

May 20, 2005

The Chairman/Managing Director
All Scheduled Commercial Banks
All SLBC Convenor Banks

Dear Sir,

Scheme for Small Enterprises Financial Centres (SEFCs)

Please refer to the announcement made by the Governor in paragraph No.84 of the Annual Policy Statement 2005-06 regarding formulation of a scheme of strategic alliance between branches of banks and SIDBI located in the clusters (extract of the paragraph is enclosed). A scheme for "Small Enterprises Financial Centres (SEFCs)" has been worked out in consultation with the Ministry of SSI and Banking Division, Ministry of Finance, Government of India, SIDBI, IBA and select banks which is enclosed herewith for your perusal.

2. As the above scheme is important in the context of expanding outreach of banks and improving credit flow to the Small Scale Industries (SSIs) sector, banks are requested to initiate an early action in this regard.

3. Please acknowledge receipt.

Yours faithfully,

(G.Srinivasan)
Chief General Manager

Encls. as above

Extract of the Annual Policy Statement for 2005-06

Credit Flow to Small Scale Industries

84. The small scale industries (SSI) sector plays a very important role in the development of the economy. While large industries have access to various sources of finance, the SSI sector has to primarily depend on finance from banks and other financial institutions. With a view to further smoothing the flow of credit, the following measures have been initiated:

- Under a scheme to be drawn up by the RBI, banks will be encouraged to establish mechanisms for better co-ordination between their branches and branches of SIDBI which are located in 50 clusters that have been identified by the Ministry of Small Scale Industries, Government of India. Under the scheme of strategic alliance (i) the existing branches of SIDBI redesignated as “Small Enterprises Financial Centres” (SEFC) will take up co-financing of term loan requirements of SSI units along with the bank branches and the working capital requirements of these units will be met by the banks; (ii) the expertise of the SIDBI in appraisal of credit requirements of SSI units will be leveraged by the branches of commercial banks, by payment of a nominal fee; (iii) SIDBI will provide other expert services to help the banks in simplifying the application forms, documentation and disbursement procedures, etc.; and (iv) the working of the scheme may be monitored and modified to suit the local conditions by the State Level Bankers’ Committee (SLBC) and, depending on the experience, the coverage of the scheme may be extended to more clusters. The services of SEFCs will be available for tiny industrial units also.

Scheme for Small Enterprises Financial Centres (SEFCs)

1. Background

Reserve Bank of India in the Annual Policy Statement for 2005-06 announced formulation of a scheme of strategic alliance between branches of banks and branches of SIDBI located in the clusters.

2. Proposed operational mechanism

2.1 Strategic Alliance with Banks :

Under the scheme, banks are encouraged to establish mechanisms for better co-ordination between their branches and branches of SIDBI which are located in the clusters identified by the Ministry of SSI, Government of India for co-financing of SME sector (including tiny and services sector) on mutually agreeable operational modalities to be worked out by SIDBI and the strategic partner banks.

Coverage :

- 388 SSI clusters have been identified by UNIDO spread over 21 states in the country. Out of these SSI clusters 123 clusters are being catered to by 30 existing branches of SIDBI and few more branches/ delivery channels are proposed during the year. Thus in terms of coverage, 46 SIDBI branches are likely to be in place by the end of July 2005 broadly covering 149 SSI clusters (details enclosed).
- The branches of SIDBI in the clusters shall be rechristened as "Small Enterprises Financial Centres" (SEFC).

2.2 Eligibility Criteria:

Projects :

- a) All tiny units irrespective of loan size will be eligible for coverage under SEFCs. Special focussed attention will be given to financing to tiny sector as they have limited access to institutional finance.
- b) New SME units (including service sector units) will be eligible under SEFC Scheme.
- c) All proposals from existing units for expansion/modernisation/diversification/technology upgradation/ marketing/exports etc. will also be eligible.
- d) Existing units, which are not having banking linkage or having limited banking linkage, will be eligible under SEFCs.

Sharing Pattern :

As envisaged in the Annual Policy Statement, the SEFCs will take up co-financing or exclusive financing of term loan requirements of SSI units along with the bank branches and the working capital requirements of these units will be met by the banks. The strategic partners may also work out arrangement for sharing of financial assistance on mutually agreeable terms on a case to case basis especially in respect of facilities currently not being extended by SIDBI.

Financing Parameters :

Generally norms for debt equity ratio, repayment period, security coverage, rate of interest, etc. would be aligned as per mutual consent of strategic partners. Operational guidelines may be worked out by SIDBI and strategic partners with mutual consent.

2.3 Delivery Mechanism :

“The expertise of the SIDBI in appraisal of credit requirements of SSI units will be leveraged by the branches of commercial banks, by payment of a nominal fee”(Para.84 of Annual Policy Statement)

- SIDBI has developed expertise in quick appraisal of small credit proposals of existing well performing units (upto Rs 50 lakh) through the Credit Appraisal & Rating Tool (CART) model. The same model shall be suitably modified by SIDBI to cover i) green field projects, ii) working capital assessment and iii) composite loan. The model along with the Risk Assessment Model (RAM), comprehensive rating model available with SIDBI may be utilized to offer efficient appraisal services to SME borrowers. The appraisal may also be done jointly by SIDBI and banks.
- For tiny units, individual banks may develop suitable rating model for quick appraisal. SIDBI will also develop a simplified appraisal model for adoption by banks.
- The fee structure for appraisal may be nominal.

