REPORT
OF

THE HIGH LEVEL
COMMITTEE

ON

CREDIT TO SSI

1998

Preface

Small is beautiful; it is also bountiful. As we stand at the edge of the 21st century, we see that small has really emerged as the big idea around the world, including some of the most advanced countries like USA, Germany and Japan. In India small industry (SSI) has always got the support of the Central and State Governments. The Union Finance Minister in his recent budget speech has proclaimed that "our commitment to the SSI sector is total". The sector has also responded very well to this support and policy packages and only one part of SSI, the so called modern SSI, is making a valuable contribution of about 40 per cent to our total manufacturing sector's production, 35 per cent to exports and employs over 160 lakh workers.

The successful edifice of SSI is built on four pillars; first, the enterprise and the grit and stamina of the industrialist; second, the policy packages provided, and the promotional efforts made, by the Central and State Governments; third, the credit facilities made available by the public sector banks, Small Industries Development Bank of India (SIDBI) and the State Financial Corporations; and fourth, the strength and the support of, and the advocacy by, the associations of small entrepreneurs.

Various aspects of this sector were recently examined by an Expert Committee head by Dr.Abid Hussain. They had made a whole series of recommendations regarding future policies to be adopted in relation to the development of this sector. According to them India needs a new SSI policy framework that is much more promotional than protective, that will develop entrepreneurship and be much more growth-oriented than in the past.

Massive structural changes are shaking our society. Social historians have started calling our time the post modern era. The super-symbolic economy makes obsolete not only our concepts of unemployment, but our concepts of work as well (Alvin Toffler - Powershift). Social scientists have suggested that we are undergoing a paradigm shift. All of these make us feel unsettled. Even under the best of circumstances, change is difficult. People don't like it. They tend to cling to old solutions. Tensions run high. Thomas Kuhn invented the popular buzz phrase paradign shift. In his book "The Structure of Scientific Revolution" he described the reaction of scientists to new discoveries and how hard it has been for them to make changes in their basic beliefs. SSI entrepreneurs cannot be better than those scientists. They also feel uncomfortable with changes in their lives. But change has to take place in view of the rapid technological transformation and economic and financial turbulence in the world. More and more of the work in modern small industry and services nowadays consists of symbolic processing of 'mind-work'. And one of the major problems which is thrown up in the process of change is increased competition. Various writers on business and management have identified a dramatic shift in the business landscape in which new, aggressive and successful small companies have taken on the giants, not with the new products or innovative technology, but with superior business designs. SSI also understand that they cannot continue to bask in the protective sunshine of government policies for long. They have to face international competition. The most important challenge facing Indian SSI is, therefore, how to develop a global vision, respond to more demanding standards of the consumers, indentify patterns of shifting value and craft the key strategies that will leapfrog them ahead of competition.

This committee has provided me with a rare opportunity to know indepth about some aspects of the working of Indian banks and financial institutions. We have to recognise the great contribution made by the banks towards development of Indian industry and particularly the small scale industry. And yet, we were informed by the Development Commissioner, SSI that only 15 to 20 per cent of the SSI Units have been able to get access to bank credit. This came as a shock. We were also informed that most of the banks fine tune their decision making in such a way that they can never be caught with a `mistake'; therefore, the field formations do not take any decision. Even government notes indicate that there has been a tendency towards extreme centralisation of the decision making centred on the office of the Chairman and Managing Director. The top heavy control structure of Zonal and Divisional offices weaken the decision making power at the level of the branch, where contact with the customer occurs. Managerial morale has been additionally undermined by an over developed vigilance apparatus which can be activated without reference to bank management and by restricted practices that deny flexibility to even routine managerial functions.

While I went around the country and visited a number of SSI clusters, I had occasions to discuss various problems regarding flow of credit to the SSI. Senior bank executives and business leaders across the spectrum spoke at length and with candour about a sector which can act as a real engine of growth for the Indian economy.

I believe, we have to focus our attention on the tiny or micro enterprises because they need help. We have to awaken the tiny entrepreneurs to the dangers of sweeping technological developments, the arrival of new non-traditional competition and pressures on profit margins. Never has the life of the tiny entrepreneur been more complex and challenging. And we have to reassure him about availability of adequate credit.

While making some suggestions for increasing the flow of credit to the SSI, I have, never for a moment, thought that this should be made available by the banks on subsidised rates. The subsidies, if any, have to come from the government, not from the banks. Our schemes should be designed in such a way that banks find it profitable to lend to the SSI. Secondly, I think if we introduce many more players in this game of credit, it would provide some more competition and may be, increase the quantum flow to SSI. With this end in view, besides banks and state financial corporations, the national small industries corporation and even non-banking financial companies could also be utilised for disbursing credit to SSIs.

Regarding public grievances, our banks and financial institutions have, keeping in view today's rapidly changing technology and market conditions, to re-think their entire approach to their customers and clients. "Real time", says Mc Kenna (Real time : preparing for the age of the never satisfied customers : Harvard Business School Press : C 1997 204p. 658407 MCK) "occurs when time and distance vanish, when action and response are simultaneous". For example, a customer inserts a card into an ATM machine and draws money from an account across the world. As technological advancement continue, people will become increasingly impatient if they are not given a wide array of almost instantaneous options. Real time management calls for intimate and immediate inter-connection of marketing, production, development and disposal, in fact every sphere of an organisation's activity. Not only should banks listen to their customer's needs and desires, the internal communication within banks should be redesigned so that everyone focuses on the end goal; the satisfaction of the customer.

In a work that is commanded as this report was, there is both an advantage and an element of danger. The advantage is obvious: access to material and sources which give a report an underpinning of authority. The danger is more subtle: the possibility of being influenced by those close to the subject.

Fortunately, while researching and writing this report, the advantages far outweighed any such dangers. The result, I hope, is a fair, accurate and credible assessment of credit to SSI, easily India's most progressive and promising industrial sector.

I must record my grateful thanks to Dr.Bimal Jalan, Governor, Reserve Bank of India for giving me this great opportunity for studying the flow of credit to SSI. While working on this study and writing this report I received considerable help from the Reserve Bank of India, especially Shri S.K.Gupta, General Manager and Ms Rachna Dikshit, Manager. I was given complete access to published and un-published reports and studies conducted by RBI in this behalf. Besides, facilities were provided to visit various SSI clusters and to hold 62 interactions with industry, banks and governments. I am grateful to all those who participated in these interactions and made me wiser. I have tried to incorporate their ideas and suggestions in this report.

This report was written to a tight deadline and I thank both the RBI family and my own for helping in different ways to enable me to complete the manuscript on schedule.

30 June, 1998 *S.L.Kapur*

CONTENTS

LIST OF ABBREVIATIONS

ACR	Annual Confidential Report
ARI	Agro and Rural Industries
BIFR	Board for Industrial and Financial Reconstruction
CII	Confederation of Indian Industry
CMIE	Centre for Monitoring Indian Economy
CNA	A National Federation of Artisan Firms in Italy
CRR	Cash Reserve Ratio
DAP	Development Action Plan
DG	Diesel Generator
DIC	District Industries Centre
DICGC	Deposit Insurance & Credit Guarantee Corporation
DRDA	District Rural Development Agency
DRI	Differential Rate of Interest
DRIP	District Rural Industries Project
DRT	Debt Recovery Tribunal
EC	Expert Committee headed by Dr.Abid Hussain
EDI	Entrepreneurship Development Institute of India

FI	Financial Institution
FITL	Funded Interest Term Loan
FY	Financial Year
GDP	Gross Domestic Product
GIC	General Insurance Corporation of India
GOI	Government of India
HUDCO	Housing & Urban Development Corporation
IBA	Indian Banks Association
ICICI	Industrial Credit & Investment Corporation of India
IDBI	Industrial Development Bank of India
IFCI	Industrial Finance Corporation of India
IID	Integrated Infrastructure Development
IRDP	Integrated Rural Development Programme
ISO	International Standards Organisation
ITC	International Trade Centre
JMGS	Junior Management Grade Scale
KfW	Kreditanstalt fur Wiederanfban
KVI	Khadi and Village Industry
KVIB	Khadi and Village Industries Board
KVIC	Khadi and Village Industries Commission
LDM	Lead District Manager
LIC	Life Insurance Corporation of India
MCS	Micro Credit Scheme
MD	Managing Director

MMGS	Middle Management Grade Scale
MOU	Memorandum of Understanding
MRTP	Monopolies and Restrictive Trade Practices
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non Banking Financial Company
NCAER	National Council for Applied Economic Research
NEDFI	North Eastern Development Finance Corporation Ltd.
NEF	National Equity Fund
NGO	Non Governmental Organisation
NHB	National Housing Bank
NIC(LTO)	National Industrial Credit (Long Term Operations)
NOC	No Objection Certificate
NPA	Non-Performing Asset
NSIC	National Small Industries Corporation Ltd.
OECF	Overseas Economic Cooperation Fund
OTCEI	Over The Counter Exchange of India
p.a.	per annum
PC	Personal Computer
PLI	Primary Lending Institution
PLR	Prime Lending Rate
PMRY	Prime Minister's Rojgar Yojana
PNB	Punjab National Bank

PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RIDF	Rural Infrastructure Development Fund
RIP	Rural Industrialisation Programme
RRB	Regional Rural Bank
SBA	Small Business Administration
SBI	State Bank of India
SEBI	Securities and Exchange Board of India
SFC	State Financial Corporation
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIDO	Small Industries Development Organisation
SIIDF	Small Industries Infrastructure Development Fund
SISI	Small Industries Service Institute
SLIIC	State Level Inter Institutional Committee
SLR	Statutory Liquidity Ratio
SSE	Small Scale Enterprise
SSI	Small Scale Industry
SWIFT	Society for Worldwide Interbank Financial Telecommunication
SWS	Single Window Scheme
TDMF	Technology Development and Modernisation Fund
TREAD	Trade Related Entrepreneurship Assistance & Development (Programme)

UTI	Unit Trust of India
WCTL	Working Capital Term Loan

CHAPTER I

BACKGROUND

1.01 One of the most significant features of the planned economic development in India has been the development of Village, Tiny and Small Scale Enterprises. The country accorded a high priority to this sector on account of its employment potential, comparatively low requirement of capital, short gestation period, use of traditional skills, useful links with the medium and large sectors, wide geographical dispersal, promotion of balanced regional development, low per unit cost of employment, utilisation of local resources, suitability of production of goods for mass consumption, mobilisation of small savings, provision of part time working arrangements and production of exportable products etc.

1.02 At the end of March 1997, there were 28.6 lakh Small Scale Industrial (SSI) units in the country; during 1996-97 the value of production by these units aggregated Rs.4,12,636 crore and they provided employment to 160 lakh persons.

Table 1.1 gives the overall performance of the SSI sector in terms of output, employment and export.

TABLE 1.1

Overall Performance of SSI Sector

Year	No.of units (in lakh)	Output (at current prices) (Rs.crore)	Employment (lakh Nos.)	Export (at current prices) (Rs.crore)
1991-92	20.8	1,78,699	129.8	13,883
	(6.7)	(15.0)	(3.6)	(43.7)
1992-93	22.5	2,09,300	134.1	17,785
	(8.2)	(17.1)	(3.3)	(28.1)
1993-94	23.8	2,41,648	139.4	25,307
	(5.8)	(15.5)	(4.0)	(42.3)
1994-95	25.7	2,93,990	146.6	29,068
	(8.0)	(21.7)	(5.2)	(14.9)
1995-96	27.2	3,56,213	152.6	36,470
	(5.8)	(21.2)	(4.1)	(25.5)
1996-97 (P)	28.6	4,12,636	160.0	39,249
	(5.2)	(15.8)	(4.8)	(7.6)

(P) Provisional

Note : Figures in the brackets indicate percentage increase over previous year and may not tally due to rounding off. SSI is used here to describe modern SSI looked after by Development Commissioner, Small Scale Industry.

(Source : Economic Survey, 1997-98)

It is also estimated that during 1996-97 Traditional Industries sector produced goods worth Rs.53,716 crore, provided employment to 345 lakh persons and exported goods worth Rs.27,343 crore. Powerlooms produced cloth worth Rs.23,926 crore, provided employment to 70 lakh persons and exported goods worth Rs.4,036 crore. The sub-sectoral contribution to employment and production is given in Table 1.2.

TABLE 1.2

Performance of Traditional Industries and Powerlooms

	Production (Rs. in crore)		Employment (Lakh Nos)		Export (Rs.in crore)	
	1995-96	1996-97*	1995-96	1996-97*	1995-96	1996-97*
A. Traditional Industries						
Khadi	522	760	14	15	@	@
Village Industries	3,504	4,880	43	43	12	13
Handlooms	16,184	16,048	144	150	1,894	2,135
Sericulture	1,397	1,468	60	61	846	880
Handicrafts	25,200	29,600	66	71	23,125	24,104
Coir	760	960	5	5	207	211
Total	47,567	53,716	332	345	26,084	27,343
B. Powerlooms	22,365	23,926	69	70	3,267	4,036

* Anticipated

@ Negligible

(Source: SIDBI Annual Report 1997)

Draft Ninth Plan projections for the village and small industries sector have set a target for outstanding working capital and investment credit requirements in the terminal year of the plan at Rs.1,83,794 crore and Rs.60,833 crore, respectively.

1.03 RBI uses an expanded definition of SSI which includes
(a) Small scale industrial undertakings which are engaged in the manufacture, processing or preservation of goods in which the investment in plant and machinery does not exceed Rs.3.00 crore. These would, inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery.

(b) Tiny enterprises whose investment in plant and machinery does not exceed Rs.25.00 lakh;

(c) Powerlooms ;

(d) Traditional industries which require high workmanship and technique as also village and household industries producing common goods of consumption, predominantly by using simple tools;

(e) The decentralised and informal sectors like handlooms, handicrafts, coir etc. and

(f) The industry related Service/Business enterprises which are notified as such.

It is proposed to use the above definition of SSI in this report.

1.04 On a normative basis, 40% of the net bank credit of the Domestic Commercial Banks is earmarked for the priority sector, of which SSI is an important component. The advances to SSI of Public Sector Banks formed 17.2% of net bank credit at the end of December 1997. For Foreign Banks, the priority sector obligation is 32% of net bank credit.

Of the total SSI advances, 40% is required to be made available to units with investment in plant and machinery upto Rs.5.00 lakh, 20% to units with investment in plant and machinery between Rs.5.00 lakh and Rs.25.00 lakh and the remaining 40% to other SSI units.

1.05 Elaborate programmes, policies and procedures, have been laid down by the Government both at the Centre and in the States to provide protection to this sector and to create a congenial environment where it could grow and prosper. This policy was initiated immediately after independence of the country in 1947. A number of changes took place over the period 1947 to 1990 which include the following :

(i) The sector has been protected by (a) reserving production of a large number of products exclusively by SSIs, (b) giving fiscal concessions by way of lower excise duties for SSI during the period of their infancy, and (c) extension of promotion services by the Government.

(ii) Government procurement of goods and services from this sector on a preferential basis was also used as a tool to encourage the promotion of this sector and to reduce the risk of market entry.

(iii) Directed credit was provided by the banks, as this sector was treated as an important segment of the priority sector.

(iv) Besides, the tiny sector and village industries were given the benefit of availability of credit from banks at concessional rates.

1.06 During 1991, the Government came out with significant changes in the National Policy pertaining to industrial and economic growth to usher in a new era of liberalisation, debureaucratisation and market oriented deregulation.

Small scale sector was also exposed to the challenges which the opening up of the economy unleashed. A number of studies have, however, concluded that the small scale sector has been able to face the challenges in a much more confident manner than the other segments of the industrial sector. This is also borne out by the fact that the rate of growth of small scale industries in the post liberalisation period has generally been better than the rate of general industrial growth in the country. (Tables 1.3 and 1.3.1).

TABLE 1.3 Growth of SSI Sector		TABLE 1.3.1 Growth of Industry		
			(General)	(Manufacturing)
Year	Annual Growth Rate	Year	Annual Growth Rate	Annual Growth Rate
1991-92	15.0	1991-92	0.6	-0.8
1992-93	17.1	1992-93	2.3	2.2
1993-94	15.5	1993-94	6.0	6.1
1994-95	21.7	1994-95	9.4	9.8
1995-96	21.2	1995-96	12.1	13.6
1996-97	15.8(p)	1996-97	7.1	8.6

(p) Provisional

(Source: Economic Survey, 1997-98)

1.07 Timely and adequate availability of credit is crucial for the setting up and expansion of small scale units. The banking system generally meets the working capital requirements of SSI sector and State Financial Corporations (SFCs) provide them term loans. Reserve Bank of India (RBI) and Government of India have taken several policy measures to step up the flow of credit to this sector.

1.08 A separate policy statement for small, village and tiny enterprises was also issued in 1991 which outlined developmental, deregulatory and de- bureaucratic measures and underscored the need to shift from subsidised/cheap credit (except for specific targeted tiny/village industries) to a system which would ensure adequate flow of credit on timely and normative basis to this sector.

1.09 To ensure adequate and timely flow of institutional credit to Small Scale Industries (SSI), a Committee headed by Shri P.R. Nayak, the then Deputy Governor, RBI was appointed in 1991. On the basis of the recommendations of this Committee, guidelines were issued by RBI to banks, inter-alia, advising them to (i) give preference to village industries and the smaller tiny units while meeting the credit needs of small scale sector, (ii) grant working capital limits to SSI units whose credit limits in individual cases were upto Rs.50 lakh (since enhanced to Rs.4 crore) computed on the basis of minimum of 20% of their estimated annual turnover and (iii) extend Single Window Scheme (SWS) of Small Industries Development Bank of India (SIDBI) to all districts of the country. The application forms as well as procedures for borrowing by SSI units were also standardised and simplified.

1.10 Sickness in industry is a worldwide phenomenon. Small scale units in our country in various industries also fall sick on account of a variety of reasons. As per RBI data, there were 2,35,032 sick small industrial units in the country with outstanding bank credit of Rs.3,609 crore as on 31st March 1997. Out of this, 16,220 (6.9%) units were identified as potentially viable, of which 10,539 units (65.0%) were put under nursing programmes.

Table 1.4 gives the position of sick SSI units for the two years ending March 1997.

TABLE 1.4
SICK SSI UNITS

(Rs. in lakh)

	As on			
	31.3.96		31.3.97	
	No. of units	Amount	No.of units	Amount
1. Total SSI advances out-standing	29,75,898	34,24,558	31,79,000*	31,54,231*
Total amount involved in:				
2. Sick units	2,62,376	3,72,194	2,35,032	3.60.920
3. Potentially viable units	16,424	63,582	16,220	47,931
4. Non viable units	2,40,168	2,94,365	2,13,014	3,03,159
5. Units in respect of which study is yet to be conducted	5,784	14,247	5,798	9,830
6. Viable units put under nursing programme	11,026	42,192	10,539	32,228

*The data furnished above relates to Scheduled Commercial Banks, except the figure relating to item No. 1 (total SSI advances outstanding as on 31.3.1997) which relates to public sector banks.

(Source: Reserve Bank of India)

1.11 Government of India (in the budget for 1995-96) had announced a Seven-Point Action Plan which, inter-alia, envisaged setting up of specialised SSI branches in identified districts having high density of small scale industries, adequate delegation of powers at the branch and regional levels, sanctioning of, as far as possible, composite loans to SSI entrepreneurs and reorientation of approach of bank branch managers regarding working of SSI sector.

1.12 Important Developments since 1991

From 1991 onwards, an overall scheme of structural reforms was initiated. Financial Sector Reforms were a part of this process and included, among others, the initiation of a number of measures in the field of credit to SSI like:

(i) Deregulation of lending rates of RRBs and co-operatives.

(ii) Financial and managerial restructuring, including recapitalisation, of select Regional Rural Banks (RRBs).

(iii) Application of the DAP/MOU discipline for co- operative banks and RRBs.

(iv) Deregulation of lending rates of commercial banks for all loans above Rs. 2 lakh.

(v) Introduction of prudential accounting norms and provisioning requirements for commercial banks, RRBs and co-operative banks.

(vi) Relaxations in the Service Area Approach.

(vii) Widening the scope of indirect lending to the priority sector through placement of deposits with investments in the debt instruments of SIDBI, SIDCs, SFCs and NSIC.

1.13 These measures have been substantially implemented by the banks and there has been significant increase in terms of outstanding credit of Public Sector Banks to SSI from Rs.16,783 crore as at the end of March 1991 to Rs.33,383 crore as at the end of December 1997, accounting for 17.2% of the net bank credit.

However, there has been a decline in outstanding credit for SSI sector as a percentage of annual production from 8.1% in 1991-92 to 7.7% in 1996-97 (Report by the Development Commissioner, SSI). The total advances to SSI from Public Sector Banks and its percentage to net bank credit is given in Table 1.5 below:

TABLE 1.5

Advances of Public Sector Banks to SSI

(Rs.crore)

As on the last Friday of	Net Bank Credit	Total Advances to SSI	% of SSI Advances to net bank credit
1	2	3	4
March 1991	1,05,632	16,783	15.9
March 1992	1,12,160	17,398	15.5
March 1993	1,32,782	19,388	14.6
March 1994	1,40,914	21,561	15.3
March 1995	1,69,038	25,843	15.3
March 1996	1,84,381	29,485	16.0
March 1997	1,89,684	31,542	16.6
December 1997	1,94,246	33,383	17.2

(Source : Reserve Bank of India)

Certain other important developments which have contributed to flow of credit to SSI are; reduction in CRR/SLR requirements; recent increase in investment limits (for SSI) in plant and machinery from Rs.60 lakh to Rs.3 crore; opting out by a number of banks from the guarantee cover of DICGC; the gradual blurring of the distinction between banks and term lending institutions (each progressively taking up the functions of the other).

1.14 Several studies have been conducted by RBI to examine whether the banks have adhered to the recommendations made by the Nayak Committee and implemented the Seven-Point Action Plan. These studies have revealed that despite the instructions/guidelines issued by RBI from time to time, there were deficiencies in certain respects in compliance, at the operational level. Resultantly, SSIs still continue to face various problems in getting adequate and timely credit.

1.15 The Governor, RBI appointed a One-Man Committee under the Chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India, to look into various problems, germane to credit flow to SSI sector and suggest appropriate measures for their redressal.

1.16 The terms of reference of the Committee are as under:-

i) To review the working of credit delivery system for small scale industries with a view to making the system more effective, simple and efficient to administer.

ii) To make suggestions for simplification and improvements in systems and procedures.

iii) To consider the ways and means of strengthening the existing internal mechanism in banks for redressal of customer grievances.

