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Subject: Feed back received from IIA Members on SIDBI Financing – Request for clarifications/ corrective actions and a meeting with IIA delegation in this regard.

Dear Sir,

Indian Industries Association (IIA) an apex body of MSME has been interacting with SIDBI since long and have always provided constructive feed back to SIDBI for improving its operations for the promotion of MSME. IIA and SIDBI have also set up a joint venture in the form of Small Industries Information and Service Centre (SIISC) at IIA Bhawan , Vibhuti Khand , Gomati Nagar, Lucknow . The centre is operational since 2003-04 and is doing a good service to the MSME's.

Recently, we have received feedback from some of our members about their experiences with SIDBI during the past few years. We are submitting the summary of feedbacks received for your perusal, reaction and corrective action wherever warranted :

"1. The terms and costs of lending at SIDBI are found to be uncompetitive in many respects compared to several commercial banking institutions Higher upfront charges, comparatively higher PLR resulting in unattractive interest rates, over cautious approach to secure the financial assistance to the extent of even insisting for fixed deposits from the borrowers as part of rather unwarranted collateral security, continually insisting for CGTSME cover fee (Credit Gurantee fee) based on originally sanctioned full loan amount instead of linking it with the actual outstandings after repayments, and above all penalizing the good borrowers by imposing penalties for early payments rather than providing incentive for timely/ early payment.

2. SIDBI offers financial assistance, both for term loan and for working capital requirements of MSMEs. Arrangement for working capital facilities has been presumably tied up by SIDBI with IDBI. Surprisingly however, IDBI's designated branch does not accept the project appraisal conducted by SIDBI while financing any project, and insists for its own fresh appraisal. The plight of SMEs on this account, in terms of duplication of the whole exercise and the time involved in follow up actions eventually leading to project delays can be well imagined.

3. One of the attractive schemes executed by SIDBI for the benefit of SMEs as a Nodal Agency is the Credit Linked Capital Subsidy Scheme for modernization and expansion of SMEs .Most of the SMEs who qualify to avail this scheme take in to account and rely on the 15% amount of subsidy on the cost of Capital Goods, while planning the investment requirements.. The provision of this scheme requires the subsidy to be adjusted in the loan amount itself with the underlying idea of not only reducing their capital requirements but also to provide a relief in the interest on the term loan which would thus get reduced by way of crediting the subsidy amount. Unfortunately, it never happens so. The subsidy takes its own unlimited time to flow in and until then SIDBI keeps on changing interest on this amount also. In all fairness to SME borrower, the amount of admissible subsidy should be immediately credited to the account of the borrower while disbursing the term loan under CLCSS, and this should appear in the accounts of SIDBI as receivable from the government, so that the SME borrower is not required to pay interest on the subsidy amount.

4. Unfortunately, the benefit of low cost finance options, e.g. E.C.B. Instruments and Foreign Exchange Loans are usually confined to large borrowers. It would be highly desirable for SIDBI to seek authorization, and an earmarked entitlement to facilitate percolation of the benefit of such low cost finance options to MSME sector.

5. This issue relates to the upfront fee charged by SIDBI towards defraying their cost of time and establishment for processing the applications from MSMEs. It needs to be realized that, unlike Commercial Banks, SIDBI is a Nodal Promotional Institution having a unique position as a facilitator for small industries. In fulfilling this objective meaningfully, the processing and appraisal of the requests from MSMEs for financial assistance is a normal and routine function of SIDBI as part of their promotional activity, and therefore it is quite unreasonable for SIDBI to burden the small entrepreneurs by insisting them to bear an upfront fee, just on the lines of Commercial Banks to defray the cost of time and establishment involved in processing their requests for financial assistance.

Notwithstanding the above, if SIDBI's commercial considerations must override the interest of the entrepreneurs, which can at best be termed as unfortunate, linking the upfront fee to the quantum of financial assistance *without maximum limit* defies all logic.

Keeping in view what has been submitted above and to mitigate undue hardship to the small entrepreneurs, we would like to submit as follows:-

- As a Promotional Institution for Small Entrepreneurs, and as part of their normal functions, SIDBI should not charge any upfront fee for processing and approving financial assistance for MSME projects.
- In case the above is not agreed by SIDBI, such upfront fee should be restricted as @ 1% subject to a maximum of Rs.5000/- for all MSME projects. “

Above specific issues suggests that the procedural protocols at SIDBI are found to be quite complicated, leading to undue time delays, and need to be rationalized and simplified.

We are writing this to you because MSMEs do not need just the money lenders, but they are looking for the experience of professionalism, understanding of a partner, generosity of a facilitator and dynamism of a vibrant organisation to be able to write their success stories , and they are hoping to find this all in SIDBI.

Expecting your response at the earliest possible.

Thanking you,

Yours truly,

Mukesh Tandon
General Secretary