*“SIDBI will provide other expert services to help the banks in simplifying the application forms, documentation and disbursement procedures, etc.”
(Para.84 of Annual Policy Statement)*

- SIDBI has developed certain automated systems for loan documentation processes and the same may be offered to the banks. After studying the processes, if the banks are interested they may effect the necessary modifications.

2.4 Monitoring Mechanism

“The working of the scheme may be monitored and modified to suit the local conditions by the State Level Bankers’ Committee (SLBC) and, depending

on the experience, the coverage of the scheme may be extended to more clusters. The services of SEFCs will be available for tiny industrial units also.”
”(Para.84 of Annual Policy Statement)

- A suitable monitoring mechanism will be put in place by SEFC at cluster level to review progress made on quarterly intervals and report to respective SLBC convenor.
- SLBC will review the progress under the SEFC scheme.
- Standing Advisory Committee will review the progress under the SEFC in its meetings.
- SIDBI may put in place an appropriate mechanism to collect data under SEFC on quarterly basis and report to Reserve Bank of India and Ministry of SSI, Government of India.

**LIST OF SME CLUSTERS COVERED BY EXISTING
SIDBI BRANCHES**

Sr. No.	Branch Offices	No.of SSI clusters	Product
1	Hyderabad	5	Ceiling Fan, Electronic Goods, Pharmaceuticals- Bulk Drugs, Hand Pump sets & Foundry
2	Patna	1	Brass and German Utensils
3	Delhi	19	Stainless Steel Utensils & Cutlery, Chemicals, Electrical Engineering Equipment, Electronic Goods, Food Products, Leather Products, Mechanical Engineering Equipment, Packaging Material, Paper Products, Plastic Products, Wire Drawing, Metal Fabrication, Furniture, Electro Plating, Auto Components, Hosiery, Readymade Garments, Sanitary Fittings
4	Ahmedabad	17	Pharmaceuticals, Dyes & Intermediates, Moulded Plastic Products, Readymade Garments, Textile Machinery Parts, Diamond Processing, Machine Tools, Castings & Forging, Steel Utensils, Wood Product & Furniture, Paper Products, Leather Footwear, Washing Powder & Soap, Marble Slabs, Power Driven Pumps, Electronic Goods, Auto Parts
5	Surat	4	Diamond Processing, Powerloom, Wood Product & Furniture, Textile Machinery
6	Baroda	3	Pharmaceutical- Bulk drugs, Plastic processing & Wood product & furniture
7	Goa	1	Pharmaceutical
8	Faridabad	3	Auto components, Engineering Cluster, Stone Crushing
9	Gurgaon	5	Auto Components, Electronic Goods, Electrical Engineering Equipment,

			Readymade Garments, Mechanical Engineering Equipment
10	Parwanoo(Baddi)	1	Engineering Equipment
11	Jammu	3	Steel Re-rolling, Oil mills, Rice Mills
12	Jamshedpur	1	Engineering & Fabrication
13	Bangalore	6	Powerloom, Electronic goods, Readymade garments, Light engineering, Leather products
14	Kochi/Ernakulam	3	Rubber products, Powerlooms & Sea Food processing
15	Aurangabad	2	Auto components & Pharmaceuticals-Bulk drugs
16	Mumbai	11	Electronic Goods , Pharmaceutical-Basic drugs, Toys (plastic), Ready made garments, Hosiery, Machine Tools, Engineering equipment, Chemicals, Packaging material, Handtools, Plastic products
17	Nagpur	6	Powerlooms, Engineering & Fabrication, Steel furniture, Ready made garments, Handtools, Food processing
18	Pune	6	Auto components, Electronic goods, Food products, Ready made Garments, Pharmaceuticals –Bulk Drugs, Fibre glass
19	Thane	2	Pharmaceuticals –Bulk Drugs & Sea food
20	Bhopal	1	Engineering equipment
21	Indore	4	Pharmaceuticals- Bulk drugs, Readymade garments, food processing, Auto components
22	Ludhana	9	Auto Components, Bicycle Parts, Hosiery, Sewing M/C Components, Industrial Fastners, Handtools, Machine tools, Forging, Electroplating

23	Jaipur	7	Gems & Jewellery, Ball Bearing, Electrical Engineering Equipment, Food Products, Garments, Lime, Mechanical Engineering Equipment
24	Chennai	3	Auto components, Leather products, Electroplating
25	Coimbatore	6	Diesel Engines, Agricultural Implements, Machine Tools, Castings & Forging, Powerloom, Wet Grinding Machines
26	Tirupur	1	Hosiery
27	Noida/Gaziabad	10	Electronic goods, Toys, Chemicals, Electrical engineering equipment, Garments, Mechanical engineering equipment, Packaging material, Plastic products, Chemicals
28	Kanpur	3	Saddlery, Cotton hosiery, Leather products
29	Varanasi	4	Sheetwork (Globe Lamp), Powerloom, Agriculture implements, Electric fan
30	Dehradun	1	Miniature Vacuum bulb
31	Nashik (shortly to be opened)	1	Steel furniture
Total		149	