1.17 Methodology

The Committee relied upon the response to the questionnaires issued to Commercial Banks, State Financial Corporations, Industry Associations/ Chambers of Commerce and Industry and the State Governments, as also the information provided by various institutions connected with SSIs. It met the Governor and senior officers of RBI, Chairmen & Managing Directors/Managing Directors of Commercial Banks/State Financial Corporations, Managing Director of Small Industries Development Bank of India, Chairman of National Bank for Agriculture and Rural Development, representatives of Industry Associations, Chambers of Commerce and Industry, Factoring and Venture Capital Companies, Non-Government Organisations, Women entrepreneurs etc. Besides, it visited different States and interacted with Chief Secretaries/Secretaries to the State Governments. In order to have a direct feed back and a closer view about financing functions of bank branches, the

Committee visited a few specialised SSI branches in different regions of the country as also a branch each of a Regional Rural Bank and Urban Co-operative Bank. The selection of the States/bank branches was on a representative basis. A list of the meetings held and the branches visited is given in Annexure I.

The views expressed during the meetings/visits which were relevant to the systems and procedures and also to policy and operational matters have been given due consideration while drafting the Report.

1.18 Structure of the Report

The report consists of six Chapters:

- The First Chapter deals with the Committee's terms of reference and related matters.

- The existing institutional framework for lending to SSI has been dealt with in the Second Chapter.

- Recommendations regarding the Strengthening of Credit Delivery System form the subject matter of Chapter III.

- The Fourth Chapter presents recommendations regarding policy matters.

- The Fifth Chapter deals with the recommendations regarding the strengthening of the internal grievances redressal machinery in the banks and miscellaneous issues connected with the flow of credit to SSI.
- A summary of the major recommendations is included in Chapter VI.

CHAPTER II

EXISTING INSTITUTIONAL FRAMEWORK

2.01 Government has promoted a number of agencies for financing the SSI sector, the most important being the Public Sector Banks and the Small Industries Development Bank of India. National Bank for Agriculture and Rural Development, Regional Rural Banks, Urban Cooperative Banks and Foreign Banks also provide finance to this sector on a priority basis. The State Financial Corporations (which have been set up under a separate statute) are meeting mainly the term loan requirements of small scale sector. Khadi and Village Industries Commission (KVIC) and Khadi and Village Industries Boards (KVIBs) assist in financing Khadi and Village Industries Sector. Besides, National Small Industries Corporation and some specialised women's corporations and minority bodies also provide assistance to SSIs.

2.02 COMMERCIAL BANKS

2.02.01 The Public Sector Banks other than the Regional Rural Banks, have over 44,000 branches covering practically every nook and corner of the country (Table 2.1). They have, therefore, the widest possible reach and have always been depended upon by the Government for providing need based credit facilities to this sector. However, they have mainly concentrated on providing working capital.

TABLE: 2.1

Bank Group-wise/Population Group-wiseDistribution of Commercial Bank Branches in India as on June 30, 1997@

Bank Group	No. of Banks #	No. of branches				
		Rural	Semi-urban	Urban	Metropolitan	Total
Public Sector Banks (100.0)	27	19,418 (43.7)	10,381 (23.4)	7,968 (18.0)	6,626 (14.9)	44,393
Indian Private Sector Banks	35	1,137 (25.4)	1,549 (34.6)	1,022 (22.8)	765 (17.1)	4,473 (100.0)
Foreign Banks in India	41	0 (-)	3 (1.7)	17 (9.5)	159 (88.8)	179 (100.0)
Non-Scheduled Banks	3	3 (33.3)	2 (22.2)	2 (22.2)	2 (22.2)	9 (100.0)
Regional Rural Banks	196	12,423 (85.9)	1,759 (12.2)	274 (1.9)	3 (..)	14,459 (100.0)
TOTAL	302	32,981 (51.9)	13,694 (21.6)	9,283 (14.6)	7,555 (11.9)	63,513 (100.0)

\# As on June 30, 1997 @ Population group-wise classification of branches as per 1991 Census .. Negligible.

Notes: 1. Figures in brackets indicate percentage to total in each group.

2. Bank branches exclude Administrative Offices

Source: (RBI Report on Trend and Progress of Banking in India - 1996-97)

2.02.02 With the introduction of prudential norms, some of the banks have been loaded with huge non performing assets. These have been described as weak banks and the scope, for their innovating and introducing new products, has been severely limited because of their financial position. Government of India through Reserve Bank of India, have taken a number of measures to recapitalise these weak banks so that they could continue their operations in a viable manner.

2.02.03 One of the more important recommendations made by the Nayak Committee and endorsed by Reserve Bank of India and Government of India was opening of specialised SSI branches in 85 districts of the country having the highest concentration of SSIs. Later, the banks were advised to open such specialised branches in another 119 districts having lesser concentration of SSI units. According to the data available, 353 specialised branches had been opened by the Public Sector Banks till March 31, 1997. During the financial year 1997-98, only 17 such branches have been opened which shows that the banks have suddenly decided to decelerate this process. Out of these 353 branches, 138 were actually not new branches, but were existing branches converted into specialised SSI branches. The bank-wise details are given in Annexure II.

2.02.04 The advances of Public Sector Banks to SSI as on the last Friday of December 1997 amounted to Rs.33,382.55 crore in 31.77 lakh accounts. The bank-wise break-up is furnished in Table 2.2.

TABLE 2.2

Public Sector Banks' Advances to SSI as on the last Friday of December, 1997

(Accounts in lakh)

(Amount in crore)

Name of the Bank	No. of accounts	Balance Outstanding	Of which to Cottage, Khadi, Village and Tiny Industry No. of Accounts	Balance outstanding
SBI	12.01	8,932.00	N.A.	4,337.05
SBBJ	0.49	651.82	0.36	131.51
SB HYD	1.29	533.65	0.30	30.15
SB INDRE	0.26	286.00	0.14	101.03
S B MY	0.37	422.33	0.15	196.54
S B PAT	0.40	664.00	0.26	145.00
S B SAU	0.65	631.93	0.02	6.03
S B TRA	1.73	454.87	1.05	187.12
TOTAL A	17.20	12,576.60	2.28	5,134.43

ALL'BAD BK	1.70	797.36	1.47	396.13
AND BK	0.23	413.76	0.10	123.00
BK O BARODA	0.85	2,191.78	0.52	382.17
BK O IND	0.84	2,053.27	0.32	202.68
BK O MAH	0.26	518.25	0.06	75.00
CAN BK	0.97	2,143.44	0.72	533.25
CEN BK	1.46	1,580.80	0.66	172.00
CORP BK	0.13	432.00	0.11	105.00
DENA BK	0.62	758.00	0.17	171.00
IND BK	0.35	914.91	0.21	188.97
INDOVER BK	0.38	1,074.11	0.15	288.20
ORIENT BK	0.19	987.48	0.03	6.09
P N BK	1.92	2,485.41	1.22	297.99
P & S BK	0.27	597.21	0.26	216.84
SYN BK	0.48	634.00	0.40	307.00
UNION BK	0.70	1,629.90	0.45	323.67
UNITED BK	2.26	629.00	1.61	142.00
UCO BK	0.78	572.27	0.71	355.77
VIJAYA BK	0.18	393.00	0.15	49.00
TOTAL B	14.57	20,805.95	9.32	4,335.76
TOTAL A+B	31.77	33,382.55	11.60	9,470.19

N.A. = Not Available.
(PROVISIONAL DATA)
(Source: Reserve Bank of India)

2.02.05 The credit disbursements to SSI of scheduled commercial banks as on the last Friday of June 1995 aggregated Rs.7,775.96 crore. State-wise break-up is given in Table 2.3.

TABLE 2.3

State-wise disbursal of advances of Scheduled Commercial Banks to Small Scale Industries as on the last Friday of June 1995

(Amount in crore)

State/Union Territory	Total disbursal to SSI	Of total SSI to Cottage, Khadi, Village and tiny industry
NORTHERN REGION	1,783.18	29.20
HARYANA	339.05	4.04
HIMACHAL PRADESH	21.19	1.36
JAMMU & KASHMIR	15.25	0.27
PUNJAB	348.11	12.83
RAJASTHAN	181.38	7.34
CHANDIGARH	61.92	0.75
DELHI	816.28	2.60
NORTH-EASTERN REGION	26.73	1.63
ASSAM	15.42	1.36
MANIPUR	1.85	0.07
MEGHALAYA	0.68	0.14
NAGALAND	5.70	@
TRIPURA	1.79	0.06
ARUNACHAL PRADESH	0.37	@
MIZORAM	0.63	N.A.
SIKKIM	0.29	N.A

EASTERN REGION	432.35	17.71
BIHAR	60.85	1.70
ORISSA	221.65	3.34
WEST BENGAL	149.46	12.65
ANDAMAN & NICOBAR	0.39	0.02
CENTRAL REGION	611.56	46.59
MADHYA PRADESH	119.36	10.48
UTTAR PRADESH	492.20	36.11
WESTERN REGION	1,920.41	52.37
GUJARAT	386.39	4.80
MAHARASHTRA	1,483.36	46.64
DAMAN & DIU	0.03	-
GOA	49.88	0.93
DADRA & NAGAR HAVELI	0.75	-
SOUTHERN REGION	3,001.74	83.44
ANDHRA PRADESH	792.21	6.82
KARNATAKA	471.97	19.10
KERALA	771.50	8.68
TAMIL NADU	957.91	47.66
PONDICHERRY	8.10	1.18
LAKSHADWEEP	0.04	
ALL INDIA	7,775.96	230.94

@ NegligibleN.A.= Not Available

(Source: Reserve Bank of India)

2.02.06 The lending by private sector banks and foreign banks to SSI as on 31 March 1997 was Rs.4,717.00 crore and Rs.1,826.00 crore respectively.

2.03 REGIONAL RURAL BANKS

2.03.01 Regional Rural Banks have the second largest spread with 196 banks having more than 14,000 branches. Unfortunately their past performance has not been very good. They could advance to the cottage and village industries Rs.607.28 crore only which formed 7.7 per cent of their total advances as at the end of September 1996. We understand that these modest advances have also generally been given to target groups under government sponsored special programmes such as IRDP.

2.03.02 With Reserve Bank of India having permitted RRBs to lend to non-target groups also and placing them at par with the commercial banks as far as their obligations for lending to the priority sector are concerned, these banks are today poised to provide competitive banking services to a very large number of SSI units in rural areas. Further, their financial and managerial restructuring including recapitalisation of selected Regional Rural Banks, has shown positive results and more than 40 RRBs have now started showing profits. We expect them to become an integral and an important part of the national strategy to finance SSI.

2.04 PROPOSALS

2.04.01 The Committee visited a few such banks and had an occasion to interact with some of their Chairmen. Their staff is willing to grab the opportunity offered by small scale enterprises in the rural sector to increase the business and improve performance. Therefore, we have to plan for crash training programmes for the staff members with an emphasis on proper motivation, development of project appraisal skills, monitoring of credit and modern banking procedures etc. The sponsoring banks and NABARD have also to ensure that adequate funds and human resources are made available for this purpose. They could also be permitted to open specialised branches on the pattern of sponsoring banks where focus could be on services to SSI. Since they have some branches in semi-urban areas and small towns and to augment their resources, they could also be provided refinance support by SIDBI, for their loans to the SSI sector.

2.04.02 RRBs are facing certain problems relating to documentation, stamp duty, mortgage of property etc. In rural areas, mortgages are completed on the basis of land records and through the process of registered mortgage. We were informed in a village in Gwalior (M.P.) that the State Government is not permitting agricultural land to be mortgaged for raising loans for industrial purposes. And if permitted full stamp duty/registration charges are levied on such mortgages as distinguished from agricultural loans. Also equitable mortgages are not permitted in respect of agricultural land for raising industrial or business loans. Hence the issue needs to be deliberated with the various State Governments for evolving a well coordinated national strategy for providing credit to SSIs in rural areas and removing the legal and procedural difficulties. Equitable mortgages should be permitted and if registered mortgages have to be done, these should be permitted without any stamp duty or registration fee as in the case of agricultural loans. The agricultural land should be permitted to be mortgaged for raising business or industrial loans. Recovery of such loans could be made through attachment and sale of property as in the case of agricultural loans. One of the States which we visited had imposed a special tax on equitable mortgages also. Such retrograde taxation measures should be discouraged.

2.05 SIDBI

2.05.01 SIDBI set up under an Act of Parliament is the wholly owned subsidiary of IDBI. SIDBI commenced its operations on April 2, 1990 and assists SSI sector through its (a) Refinance Schemes (b) Direct Assistance and (c) Promotion and Development programmes.

2.05.02 Over the last eight years of existence (1990-98), its sanctions grew from Rs.2,410 crore to Rs.7,480 crore and disbursements from Rs.1,839 crore to Rs.5,239 crore, registering a compounded annual growth rate of 17.6 per cent and 16.1 per cent, respectively. The aggregate sanctions and disbursements during the 8 year period amounted to Rs.36,260 crore and Rs.26,700 crore respectively. It may be mentioned that out of the cumulative assistance, 80 per cent related to term financing and 20 per cent to working capital assistance, by way of bills facility/resource support to factoring organisations. In terms of Nayak Committee Report, the estimated term financing requirement from SIDBI, during the 8th Plan period, was placed at Rs.9,950 crore against which SIDBI had advanced more than Rs.12,000 crore during the plan period, thereby exceeding the given target of term credit to SSI. Of this, nearly 65 per cent of the assistance has been extended by way of refinance and resource support to the primary lending institutions engaged in development of tiny and small scale sectors. Maintaining the previous growth, SIDBI is poised to meet the long term credit requirements of the SSI sector with an estimated disbursements of about Rs.35,000 crore over the next five years.

2.05.03 When SIDBI took over the outstanding portfolio of SSI from IDBI aggregating to Rs.4,200 crore, the portfolio related mainly on refinancing and bills rediscounting operations. The portfolio has swelled over a period of time to Rs.12,800 crore by the end of March 1998, giving compounded annual growth rate of 16 per cent in asset growth which can be considered fairly reasonable performance in the institutional mechanism.

2.05.04 Since inception, to meet the requirement and mitigate the difficulties of the sector, SIDBI has been designing new products andinstruments which include the following :

S.No.	Requirement	Schemes operated by SIDBI
1.	Delayed Payment of Bills	Direct Discounting of Bills (Components) Scheme Direct Discounting of Bills (Equipment) Scheme Factoring Services Bills Rediscounting Scheme (Equipment) Bills Rediscounting Scheme against Inland Supply Bills of SSI
2.	Obsole-scence of Technology	Technology Development and Modernisation Fund (TDMF) Scheme (direct assistance) Refinance Scheme for Technology Develop-ment and Modernisation ISO 9000 Scheme (Direct Assistance) Refinance Scheme for Acquisition of ISO 9000 Series Certification by SSI units

3. Working Capital Availability	Single Window Scheme Composite Loan Scheme	) Through PLIs)
	Working Capital Term Loan Short Term Loan	) Direct) Assistance
4. Marketing inadequacies	Scheme for financing Activities relating to Marketing of SSI products	
5. Lack of suitable infrast-ructure	Scheme of Direct Assistance for Development of industrial infrastructure for SSI sector Scheme of Integrated Infrastructural Development (IID) Growth Centres	
6.Insuffcient Export credit	Pre-shipment Credit in Foreign Currency Scheme for Export Bills Financing Rupee Pre-shipment/post-shipment credit Foreign Letters of Credits	
7. Human Resources	Entrepreneurship Development Programmes Small Industries Management Assistants' Programme Skill-cum-Technology Upgradation Programme	

2.05.05 SIDBI has also been paying special focussed attention for promotion and development of vulnerable sub-sectors of the economy, tiny sectors and rural poor by taking up specialised developmental initiatives including Rural Industrialisation Programmes (RIPs) and Micro Credit Scheme (MCS).

2.05.06 SIDBI's thrust areas are:

- Technology Development and Modernisation of SSI
- Infrastructure Development for SSI
- Improved marketability of SSI products both in domestic and international markets.
- Venture Finance for developing innovative ventures in SSI
- Enhanced export capabilities of SSI

2.05.07 SIDBI, operates six funds mainly to nurture the smaller of the small SSI units.

2.06 SOURCES OF FUNDS

2.06.01 SIDBI raises its resources through (a) Domestic Channel and (b) External Channel.

2.06.02 Domestic Channel

i) Internal generation by way of repayment of loans and advances

ii) RBI's NIC (LTO) Fund - RBI has been relending to SIDBI amount equivalent to repayment of past borrowings by IDBI out of National Industrial Credit (LTO) Fund

iii) SLR Market Borrowingiv) Deposits with SIDBI by Foreign/Private Sector Banks - Direction given by RBI to foreign and private banks to place those funds with SIDBI which result from the shortfall in priority sector targets

v) SIDBI Fixed Deposit Scheme - SIDBI has been empowered to raise fixed deposits from the domestic market

vi) SIDBI had approached the open market with deep discount bonds, happy return bonds, floating rate bonds and unsecured bonds.

2.06.03 External Channel

i) OECF (Japan) Loan

ii) Kreditanstalt fur Wiederaufbau (KfW) Line of credit

2.06.04 Sources of funds raised by SIDBI during FY 96, FY97 and FY 98 are given in Table 2.4 below:

Table 2.4

Resources Raised by SIDBI during FY 96-FY 98

(Rs.crore)

	1995-96	1996-97	1997-98 (Prov.)
I. External Borrowings			
OECF Loans (counterpart rupee funds)	644.00	320.28	602.43
KfW	30.00	3.00	57.68
Sub-total	674.00	323.28	660.11
II. Domestic Borrowings			
NIC (LTO) Fund - RBI	224.00	125.00	275
Deposits from foreign banks	123.62	127.84	109.73
Private Sector Banks deposits	-	218.34	-
SLR Bonds	150.00	50.00	50.00
Unsecured Bonds	-	300.00	-
Others	32.60	8.73	304.25
Sub-total	530.22	829.91	738.98
Total	1,204.22	1,153.19	1,399.09

(Source : SIDBI)

2.06.05 The share of business product groups in cumulative sanctions and disbursements is as given in Table 2.5.

Table 2.5

(Rs.crore)

Product Group	Cumulative assistance		%age to total (1990-98)	
	Sanc.	Disb.	Sanc.	Disb.
Refinance	18,048	13,978	49.77	52.36
Bills finance	9,915	8,565	27.34	32.08
Project related financing	2,562	880	7.07	3.30
Venture financing	98	23	0.27	0.09
Resource support	5,484	3,145	15.12	11.78
Indirect equity	102	81	0.28	0.30
P & D assistance	51	25	0.14	0.09
Total	36,260	26,697	100.00	100.00

(The figures for FY 98 are provisional)

(Source: SIDBI)

2.06.06 SIDBI has developed a number of new products over the period so that it does not remain merely a refinancing institution. This is especially so when availment of refinance is largely conditioned by the changes in the immediate operating environment of PLIs and particularly their liquidity position. The purpose of routing the assistance through PLIs is to reach the assistance through the vast network of branches of these institutions. Thus, refinance continues to be a major product for SIDBI in its endeavour to reach credit to SSI.

2.07 PROPOSALS

2.07.01 The post liberalisation era has brought about a number of changes in the financial system thereby squeezing the spread available to development institutions like SIDBI which find it difficult to continue cross subsidisation of its credit to the sector, particularly to the tiny sector. SIDBI is required to be supported by Government by facilitating it to mobilise low cost funds both in domestic market and abroad. PLIs seek refinance at a rate which is below the average cost of funds of SIDBI. These PLIs need to be provided cost effective refinance for ensuring increased credit flow to the sector. This calls for SIDBI managing resources at low cost : (i) increase in equity capital as is being done in the case of NABARD; (ii) flotation of tax free bonds; special dispensation funds placed with SIDBI by Government; (iv) increased allocation out of NIC (LTO) Fund of RBI and; (v) Government providing exchange risk cover for SIDBI against its external commercial borrowings.

2.07.02 LIC/GIC and pension funds should lend a part of their funds to SIDBI for on-lending to SSI units.

2.07.03 The package of financial sector reforms, implemented over the last 6-7 years, has redefined the role of financial institutions (FIs) and banks towards operational flexibility and financial autonomy. The fiscal compulsions have forced the institutions to borrow money from the market at commercial terms. Prudential norms such as capital adequacy, asset classification and provisioning have driven the banks to be selective in extending credit. These compulsions along with re-emerging of profitability as a prime indicator have forced the banks to pick up the best of borrowers from within the SSI sector.

2.07.04 The recommendations of the Expert Committee headed by Dr. Abid Hussain (referred to as E.C. hereafter) have, by and large, been accepted by the Government and the investment ceiling for SSI/Ancillary/Tiny units has been enhanced. We have, however, noticed a statement by the Prime Minister in which the investment limit for SSI was promised to be rolled back to Rs.1 crore (from the notified Rs.3 crore).

2.07.05 We are of the view that SIDBI should be accorded the same role and status as the nodal/co-ordinating agency for financing of small industries as is now available to National Bank for Agriculture and Rural Development in the field of agricultural development.
SIDBI's role in the state level institutions should be both as stake holder as well as resource provider. For this purpose, SIDBI should have access to assured sources of concessional funding from the RBI and brought under the Central Bank's Supervisory ambit.

2.08 We have had a chance to examine the working of some of the schemes and the funds being managed by SIDBI. In respect of the National Equity Fund, we have made certain suggestions and recommendations, in Para 4.04.03 of this Report, regarding its expansion and use through the Public Sector Banks.

2.09 MAHILA VIKAS NIDHI

This scheme envisages extending support by way of a judicious mix of loan and grant to accredited voluntary organisations for taking up activities to bring about economic development of women, especially the rural poor. Up to March 31, 1998, 131 NGOs have been supported benefiting 17,400 women with aggregate assistance of Rs.5.84 crore. This figure shows that the scheme has not really taken off. At least 60 per cent of national population of women are living in the villages and if a scheme supports only 17,400 women in a period of 7-8 years, there is something amiss. We would suggest that SIDBI should review this scheme and modify it in consultation with the Union Government and the State Governments. At least twenty five thousand rural women should be covered every year.

2.10 MAHILA UDYAM NIDHI

Under this scheme soft loans (quasi equity) is provided to women entrepreneurs for setting up new projects in tiny/SSI sector. Upto March 31, 1998, only Rs.13 crore of sanctions and Rs.10 crore of disbursement have taken place benefiting over 2000 women entrepreneurs. Our suggestion is that this scheme should be merged with the NEF and the funds placed at the disposal of the Public Sector Banks as has been recommended in respect of NEF (separately). Other things being equal, entrepreneurs belonging to weaker sections, SC, ST, backward classes and women could be given preference in the matter of disbursal of NEF. We suggest development of some convergence in respect of loan schemes directed at development of entrepreneurship amongst weaker sections. Government bodies taking up schemes for helping entrepreneurs belonging to weaker sections should follow the pattern suggested for NEF and place the funds with the banks to be used as equity or margin money. In this connection, the recent initiative taken by KVIC in placing over Rs.100 crore of margin money for village enterprises with the Public Sector Banks needs to be commended.

