

COUNTRY	TAIWAN
Details	- Capital markets to plan to absorb more risk - Financial markets to be adjusted **to change the traditional method of providing credit on the basis of provision of tangible assets as collateral** - Increasing role for formal and informal venture capital funds

COUNTRY	BANGLADESH
Provisions of the Act/Implementing Agency	Bangladesh Small and Cottage Industries Corporation (BSCIC)
Details	- **to provide loans for setting up SMEs and also to provide working capital**
Provisions of the Act/Implementing Agency	Bangladesh Central Bank and 52 Commercial Banks (Local and Foreign)
Details	- Instructions from Government of Bangladesh to provide loans for setting up SMEs through out the country
Provisions of the Act/Implementing Agency	Bangladesh Shilpa Bank (Industrial Bank) and BKB (Agricultural Bank)
Details	- To finance entrepreneurs in setting up SMEs

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