

September 4, 2004

Chairman/Managing Director

(All Scheduled Commercial Banks including RRBs)

Dear Sir,

**Working Group on Flow of Credit to SSI Sector**

The above Group constituted under the Chairmanship of Dr.A.S.Ganguly had submitted its report to the Reserve Bank of India. While some of the recommendations of the Group need to be examined further, the following recommendations have been accepted and are being forwarded for implementation by banks.

i) A full-service approach to cater to the diverse needs of the SME sector may be achieved through extending banking services to recognized SME clusters by adopting a 4-C approach namely, Customer focus, Cost control, Cross sell and Contain risk. A cluster based approach to lending may be more beneficial:

- (i) in dealing with well-defined and recognized groups;
- (ii) availability of appropriate information for risk assessment and
- (iii) monitoring by the lending institutions.

Clusters may be identified based on factors such as trade record, competitiveness and growth prospects and/or other cluster specific data.

There is strong evidence that SSIs which are linked as suppliers, service providers, etc. to successful large industries are usually successful ventures, in India as well as in many other countries. Such successful SSI/large industry linkages provide examples of best practices which can be aggressively extended. There are a number of corporates in India who adopt Corporate-linked SME cluster models to gain competitive advantage in local as well as global markets and derive mutual benefits. Corporate-linked SME cluster models need to be actively promoted by banks and FIs. Banks linked to large corporate houses can play a catalytic role in promoting this model.

Financing SMEs linked to large corporates, covering suppliers, ancillary units, dealers etc. would also enhance competitiveness of the corporates as well as the SME participants.

**(Paragraphs- 2.3.1, 2.3.4, 2.3.5).**

Besides the 60 clusters identified by the Ministry of SSI, Govt. of India for focused development of SSIs, banks may identify new clusters and also adopt cluster based approach for financing SME sector.

ii) There are 25-30 very active and successful NGOs in South India and some other states, who have an outstanding record of successful micro credit management. They provide ideal role models for training and development of groups and individuals in other parts of the country. Besides NGOs, there are other successful micro-credit institutions who service small, tiny and individual entrepreneurs in Tamilnadu, Andhra Pradesh and Karnataka. SIDBI and Lead Banks should make use of these successful models to encourage the adoption of their

work practices in other states, by sponsoring specific projects as well widely publicizing the successful working models. **(Paragraph-5.4)**

Lead Banks may consider sponsoring specific projects as well as widely publicize the successful working models of NGOs operating in South India and some other states which service small, tiny and individual entrepreneurs.

**iii)** Hilly terrain and frequent flood causes hindrance in the transportation system in North Eastern areas and as a result supply chain gets frequently disrupted. Because of this the SMEs have to maintain high levels of inventory requiring high working capital. Higher working capital limits need to be taken into account while extending credit to such units.

**(Paragraph-6.1.4).**

Banks operating in the North East region may consider sanctioning higher working capital limits to SSIs, based on their commercial judgement due to the peculiar situation of hilly terrain and frequent flood causing hindrance in the transportation system.

**iv)** Growth of rural industry would be the key to significant growth in GDP as well as in creating employment over time. While the traditional means of financing rural sector has been on decline, banks have not reached adequately in rural areas. Micro-finance partially addresses this issue, but not adequately. New instruments need to be explored for promoting rural industry and to improve the flow of credit to rural artisans, industries and rural entrepreneurs. **.(Paragraph-6.1.5)**

Banks may consider exploring new instruments for promoting rural industry and to improve the flow of credit to rural artisans, industries and rural entrepreneurs.

2. A copy of the report is enclosed for your information. The above recommendations made by the Group are important in the context of expanding outreach of banks and improving flow of credit to the Small Scale Industries (SSI) Sector. Banks are requested to initiate action on these recommendations early and ensure that proper instructions are issued to their controlling offices and branches in this regard. The action taken may please be communicated to us in due course.

3. Please acknowledge receipt.

Yours faithfully,

(G.Srinivasan)  
Chief General Manager

Encl- copy of report.