2.11 VENTURE CAPITAL

2.11.01 The assistance from SIDBI's Venture Capital Fund has aggregated Rs.97 crore of sanctions and Rs.22 crore of disbursement upto March 31, 1998 which is rather modest. SIDBI also participates in the venture capital fund set up by the public sector institutions as well as private companies upto 50 per cent of the fund, provided such a fund is dedicated to financing SSI. Recognising the need of venture capital financing for software units in the small scale sector, SIDBI has been interacting with various State Governments, state financial institutions, software industry associations and large software units to explore the possibility of setting up dedicated Software Venture Capital Funds particularly in those states which have a concentration of software units. While Karnataka, Tamil Nadu, Orissa and Rajasthan have taken effective steps for setting up such funds for which SIDBI has sanctioned Rs. 33 crore, other states like Andhra Pradesh, Punjab, West Bengal and Uttar Pradesh are examining the possibility of setting up such funds.

2.11.02 It is well known that lot of difficulties are being encountered by venture capital funds in our country. The existing laws and procedures have not been really tuned up to let these funds prosper. Most of the private sector venture capital funds are folding up. While we have reiterated and recommending in Para 4.10 of this Report, the need for strengthening the venture capital culture yet, for the time being, we would commend the work done by SIDBI for launching Software Venture Capital Funds with the collaboration of state agencies. We recommend that SIDBI may set up a few such funds in collaboration with Software Professionals Associations or their expert bodies. It is hoped that these venture capital funds would help software professionals wanting to set up their own businesses because they are not able to get the funds which they need from banks as they cannot mortgage their brains' which is the only `capital' they have. However, we have been informed that certain foreign banks are giving clean loans to professionals if they want to go into business. The venture capital funds for software should operate on these lines and repose full trust in such professionals. These should be willing to provide venture capital upto Rs.25 lakh to each such software professional who wants to set up business of his own. SIDBI should examine setting up of funds for other emerging sub-sectors like food processing and industry related export services.

2.12 MARKET DEVELOPMENT ASSISTANCE FUND

This fund which has been set up for a very laudable purpose for promoting innovating marketing projects has also not really taken off.

Out of a total earmarked fund of Rs.15 crore, a sum of Rs.2.5 crore has been earmarked for providing marketing assistance to women enterprises. Small entrepreneurs complain that the conditionalities attached to grant of assistance from this fund are almost impossible to fulfill. They say that at present this fund is available only for financing tangible assets like showrooms. Brand promotion, setting up of modern marketing systems and expenditure on publicity etc. are not encouraged. We recommend that SIDBI may review the scheme with the help of a committee of SSI entrepreneurs who are exposed to marketing in a competitive environment. The assistance from the fund could be made available to companies for marketing their products directly or to set up innovative marketing systems like Amway, Avon and Tupperware. SIDBI has to give the refurbished scheme a big push in order to make a proper impact. Assistance under this scheme could also be provided through banks. Even private sector intermediaries and NBFCs could be used for channelising this fund.

2.13 TECHNOLOGY DEVELOPMENT AND MODERNISATION FUND

2.13.01 This scheme was announced with a lot of fanfare by the then Union Finance Minister and a separate fund of Rs.200 crore was promised. However, the cumulative assistance for the period ending March 1998, aggregated only Rs.85 crore of sanctions and Rs.33 crore of disbursements. It is a fact that SSI units as well as the entire Indian industrial sector require a complete overhaul if they have to be competitive. At present banks are supposed to charge (SIDBI PLR)

14 per cent as interest on loans under the scheme. The banks can also avail of refinance from SIDBI but they are given a margin (spread) of only 2-3 per cent. In order to give it a big push we feel that the following measures have to be taken.

a) Extensive publicity has to be made about this scheme. All Government development agencies including SISIs, DICs, Department of Science and Technology etc. have to prepare and offer modernisation packages for various sub-sectors of SSI. In fact, SIDBI could also assist in connected research and development efforts under this programme.

b) National and state level consultancy organisations - in the public and private sectors - could be commissioned for preparing modernisation packages for individual units and for SSI clusters. Common facilities set up by the Governments could be corporatised as recommended by E.C. and the machinery and technology upgraded by use of these funds.

c) The fund could even buy software packages for improved technology from abroad. Modern machinery for demonstration purposes also could be obtained.

d) A separate management committee could be constituted to oversee the policies and programmes for this fund. This committee could comprise technical experts, bankers and entrepreneurs.

e) Loans under this scheme could also be routed through the banks because SIDBI does not have a widespread retail outlet network. However, as the lending banks take the complete credit risk adequate spread, say 4 per cent could be given to them to make the scheme attractive for them.

f) Some amount by way of margin, say 10 per cent, could also be provided out of this fund for matching the entrepreneurs' contribution and thus making the scheme bank and enterprise friendly.

2.13.02 This question of distribution of margin (spreads)also needs to be addressed. Today SIDBI says it has various schemes ready for all aspects of SSI development but there are few takers. On the other hand, the bankers say that they can disburse all the funds under the schemes provided they are given some reasonable margin (spreads) and SIDBI also shares the risk involved in this type of lending. We would recommend this matter for a decision by the Reserve Bank of India. They should convene a meeting of SIDBI and Public Sector Banks and decide what should be the margins (spreads) normally available to the banks if the risk is shared by SIDBI or not so shared.

2.14 RECONSTRUCTION FUND

2.14.01 We recommend the setting up a new fund called the SSI Reconstruction Fund. It may be set up in the SIDBI but the initiative has to be taken up by the Government/RBI and initial corpus has also to be provided by the Government/RBI. This should be linked with all the Public Sector Banks through appropriate lines of credit.

2.14.02 We propose that every SSI unit should be entitled to an additional 20 per cent ad hoc limit from the banks. Generally, the branch managers are authorised to grant such ad hoc facilities to the extent of 10 per cent to help the units to get out of temporary difficulties. But they have become hesitant to use these powers as a consequence of a certain judgement of the Hon'ble Supreme Court. Today for most of the SSI units dealing with the banks, there is no accommodation beyond the sanctioned limit. With a low capital base and limited bargaining power they (SSI) face difficulties and delays at different stages of their operations such as marketing of their products and realisation of their dues. Sometimes these units are not in a position to sustain a delay of even a few days in respect of payment of a bill. These difficulties get accentuated when there is a temporary slow down in the general economy or in a particular industry. The banks should monitor such advances. For this purpose branch managers could be delegated powers to grant ad hoc facilities to the extent of 20 per cent. The managers could also draw upon the Reconstruction Fund mentioned above to provide margin money to the extent the borrower is not able to provide for the additional facilities made available. If there is a shortfall even after the provision of this additional margin money from the Reconstruction Fund, the banks could permit borrowers to make good the shortfall over a period of time out of the future profits of the units.

2.15 NEW PRODUCTS

2.15.01 Direct discounting of bills, equipment finance scheme, project finance scheme, factoring, ancillary/vendor development, the scheme for grant of credit rating to SSIs, direct assistance for development of industrial infrastructure, foreign currency term loan, pre-shipment credits, foreign letters of credits, export bills financing, working capital term loans, resource support to the institutions involved in development of SSI, are some of the other important schemes taken up by the SIDBI.

2.15.02 During our interaction with SSI associations, we were informed that while SIDBI is doing good work yet the scope of most of its activities and the coverage of its schemes are still restricted and limited. SSI entrepreneurs also mentioned that SIDBI is not using many modern banking practices while financing SSI through its direct lending programmes. For instance, SIDBI relies completely on collateral security. SIDBI should develop as a role model of SSI banking using modern techniques, quick decision making and first rate appraisal systems.

2.15.03 There are wide gaps in the country where development banking services for SSI are just not available like the North-East and the States where SFCs are very weak, like Bihar and J&K. We recommend that SIDBI should take up a proactive role in filling up these gaps. It could be persuaded to open more branches, vending most modern banking services and products in such areas to help trigger SSI growth and development. It could blaze a new trail by financing projects on their viability and not on the basis of the collateral offered.

2.15.04 There is a hiatus between SIDBI and other institutions engaged in development of SSI. One of the major causes of this is the fact that SIDBI has grown as a subsidiary of IDBI. On the other hand the Department of SSI and ARI, of the Ministry of Industry, even though it is represented on the Board of SIDBI, has a feeling that there should be prior consultation by SIDBI regarding formulation of policies and programmes with it. This apparent misunderstanding has to be sorted out if SIDBI is to become a more powerful and positive instrument for development of SSI. One of the suggestions made to us and which we would recommend to the Reserve Bank of India for consideration is that since SIDBI has come of age, the linkages which bind it with IDBI could now perhaps be loosened/snapped. On the other hand it could be linked in a healthy way with the Ministry of Industry (Department of SSI & ARI) and its programmes. Incidentally the Finance Minister has in his Budget Speech on June 1, 1998 announced that SIDBI would be delinked from IDBI.

2.15.05 We would suggest that SIDBI should concentrate on a few important schemes where massive impact could be achieved in a very short time. As a National Development Bank it should not take up small' schemes and programmes having limited impact. We would, therefore, suggest for consideration of SIDBI that it may review its programmes with a view to weed out the ones which have not created any visible impact.

2.15.06 In respect of the Rural Industries Programme which resulted in promotion of 4,650 tiny/SSI enterprises spread over 43 districts in 11 States, we would like to mention that the efforts should be to create sustainable development. It does represent good work done, yet if the impact has really to be felt then more efforts have to be made and they have to be concentrated in the districts where such initiative has already been taken. But the rest of the States i.e. other than the 11 already covered, have also to be covered by these programmes at least a district in each State.

2.15.07 SSIs complain that the sector is not adequately represented in the Board of Directors of SIDBI. We find that the complaint is justified to some extent. This could be kept in view while reconstituting the Board of Directors in the future. Six to eight members on the Board of Directors could perhaps be drawn from this sector - SSI entrepreneurs or SSI experts or SSI representatives.

2.15.08 We hope that adequate feed back is being received from the programmes by way of studies and surveys to enable necessary corrective action to be applied. This should be a part of the evaluation work which SIDBI should always be doing. There is one element of SIDBI's operations which has been bothering us throughout our interaction with SIDBI and SSI enterprises and that is the attention being given to the tiny sector. We have also received complaints from some SFCs that SIDBI and some banks are poaching on the best of their customers and they are not really doing much for the tiny SSI. We find that no percentages have been fixed in respect of flow of SIDBI funds to ensure adequate credit flows to the tiny sector. Reserve Bank of India may like to indicate such percentages now. We would propose that at least 40 per cent of the credit be earmarked for enterprises having plant and machinery upto Rs.5 lakh. It can either take up such units itself or it can refinance the loans to such units.

2.16 URBAN COOPERATIVE BANKS

It was refreshing to see that the Urban Cooperative Banks are playing a useful role in dispensing credit to SSI. There were 1,653 banks in operation as on March 31, 1997; out of these 1,003 reported advances of Rs.3,447 crore to SSI which formed 30.6 per cent of their priority sector lending (their target for priority sector lending is 60 per cent). These banks are having special linkages and bonds with their borrowers which reminds one, of small local area banks/small town American banks.

2.16.01 The customers of these banks faced some difficulties as a result of the small size of these banks and their problems in building agency relationship regarding bills, drafts, cheques, etc. with Public Sector Banks in the rest of the country. As distinguished from agriculture, industrial units have to deal with a very wide spread clientele involving inter-city transfer of funds, realisation of dues etc. It is, therefore, necessary to have such linkages if their business is to succeed. These banks should be encouraged to develop linkages besides the cooperative system so as to enable them to deal with modern SSI in a big way. We noticed that Apex Cooperative Banks in the case of some of these Urban Cooperative Banks were proving to be serious bottlenecks in the expansion of their business activities. The Urban Co-operative Banks are not seeking any refinance because they are flush with their own deposits.

2.17 PROPOSALS

2.17.01 Another feature we noticed in their case was that their staff was very knowledgeable about the local conditions and the population, yet their knowledge of banking practices and procedures and experience to deal with modern and traditional SSI and service units was modest. Reserve Bank of India may take the initiative to hold an all-India conference of such Urban Cooperative Banks and take some policy decisions regarding upgradation of skills of their staff, improvement in the training programmes and linking and integrating them with the country's banking system generally.

2.17.02 Reserve Bank of India may consider encouraging the setting up of more and more Urban Cooperative Banks which could function as the Local Area Banks. However, one of the handicaps which these banks suffer from, is the archaic cooperative laws which give unfettered powers to the Registrar, Cooperative Societies and State functionaries to interfere with their working. One method to bye pass these regulations could be to expedite enactment of a new Company Law incorporating a Chapter on Cooperative Companies which could be looked after by the Registrar of Companies. Another method which could be explored is to promote such Urban Cooperative Banks under the Central Multi State Cooperative Societies Act which could be suitably amended to provide for more self-regulation and autonomy.

2.18 STATE AND CENTRAL COOPERATIVE BANKS

2.18.01 Cooperative banks in rural areas are financing a very small part of the rural industry. They generally concentrate on financing agriculture and allied activities. With the increase in population, agriculture can no longer support all the rural population. Even today, with GDP contribution of about 30 per cent, agriculture is supporting almost 60-65 per cent of the country's population.

2.19 PROPOSALS

2.19.01 We did not have a chance to study the procedures regarding the smooth flow of credit through rural cooperatives to rural industry. We propose that NABARD could be requested to undertake a study of this aspect of the work of the rural co-operative bank structure and take remedial measures to ensure that at least 20 per cent of the cooperative credit flow of these banks goes to artisans, village industry and rural SSI sector.

2.20 STATE FINANCIAL CORPORATIONS (SFCs)

2.20.01 These have been set up under SFCs Act legislated in the early 50s. There are 18 such corporations in the country. The capital of these corporations is generally contributed by the State Government and the IDBI. There are various restrictions on payment of dividend and appropriation of profits etc. under the Act. They have played a pioneering role in providing term loans to SSI as well as some other related businesses like motor transport.

2.20.02 Till March 1997, cumulative sanctions from these corporations to SSI sector were Rs.16,817 crore and those during the year 1996- 97 Rs.1,867 crore. Table 2.6 gives assistance sanctioned and disbursed to Small Scale Industries by SFCs.

TABLE 2.6

ASSISTANCE SANCTIONED AND DISBURSED TO SMALL SCALE INDUSTRIES BY STATE FINANCIAL CORPORATIONS

(Amount in crore)

Year	Sanctions	Disbursements
(1)	(2)	(3)
1992-93	1,509.9 (27,567)	1,163.9
1993-94	1,419.4 (18,852)	1,175.2
1994-95	1,742.8 (20,141)	1,314.5
1995-96	2,280.4 (20,227)	1,675.4
1996-97	1,867.4 (15,572)	1,529.5
Cumulative upto end-March 1997	16,817.4 (4,54,192)	13,839.9

Note: Figures in brackets in column 2 indicate number of units sanctioned assistance.

(Source: IDBI report on Development Banking in India 1996-97).

2.20.03 There was wide variation in the performance of individual corporations. While Karnataka State Financial Corporation has sanctioned Rs.354 crore during 1996-97, Assam State Financial

Corporation has sanctioned only Rs.0.4 crore, Jammu and Kashmir Rs.1.8 crore, Himachal Pradesh Rs.7.4 crore and Bihar Rs.7.5 crore.

2.20.04 State-wise sanctions of assistance to SSIs by SFCs is furnished in Table 2.7.

TABLE 2.7

STATE-WISE ASSISTANCE SANCTIONED TO SMALL SCALE INDUSTRIES BY STATE FINANCIAL CORPORATIONS

(Amount in crore)

Sr. No. State	1994-95	1995-96	1996-97	Cumulative upto end-March 1997
1 2	3	4	5	6
1. Andhra Pradesh	100.6	129.7	114.5	1,220.7
2. Assam	4.9	0.1	0.4	66.4
3. Bihar	-	20.1	7.5	450.1
4. Delhi	22.8	35.9	40.3	309.7
5. Gujarat	201.8	267.2	181.1	2,159.1
6. Haryana	193.1	181.8	78.8	897.1
7. Himachal Pradesh	7.2	9.3	7.4	105.8
8. Jammu & Kashmir	0.5	0.5	1.8	137.2
9. Karnataka	282.5	343.0	353.8	2,233.4
10.Kerala	49.8	143.7	121.3	747.7
11.Madhya Pradesh	33.7	42.4	39.2	474.8
12.Maharashtra	262.6	347.3	165.9	1,650.9
13.Orissa	16.0	27.5	20.5	427.2
14.Punjab	33.0	63.2	72.3	792.8
15.Rajasthan	150.0	146.2	135.8	1,205.1
16.Tamil Nadu	215.9	295.6	248.7	1,950.9
17.Uttar Pradesh	135.8	197.0	242.9	1,591.8
18.West Bengal	32.6	29.9	35.2	396.7
Total	**1,742.8**	**2,280.4**	**1,867.4**	**16,817.4**

(Source: IDBI report on Development Banking in India 1996-97).

2.20.05 SIDBI provides refinance and other assistance to these SFCs. Refinance outstanding from SIDBI to SFCs as on March 31, 1998 is given in Table 2.8.

TABLE 2.8

REFINANCE OUTSTANDING OF STATE FINANCIAL CORPORATIONS TO SIDBI AS ON MARCH 31, 1998

(Rs. lakh)

SFC	
Assam	1,480.00
Andhra Pradesh	14,601.00
Bihar	8,880.00
Delhi	2,632.00
Gujarat	39,515.00
Haryana	20,578.00
Himachal Pradesh	2,184.00
Jammu and Kashmir	4,888.00
Kerala	21,751.00
Karnataka	83,649.00
Madhya Pradesh	6,768.00
Maharashtra	34,893.00
Orissa	5,996.00
Total	3,71,374.00

(Source: SIDBI)

2.20.06 However, most of these SFCs are plagued by low recoveries, indifferent management and political interference. A number of Committees have been set up to study the problems of these institutions and suggest measures for their revival. But nothing concrete has emerged so far. As a result, this important channel for providing financial assistance to the SSI is effective only in a few States. Normally the Chairman is a political person and the Managing Director (MD) is drawn from the State Civil Services. Even though the MD has to be appointed by the State Government in consultation with the IDBI, yet this consultation rarely takes place before the appointment is made. As a result, appointment of MDs without considering their background etc. and their frequent transfers have played havoc with the management of these corporations. It is not rare to see an SFC with NPAs of over 30 per cent inspite of the fact they enjoy unparalleled powers under Section 29 of the SFCs Act to take possession of the charged assets and recover their dues. These powers are not available to banks or all India Financial Institutions. We were distressed to know that most of the SFCs are now advancing loans against collateral security in addition to hypothecation of plant and machinery etc.

2.21. PROPOSALS

2.21.01 While the GOI has pumped in a very large amount to shore up the eroded financial position of the nationalised banks, they have not taken any such action in respect of these SFCs. We are of the view that these institutions can continue to play an important role and therefore, they have to be restructured, refurbished and restrengthened to perform well. In his budget speech the Finance Minister has announced that IDBI shareholding in SFCs will be transferred to SIDBI.

2.21.02 The following suggestions are being made:

a) We understand that SIDBI had set up a committee to find out how financial restructuring of some of the weaker SFCs could be taken up. They have since submitted their report and on the basis of that report the Khan Committee made some specific recommendations to the Union Government. No decision has been taken in respect of these recommendations which involved some amendments to the existing laws. It is suggested that these recommendations may be taken up for prompt decision by the Union Government. In any case SIDBI should be helped through provision of funds etc. to take up a plan for financial restructuring of these bodies to enable them to get out of the dampening effect of NPAs. SIDBI has permitted SFCs to take up single window lending which includes both term loan as well as working capital. Funds for this could be placed by SIDBI with SFCs in adequate measure to enable them to take up such lending. Alternatively, SIDBI should receive proposals from these corporations to do the lending itself directly in all such cases, till the health, particularly of weak SFCs, is restored.

b) Each SFC should get into an MoU with one or two Public Sector Banks and participate in joint lending in which both term loan and working capital is provided jointly. For example 80 per cent of the term loan could be given by SFC and 20 per cent by the bank. In the case of working capital which may be sanctioned at the same time as the term loan, the proportion could be reversed, i.e. 80 per cent by bank and 20 per cent by SFC. However, the working capital account could be managed and supervised by the bank preferably through its specialised SSI branches.

c) SIDBI should sign MoUs with the State Governments to provide some assistance to these SFCs prior to the approval of assistance packages by the Government of India/SIDBI. In return for such funding, the State Government could either agree to the appointment of an experienced banker as MD of the Corporation or agree to provide a panel of its officers with the right kind of background and experience and SIDBI could select one of them for appointment as MD for a minimum term of 3-5 years. Besides, the State Government and the SFC should agree to launch a concerted drive to recover its outstanding dues. A separate asset management department could be set up to look after all cases involving defaults.

d) State Governments are generally having poor financial position. Therefore, we may not consider any restructuring proposal requiring participation in financing or funding of the SFCs by the State Governments. State Governments' share could either be substituted and provided by SIDBI or by the Government of India, if such additional funding is required to rehabilitate and revitalise the corporation concerned.

e) The staff of these corporations has to be adequately trained and SIDBI may be asked to make arrangements for this purpose. Even

SIDBI could take up the expenditure on account of this training on its own budget because all the corporations have poor financial position and will not be able to spend substantial amount for training their staff.

f) SIDBI recently has taken up some direct lending and as was expected, it has chosen to take away the best of customers from both the Public Sector Banks as well as the SFCs and has concentrated on the biggest of the SSI units. While SIDBI may continue to take such direct lending programmes because SSI needs finance from all sources, yet we would suggest that it should not encourage or enter into any unhealthy competition with SFCs/Banks. There are vast areas in the country like the State of Bihar and the North-East which are not covered by any term lending institution. We suggest to SIDBI to make a beginning by lending directly in these areas which are not being provided any term credit facilities for SSI and not to poach on the good customers of state corporations. Reserve Bank of India, as regulator of all the financing agencies, may call a meeting and lay down ground rules for such competition amongst development financial institutions like NABARD, SIDBI, SFCs, State Industrial Development Corporations, the specialised corporations like NSIC etc. and the Public Sector Banks.

2.22 NEDFI

2.22.01 The North-Eastern Development Finance Corporation Ltd. (NEDFI) was incorporated in August 1995 with an authorised share capital of Rs. 500 crore contributed by IDBI, SIDBI, IFCI, ICICI, UTI, LIC, GIC and its subsidiaries and SBI.

The main objective of NEDFI is to provide finance and other facilities for promotion, expansion and modernisation of industrial and infrastructure projects in the region. However, the corporation has made a very modest beginning with sanctions aggregating Rs. 6.82 crore and disbursements aggregating Rs.6.15 crore in 1996-97 which pertained to only 2 units in Assam. The cumulative sanctions and disbursements upto March 1998 aggregated Rs. 26 crore and Rs. 10 crore respectively, covering 21 projects spread over the North-East. We were informed that NEDFI does not intend to directly lend to very small (tiny) industry.

2.23 PROPOSAL

2.23.01 The number of units assisted by NEDFI is insignificant. Further, the State Financial/Industrial Development Corporations in the North-East are almost defunct. We were, therefore, pleasantly surprised to note that in his Budget Speech (June 1, 1998) the Finance Minister announced that the refinancing function for industrial loans of SFCs/IDCs of the North-East will be undertaken henceforth by NEDFI rather than IDBI/SIDBI as at present. While refinancing could be done by NEDFI, we should not permit SIDBI to withdraw from the North-East. They should be asked to set up a direct lending office in each of the States and take up term lending and single window lending on a massive scale to substitute for the SFCs/SIDCs and to kickstart industry. Again, good Public Sector Banks should be persuaded to open more specialised SSI branches in this region. The State

Governments should help by providing assistance to recover bank loans and to improve infrastructure to upgrade performance of SSIs.

2.24 NABARD

2.24.01 National Bank for Agriculture & Rural Development, established in 1982 under an Act of Parliament, has been providing refinance support to banks for financing agricultural and allied activities as also for financing industrial activities in rural areas in small scale sector, cottage and village industries, handicrafts and other rural crafts etc. A large part of the activities of NABARD are related to Government sponsored schemes in the rural areas which include IRDP. As a number of committees have already examined these schemes, this Committee has decided not to go in depth into these matters.

2.24.02 Short term credit lines to state cooperative banks and RRBs are provided by NABARD for assistance to these sectors. Cumulative refinance for rural non-farm sector provided by NABARD upto 1996-97 was Rs.2,396.39 crore and most of it comprised of activities relating to industrial and allied services and business sectors.

2.24.03 In his Budget speech the Finance Minister has announced (June 1, 1998):

a) Setting up of an Infrastructure Development Fund (RIDF) IV with an enhanced allocation of Rs. 3,000 crore to be managed by NABARD.

b) Augmentation in NABARD's share capital by Rs. 500 crore in the current year to meet the credit needs of agriculture.

c) That NABARD would be asked to increase the flow of funds to micro-enterprises through Self Help Groups. A target of covering 2 lakh Self Help Groups comprising 40 lakh families in 5 years and 10,000 Self Help Groups covering 2 lakh families during the current year has also been indicated.

2.24.04 One area which the Committee had a chance to study and which was found to be quite innovative, was the project promoted by NABARD called District Rural Industries project (DRIP). This has been promoted in five districts of the country on a pilot basis. The Committee studied one such project at Gwalior in Madhya Pradesh where over Rs. 3 crore have been disbursed as refinance against credit extended under schemes like promotion of self help groups, community development societies and NGOs. In keeping with the latest thinking in the country, NABARD has paid adequate attention to gender development and issues connected with environment. We found it to be a very successful scheme in which the State Government, banks and all development agencies are cooperating to produce excellent results.

2.25 PROPOSALS

2.25.01 NABARD may now take up more districts for this project. This may be extended to 100 districts in the next 5 years. 20 could be taken up within this year.

2.25.02 NABARD is operating two schemes for handlooms and handicrafts through RRBs and Central Cooperative Banks. NABARD could be requested to prepare similar schemes for assisting leather based industries, vegetables and fruits and food processing industries, milk product units, village level oil units, wheat and rice processing units, stone cutting units, transport and services in rural areas. These industries which are in the SSI sector and spread quite widely over the country, need readymade project profiles for financing. Rural entrepreneurs could take advantage of these schemes and make proposals to RRBs/cooperative banks for loans. These could then be refinanced by NABARD. We have also recommended (in para 4.08.01) that NABARD could be permitted to use RIDF for assisting rural industrial infrastructure. NABARD should also set up a fund similar to National Equity Fund and make facilities available from it to rural industrial units with project costs upto Rs. 10 lakh. This fund would also function on the lines suggested for NEF.

2.26 KHADI AND VILLAGE INDUSTRIES COMMISSION

2.26.01 In the budget speech of 1995-96, the then Union Finance Minister announced a scheme for providing Rs.1,000 crore on a consortium basis by the banking system to the KVIC for lending to KVI units directly or through State Khadi and Village Industries Boards. Reserve Bank of India, accordingly, formed a consortium of select Public Sector Banks with State Bank of India as the leader, to provide credit to KVIC @1.5 per cent below the average PLR of five major banks in the consortium. As on March 31, 1998, Rs.497.14 crore was outstanding under this consortium facility. This has, therefore, not succeeded to the extent planned.

2.26.02 KVIC has also introduced a new margin money scheme, to be implemented by commercial banks and RRBs, under which the margin money upto a certain limit will be provided to the individuals/institutions for setting up of tiny industrial units in the rural areas. KVIC proposes to use the existing network of Public Sector Banks for promoting rural enterprises through this well conceptualised scheme. Small rural entrepreneurs are, however, generally not aware of this. The rural branch managers also do not know about this. This scheme, therefore, needs a lot of publicity and pushing for take off.

CHAPTER III

STRENGTHENING OF CREDIT DELIVERY SYSTEM

3.01 The adequacy of institutional credit to the SSI sector and other related matters were examined by the Nayak Committee during the year 1991-92. Recently, a number of issues, including credit pertaining to small scale industries were also examined by the Expert Committee headed by Dr.Abid Hussain (E.C.). The Informal Group constituted by the Planning Commission under the Chairmanship of Dr.G. Thimmaiah also examined the bank credit to small scale industries and recommended a number of measures to improve its flow to enhance the capacity utilization of small scale industries.

Existing System

3.02 The bank (branch) receives an application for a loan/credit facility either directly or through a designated agency such as District Industries Centre (DIC) or Specific Task Force Group. This application is required to be entered in a `Loan Application Register' maintained to keep proper records, statistics for various purposes and to have a check on the disposal time. A receipt for the loan application tendered by the prospective borrower is also required to be issued in terms of extant guidelines. This application is examined by the bank staff with a view to satisfying themselves with regard to the eligibility as per policy of the bank, bankability of the project based on the product, industry scenario, management competence, financial contribution from borrower etc. For this purpose, the banks on many occasions call for additional information or documents from the borrowers.

3.03 After an in depth examination and receipt of required clarifications, if any, the bank takes a final view either by sanctioning the credit facilities or rejecting the application. In order to ensure that applications are not rejected on flimsy grounds by the operational staff, it is provided that rejections are to be done with the approval of the next higher authority. Senior bank officials during their visits to the branches, are expected to examine the causes of rejection of loan applications. Similarly, sanction of a reduced limit is to be reported to the next higher authority immediately with full details for review and confirmation.

3.04 The time norms for disposal of loan applications have also been fixed allowing a period of 15 days for applications involving a loan of upto Rs. 25,000 and 8-9 weeks for other loans.

3.05 On sanction of the loan, the necessary legal documents are executed by the borrower to create charges on securities and take care of other legal requirements. Disbursements are permitted as per the requirement of the borrower subject to availability of drawing power in working capital credit facilities and verification of end-use of funds in respect of term loans.

3.06 For enhanced requirements of an ad hoc nature, the borrower has to give a request, justifying in detail his requirement, for which, a rigorous process, as the one above, is not followed. However, for regular enhancement of limits, the same procedure has to be followed by the bank and the borrower.

3.07. Rates of Interest

Banks are required to charge interest at a rate not exceeding prime lending rate for credit limits upto Rs. 2 lakh. The interest rates for limits over Rs. 2 lakh have been deregulated and banks now can fix their own interest rates based on credit rating and risk perception.

3.08. Margin Money

No margin is required to be maintained by SSI units for credit limits upto Rs.25,000/-. For limits exceeding Rs.25,000/-, margin varying from 15 per cent to 25 per cent is required to be maintained. Where subsidy/margin money assistance is available from Government and/or other agencies and is not less than 15% of the total requirements, it should serve as margin. Where lower margins (i.e. less than 15%) are prescribed by banks in respect of special schemes for technocrats etc., these may be continued.

3.09 Security Norms No collateral security/third party guarantee is required to be furnished by SSI units for credit limits upto Rs.25,000/-. For limits exceeding Rs.25,000/-, it is as determined by the financing bank on the merits of each case based on risk perception.

(i) As per RBI guidelines being followed by banks, in respect of advances over Rs.25,000/-, collateral security by way of immovable properties or third party guarantees may be asked for, only in cases where primary security is inadequate or for other valid reasons and but not as a matter of routine. Proposals, otherwise viable, should not be turned down merely for want of such collateral securities or third party guarantees.

(ii) Wherever feasible, equitable mortgage instead of registered mortgage should be preferred in the interest of simplicity and to save on stamp duty.

(iii) As per present RBI guidelines, pari passu charge on the fixed assets is required to be given by the Financial Institutions (including SFCs) to banks for a part of their outstandings from sick units (including those in the SSI sector) representing the principal irregular dues termed as "Working Capital Term Loan" (WCTL). In respect of all other financial assistance [including the unpaid interest dues known as `Funded Interest Term Loan' (FITL)], provided by the banks, they will get a second charge on the fixed assets.

3.10 We had the opportunity to go through some of the studies conducted by the Reserve Bank of India in February-March 1996 regarding flow of bank credit to the SSI sector. These studies were conducted after instructions on the recommendations made by the Nayak Committee and the Seven-Point Action Plan, had been circulated. However, these studies show that:

i)A number of bank branches are not providing working capital as per the norms fixed by RBI in pursuance of the Nayak Committee recommendations i.e. on the basis of 20% of the projected annual turnover of the new as well as existing units.

ii)Maintenance of Loan Application Register at most of the branches, is far from satisfactory. The register is not maintained for all loan applications but is maintained only in respect of Government Sponsored Schemes.

iii)Practice of issuing acknowledgements to applicants is not in vogue in majority of the branches.

iv)Large number of branches do not prepare an annual budget for working capital requirements separately.

v)Committee approach is not followed at branch level for taking timely decisions.

vi)In general, performance in regard to flow of credit to cottage industries, artisans etc. with credit limits upto Rs.5 lakh, is not satisfactory.

vii)Position regarding financing under Single Window Scheme is not satisfactory due to lack of awareness on the part of most of the operational staff.

viii)Some of the branches have not introduced the simplified application forms.

3.11 Similarly, the following deficiencies were revealed in the study conducted by RBI during February-March 1997, of specialised SSI branches, operationalised during 1995-96:

i)Loan Application Register in the prescribed comprehensive manner is not being maintained.

ii)The practice of issuing acknowledgements to applicants is not in vogue in a majority of the branches.
iii)The practice of preparing annual budget has not yet been put in place in a majority of the branches.
iv)Committee approach for taking timely decisions is not being followed at a large number of branches.
v)Survey of performing accounts is not being carried out by the Controlling Offices.
vi)Technical staff have not been posted at most of the branches.

3.12 The Committee visited some of the specialised branches to have a first hand view of working of the branches. We also discussed their working with some of the Chairmen of the Public Sector Banks and representatives of the Small Scale Industries Associations. The Committee's observations are summarised as under:

a) Bank Chairmen, bank staff and the dealing SSI units, are generally satisfied with the working of these branches.
b) With special focus on this sector, these branches have been able to provide considerably better and improved service to the SSI units.

c) In general, the Managers have been vested with higher loaning powers and also been provided technical support for disposal of loan applications at the branch level itself.

d) However, there has been no major change in the systems and procedures followed by the banks. Even normal delays which were earlier taking place in respect of such accounts in non specialised branches, continue to take place. The same application forms(i.e. the ones being used earlier in general branches) are being used and the appraisal methods being employed are similar. The self-delaying system of submitting incomplete proposals to the next higher authorities is still being followed. Even the committee system of approval which has been desired to be followed by Reserve Bank of India, on the basis of the Nayak Committee Report, is not being followed.

(e) A distinctive feature which the Committee noticed is that these branches are following a very selective approach in respect of customers. No tiny sector (loan upto Rs.5 lakh) unit appears to have been entertained by any of the branches, we visited, though a few cases involving loans between Rs.5-10 lakh were taken up by some of the branches. Generally 40-50 good SSI units were being catered to by each of these branches and surprisingly, even while dealing with such a small number of units, all these branches were earning profits.

f) Another encouraging feature we came across, is that the Chairmen and other senior executives from Head Offices and Zonal Offices of some of the banks are taking personal interest in the progress of these branches by meeting the managers regularly and reviewing their performance. However, they have not been able to introduce or encourage any major innovations so far in respect of the working or the procedures followed by these branches.

g) No new loan products have been introduced. Some of these branches were provided Personal Computers (PCs), but the use of these PCs was found to be rather limited.

h) The new technological advances in telecommunications are also not being made use of in any of these branches to provide telebanking services or to provide better and quicker services to exporters or other customers.

3.13 In order to minimise such deficiencies, we recommend that the Reserve Bank of India may re-examine the difficulties being experienced in implementation, modify the same, if deemed appropriate, and reiterate the need for meticulous compliance of the instructions already issued as a sequel to acceptance of the recommendations of the Nayak Committee and the Seven Point Action Plan.

The banks may also be advised to carry out special studies periodically to ascertain the position regarding the implementation of these guidelines and to introduce innovative measures to ensure compliance wherever necessary.

3.14 APPLICATION FORMS

3.14.01 As a follow up of the recommendations of the Nayak Committee and rationalisation of the then existing forms, Reserve Bank of India constituted a working group to rationalise the loan application forms.

3.14.02 At present, four different types of application forms are prescribed for getting loans from the banks, depending upon the amount of loan required. One set of forms has been prescribed for loans upto Rs.2 lakh;

another for loans from Rs. 2 to 15 lakh, loans from Rs.15 lakh to Rs.1 crore and above Rs.1 crore need different sets of forms. These forms have been adopted by the banks and have proved to be very useful, inasmuch as an element of uniformity of procedures has been introduced. We would, therefore, suggest that while carrying out inspections, the officials of the banks as well as RBI, should insist and ensure that these forms are used.

3.14.03 The banks are still insisting on getting a lot of additional information and documents alongwith these forms which delays the sanction of loan applications and causes unnecessary inconvenience to the borrowers. Bank staff, therefore, should be advised to carefully examine the need for such additional information and ask for only such information which is absolutely essential. It was also pointed out that the banks keep on asking for additional information in a piecemeal manner. This should be avoided.

3.14.04 It is suggested that the application form submitted by the borrower should always be examined by a bank official, at the time of submission, having adequate experience in credit operations. He should maintain a check list so that he may be able to advise the applicant instantly, as to what additional information or documents he is required to submit for completion of the form, so that speedy disposal takes place. No further information or documents should be asked for at any stage thereafter. The bank staff should be imparted proper training for this purpose. Such steps, if taken, will certainly reduce inconvenience to the applicants besides expediting sanctions.

3.14.05 We were also informed that the applicants find it difficult to fill up the forms, particularly the ones prescribed for loans beyond Rs.15 lakh. Bank officials generally hesitate to provide any assistance or help to a prospective loanee in the completion of loan application forms, inspite of instructions from their Head Offices. We suggest that banks should take adequate steps to curb this hesitation and ensure that the bank staff help the loan applicant not only in locating the necessary application forms and supporting documents, but also assist him in filling up and completing these forms so that speedy disposal takes place. This will help the banks also to come closer to the clients and know them better. The Controlling Offices of banks should reiterate their instructions directing branch managers/officials to extend necessary help to applicants in filling up the forms.

3.14.06 The banks do not generally publicise their schemes and the branches which we visited, had not displayed any literature regarding facilities/services which they provide. However, the Chairmen of banks did inform us that they were regularly sending publicity and informative literature to all the branches. Some effective method of displaying the relevant literature has to be adopted in respect of each bank branch to ensure that all the relevant booklets and brochures are not taken away by the customers. At least one full set of such relevant literature should always be available in each branch for the purpose of reference and guidance of clients.

3.14.07 Adequate copies of the bank's instructions, schemes, Reserve Bank of India instructions and literature produced by SIDBI, NABARD, State and Central Governments etc. should also be made available at each such branch so that borrowers, existing or prospective, can make use of such information and get benefit thereof.

3.14.08 We did receive some representations regarding the non-availability of the forms in the local languages. The forms which we saw were bilingual i.e. in Hindi and English. It would be desirable to have tri-lingual forms i.e. in the local language also.

3.14.09 For a majority of small entrepreneurs, the preparation of project profiles and other papers is a very difficult operation for which they invariably need help. At present, Government development agencies like DIC and SISI are supposed to help them. But their reach is not adequate. The District Industries Centres, even after their restructuring, as proposed in Para 4.07.02, will still not be able to look after the requirements of all the entrepreneurs in the district. For this purpose, a reliable Agency in private or joint sector is required to be promoted. It would be appropriate if industry and trade associations in different States and districts take the required initiative in this regard. Financing institution can collaborate with such bodies by approving panels of such consultants. Consulting fee payable to them could also be prescribed. Confederation of Indian Industry (CII) and World Assembly for Small and Medium Enterprises (WASME) had offered to help design software packages for assisting entrepreneurs in filling up application forms and other dealings with banks. This offer should be accepted and IBA should get such software prepared, copied and made available to each branch, especially the specialised SSI branches, at a nominal fee.

3.14.10 The Committee is of the view that Reserve Bank of India should review these application forms and ensure that superfluous items, if any, are deleted. In order to further the process of simplification and rationalisation, we would suggest that the forms prescribed for facilities upto Rs. 2 lakh could straightaway be permitted to be used for facilities upto Rs.10 lakh. Those prescribed for facilities upto Rs.15 lakh could be permitted for such facilities upto Rs.50 lakh. Similarly, forms for limits up to Rs.1 crore could be prescribed for facilities beyond Rs.50 lakh and upto Rs.2 crore. The last category of forms could be used by any SSI unit requiring facilities beyond Rs.2 crore.

3.15 Acceptance of Projected Sales turnover

3.15.01 One of the difficulties which the small scale industrial units expressed to the Committee was in relation to the determination of an agreed projected turnover to enable calculation of eligible working capital limit from the bank and margin contribution from the borrower. While the entrepreneurs suggested that some formula should be in place for acceptance of the turnover, particularly for those units which are on a growth path, the banks insisted that they would rather go by their conventional commercial judgement, individual performance and past experience while determining the estimated turnover for the future.

3.15.02 The Committee recommends that in case of an existing unit, the bank officials and entrepreneurs should work out an agreed growth rate and projected turnover based on the past performance, the likely prospects and a few other relevant factors. The small industry growth rates indicate that it is growing at a high annual rate of over 10 per cent. First we will take up that unit which has recorded a positive rate of growth during the last 1-2 years. If it belongs to a sector which is also growing, it may be permitted a growth rate of a minimum of 15 per cent over the current year's turnover to arrive at the projected turnover and the working capital limit from banks be fixed accordingly.

3.15.03 In case of new units, the projections accepted by the term lending institution, should normally be accepted, unless there are specific reasons for not doing so.

The banks can obtain from borrowers, duly completed loan application forms including financial data/projections, as required vide paras 3.15.02 and 3.15.03.

3.15.04 Reserve Bank of India has permitted the banks to formulate with the approval of their Boards policy guidelines for computing the credit limits of different category of borrowers. However, for the credit requirements of village industries, tiny industries and other SSI units requiring aggregate fund based working capital limits upto Rs.4 crore are to be computed on the basis of a minimum of 20% of their projected annual turnover. It has, however, been observed that neither a uniform policy for computing the working capital requirements of the borrowers is being followed at the branches nor the Branch Managers are fully aware of the policy guidelines issued by their respective banks. It is recommended that the banks should make an indepth study about the working capital requirements of various sub-sectors of SSI and lay down some clear guidelines for computing the working capital limits to be granted to them, particularly to SSI units whose fund based working capital requirements exceed Rs.4 crore.

3.16 Due to uncertain cash flows and wide fluctuations in such cash flows, the liquidity is a major problem for SSI units. The contribution of margin towards non-fund based credit facilities further complicates the problem. It is hence suggested that where the banks have a first charge over fixed assets, they should not ask for cash margins from SSI borrowers for non-fund based facilities, provided there is adequate surplus of security available to cover their exposure.

3.17 In order to improve the system further, we are making the following recommendations:

3.17.01 Since specialised SSI branches start generating profits quickly, the banks should not hesitate to open more such branches. The banks could even be permitted to shift or restructure some of their existing branches and convert them into specialised branches for financing the small scale sector. The banking sector within the next two years should ensure collectively that at least one such branch is opened in every district of the country particularly at those centres where the number of small units is at least 100. We are confident that the number of specialised and profit making SSI branches can easily increase by 1,000 within the next three years. However, these new branches should be opened by strong banks only. Weak banks should, in the first instance, concentrate their efforts in regaining their strength.

3.17.02 The banks should ensure that these branches should also entertain loan proposals from the tiny sector and village industry units without any hesitation. In fact, based on the discussions which the Committee had with some of the branch managers and the bank staff, we are of the view that each such branch may look after upto 200 units, out of which a minimum of 150 should be from the tiny sector with loans less than Rs. 10 lakh while the rest could be `bigger' small scale units. This ratio should preferably be maintained in case the number of such units at a branch is less than 200.

3.17.03 The banks should encourage selective specialised branches to innovate and experiment with new loan products such as factoring services and business credit cards on the lines of Master Card Business Cards introduced by Master Card in USA.

3.17.04 Disbursement of National Equity Fund through these branches is also possible and is, therefore, being recommended. SIDBI may provide direct credit lines to these branches for these schemes.

3.17.05 Small industry normally grows in clusters and these clusters can, sometimes be very big like the one in Bangalore where one of the industrial estates has more than 5,000 industrial units. Similarly, in Ludhiana there are big clusters manufacturing bicycle parts or hosiery goods. Again in Bangalore, there is a cluster of software, electronics and high-tech industries, supplying components and parts even to spacecraft. These clusters deserve to be serviced by banks which focus on meeting the special credit requirements of these industries. Steps should, therefore, be taken to open some new specialised branches only for a few such clusters. A beginning, for instance, should be made by opening specialised SSI branches for electronics and software at a few centres where this industry has grown, say in Bangalore, Hyderabad, Mumbai, Delhi, Pune, Chennai and NOIDA. These specialised branches should be managed by competent staff and should be properly equipped with computers and communication lines.

3.17.06 The Committee was informed that one Field Officer in a specialised branch is able to handle about 50 SSI units. The number of field officers should be sufficient to take care of number of accounts entertained by a branch. While selection of staff for these branches has to be left to the banks, we would recommend that properly trained and preferably technically oriented direct recruits in adequate number should be posted in these branches. Staff strength requirements of these branches should also be assessed on annual basis so as to maintain the smoothness of their working.

3.17.07 As far as we have been able to gather neither the Reserve Bank of India nor the banks have any machinery or organisation which undertakes research on credit related policies in relation to specific sectors of SSI. The opening of the specialised branches has offered a forum to the banks to take up such activities on their own and use such information to devise new products and norms for different sub sectors in the SSI. The banks may grab this opportunity to start some research projects and studies on this very interesting subject matter.

3.17.08 In order to ensure that the applications for loans and services are promptly decided, further delegation of sanctioning powers should be made in respect of such branches in particular and other branches in general.

3.17.09 While offering a package of complete banking services to SSI units, the specialised branches should be linked to national and international data banks and information centres including Internet so that they can provide latest information to their clients, for a fee.

3.18 FINANCING OPTIONS

3.18.01 During our interaction, we gathered that the banks and financial institutions were hesitant to deal with SSI enterprises requiring loans of less than Rs.5 lakh. SIDBI suggested that these borrowers should get loans from RRBs or local commercial banks. NABARD indicated that it was very difficult to deal with small applicants; and SFCs were also reluctant to deal with them. On the other hand, we find from the census report of 1988 that an overwhelming number (over 90%) of SSI units were in fact tiny SSI units (at that time the definition of tiny unit was based on investment in plant and machinery upto Rs.2 lakh). We have, therefore, to evolve some financing options which can be conveniently and comfortably applied to various sub-segments of this sector. The Finance Minister, in his recent budget speech has announced that the RBI will also be advising commercial banks to design specific loan packages to meet the needs of micro-enterprises. The Public Sector Banks commanding huge resources, including specialised expertise, should take up the design of such a package on a war footing and sanction these loans in a big way. SIDBI could provide refinance on attractive terms. The services of Non-Banking Financial companies could also be utilised.

3.18.02 Composite Loans

Since early 1990s, composite loans upto Rs.50,000 are granted by banks to artisans, village and cottage industries to take care of both fixed asset financing and working capital requirements. This system helps the borrower in avoiding paper work and other operational problems and has also been found quite suitable by the banks. Keeping in view the various factors including inflation and the changes which have taken place since the introduction of this concept, as well as the need for making such options simpler and easy to handle, there is need for revising the said ceiling of Rs.50,000/- Accordingly, the Committee recommends that the limit of composite loans should be enhanced to Rs.5 lakh so that the entire requirement of such units is met by single documentation and security and charge creation process. It is also recommended that this facility should be extended to all SSI units requiring loans upto Rs.5 lakh irrespective of their location. However, where such units desire to continue with the existing system or new borrowers opt for such a system, they may be allowed to do so.

3.18.03 In the past, SFCs had been exclusively sanctioning term loans to SSI and the commercial banks were providing working capital. However, of late, commercial banks have started providing term loans and the SFCs are getting into composite single window' loans including working capital. A lot of problems are arising because of inadequate coordination and cooperation between the term lending institutions and the banks. Inspite of instructions from the Reserve Bank of India that working capital limits should be sanctioned by banks at least four months before commencement of the commercial production, it has not been possible to get this done. The SFCs generally sanction term loans after getting letters of intent (also known as sanction in principle) from banks to the effect that 'as and when the unit is ready for production, the working capital limits would be sanctioned. However, in most of the cases, after the unit gets ready for commercial production, working capital limits are either not sanctioned or sanctioned after a lot of delay. Such projects have been facing difficulties and getting into problems even before the production is commenced. Some such projects are born sick.

It is, therefore, recommended that (a) only banks should entertain projects both for term loan and working capital or composite loan of borrowers with loan requirements upto and inclusive of Rs. 5 lakh, (b) only one organisation, either SFC or a bank, may sanction both the term loan and working capital, for the projects requiring institutional credit of more than Rs.5 lakh and upto and inclusive of Rs.25 lakh and (c) for projects having loan requirements in excess of Rs.25 lakh, arrangements should be made for joint financing, whereby both the term loan as well as working capital, should be shared by the SFC and the bank alongwith sharing of securities on pari passu basis. However, those borrowers in this category who want to avail of such facilities from a single agency i.e. bank or SFC, should also be allowed to do so.

3.19 Equipment finance, hire-purchase and leasing are other methods which are utilised in other countries for providing credit for fixed assets financing to small business. The Committee examined this aspect to understand as to what extent these can be utilised for providing assistance to SSIs in India. We recommend that the scope of leasing, hire-purchase and equipment finance can be and should be expanded in a big way. A task force should be constituted to streamline the procedures for these and remove obstacles including legal hurdles. The banks may be permitted to use intermediaries and Non-Banking Finance Companies for routing such assistance. One item of equipment which can be provided through these products is diesel generating set, which SSI needs in large numbers to mitigate the effects of power cuts. Financing institutions should be advised to have a flexible approach in financing of DG sets. Reserve Bank of India may examine whether such financing could be done by not insisting on fresh margins. Alternatively the margin should be accepted at a reduced rate, say 10 per cent, where the security already provided by the loanee is adequate and can cover the increased requirement. The banks can also adopt a flexible approach whereby, to start with, a margin of 5 to 10 per cent is obtained and the normal prescribed margin can be allowed to be built up over one or two years.

Similarly, for financing modernisation or technology upgradation or equipment meant for pollution control or obtaining quality marking under International Standards Organisation (ISO) programme, a flexible approach for obtaining margin should be permitted. And in respect of both these programmes, banks/SFCs may consider utilising the funds, available from the National Equity Fund, as margin.

3.20 At present the National Equity Fund is available only for projects involving investment/project outlay up to Rs.10 lakh. There is need to provide for an additional line from NEF for purchase of equipment for modernisation/technology upgradation or DG set purchase on the above lines, up to additional Rs.10 lakh. Wherever NEF is available for additional project outlay of Rs.10 lakh for modernisation/technological upgradation or DG set purchase, no additional margin should either be required or sought.

3.21 Special Term Loans

In order to expand their market reach, SSI units have to incur expenses on publicity or opening of outlets or such other purposes and Financial Institutions are, as at present reluctant to provide financial support since on many occasions tangible assets are not created. However, in order to survive, SSI units incur such expenses by raising high cost funds and on certain occasions by diverting funds meant for working capital. The small units also incur expenditure on a continuous basis which is of miscellaneous nature and many times does not result in creation of tangible assets.

Hence special term loans for meeting pre-operative expenses, technical fee, collaboration costs, marketing expenses and investment in research and development facilities where no tangible primary security is being created, may be permitted to be extended by the banks/state financial corporations on liberal terms of margin and repayment period provided existing securities are adequate to cover such term loans also.

3.22 Governments announce subsidies to encourage investments in SSI. At project formulation stage, the unit indicates the amount of grant/subsidy and claims such an amount be treated as part of the promoter's contribution. This is taken as such by the Financial Institutions while sanctioning loans.

However, with delay in receipt of this subsidy which occurs frequently, the unit often faces liquidity problems and at times gets sick. This system is prevalent in almost every State in the country.

We recommend that the Reserve Bank of India should have a dialogue with the State Governments and the Central Government in this regard and sort out this matter once for all. The State Governments should discontinue those schemes which provide such subsidies if their financial strength does not warrant bearing this burden. However, where there are temporary problems in funds availability due to mismatches and the State concerned wants to have a scheme and is having better financials for providing the subsidy, RBI should advise banks to consider providing bridge loans to cover the amount of the subsidy on the pattern of SFCs/SIDCs. The State Government should agree to bear the interest cost on such bridge loans.

3.23 Optimum size

SSI units are facing a very high degree of competition now. The Expert Committee headed by Dr. Abid Hussain (E.C.) specifically recommended that Government and the financial institutions should encourage the setting up of units with optimum size of operations and capital, so that their competitiveness is ensured. While considering loan requests for finance, banks should keep this in view, to ensure that uneconomic or inadequate sized units do not get bank finance which will unnecessarily add to the burden of non-performing advances. However, the problem may arise as to who will decide the optimum size. We have a number of agencies in the public sector which are engaged in preparing project profiles on economic sized units. Project profiling work can be undertaken by them for others including the banks and the SSIs. We can also depend on technical consultants, particularly in respect of hi-tech or new technology projects. The ultimate decision, however, shall have to be taken by the banks which should periodically advise their branch managers about optimum size of investment/plant in a particular industry.

3.24 Export Oriented SSIs

3.24.01 We were informed by SSI entrepreneurs that the credit needs of the export oriented SSIs, particularly those located in upcountry centres, are neither met adequately nor in time. We have to appreciate that if India has done well in exports, it is by and large, due to the efforts of the small scale enterprises. Besides direct exports of 35 per cent, they are also generating substantial indirect exports. However, the required effort has not been made to look into their problems and grievances. To encourage export financing by way of making cheap funds available, RBI has a scheme to provide refinance against the export credit at comparatively reasonable rates of interest which should be continued. Besides, the practice of making advances against export incentives like duty drawback and crediting the same to the bank accounts of the customer concerned, immediately, should continue. RBI may set up a task force consisting of SIDBI, bankers, experts and export oriented SSIs to outline new credit policies and procedures for SSI exporters.

3.24.02 The Committee received a number of complaints regarding late receipt of export proceeds from the foreign branches of the banks. The Committee was informed by one of the banks i.e. State Bank of India that they have set up a special line to provide SWIFT services to some of their bigger customers. The Committee appreciates that provision of SWIFT for all SSI exporters will entail large costs, but the banks should consider providing such services at least for big SSI clusters. During discussions with the Chairmen of Banks, we were informed that most of the banks either possess or have already initiated action to install SWIFT in branches providing foreign exchange facilities. The working of this could be streamlined and expanded further to ensure that the SSIs do not have any complaints regarding delays, etc.

3.25 Committee Approach

3.25.01 Bank managers generally blame the vigilance process for restricting them to take quick decisions on the loan applications received by them. Reserve Bank of India, as already mentioned, has permitted them adequate time of 8-9 weeks for taking decisions on such applications. Surprisingly, it was noticed that applications were being sanctioned in 4-6 months in a number of cases. Even the decisions relating to rejections were also subject to extraordinary delay. In this context, we have to keep in mind that the industrial scenario in the country is changing very fast. The days when industry was protected and could sell whatever it produced in a kind of monopoly situation, are over and no entrepreneur can wait for 4-6 months for a loan application to be sanctioned. Therefore, to run his unit, this entrepreneur has to borrow money from his friends and relatives, before the bank decides to sanction and disburse the assistance. Since such borrowings are at a very high rate of interest, he runs a serious risk of ending up as a promoter of a sick unit, even before the facilities are sanctioned by the bank. This could also be detrimental and harmful to the interest of the bank. Hence, it is very essential that the applications are sanctioned promptly and normally in not more than one month.

3.25.02 In order to share the risk arising out of the process of decision making and also to derive full benefit of the collective wisdom, the banks should be advised to adopt the Committee approach for sanction of the applications. This Committee should meet, preferably at the branch, periodically, for which modalities may be laid down by each bank.

3.26 Recovery

3.26.01 Recovery of old dues of banks in the form of non-performing advances, is essential if fresh credit has to flow into this sector. The Committee is convinced that the recovery position of SSI units is still not up to the mark. As a result, the overdues in the SSI sector are very high. As on March 31, 1996, these amounted to Rs.5,947.56 crore in respect of the advances by the Public Sector Banks and constituted 20.23 per cent of their outstanding advances to SSIs as on that date. This is a very big burden which should attract attention of policy planners as well as bankers.

The Committee is recommending speeding up the process of sanction of facilities to SSI units and increasing the flow of credit to this sector. At the same time it considers itself duty bound to suggest ways and means of expediting recovery of such loans also.

3.26.02 It is unfortunate that the whole process of recovery of bank loans is bogged down in legal complexity and archaic laws. The functioning of the legal system delays the recovery process for years. In the recent past, an initiative has been taken to constitute Debt Recovery Tribunals for recovery of loans of Rs. 10 lakh and above. However, these Tribunals have still not been able to impact the recovery system to the desired extent, which continues to be ineffective. The doubts about their (DRTs) constitutional validity are still to be sorted out and removed.

The Committee suggests that at least one DRT should be set up in each State and their functioning be streamlined by providing adequate legal and staff support. This has also been announced by the Finance Minister in his budget speech. He has also announced the setting up of an Expert Group to propose precise legal amendments in the key laws to make the provisions consistent with modern financial and banking practices. This should be done expeditiously.

3.26.03 Regarding loans below the threshhold level of DRT i.e. below Rs.10 lakh, a national consensus needs to be developed with active participation by industry and the State Governments; the State should provide all facilities and assistance for the recovery of these loans. Special revenue courts should be set up in each State to deal with SSI cases. The State Governments could also get in touch with the respective High Courts and get a few Civil Courts designated as Recovery of Bank Dues Courts. One such court should be made to function at every district headquarters and should be provided with proper infrastructural support. They should deal with loan recovery matters in a summary manner. Government can also examine treating such loans upto Rs.10 lakh on the pattern of agricultural loans, as Government dues and recover the same as arrears of land revenue.

3.26.04 The banks should take advantage of the Lok Adalats to settle their dues upto Rs.10 lakh. They can also take benefit of the revised procedure prescribed under the Arbitration Law and get their dues through the same by providing a specific clause for arbitration in the loan document, in case they want to make use of Arbitration Laws. The Finance Minister has also announced that a few banks, with particularly high NPAs, would be encouraged to establish Asset Reconstruction Companies which will concentrate on recovery of dues. We were informed that a few banks, which have, earmarked special structures for pursuing recovery of dues, have had a very good experience.

However, whatever additional support is provided through legislative measures to expedite recovery, nothing would move if the bank staff is not vigilant and pursue such cases on top priority basis. Hence, the required motivation and expertise for the purpose is to be ensured. The banks should appoint special officers or designate existing officers having aptitude for work relating to recovery who should exclusively deal with recovery.

3.27 Sick SSI Units

3.27.01 One of the casualties of the process of liberalisation has been the care, which the public sector banks used to take, in nursing sick SSI units. According to the extant definition, an SSI unit is considered as sick, if any one of its borrowal accounts remains sub-standard for more than two years, i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2-1/2 years and there is erosion in the networth due to accumulated cash losses to the extent of minimum 50 per cent of its peak net worth during the preceding two accounting years. The existing instructions do recommend the need for rehabilitating potentially viable sick SSIs quickly. The task of segregating potentially viable units from the ones which are not viable, has been given to the concerned banks. As on March 31, 1997, the banks found that out of 2,35,032 sick SSI units with outstanding dues of Rs. 3,609.20 crore, only 16,220 units with outstanding dues of Rs.479.31 crore were potentially viable and out of that only 10,539 units with outstanding balance of Rs.322.28 crore were under nursing/rehabilitation programmes. The need for quick rehabilitation of SSI units is imperative for a long term healthy growth of SSIs.

3.27.02 A SSI unit account has to be non-performing for two and a half years before it can be recognised as a sick unit and become eligible for nursing in the event of its being declared as potentially viable. In fact this period of waiting in genuine cases of sickness, could prove to be counter productive and even fatal. Therefore, we suggest that the definition may be changed to read as under :

An SSI unit should be considered sick;

a)If any one of the borrowal accounts of the unit remains sub-standard for six months i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding one year,

b)There is erosion in the networth due to accumulated cash losses to the extent of minimum 50 per cent of peak networth during the previous accounting year, and

c)The unit has been in commercial production for at least three years.

No doubt, with the proposed change of the definition, the number of sick units would increase substantially, but that will bring into sharp focus the need to take corrective measures at an early stage for bringing potentially viable units back to health.

3.28 At present, each State has a State Level Inter Institutional Committee (SLIIC) in which banks, SFCs and State Governments are required to look into the problems of sick SSIs with Reserve Bank of India being the Convenor. We have gathered that these Committees are not functioning effectively. In order to bring effectiveness and also ensure initiation of a serious attempt for rehabilitation of sick SSIs, SLIICs should be converted into Statutory Bodies under a Special Statute and given adequate statutory and administrative powers to enforce their decisions on bankers and financial institutions and other agencies concerned with the rehabilitation of such SSIs. SLIICs should have the powers to decide which sick SSIs are potentially viable and which are not. The banks and SFCs could be directed by it to take up nursing programmes for revivable sick SSIs. SLIICs should also be empowered to issue and enforce directions to other related agencies to provide necessary infrastructural support e.g. power, communication, release of long outstanding receivables from Government departments or any other relief considered essential for the revival of the potentially viable sick SSIs.

3.28.01 Branches/benches of restructured SLIIC could be established in districts having large concentration of SSIs.

3.28.02 The Committee understands that some Public Sector Banks have set up special branches to deal with sick industrial units and recovery of dues and that the experience of such branches has been generally good. We shall, therefore, suggest that all such potentially viable sick units should be dealt with by separate specialised branches, as far as possible, for the purpose of rehabilitation.

3.28.03 To encourage banks in their efforts to take up rehabilitation of potentially viable sick SSIs to the desired extent, relaxation in Income Recognition and Asset Classification norms, as framed by Reserve Bank of India should be provided for rehabilitation programmes. A period of one year both for the additional exposure as well as old outstanding advances, to such sick SSI units,should be permitted and these facilities treated as standard advance for a period of one year whereafter the classification should be changed depending upon the record of recovery.

3.28.04 If there is more than one institution, the system of single window facility for speedy sanction of rehabilitation proposals and implementation thereof should be put in place. This should be done within a maximum period of 180 days for SSI units, from the date they are identified as potentially viable.

3.29 During our visits to the field, we were informed that the number of sick SSI units was much higher than that recorded and bank branches are perhaps not sending proper reports to their Controlling Offices. Not only this, it was also disclosed that the sick units being reported by the banks, also include a large number of such units which have either been abandoned or closed. Again, units set up under the Government sponsored schemes also find a place in the sick units list.

3.30 In view of the need to promptly identify potentially viable units for taking corrective measures to bring them back to health, it is suggested that the banks should be directed to report separately, the figures of those sick SSIs which are neither defunct nor closed(other than temporary closure) nor have been set up under Government sponsored schemes. Banks may bring appropriate changes in their internal management information system to generate this.

Reserve Bank of India should also take suitable measures to ensure that the statistics relating to sick SSI units are collected, collated and reported correctly.

Innovation

3.31 We have suggested adoption of innovative products like credit cards, factoring and venture capital in relation to SSI financing by the banks. At present they just do not have any variety in their lending to enable the SSI to face and manage change which is affecting the industrial scene in the country. We had a series of discussions with bank Chairmen in this regard. With the existing competence level of their staff, they are not confident that they can successfully introduce innovative products or new schemes. However, we feel that the time has come for imparting necessary competence to the branch managers to take up such innovative schemes and products. As a first step, it would be desirable to motivate specialised SSI branches to take these up. They could be given some autonomy and freedom to take up such innovative products.

CHAPTER IV

POLICY ISSUES

The Committee considered it appropriate to address itself to certain policy issues relating to pricing and adequate and timely availability of credit to SSIs so as to make credit delivery system more friendly for borrowers as well as banks. The issues are:

4.01 INTEREST RATES

4.01.01 In the past, interest rates for loans to SSIs were part of the administered interest rate policy and were, therefore, regulated. However, after 1991, the interest rate structure has been gradually deregulated. Immediately after deregulation when banks got the freedom to fix interest rates on their own, the rates went up and in a few cases, small scale enterprises had to pay very high interest rates. RBI, therefore, intervened and advised banks that the maximum rate which a bank can charge from a customer, including SSI, will be within a band of 4 per cent points above the PLR. Presently, the interest rates for SSIs are regulated only for loans up to Rs.2 lakh. In the recent policy announcement in April 1998, Reserve Bank of India has brought about further changes by placing a cap equivalent to PLR on interest rates for loans upto Rs. 2 lakh by banks.

4.01.02 SSIs have always been complaining about the high bank interest rates which, in their opinion, erode their competitive strength. They have been quoting the example of small scale entrepreneurs in other countries who get credit at interest rates as low as 2-3 per cent. These units also claim that the cost of capital being raised by the large and medium scale enterprises within the country, which have access to funds from the capital market, is also relatively lower compared to the cost of funds to SSIs. The banks are also providing finance to select corporates through commercial paper at interest rates which, at times, are 3-4 per cent less than their PLR.

4.01.03 The Committee interacted with a cross section of bankers about an appropriate rate of interest but they were reluctant to disclose the formula for fixing their PLR. They maintained that it is based on a number of factors like cost of funds, management costs etc. They also mentioned the large costs which they have to incur on account of NPAs, a substantial part of which relates to SSIs. The bankers informed that they were raising funds through deposits and savings at about 7-8 per cent and the average net NPAs for Public Sector Banks are around 9 per cent. The cost of carrying these NPAs, when added to the establishment cost of the banks, increases the cost of administration of funds; the PLR is determined on this basis. The SSIs have justifiable reasons in suggesting that they should not be burdened with costs arising out of the inefficiency of the banks and provision for NPAs, as with the consequential high interest rates, their products would not be competitive. It has to be appreciated that the small industries have some inherent disadvantages because of their size as these units are always facing a sellers' market in the case of purchases and a buyers' market in the case of sales. Hence, burdening SSI units with high rates of interest on credit may make it difficult for them to service their debts, particularly in the competitive business environment which has emerged in the country.

4.01.04 We are deliberately not making any recommendation regarding lowering of interest rates for SSIs because the Committee is of the firm view that what the SSIs need is timely and adequate credit and this, by and large, can be provided by the Public Sector Banks when they operate at their PLR. However, we recommend that SSIs should get a special treatment in the matter of interest rates, keeping in view their contribution to the economy and therefore, they should normally get credit at PLR.

4.01.05 We are aware that if we insist on all SSIs getting their credit at PLR, the banks may become further reluctant to assist this sector. We are proposing that overall interest payable by SSIs shall remain within the existing parameters fixed by RBI i.e. maximum of PLR plus four per cent. The PLR should take care of the cost of funds incurred by the banks. Additional spreads over the PLR will be used as premium for guaranteeing the repayment of the loan. Naturally SSI units, with good track record, will have to pay lower premium and can derive some advantage out of lower spreads.

4.02 CREDIT GUARANTEE COVER

4.02.01 Presently RBI is operating a credit guarantee scheme through Deposit Insurance & Credit Guarantee Corporation (DICGC) for all priority sector advances including those for the SSI sector. By way of guarantee fee, the SSI loanees have to bear an additional burden of 1.5 per cent to cover cost of the said guarantee from the DICGC available to financing institution. However, neither the banks nor the loanees or RBI are satisfied with the working of this scheme. Payments of claims, lodged by banks/financing institutions arising out of default, are not being made or are being delayed. As a result, major Public Sector Banks have already opted out of the scheme.

4.02.02 The Committee, however, is of the firm view that a credible guarantee scheme is essential to ensure adequate credit flow to the SSI sector. Therefore, it is recommended that the existing scheme relating to SSI sector which appears to have outlived its utility should be scrapped and replaced by a more objective and dependable scheme which should find easy acceptability with financing institutions. Reserve Bank of India, accordingly, should take the initiative to set up a new Corporation to provide an effective credit guarantee for SSI loans with improved features suitable to banks/financing institutions obtaining such cover. The Committee recommends that the task of setting up this SSI Credit Guarantee Corporation should be handled by SIDBI which is an apex institution for financing SSIs. As already mentioned in Chapters II and III, the major difficulty in flow of credit is being encountered by loanees who require credit facilities upto Rs.10 lakh. Therefore, in the first instance, this Corporation should cover only those loans which are sanctioned by Public Sector Banks/Financial Institutions where the principal amount sanctioned does not exceed Rs.10 lakh. The guarantee may cover 80% of the amount in default on a relevant date which should be fixed in such a way that banks/financial institutions get appropriate benefit. Depending upon the experience gained over a period of time, the scheme may be extended to bigger loans subsequently.

4.02.03 The Committee has in its view, the guarantee scheme being operated by the US Department of Commerce [Small Business Administration (SBA)], while making the recommendation at Para 4.02.02. We can take benefit of the experience gained from the operations of the existing Credit Guarantee Scheme(DICGC) as also the one derived from US Small Business Administration set up.

4.02.04 In the proposed scheme, the Credit Guarantee Corporation should have a strong Corpus of at least Rs.500 crore which can be contributed by SIDBI, NABARD, Government of India, State Governments, State financing institutions and banks for its smooth operation. This Corporation may appoint either selected banks as its agents or it can set up its own offices in different States. All the specialised SSI branches, to start with, of Public Sector Banks and Head Offices of other financing institutions can be designated as agents of the Corporation for extending such guarantees on its behalf.

The premium under the Scheme would also be decided by these agents subject to a maximum of 4 per cent points depending upon the risk perception, on the basis of which rate of interest, beyond PLR, has been fixed by the banks concerned.

The banks, as stated in Para 4.01.05, can charge a maximum interest rate of PLR plus 4 per cent points. SSI units with good track record would naturally qualify for being charged lower premium to avail of the guarantee.

4.02.05 Unlike DICGC, the option to have a guarantee cover or not in individual accounts, shall rest with the bank. On a reciprocal basis, acceptance of a borrower for extending a guarantee cover, shall be at the discretion of the Guarantee Corporation.

4.02.06 Simultaneously or as an alternative, the banks can set up special funds for meeting losses arising on account of defaults in repayments of SSI loans. Most of the bankers who interacted with the Committee, were willing to do so, provided they get certain tax benefits on contributions from profit and loss account to such funds. We recommend that RBI should take up the matter suitably with the Government of India and ensure that necessary amendments are carried out in the related tax laws to enable the banks to set up such funds and provide effective inhouse guarantees for loans granted by them.

4.03 CREDIT GUARANTEE BY INDUSTRIAL ASSOCIATIONS

4.03.01 We gather that in Italy small scale associations and CNA - a National Federation of Artisan firms provide a number of services to the small scale industries which include:

(1) Administration - in dealing with various administrative matters the small scale industries are required to handle.

(2) Fiscal and accounting services - to help small scale industries to maintain appropriate records and follow prudent fiscal policies.

(3) Legal advice, and

(4) Marketing

CNA is managed by businessmen themselves and does not depend upon any political patronage. It recovers fee from the members for all its services and thereby it is self- reliant. To enable member SSIs to avail of credit, CNA evaluates the financial requirements of the firm itself and decides the limits required to be sanctioned. Thereafter, CNA negotiates with the banks for sanction of a suitable limit. CNA also organises a number of guarantee cooperatives in which the resources of member firms are pooled together. The guarantee cooperatives guarantee the loans taken by members from the banks. Initially, such guarantee cooperatives used to guarantee 100 per cent of the loans borrowed by members from the banks. On account of good performance of the loan accounts, cooperatives have since reduced their liability to 50 per cent of the amount borrowed. The bad debts of banks in respect of such guarantee cooperatives are very low and banks charge lower interest rates to such members whose loans are guaranteed by guarantee cooperatives.

It is suggested that some similar Indian model of guarantee cooperatives could be set up in collaboration with industry associations. To bankroll such a scheme, Government of India or RBI should place a corpus of fund with one of the FIs/banks. This will enable the latter to provide financial support to the associations in developing the capability to provide the above mentioned services.

4.03.02 With a view to explore the possibility of establishment of such services with an element of certainty, this was discussed with a number of associations by the Committee but they did not appear to be very enthusiastic. We are, therefore, not recommending introduction of such a system immediately. However, we would certainly like a few banks to take up this kind of service-cum-guarantee arrangement in respect of a few clusters where entrepreneurs are bound by special bonds of community or other factors to reduce their overdues as well as to reduce the interest payable by the SSIs.

4.03.03 A similar system has already been tried in the self-help group concept at micro level by SIDBI and NABARD and it is reported to be working successfully. To provide incentives to some of the banks to take it up, Reserve Bank of India can give them or get them from the Government of India some small corpus of fund of say Rs. 10 crore which could be made use of in clusters like Ludhiana in respect of bicycle component manufacturers.

4.04 EQUITY SUPPORT

4.04.01 According to the extant guidelines of the Reserve Bank of India, no margin is required to be contributed by SSI borrowers enjoying limits upto Rs.25,000. However, in respect of the limits exceeding Rs.25,000, promoters have to bring in their own funds which can vary from 15 to 25 per cent of the project cost. The Reserve Bank of India has also prescribed that in the event of subsidy or margin money assistance available to SSI entrepreneurs (being not less than 15 per cent), they need not contribute any amount by way of margin.

4.04.02 SIDBI is already operating a fund called the "National Equity Fund" to provide equity support to entrepreneurs for setting up new projects in tiny/SSI sector for undertaking expansion, modernisation, technology upgradation and diversification by existing tiny/SSI and service enterprises and for rehabilitation of potentially viable sick units in the SSI sector irrespective of location (except for units in Metropolitan cities). To be eligible for

such support, the project cost should not exceed Rs.10 lakh and SIDBI provides soft loan assistance of upto 25% of such cost subject to a maximum of Rs.2.5 lakh per project at a nominal service charge of one per cent without any interest component.
Even though the scheme appears to be useful and attractive and is operated not only through SIDBI's own branches but also through commercial banks and SFCs, yet the drawal on this account has been modest (in the 8 years of the operation ending March 1998, Rs.69 crore only was sanctioned with disbursement of Rs.53 crore benefiting over 7,000 entrepreneurs).

4.04.03 The Committee is of the firm opinion that the smaller of the SSIs are more in need of such equity support to strengthen the viability of their operations. We have, therefore, examined the problem in depth with a view to increase the coverage of this equity capital fund. The data given in para 4.04.02 shows that banks/financing institutions have not utilised these funds adequately. On further probe, we have come to know that most of the operational staff were either ignorant of the rules and regulations concerning this scheme or were unwilling to innovate and get into the so called `hassles' of providing the equity capital. The bankers have even the apprehension that if they utilise funds from the NEF, they will not be able to ensure that the entrepreneurs bring in their own money which is so essential for keeping the promoters' interest intact in the projects. It is certain that once he is permitted not to invest anything of his own, he will not stand committed to the project to the extent he will be, in the event of his having a financial stake. We are, therefore, of the view that the banks/financial institutions should be permitted to utilise these equity funds in addition to the normal margin to be contributed by the entrepreneurs.

A typical financing package, in such circumstances, can be as follows for a project of Rs.5 lakh:

i)	Cost of the project	-	Rs.5 lakh
ii)	NEF contribution	-	Rs.1.25 lakh
iii)	Margin contribution	-	Rs.0.75 lakh to Rs.1.25 lakh
iv)	Bank loan	-	Rs.2.5 lakh to Rs.3 lakh.

The financing pattern for a project of Rs.10 lakh, on the other hand, would be:

i)Contribution from NEF @25 per cent on the first five lakh and 15 per cent on the next five lakh i.e. Rs.2 lakh

ii)Margin money from the borrower varying from Rs.1.5 lakh to Rs.2.5 lakh

iii) Bank Loan Rs.5.5 lakh to Rs.6.5 lakh

This will reduce the cost of funds to the promoters, ensure availability of liquidity, improve debt equity ratio and pave the way for setting up of more viable projects and provide an incentive to the banks/financial institutions to take up such cases of tiny units. Funds should be placed with the banks and/or SFCs as agents of SIDBI and their controlling offices, to start with, and subsequently branches should be authorised to operate on this. An arrangement could be worked out where the amount drawn could be reimbursed by SIDBI. To reduce use of discretion, this pattern of financing small SSIs could be made compulsory.

Further, the restrictions on the applicability of NEF in the Metropolitan areas should also be removed to give the benefit of such facility to encourage the growth of SSIs established within conforming areas.

To cope with increased funds requirement, it is suggested that provision should be made for expanding the Corpus of NEF. However, the NEF facilities would not be available to those units which are getting margin money from the KVIC or any grant/subsidy under any scheme of Central/State Government or their undertakings.

4.05 COLLATERAL SECURITY OR 3RD PARTY GUARANTEE

4.05.01 As per the extant instructions of Reserve Bank of India, the commercial banks are required not to obtain collateral security or third party guarantees for advances upto Rs.25,000 granted to SSI units. However, in the case of advances made under PMRY, the banks are required not to obtain such security or third party guarantee for credit limits upto Rs.95,000/-. During field visits, we received complaints from the Industrial Associations, State Governments and the entrepreneurs that insistence by banks on furnishing of collateral security is increasing interest/ financial burden of the SSI enterprises indirectly. The Committee verified this aspect and found that there was hardly a case which was sanctioned by any bank without collateral security.

It has to be appreciated that the concept of collateral security was an important aspect in lending operations of banks so long as loans were extended keeping in view the borrowers/securities and not the projects. For a borrower, little seems to have changed in our banking procedures over the last 30 years particularly, in respect of the collateral security. The Committee, at the same time, is aware of the practical problems which are likely to surface with directed abolition of collateral security/3rd party guarantee.

4.05.02 Since the prime objective of the Committee is to ensure augmentation of credit flow to SSI, we are not recommending total abolition of "collateral security or 3rd party guarantee" in respect of the SSI loans. However, we suggest to the Reserve Bank of India to initiate appropriate policy measures with the objective of phasing out the system of collateral guarantees in a time bound programme, say of five years. We may also reiterate that greater emphasis is to be laid on the viability of the project and the management of the enterprise rather than on collateral security or 3rd party guarantee.

4.05.03 In the meantime, the Committee recommends that the ceiling of Rs.25,000 for loans without any collateral or 3rd party guarantee may be suitably raised. In keeping with the rise in prices etc., the Committee recommends a revised floor level of Rs.2 lakh for exemption of borrowal accounts from obtention of collateral securities or 3rd party guarantees. In respect of other accounts, the Committee recommends that the collateral security including 3rd party guarantee, should be in relation to the risk undertaken. Further, the Committee feels that there is a need to lay down a normative approach for obtaining such collaterals, keeping in view the proposed Credit Guarantee Scheme (as per Para 4.02.02) which shall cover 80% of the risk of the bank or creation of a special fund for the same purpose within the bank. Accordingly, the Committee suggests that for loans upto Rs.10 lakh, the value of collateral security or the net means of third party guarantee should not be more than 50 per cent of the fund and non-fund based exposure of the bank/financing institution. Beyond this level of Rs. 10 lakh, the banks may exercise their commercial judgement in determining the amount of collateral or third party guarantee.

There should also be provision for indexing the value of the properties meant to serve as collateral security periodically, which should be taken as the basis for value at the time of sanctions including renewals or enhancements to avoid unnecessary locking up of productive assets.

The Committee has to reiterate that in no case, a bank should obtain a collateral or third party guarantee which is in excess of the loan amount. It should also be ensured that (as laid down by RBI) no viable project is denied credit support simply for the reason that adequate collateral/3rd party guarantee is not available. RBI may also prescribe that at least 10 per cent of SSI loans sanctioned by a bank branch should be without collateral guarantees.

4.05.04 First generation entrepreneurs taking up micro ventures find it most difficult to furnish collateral securities or 3rd party guarantees. The Expert Committee headed by Dr.Abid Hussain (E.C.) has recommended setting up of a revolving collateral reserve fund to support such ventures. First generation entrepreneurs are our national assets and they deserve maximum support. We, therefore, propose the setting up of a revolving collateral reserve fund with an initial corpus of Rs.100 crore to be contributed by Government of India, SIDBI, NABARD, State Governments and the banks. First generation entrepreneurs setting up projects costing upto Rs.10 lakh will be supported by this fund. These entrepreneurs will have to contribute to this fund by paying some token amount of interest, say 2-4 per cent, in addition to the PLR to avail of this assistance. But they will not be required to provide any collateral guarantee.

4.06 LENDING TO THE PRIORITY SECTOR

4.06.01 The Committee also had the opportunity to scan various reports which recommended scaling down of the priority sector advances as a percentage of the net advances and the gradual abolition of the concept altogether. The Committee is also aware of the circumstances in which the priority sector was first conceptualised. According to a recent official study (Report on the Second All India Diagnostic Survey on Sickness in SSI Units - 1995-96) conducted by the Development Commissioner SSI, not more than 15-20 per cent of the SSIs have been able to get access so far to banks/institutional funds. This confirms the widely prevalent view that the sector has not been getting adequate credit. In such an environment, the Committee does not see any reason to propose the scaling down of the priority sector lending or the removal of SSIs from this sector. The Committee is also aware that during December 1997 the Government has notified the raising of ceiling of investment in plant and machinery for SSIs from Rs.60 lakh to Rs.3 crore. According to estimates provided to the Committee, as against the outstanding of Rs.33,000 crore approximately for the SSIs covered by the previous definition, the newly added SSIs account for outstandings of over Rs.4,000 crore. If the bigger SSI units are permitted to be part of the priority sector, it is quite likely that the relatively smaller units in this sector may not be able to get proper credit support and may be squeezed out. It is true that the bigger SSIs have the resources to maintain proper records and plead their case to get the credit which they need. However, it should not be at the cost of the tiny, village and really small industrial sector. Those units which would be categorised as SSIs as a result of this revision, in our view, are not in need of the systemic support provided by the priority sector lending. And these should be kept out of the priority sector.

4.06.02 We also commend the decision taken by the Reserve Bank of India to earmark 40 per cent of the credit to SSI for units having investment in plant and machinery up to Rs.5 lakh and another 20 per cent for units having investment between Rs.5 lakh and Rs.25 lakh and remaining to other units. Even the Expert Committee headed by Dr.Abid Hussain has recommended that the combined percentage of these two tiny and smaller groups should be 70.

4.06.03 The Committee recommends that while the 40% prescription for units having investment in plant and machinery upto Rs.5 lakh may continue, the 20% prescription should be raised to 30 per cent for the units with investment between Rs.5-25 lakh. The balance 30 per cent may be given to the units between Rs.25-60/75 lakh.

4.06.04 We also have noticed that the following types of investments by commercial banks also qualify for inclusion in the priority sector advances :

(i)Subscription to bonds issued by NABARD with the objective of financing exclusively agriculture/allied activities as well as non farm sector.

(ii)Subscription to bonds floated by SIDBI, SFCs/SIDCs and NSIC exclusively for financing SSI units.

(iii)Subscription to bonds issued by NHB and HUDCO exclusively for financing of housing as defined under priority sector.

The Committee is of the firm view that commercial banks should not be permitted to utilise funds earmarked for direct priority sector lending for investments in such bonds.

4.06.05 Banks have been permitted to disburse a part of their priority sector lending (to SSI) through SFCs and RRBs which has been objected to by some of the SSI Associations. Keeping in view the precarious financial position of SFCs/RRBs, we are not recommending any change of policy in this regard. However, we propose that disbursements under this arrangement should be shown separately, so as to ensure proper reflection of the direct disbursements. And RBI should ensure that the SFCs/RRBs utilise these amounts for meeting priority sector requirements only.

4.06.06 Shortfall in priority sector lending by commercial banks is required to be deposited with SIDBI/NABARD at attractive rates of interest i.e. 8 per cent for deposits for one year and 11.5/12.5 per cent for deposits for 5 years presently. This prescription was justified when it was first stipulated 5 years ago and when the priority sector classification did exclude a number of categories of advances which have now been included. The Committee does not believe that Indian or Foreign banks find it impossible to lend as per priority sector norms. They should not be permitted to exercise soft options nor rewarded for not meeting their targets by payment of high interest on such investments. We understand that in some other countries such funds are kept at a very low rate of interest, say 1 per cent with banks which are able to lend to priority sector. In order to discourage such circumventing tendencies and to encourage these banks to take up direct financing, the Committee suggests that the rate of interest available to such recalcitrant banks which continue to default in meeting the priority sector targets may be reduced to 5-6 per cent. The defaulter banks should be under notice that they will be allowed a nominal return of only 1-2 per cent, if the default continues after 3 years.

4.06.07 The targets for priority sector lending have been stipulated on the basis of outstanding' balances in loan accounts. However, drawing conclusions on the flow of credit to SSI on this basis can be somewhat misleading, since outstanding balances decrease as a result of (a) recovery of advances, (b) undrawn sanctioned limits or (c) write-offs by banks or (d) increase as a result of non-payment of interest by the borrowers. The Committee, therefore, is of the view that it would be appropriate to also assess the flow of credit to SSI by using data on disbursements. In order to give special attention to disbursements in SSI credit, the performance of banks in lending to this sector should be evaluated primarily by way of their achievement in disbursements to this sector.

It is observed from the data made available by RBI for the period June 1990 to June 1995 that the disbursements to SSIs have increased at a compounded growth rate of 22.1% p.a. Based on this, the Committee is of the view that it should be possible for banks to achieve a growth rate of 30%. Accordingly, the banks should be advised to fix their disbursement targets. RBI may also advise the banks to pay more attention to the backward States such as Bihar, J&K, Madhya Pradesh and the North-Eastern States while fixing the lending targets and seek progress in this behalf, separately.

The term `disbursement' should be clearly defined by RBI for uniformity of data and for getting a realistic level of disbursements made by banks to SSI sector.

4.07 MICRO-ENTERPRISES DEVELOPMENT CENTRES IN THE DISTRICTS

4.07.01 As has been reported by a number of studies including the one undertaken by the Expert Group headed by Dr. Abid Hussain (E.C.), technical assistance and consultancy available to the SSIs is very meagre. The Central Government has set up an organisation known as Small Industries Development Organisation (SIDO) under a Development Commissioner, SSI. This runs 28 Small Industries Service Institutes in various States. Besides, a number of Tool Rooms, Prototype Products Development Centres and Regional Testing Centres are also being looked after by them. The States have set up Directorate of Industries and Small Industrial Development Corporations to look after the technical and support services. However, these organisations have not been able to change much with the time and as the NCAER study (Structure and Promotion of Small Scale Industries in India) demonstrated, very few (less than 25-30 per cent of the SSIs) have had access to any service from these organisations. During our meetings/visits, we suggested to the banks to set up technical centres at various levels to look after the technical appraisal of the projects. Similarly, specialised SSI branches were advised to set up technical cells to be able to provide technical advisory services to the bank staff in their task of appraising the projects. Even if the banks are able to upgrade and refurbish their in-house technology appraisal systems, they will not be able to become totally self-reliant in this regard. Government will have to provide some advisory structures which could help the industry generate new project profiles, update the existing profiles and provide technical and financial consultancy. The banks could have easy access to it.

4.07.02 Almost 20 years ago, the Government of India launched a scheme, with participation of the State Governments, whereby every district got a District Industry Centre with a small complement of technical staff and administrative and financial services. Later, Government of India withdrew from the scheme and presently these centres are languishing for want of adequate resource support from the State Governments. The Expert Committee (E.C.) has suggested that action be taken to corporatise such services. A beginning could be made to rejuvenate and refurbish the District Industry Centres by rechristening them as Micro Enterprise Development Centres. These should be set up by Business Chambers, NGOs, Technical Universities and

Management Institutes. State Governments, DRDAs, banks,SFCs/SIDCs, Zila Parishads, Municipal Boards, KVIC, KVIBs and entrepreneurs can also join in strengthening these centres. The existing staff and budget of the DIC could be transferred to these Micro Enterprises Development Centres which can also be restructured as a non-profit making company under the Companies Act with the shareholding progressively being shifted to its beneficiaries. These centres should preferably be headed by successful businessmen or professionals and can provide the following types of services:

i) planning

ii) advice on finance, organisation, production and marketing

iii) loans including application forms, documentation, etc.

iv)specialised services like audit, training programme etc.

In order to support themselves financially, these centres may charge appropriate fee for their services. It may not be necessary for each district to have such a centre to start with; 2-3 districts can be clubbed together to have one such centre so that it is properly maintained and is able to provide all kinds of supportive services to the SSI including the village industry which is at present not being handled by the DICs.

4.08 SMALL INDUSTRIES INFRASTRUCTURE DEVELOPMENT FUND (SIIDF)

4. 08.01 One of the major reasons for the failure of some SSIs is inadequate infrastructural support. Power, communication, pollution control along with credit are the major factors which help promote SSIs. Adequate infrastructure is required even to permit the SSIs to absorb and use existing credit. We have seen a study which reported that SSI can produce 20 per cent more if they are just provided better quality power. SSI units are basically small in size and cannot make investments on their own in infrastructure like power, communication or pollution control measures.

The Government during 1995, took the initiative with the support of Reserve Bank of India to set up a RIDF in NABARD for rural infrastructure. Since NABARD is also looking after rural industries, this fund is expected to be used for supporting infrastructure for rural industries as well. However, there are some doubts whether this fund can be used for this purpose. Reserve Bank of India should clarify the position and permit this fund to be used for rural industrial infrastructure such as setting up of rural industrial estates and provision of alternate power sources.

4.08.02 Similarly, in the semi-urban, urban and metropolitan areas, small industries are languishing because of power shortage and imposition of rigid pollution control measures. In Delhi alone, the Supreme Court of India has directed shifting of over 50,000 SSI and tiny units from out of non-conforming areas of the city to well planned industrial estates. It is estimated that planned development for relocating these units in Delhi would cost over Rs.2,000 crore. Besides supporting infrastructure by way of additional power generation, pollution control, common facilities, commercial area service centres, communication facilities etc. would also need substantial funds outside the Delhi State Plan. There can be similar problems involving relocation of industries in other metropolitan centres or other cities and it may not be possible for State Governments to provide funds of this magnitude on their own. Reserve Bank of India may, therefore, consider in consultation with the Government of India, the need to set up a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan cities, urban and semi-urban areas which are not covered by NABARD Fund. To start with, the corpus of such fund should be kept at Rs.1,000 crore and this could be kept with SIDBI for lending to the State Governments.

4.09 DELAYED PAYMENTS

4.09.01 Delayed payments from buyers of SSI products continue to be one of the big problems for SSIs. Even State Governments and Central and State Public Sector Undertakings. delay such payments despite the Government of India having enacted the Interest on Delayed Payments to Small Scale and Ancillary Industy Undertaking Act, 1993. Apart from exercising some moral pressure on the big units for timely payment, it has not really been effective. The SSIs, therefore, have been looking towards the banks and financial institutions for financing their receivables at additional cost. SIDBI has taken certain steps to discount such bills. Banks also provide finance against receivables by way of bills discounting and book debt finance. However, generally those bills which are payable upto 90 days and which are drawn on `A' rated corporates are discounted but with recourse to the SSI.

4.09.02 Reserve Bank of India, with a view to develop bills culture and encourage recovery of SSI dues from corporates, has directed the banks to ensure that not less than 25 per cent of total credit purchases are through the bills drawn by the sellers. Depending on the experience which the system gains during the current year, RBI may examine the possibility of increasing this percentage to 50% in the next year.

4.09.03 Government may be requested to make amendments in the Companies Act to provide that the company accounts and reports should contain a separate section indicating period-wise delays in the payment of SSI dues.

4.09.04 One of the suggestions made to the Committee is that big corporates delaying payment of small scale sector dues should not be entitled to claim any benefit on account of such dues. We, therefore, recommend that public sector bodies/corporates/individuals/ firms which delay payment to SSI beyond 90 days, should not be allowed to deduct such expenditure and adjust it against income for purposes of Income Tax and the provisions contained under Section 43B of the Income Tax Act, 1961 should be amended accordingly.

4.09.05 The Union Finance Minister has recently announced in his Budget Speech that steps would be taken to amend the Delayed Payments Act to make it more effective. This may be done under a time bound programme. One of the suggestions which we received was that the new Legislation may provide for the setting up of a statutory authority on the lines of MRTP Commission to investigate such defaults (in payments to SSI) by big PSUs and private sector corporates. This authority should be empowered to impose deterrent penalties.

4.10 VENTURE CAPITAL

4.10.01 In the developed world, Small Business Investment Companies and Venture Capital Organisations also extend help by supporting or financing SSIs. Financing from an investment or venture capital is different from borrowing from the banks because instead of earning interest, they take equity stake i.e. part ownership of the business. They also share the risk in the case of such ventures which involve development and commercialisation of new technology and ideas. Inspite of pioneering work done by a few Development Financial Institutions in setting up venture capital funds, at the end of 1996, only 14 members out of 17 were reporting some data. While total pool of venture capital funds available with the funds was Rs.1402 crore, they had invested Rs.673 crore in 622 projects only. Out of this 61.1 per cent was invested in equity, 20.6 per cent by way of convertible instruments, 6.2 per cent as non-convertible debt, 3.4 per cent as redeemable preference shares and 8.7 per cent through other instruments. Out of this modest amount, the share of the SSI sector is marginal. Presently, it appears that the total environment in the country is poised against the growth of venture capital; additionally there is a definite bias against venture capital fund assisting smaller units. Even SIDBI set up a venture capital fund assistance under which an aggregate amount of Rs.97 crore was sanctioned up to March 31, 1998, out of which only Rs.22 crore were disbursed. We have discussed this in Para 2.11.

4.10.02 Venture capital funding has not been successful so far in India. A number of difficulties are being experienced by the existing venture capital funds pertaining to taxation, exit routes, listing of companies on the stock exchanges, indifferent working of OTCEI etc. We are of the view that the policy framework should encourage venture capital particularly for the SSI sector inspite of the aforesaid failures.

It is, therefore, recommended that the policy measures required for popularising this concept in the country should be got examined and decided. It is also recommended that a separate legislation be enacted to promote the growth of venture capital in the country.

4.11 `Factoring' is an alternative means of finance for receivables which is used on a very large scale by small enterprises abroad. However, inspite of the fact that the Government approved introduction of factoring services about 7-8 years earlier, the progress made in the country in this behalf is minimal. The subsidiaries of Public Sector Banks providing factoring services for domestic sales are operating `with recourse'. Some enterprising private sector companies have set up factoring services providing factoring on `without recourse' basis for export receivables . We understand that there are certain legal impediments which are required to be removed before these services pick up. These relate to stamp duty, registration fee, assignment of contracts etc. Banks/SFCs can also extend help by promptly issuing disclaimer letters. It is recommended that factoring service should be got studied by an expert committee with a view to expand the scope and reach of these services. This could be followed by enacting a new law, if required.

4.12 Lead Bank

Some of the banks have reduced their general lending and lending to the priority sector because of their own precarious financial position. This has affected the growth of industry and the promotion of the general business in these States where these banks are predominant. The Narasimham Committee has suggested adoption of `narrow banking' for these banks; in any case these banks will not be able to expand their financing activities in the near future. Some of these banks continue to be Lead Banks not only in a few districts but in respect of big states also. We cannot afford to have such Lead Banks which are not able to lead in lending. Therefore, it is recommended that Reserve Bank of India may review the position and reduce the expectations from these banks, keeping in view their financials and reallocate the lead responsibility to stronger banks.

4.13 BOARDS AND ADVISORY COMMITTEES OF BANKS

4.13.01 It is learnt that the Reserve Bank of India has a Central Board of Directors and four Local Boards. Similarly, the State Bank of India has a Board of Directors and Local Boards, one for each circle. Each Public Sector Bank has a Board of Directors. The Foreign Banks have Advisory Boards with some local representatives to oversee the Indian operations. We want that SSI should be associated with policy formulation by these Boards. Besides, these Boards should be brought closer to the SSI. Therefore, at least one representative of this sector should be put on each such Board; care being taken to ensure that the best representative of this sector is so taken. Similarly, SIDBI should have a number of representatives of SSI sector on its Board and NABARD also should have at least one such director representing the Small Scale Industries.

The induction of SSI representatives on these Boards would help in expediting redressal of grievances.

4.14.01 It was decided by the Reserve Bank of India on the basis of the recommendations made by Nayak Committee that SFCs should act as a principal financing agency for small scale industry under the Single Window Scheme of SIDBI in 23 districts having a concentration of SSI units. In the remaining districts, the commercial banks were to act as a principal financing agency. While the commercial banks have set up specialised SSI branches and have done considerable work, very little information is available about the districts where the work was entrusted to the SFCs.

4.14.02 The Committee is of the view that the work done by SFCs in the 23 districts allocated to them should be evaluated by RBI and the districts where they have not performed well may be reallocated to Public Sector Banks.

4.15 Reserve Bank of India, in consultation with SEBI, should try to provide SSI companies access to the capital market. OTCEI has reportedly collapsed. It should be revived by RBI and FIs. It should also suitably modify its listing and other requirements to accommodate small companies. The existing stock exchanges could also be persuaded to list those companies with public issue of Rs.one crore instead of Rs.3 crore presently. Enactment of Limited Partnership Act should also be expedited as has been suggested by a number of committees including E.C.

CREDIT RATING

4.16 Credit rating of SSI units will help in augmenting the flow of credit to SSI. SIDBI has a scheme to help SSI units acquire credit rating from one of the existing agencies. But the existing agencies are too few and are not equipped to cater to the credit rating requirement of a large sector like SSI. We have to have many more such agencies to impact on the flow of credit to this sector. SIDBI should assist the formation of new credit rating agencies through equity participation. These rating agencies can be formed by professionals having experience in SSI financing. Research agencies should also be encouraged to take such work. While rating SSI units, inter-alia, the following factors may be taken into consideration.

1. Management quality
2. Report from trade creditors
3. Report from employees
4. Analysis of Bank Statement of Account
5. Level of returning of bills discounted
6. Capital and 'hidden' reserves
7. Sales to working capital ratios

Banks should accept the rating provided by these agents and calibrate their loans/rates of interest to the rating provided.

CHAPTER V

GRIEVANCES REDRESSAL MACHINERY & MISCELLANEOUS ISSUES

Our observations/recommendations on certain issues, which are relevant to the flow of credit to SSI are given below:

5.01 MARKETING OF CREDIT FACILITIES

5.01.01 During our visits, we found that most of the bankers were sanctioning credit facilities to the SSI under the belief that they had to comply with the directives of Reserve Bank of India and the Government. Some SSI entrepreneurs also believe that the credit which they get from the banks is a part of the dispensation granted by Government and therefore, bankers are not justified in examining their applications or their bonafides in depth before sanctioning the loans. The Committee is of the view that both these beliefs are neither correct nor warranted in the changed circumstances of today. Hence, bankers should believe and publicise that it is the borrowers' right to get loans from the banks in case these are merited; the SSI entrepreneurs should also bear in mind that they can get loans only if their projects are found to be viable and creditworthy by the bank. Borrowers have to be clearly told that while it is their right to get the loans, they also have a corresponding duty to earnestly implement their projects and repay the dues of the bank as per the terms agreed to at the time of the sanction.

5.01.02 The banks' staff should be convinced through proper training that loaning to SSIs is in the larger interest of the banks as the banks make profits out of this activity and the risk gets spread over a large number of borrowers. In order to avoid risk concentration and for maintenance of proper credit quality, banks have to develop a set of written loan policies. Such policies should, inter alia, specify: explicit customer and group exposure limits; standards for documentation; sectoral exposure limits and delegation of powers.

Banks should strive to achieve a high and consistent level of customer service which should be a prime indicator of quality for a bank, and in that sense an indicator of its overall managerial health. The `smallest' customer should expect and receive the courtesy and the service reserved today for the biggest company. The prescribed comprehensive code of Banking Practice should be drawn up expeditiously outlining standards for disclosure of information about the bank's services and available products and the rights and obligations of its customers.

Banking policies and practices should stress on the availability rather than subsidy in provision of credit to the priority sector, and restrict cross-subsidy only to the smallest borrower. The goal should be to establish incentives that induce adequate flows of credit to priority uses especially small industry without compromising on prudential and commercial considerations.

Our interaction with leading bankers has revealed that marketing is the only way to stem the rot of organisational obsolescence: know your customers, gain a real understanding of the motivations that drive them; develop a key to the future; marketing is not a cliche, it is a key factor; "Marketing is everything, everything is marketing and marketing is everyone's job"; never stop learning; and pay more attention to managing the human side of banking and respect your intellectual resources.

Technology use has to be aggressively pushed through to strengthen internal control, improve accuracy of transactions and records management, support decision-making and facilitate new services and a higher level of customer satisfaction.

5.01.03 We noticed during our visits a marked change in the attitude of some of the bank branch managers, particularly of the ones categorised as specialised SSI branches. They were looking for good customers and in one or two cases they had even advanced loans to customers who have established their units even 200 kms. away. We were also informed that certain bank branches undertook comprehensive surveys of their areas and identified potential customers. Thereafter, these potential customers were persuaded to fill the application forms and apply to the bank for credit facilities which were sanctioned promptly. We commend to the banks to follow such examples on a much wider scale.

5.02 INDUSTRY DATA

5.02.01 One of the often cited reasons for bank managers not being able to sanction loan applications promptly is their inability to get the confidence to sanction loans in the absence of relative data regarding demand and supply factors and general position of a particular industry. Their linkages with SISIs and DICs which possess some data is not very strong. Some other data banks have also been developed in the country (like CMIE) to which the individual branches are not able to have any access. The bank branches also need data in respect of the industry position in the district or the area where they are located, as it affects the SSIs most. This data normally should be available from the DICs and the SISIs. The bank branches will also need specific data regarding certain new industries.

5.02.02 Actually, we have really not been able to encourage or expand the Government network to carry indepth analysis of SSIs and their various sub-sectors. Abid Hussain Committee has, therefore, recommended the setting up of a National Research Institute for SSI. The Committee recommends that Government should be requested to take a lead in this respect to set up this Institute and to ensure that reliable information about SSIs is not only circulated but discussed and regularly published in the leading Economic Dailies/TV networks which could be made available to the branches of the banks.

5.03 BANKERS: THEIR ACCESS TO TECHNOLOGY INFORMATION

5.03.01 Technology is marching ahead very fast and the pace of technological advances in the last decade has been breathtaking. Therefore, the banks have to keep abreast of such technological changes for assessing and assisting the industry meaningfully. However, they are finding themselves unable to do so inspite of their having Technical Officers on their staff. It is essential for improving the flow of credit to industry, particularly SSI, that the banks should have access to the latest information about technological advances and process changes. Government have appointed a number of agencies for preparing project profiles like the Development Commissioner (SSI), DICs, SISIs, etc. There are other organisations which have been set up by financial institutions and banks (such as Regional Technology Consultancy organisations). The Department of Science and Technology have their own field outfits which can also be accessed.

5.03.02 The Committee suggests that the banks upgrade their systems to be able to access the latest information about technology even from International sources including Internet. The Public Sector Banks should select one or two Regional Centres where they can get all the technological information inputs. The same could then be shared with the branches as per their requirement. The banks could also keep a panel of technology consultants who could be addressed specific problems relating to some particular technology. The fee payable to these consultants should be predetermined which may be borne by the entrepreneurs. The Government has also set up some specialised agencies for looking after specific areas such as textile research institutions. Similarly, Software Technology Parks are looked after by an organisation set up by the Department of Electronics. They can also provide sound advice to the banks for technical appraisal of the projects.

5.03.03 We were informed by the Director, Entrepreneurship Development Institute (EDI), Ahmedabad that bank managers need to upgrade their skills for appraising small projects and the entrepreneurs behind them. Training is also required to mould the mindsets of bankers and to remove the bias against small enterprise which some of the branch managers openly display. EDI has verified this on the basis of some studies conducted by them. They have designed special training courses to help bank managers and trainers of bank staff requiring the requisite skills. RBI may like to advise banks to make use of such training programmes and incorporate the same in the training courses provided by Bankers Training Institutes.

5.04 SOFTWARE

The instructions relating to software industry were issued during 1988 by the Reserve Bank of India to the banks. Normal life span of a product in this industry is 6 to 8 months. Therefore, we recommend to Reserve Bank of India to update its instructions in this regard.

5.05 CHARGES AND LEVIES OF THE BANKS

During interaction with the Committee, SSI entrepreneurs by and large, were quite critical of the hefty escalation in fees, commission and charges levied by the banks on various facilities like collection of bills, issue of drafts and bills discounting etc. They maintained that the banks were trying to make undue profits out of this. The Committee is of the view that while no concessions should be given, yet excessive charges, which are not directly related to the costs, should be suitably rolled back, to make such services cost effective for borrowers.

5.06 CORPORATISATION OF SSIS

A limited company running an SSI is considered to be more suitable by the banks than either a partnership or proprietorship firm. Hence, there is need that proprietorship and partnership firms should be encouraged to convert themselves into limited companies as the operations grow. However, the taxation laws are not designed to encourage such transformations. Capital Gains Tax is attracted on such conversions. We would, therefore, recommend that Reserve Bank of India should take up with the Central Government for a review of this taxation policy in order to encourage SSIs, to convert themselves into limited companies.

5.07 RECOMMENDATIONS OF THE EXPERT COMMITTEE HEADED BY DR.ABID HUSSAIN

5.07.01 We have had a chance to glance through the recommendations of the Expert Committee. We endorse their recommendations that a separate law for small enterprises should be framed as a basic law. This law should also contain a chapter on provision of credit to the SSIs which should, inter alia, provide for sanction of loans, recovery of dues and settlement of claims of the banks etc.

We would also like to endorse the following recommendations made by the Expert Committee :

5.07.02 Setting up of a marketing development assistance fund for helping targeted exporting units; restructuring/corporatisation of DICs, SISIs and other development agencies; restructuring State Financial Corporations and promotion of SSI cluster level activities and facilities.

5.07.03 We also fully support the recommendation of the Expert Committee that "without the financial superstructure to provide SSIs easier credit, Government efforts to extend subsidised funds to SSEs can only have a limited effect" Hence, the Expert Committee has recommended setting up of a special fund for taking care of the equity support and interest rate concession for expansion of SSIs, technology upgradation, modernisation and training. They have made this recommendation in relation to the sectors which they recommended should be dereserved. SSIs are reeling under the impact of competition on account of imports as well as, by competition from large scale and medium sectors. We would, therefore, recommend that this fund, which the Abid Hussain Committee had suggested, should be of five annual tranches of Rs. 100 crore each for technology upgradation etc. of those SSI units, which are facing problems on account of liberalisation (including deregulation) and increasing competition. These funds could be used to provide finance to SIDBI, banks and SFCs for low cost funding.

5.08 MICRO CREDIT

Micro credit is the latest buzz-word in banking. American Presidents swear by it; the Finance Minister of India gives it special prominence in his budget speech; Gramin Bank of Bangladesh demonstrates its success; voluntary work and group guarantees characterise it.

Recently Indian banks have started providing micro credit to non-Government organisations and self-help groups of the rural artisans and cottage industries. Their efforts have been supported by NABARD and SIDBI. We understand that the results are encouraging and both the apex institutions are happy with the recovery of dues and the utilisation of the loans for creating assets and increasing production. It is, therefore, recommended that the scope of this lending should be increased considerably. We know that such activities do not lend themselves to 'target fixation'; yet manifold increase should be our goal if we have to impact on poverty and rural unemployment.

5.09 WOMEN ENTERPRISES

SIDBI has taken up two schemes for promoting women entrepreneurs. Ministry of Industry (Department of SSI and ARI) is implementing a programme called TREAD in collaboration with ITC, Geneva for promoting 1,00,000 trade related women enterprises. NABARD and banks have also prepared some schemes exclusively for women entrepreneurs but the implementation of the schemes is very marginal and not much credit is flowing either through the financial institutions or the banks in this behalf. Experience, world over, has established that women make better entrepreneurs then men particularly in rural areas, cottage industries, handicrafts and the like. It is, therefore, suggested that every bank should be asked to earmark a part of its credit for assisting such SSI units by women entrepreneurs. Separate schemes could also be framed to promote women enterprises by the banks in consultation with Government Ministries and departments engaged in developing programmes and enterprises for women. One of the examples which is often quoted is that of the Gramin Bank of Bangladesh. Some of the RRBs could take a leaf out of its book and adopt a few of its methods and procedures for lending to small village level women entrepreneurs.

5.10 FOCUSSED CREDIT FOR WEAKER SECTIONS

While government have done a lot to promote employment in the Government and semi-government agencies for persons belonging to scheduled castes, scheduled tribes and backward classes, yet they have not been able to promote their business ventures in a big way. At present, RBI has laid down that 25 per cent of the priority sector credit would go to weaker sections which includes small and marginal farmers, artisans, scheduled castes and scheduled tribes, IRDP beneficiaries, DRI beneficiaries and the like. The Central as well as State Governments have set up separate corporations for promoting economic growth of scheduled castes, scheduled tribes, backward classes etc. However, they have not created the desired impact and we do not see many business ventures having been set up with their support. We are of the view that funds available under the existing schemes should more profitably and gainfully be employed in taking up risk positions in new ventures set up by weaker sections, particularly those belonging to the scheduled castes and scheduled tribes. In fact SIDBI could examine the possibility of setting up a separate Venture Capital Fund for promoting such enterprises. States also could be advised to set up such venture capital funds in one of their existing corporations for promoting these categories.

5.10.01 New designs in bank products:

We would reiterate the need for designing and marketing new products to improve customer satisfaction and increase the flow of credit to SSI. We have already mentioned the diversities in SSI - there are over 7000 products, over 28 lakh units and all entrepreneurial led innovative and flexible formations. How can one or two or three credit plans fund all of them? The recipe for success in this scenario is one-to-one or personalised marketing which binds the banker and customer in a learning relationship. Abroad, some innovative and successful shoe companies have put up for sale as many as 50 different designs in one size of ladies walking shoes. And their sales have picked up. We look forward to the day when specialised SSI branches will let their customers help in the design of their (banks') products and thereby offer a new kind of customised and personalised banking service. But this day is still far away; in the meantime let us introduce some variety in bank products.

5.11 HUMAN RESOURCE DEVELOPMENT

5.11.01 There is great need for development and training of human resources required for bank work in general and dealing with SSI, in particular. The small scale industry covers diverse and different sectors and the situation in these sectors is changing very fast. This is particularly so, after liberalisation and globalisation. For small scale units to keep pace with the changes in their respective sectors, they have to change their management style, the technology they use and also their marketing methods. To enable them to do so, the banks have to help them by providing special credit support because so far, as and when they approach the banks, they are confronted with rules, regulations and norms which were drawn immediately after nationalisation, i.e. 30 years ago and which did not provide for new requirements.

India is moving towards a new era where industry, business and service sectors can be expected to dominate the economy. Entrepreneurship, therefore has to be taught as a compulsory subject in high schools, colleges and universities because we need hundreds and thousands of new entrepreneurs. Industrial production and marketing are other subjects which have to be focussed on in various training programmes. Though we were assured by some of the banks' training faculties, with whom we interacted that these subjects form part of the training programmes of the banks, yet on our visits to various branches particularly SSI branches, we found that the managers were as unaware about these aspects of small scale industrial development as their predecessors were ten years ago. We, therefore recommend, that Reserve Bank of India should ask the Public Sector Banks once again to upgrade skills and training programmes of the bank staff to enable them to deal freely with the appraisal of diverse SSI projects and their credit related needs.

5.11.02 We also noticed that the morale of the branch staff was generally low. One such cause was the publicity relating to some vigilance cases registered against bank staff in recent times. Centralised decision-making and top heavy zonal and regional offices weaken managerial morale at the cutting edge level of the branch. An over-developed vigilance apparatus which can be activated without reference to bank management also acts as a damper of morale. They also considered placement in SSI branches inferior to the one in foreign exchange, large industry financing and import and export business branches.

5.11.03 Enlightened management in the better banks has, on the other hand, succeeded in infusing a sense of team work and disciplined risk taking into their organisations. We were informed that some of the Chairmen called managers of SSI branches to have discussions with them to understand their problems. Such morale building measures convey positive signals to all managers dealing with SSIs that they hold important assignments. We have noticed that some banks have hired international consultants to advise them how to go about handling the work and introducing administrative and structural reforms. One Chairman did indicate that he has also engaged a consultant to advise him about upgrading of the training programmes. We feel that this aspect of training for the bankers particularly those posted in new SSI branches, has to be adequately focussed at the highest level in the bank. It has to be kept in mind that setting up of a SSI Venture is a very difficult proposition and similarly it is difficult for a bank to deal successfully with such proposals and to provide the right kind of support service to the SSI enterprise. The training programmes should attempt to prepare the managers for meeting the challenges involved in dealing with this vital and demanding sector.

5.11.04 There was an impression amongst the bank field staff that the staff got promotions without even performing. This encourages development of tendencies of taking shelter behind a `No Decision Screen'. The modus operandi which the Committee observed was that they keep on raising queries on proposals without taking decisions and then refer these to the next higher authority for guidance. This process normally takes six to eight months and that too without any results.

5.11.05 It is, therefore recommended that Reserve Bank of India may advise the banks to examine these aspects and take adequate measures for building up the confidence and morale of the bank staff, so that they can perform their duties fearlessly and impartially.

5.11.06 A two pronged strategy is suggested for this.

(i) Banks may be advised to improve their system of promotion and reward to calibrate the same to the individual performance, not only in matters of deposits and house keeping but also in respect of granting loans, particularly to SSI. If required, the Annual Confidential Report Forms and procedures should be modified to provide for the above. We have had a chance to discuss this matter with the senior executives of some of the banks who maintain that this is not correct as they are equally concerned with profits arising out of loans, including those given to SSI units and this aspect is taken care of and reflected in the performance assessment of the individual staff member at the appropriate time. We also saw a few of ACR forms used by PNB and SBI and observed that loaning is also one of the important criteria used for assessing the performance of the individual manager. However, to remove misgivings that only deposit mobilisation is given predominance, we would recommend that the banks should give due importance to loaning activities. While judging the performance of a Manager/officer in case of specialised SSI branches, we would suggest that this should rank as the most important criteria for judging the performance. Kaplan and Norton demonstrate how senior executives in banking are using the Balanced Score-card to evaluate current performance and target future performance based on financial and non-financial criteria (The balanced score-card: Harvard Business School). A Balanced Score-card can be introduced in our banking system also.

(ii) Some ad hoc rewarding systems could be introduced and encouraged. One of the suggestions made by the Nayak Committee was to institute some special non-monetary awards for recognising excellent work done in relation to SSI lending. As mentioned earlier, the banks may themselves take up grant of some non-monetary rewards to recognise and promote good performance. These managers could be deputed to some specialised training programmes outside the banking system both within and outside the country. Outstanding performance can even be considered as a qualification for attractive postings abroad, wherever feasible.

5.11.07 Adoption of a negative approach about staff accountability has reportedly resulted in hesitation in taking credit decisions and has permeated to practically all levels of decision making. We were informed that at present whenever a loss occurs, the aspect of staff accountability is examined in each case in isolation, irrespective of the fact that the account turned bad in the usual and ordinary course. In the cases involving procedural lapses, departmental proceedings are initiated and accountability is fixed for the lapses committed and action taken depending upon the gravity of the lapses. In cases involving vigilance angle, these are taken up by the bank's Vigilance Department which functions directly under the control of the Chief Vigilance Officer of the Bank. All cases involving vigilance angle relating to officers of MMGS-III and above, as also those junior level officers (JMGS-I and MMGS-II) who are involved alongwith the MMG-III and above officers, are referred to the Central Vigilance Commission.

5.11.08 While there can be no denying the fact that the staff should be accountable for their actions but to determine accountability for all actions whether malafide or not, may sometimes become counter-productive. In the past whenever an account turned bad, accountability was fixed for the bad debt and this has been followed over the years. However, it should not be lost sight of that in the past, bankers' first and foremost concern was the safety of their advances and loans were given to reputed parties. Besides, the advances were fully secured by adequate collateral security. Over the years, in order to provide an impetus to industrial and economic growth, the norms for financing have been modified and made more liberal. While there has been a shift in the pattern of credit delivery, the norms for staff accountability have remained the same i.e. loss caused to the bank. It is imperative that this aspect should also be addressed in the context of changed environment so that staff are protected for their bonafide acts in the normal exercise of their powers/duties. A line should be drawn to separate malafide decisions from normal bonafide credit decisions. Only when such a course is followed, the morale of the staff can be kept high.

5.11.09 We were informed by one of the foreign banks that they follow a system, of judging the performance of their officers, in which a balanced score-card, described in Para 5.11.06, is kept in respect of each such officer of the number of advances sanctioned by him and the number which remained good or became bad. This performance graph, which follows the officer on his transfer, is referred to, while making the annual assessment of his work. The bank has fixed norms based on some parameters accounting for good decisions vis-a-vis decisions proved bad. The officer's performance continues to be adjudged good when he makes 80% good decisions. If his performance falls below the said level of 80%, he can even be asked to leave. There is need to evolve similar systems in respect of public sector banks to instill confidence in the staff and encourage them to make decisions including some `bonafide' mistakes.

5.11.10 Moreover, at present cases are referred to the Central Vigilance Commission based on the Grade of an officer in which he is placed and not the quantum of loss involved. We are of the view that cases involving amounts upto Rs.25 lakh can be dealt with by the Chief Vigilance Officer of the bank instead of referring it to the Central Vigilance Commission.

5.12 In the proposed computerised information and monitoring system to be developed by banks for SSI units, there should also be a provision for inputs from the individual industrial units themselves either directly or through the SSI associations. SIDBI should be nodal institution for this task of furnishing client input for inclusion in the information system.

5.13 LOANS TO PROFESSIONALS

We were informed that one of the foreign banks has started a scheme to sanction loans to professionals - upto a maximum amount of Rs. 7 lakh. not exceeding four times of the declared professional income for medical practitioners and two times of the declared professional income in case of others, for financing their professional needs. Such professional is not required to offer a collateral security or third party guarantee and credit facilities/loans are sanctioned within 15 days. In fact we have also noticed some cases where the credit facilities have been granted across the counter. We would recommend that other public and private sector banks should take up such schemes in respect of professionals needing finances for meeting their professional requirements including their needs of finance to bank-roll their own businesses. One such area where there is requirement for such funds, is the computer software professionals setting up their own businesses.

5.14 We understand that banks have opened specialised SSI branches. The SFCs were also advised to take the lead role in financing in 23 out of 85 districts having large concentration of SSI units. In para 4.14.02 we have recommended that RBI should evaluate the performance of SFCs in these 23 districts and where they have not performed well the district should be reallocated to Public Sector Banks. We further recommend that SIDBI should be asked to open its branches in those districts out of these 23 where term lending services are not adequately provided.

5.15 GRIEVANCES: THE EXISTING SYSTEM

5.15.01 The terms of reference of the Committee also include considering the ways and means of strengthening the existing internal mechanism in banks for redressal of customer grievances. As per the existing arrangements, majority of the bank branches have "May I Help You" counters to provide necessary guidance and help to the customers. The officials manning these counters are supposed to be courteous and polite. And their approach should be to help the customers and make them feel at home. They should provide on the spot solution to the customers' problems, wherever possible. However, in case they cannot solve the problems themselves, they guide the customers (including SSI borrowers) to approach the concerned officials in the branch for redressal of their complaints. As such, the majority of the customers' complaints/grievances are taken care of at the initial stages only.

5.15.02 In case, the grievances of the customers/borrowers cannot be redressed immediately, they are free to make a written complaint to the Branch Manager which is looked into by the latter. As per RBI guidelines, the names and addresses of the officers with whom the complaints can be lodged are required to be displayed on the Notice Board of each branch. The existing mechanism further provides that the customers can approach even higher authorities of the bank in case their grievances are not redressed at the level of the Branch Manager.

5.15.03 Apart from the above arrangements a Customer Grievances Committee has been constituted in each district which functions under the Chairmanship of Dy.Commissioner/District Magistrate. The Lead District Manager (LDM) of the district represents the banks operating in the district. Complaints/grievances relating to banking sector are looked into by the above Committee and necessary efforts for providing relief to the complainants are made. LDM has been entrusted with the responsibility of following up the matters with the concerned branches of different banks.

5.15.04 Another important forum for looking into the complaints of customers against the banking sector is the "Customer Service Centres". These centres have been established at metropolitan cities/state capitals and one bank has been assigned the responsibility of receiving the complaints against all the banks. This bank is functioning as Head Bank and acts in close co-ordination with other banks. Efforts are made by the Head Bank to ensure that the grievances of the customers are redressed expeditiously.

5.15.05 RBI has also been playing an important role with regard to redressal of grievances of customers. The aggrieved parties may lodge their complaints with RBI against the banks. All types of complaints relating to either the behaviour of bank staff or delay in grant of credit facilities or any other type of grievances, which the party has against the banks, are entertained by the Reserve Bank of India and action is taken to solve the problems.

5.15.06 A Customer Service Grievances Cell has also been set up in the Ministry of Finance (Banking Division) at New Delhi. The customers are free to lodge their complaints with the above Cell which takes suitable action for their redressal.

5.15.07 In order to provide an independent, inexpensive and expeditious mechanism for redressal of customer grievances against the banking industry, the RBI formulated the Banking Ombudsman Scheme 1995 and put the same into operation w.e.f. 14th June 1995. The scheme was originally made applicable to all commercial banks operating in India except RRBs. This was subsequently extended to the Scheduled Primary Co-operative Banks by Notification dated 15th June 1995.

Under the scheme, the Banking Ombudsman endeavours to resolve the complaints first by settlement or by mutual agreement and where that is not possible by persuasion through recommendations. The Banking Ombudsman resorts to adjudication through an award when neither conciliation nor persuasion yields any positive result. The award of the Banking Ombudsman will be binding on the banks if the complainant accepts it. In other words, where the award is not acceptable to the complainant, he is not prevented from seeking alternative remedy under the general law. The scheme does not provide for complete functional autonomy to the Banking Ombudsman.

The authority of the Banking Ombudsman includes inter alia :

a) All complaints concerning deficiency in service such as, non-payment/inordinate delay in the payment of collection of cheques/drafts/bills etc.,

b) Complaints from exporters in India such as delays in respect of export proceeds, handling of export bills, collection of bills etc.

c) Complaints concerning loans and advances insofar as they relate to (i) non-observance of RBI directive on interest rates, (ii) delays in sanction/non-observance of prescribed time schedule for disposal of loan applications and non-observance of any other directions/instructions of RBI as may be specified for this purpose from time to time.

5.15.08 There is yet another Forum known as State Level Inter-Institutional Committee which plays the role of coordinator for rehabilitation of sick SSI units. This Committee closely monitors timely sanction of working capital to units which have been provided term loans by SFCs, implementation of special schemes such as Margin Money Scheme of State Government, National Equity Fund of SIDBI and reviews general problems faced by industries.

5.15.09 Besides, as a part of Seven Point Action Plan suggested by Government of India during 1995-96, the banks at Regional level and Zonal level are also holding meetings with SSI entrepreneurs to look into their problems and understand their requirements. We had called for minutes of such meetings from a select bank Regional Offices and found that such meetings are taking place, though not as frequently as these should be.

5.15.10 No grievance redressal system can be put in place till the banks are manned with disciplined, trained and adequately motivated staff. During our visits to the bank branches and in our interaction with the customers, we find that these conditions do not exist in most of the Public Sector Banks. Therefore, the grievances redressal machinery or procedures are still not effective. Credit related decisions are still treated as sacrosanct. Entrepreneurs are so grateful for the loan they get that they dare not complain; people who are refused loans are generally not heard.

5.15.11 SUGGESTIONS FOR REDRESSAL

We are making some suggestions for redressal of grievances within the bank.

1)Procedures, time limits & systems should be made as transparent as possible and should be well publicised. Some of the banks have recently published Citizens' Charter which should be done by all the banks so that a customer including an SSI borrower should know what he is entitled to.

2)The procedures for making complaints should be simple and as informal as possible. In the Western countries there is a system of toll-free calls, which could be introduced in respect of the complaints regarding functioning of a branch and this toll-free telephone should be put on the desk of a Senior Functionary who should not only personally attend to this, but show himself as a model in courtesy, politeness and promptness of service and immediately redress a genuine bonafide grievance. The working should be based on the philosophy that the customer is generally (always) right. 3) Each Public Sector Bank should appoint an Ombudsman (to be named differently to distinguish him from the Ombudsmen appointed by the RBI), who should be a person of a high integrity and is inclined to do public service. He could be a retired person including a judge, a secretary to Government of India or a Chairman of a bank. He can look after the credit related grievances of the borrowers to start with which are outside the scope of the Banking Ombudsman Scheme. He can devise his own methods and introduce his own information systems so that the less serious grievances can be settled at the level of Regional Manager etc. and very serious grievances are handled by the Ombudsman. Once he takes a decision on a grievance, that should not only result in adequate penalty to the wrong doer, but also in revision of the system or procedure so that further grievances on this account do not arise.

Since the reach of the banks is wide spread, particularly in the case of SBI, in addition to having one Ombudsman, they can have a Commissioner of grievances in each zone. However, the real problem may be in selection of the right person. To ensure this, the

Reserve Bank of India may prescribe not only qualification regarding these persons but also the procedures for their selection. Eminent retired citizens having adequate background of banking/industry/business may be appointed as commissioners. The Governor, RBI, may appoint each such Ombudsman or Commissioner on the recommendations of the bank concerned. He should look after about 500 branches.

4) There should be machinery at all Regional Offices and Controlling Offices of banks to entertain complaints from the borrowers if the branches do not follow these guidelines. These Regional Offices/Controlling Offices should periodically verify that these guidelines are implemented by branches in actual practice.

5) We suggest that RBI should consolidate all the guidelines and reiterate their implementation by the bank branches.

5.16 It is observed that the instructions issued by Reserve Bank of India do not percolate to the branches and these are not meticulously followed by them. For example, the Committee observed that the borrowers availing of credit facilities from a bank find it extremely difficult to shift to another bank despite providing adequate collateral securities/third party guarantee to the latter. NOC from the existing bank is invariably insisted upon before the new bank provides credit facilities. This is not in conformity with the RBI instructions/guidelines. It is, therefore, suggested that inspecting officers of banks and RBI should look into this aspect and ensure compliance by the branches of various instructions/guidelines issued by RBI.

5.17 Reserve Bank of India is quite liberal in allowing Indian companies to set up offices/joint ventures abroad. The procedure for this is quite cumbersome. It is recommended that the Small Scale companies who wish to have overseas presence should be allowed to invest upto US$ twenty thousand based on a simple procedure and the banks should assist them for this purpose. This will help SSI units to increase exports and upgrade technology.

CHAPTER VI

SUMMARY OF MAJOR RECOMMENDATIONS

6.01 Crash training programmes for the staff members of Regional Rural Banks with special emphasis on proper motivation, development of project appraisal skills, monitoring of credit and modern banking procedures etc. should be planned. Availability of adequate funds and human resources should be ensured by sponsoring banks and NABARD. RRBs should also be permitted to open specialised branches on the pattern of sponsoring banks where focus could be on services to SSI. Refinance support could also be provided to them by SIDBI for their loans to SSI sector.

(Para 2.04.01)

6.02 Issue regarding mortgage of land needs to be deliberated with the various State Governments for evolving a well coordinated national strategy for providing credit to SSIs in rural areas and legal and procedural difficulties in the path of such advances should be removed. Equitable mortgages should be permitted and if registered mortgages have to be done, these should be permitted without any stamp duty or registration fee as in the case of agricultural loans. Recovery of such loans could be made through attachment and sale of property as in the case of agricultural loans. No taxes should be imposed by any State Government on equitable mortgages.

(Para 2.04.02)

6.03 In the post liberalisation era SIDBI finds it difficult to cross subsidise its credit to SSI sector. Primary Lending Institutions seek refinance from SIDBI at a rate which is below the average cost of funds of SIDBI. This calls for SIDBI managing resources at low cost such as through increase in its equity capital. flotation of tax free bonds by it, placement by Government with it of special dispensation funds, increased allocation of NIC (LTO) Fund of RBI and Government providing exchange risk cover for SIDBI against its external commercial borrowing.

(Para 2.07.01)

6.04 LIC/GIC and Pension Funds should lend a part of their funds to SIDBI for on lending to SSI.

(Para 2.07.02)

6.05 SIDBI should be accorded the same role and status as the nodal/co-ordinating agency for financing of small industries as is now available to NABARD in the field of agricultural development.

SIDBI's role in the state level institutions should be both as stake holder as well as resource provider. For this purpose, SIDBI should have access to assured sources of concessional funding from the RBI. SIDBI may also be brought under the Central Bank's Supervisory ambit.

(Para 2.07.05)

6.06 The Mahila Vikas Nidhi Scheme of SIDBI has not really taken off. SIDBI should review the scheme and modify it in consultation with the Union Government and the State Governments. At least twenty five thousand rural women should be covered under the scheme every year.

(Para 2.09)

6.07 The Mahila Udyam Nidhi Scheme being operated by SIDBI should be merged with NEF and the funds placed at the disposal of the Public Sector Banks. Other things being equal, entrepreneurs belonging to weaker sections, SC, ST, backward classes and women should be given preference in the matter of disbursal of NEF. Government bodies taking up schemes for helping entrepreneurs belonging to weaker sections should follow the pattern suggested for NEF and place the funds with banks to be used as equity or margin money.

(Para 2.10)

6.08 SIDBI may consider launching industry specific Venture Funds. It may set up immediately a few Software Venture Capital Funds in collaboration with Software Professionals Associations or their expert bodies. It should examine setting up of those funds for other sub-sectors like food processing and industry related export services.

(Para 2.11.02)

6.09 The Market Development Assistance Fund Scheme of SIDBI has not really taken off. SIDBI may review the scheme with the help of a committee of SSI entrepreneurs who are exposed to marketing in a competitive environment. The assistance from the fund should be made available to companies for marketing their products directly or to set up innovate marketing systems like Amway and Avon. SIDBI should give a big push to the Fund in order to make proper impact. One method could be to offer the scheme through banks also. Even private sector intermediaries could be used for channelising this Fund.

(Para 2.12)

6.10 In order to give a big push to the utilisation of the Technology Development and Modernisation Fund, the following measures should be taken :

(i) Extensive publicity should be made and all Government development agencies have to prepare and offer modernisation packages for various sub-sectors of SSI. SIDBI could assist connected research and development efforts under this programme:

(ii) The fund should buy software packages for improved technology from abroad. Modern machinery for demonstration purposes also should be obtained;

(iii) Loans under this Scheme should be routed through banks and adequate spread, say 4 per cent could be given to them to make the scheme attractive for them.

(iv) Some amount, say 10 per cent could also be provided out of this fund for matching the entrepreneurs' contribution towards margin and thus making it easy for the banks to lend under the Scheme.

(Para 2.13.01)

6.11 Reserve Bank should convene a meeting of SIDBI and Public Sector Banks and decide what should be the margins (spreads) normally available to the banks if the risk is shared by SIDBI or not so shared.

(Para 2.13.02)

6.12 A new fund called the 'Reconstruction Fund' may be set up in SIDBI and initiative thereof be taken by Government/RBI. Initial corpus should also be provided by Government/RBI. This should be linked with all the Public Sector Banks through appropriate lines of credit.

(Para 2.14.01)

6.13 Branch Managers should be delegated powers to grant ad hoc facilities to the extent of 20 per cent of the limits sanctioned. The Managers could also draw upon 'Reconstruction Fund' mentioned in Para 2.14.01 to provide margin money to the extent the borrower is not able to provide for the additional facilities made available. If there is a shortfall even after the provision of this additional margin money from the Reconstruction Fund, the banks should permit borrowers to make good the shortfall over a period of time out of the future profits of the units.

(Para 2.14.02)

6.14 SIDBI should open more branches, vending most modern banking services and products in areas such as North-East, Bihar and Jammu & Kashmir, where the State Financial Corporations are weak and there are wide gaps in development banking services for SSI. It could blaze a new trail by financing projects on their viability and not on the basis of collateral offered.

(2.15.03)

6.15 The linkages which bind SIDBI with IDBI should now be loosened/snapped since SIDBI has come of age. On the other hand it could be linked in a healthy way with the Ministry of Industry (Department of SSI and ARI) and its Programmes.

(Para 2.15.04)

6.16 SIDBI should concentrate on a few important schemes where massive impact could be achieved in a short time. SIDBI should therefore review its programmes with a view to weed out the schemes which have not created any visible impact.

(2.15.05)

6.17 If the impact of Rural Industries Programme of SIDBI has really to be felt then more efforts have to be made and they have to be concentrated in the districts where this programme is already being implemented. But the rest of the States i.e. other than the 11 already covered, have also to be covered by this programme (at least in respect of a district each State).

(Para 2.15.06)

6.18 While reconstituting the Board of Directors of SIDBI in the future, six to eight members should be drawn from SSI sector - SSI entrepreneurs or SSI experts or SSI representatives.

(Para 2.15.07)

6.19 At least 40 per cent of the resources of SIDBI should be earmarked for tiny sector enterprises having investment in plant and machinery upto Rs.5 lakh. It can either take up such units itself or can refinance the loans granted to such units.

(Para 2.15.08)

6.20 Reserve Bank of India may take the initiative to hold an All India conference of Urban Co-operative Banks and take some policy decisions regarding upgradation of skills of their staff, improvement in the training programmes and linking and integrating them with the country's banking system generally.

(Para 2.17.01)

6.21 Reserve Bank of India should encourage the setting up of more Urban Co-operative Banks which could function as the Local Area Banks.

(Para 2.17.02)

6.22 Government may expedite enactment of a new Company Law incorporating a Chapter on co-operative companies which could be looked after by the Registrar of Companies. Government may also explore to promote Urban Co-operative Banks under the Central Multi State Co-operative Societies Act which could be suitably amended to provide for more self regulation and autonomy.

(Para 2.17.02)

6.23 NABARD should undertake a study of the Rural Co-operative Bank Structure and take measures to ensure that at least 20 per cent of the co-operative credit flow of these banks goes to artisans, village industry and rural SSI sector

(Para 2.19.01)

6.24 SFCs

(i) Some specific recommendations made by Khan Committee regarding restructuring of weaker SFCs may be taken up for prompt decision by the Union Government. SIDBI should be helped through provision of funds etc. to take up a plan for financial restructuring of these bodies. State Governments because of their poor financial position may not be able to fund the restructuring of SFCs. State Governments share should either be substituted and provided by SIDBI or by the Government of India.

(ii) Funds for lending under Single Window Scheme by SFCs should be placed by SIDBI with the SFCs in adequate measures. Alternatively, SIDBI should receive proposals from SFCs to do the lending itself directly in such cases till the health, particularly of weak SFCs, is restored.

(iii) Each SFC should get into an MOU with one or two Public Sector Banks and participate in joint lending in which both term loan and working capital is provided jointly. For example, 80 per cent of the term loan could be given by SFC and 20 per cent by bank. In the case of working capital which may be sanctioned at the same time as the term loan, the proportion could be reversed, i.e. 80 per cent by bank and 20 per cent by SFC. However, the working capital account could be managed and supervised by the bank through its specialised SSI branches.

(iv) SIDBI should sign MOUs with the State Governments to provide some assistance to SFCs prior to the approval of assistance packages by the Government of India/SIDBI. In return for such funding, State Government could either agree to the appointment of an experienced banker as Managing Director of the Corporation or agree to provide a panel of its officers with the right kind of background and experience and SIDBI could select one of them for appointment as Managing Director for a minimum term of 3-5 years.

(v) The staff of SFCs has to be adequately trained and SIDBI may be asked to make arrangements for this purpose. Even SIDBI could take up the expenditure on account of this training on its own budget.

SIDBI may continue to do direct lending. However, it should not encourage or enter into any unhealthy competition with SFCs/banks. SIDBI should make a beginning in making term lending in the areas which are not covered by any term lending institution like the state of Bihar and the North-East. Reserve Bank of India may call a meeting and lay down ground rules for competition amongst development financial institutions like NABARD, SIDBI, SFCs, SIDCs and the specialised corporations like NSIC etc. and the Public Sector Banks.

(Para 2.21.02)

6.25 The number of units assisted by NEDFI is insignificant. Further, the State Financial Corporations in the North-East are almost defunct. SIDBI should set up an office in each of the States of the North-East and fill in the gap by taking up direct lending in a big way. Good Public Sector Banks should be persuaded to open more specialised SSI branches in this Region. The State Governments should help by providing assistance to recover bank loans and to improve infrastructure to upgrade performance of SSIs.

(Para 2.23.01)

6.26 NABARD may take up more districts under its District Rural Industries Project (DRIP). This may be extended to 100 districts in the next five years. 20 could be taken up within this year.

(Para 2.25.01)

6.27 NABARD could be requested to prepare schemes similar to handlooms and handicrafts for assisting leather-based industries, vegetables and fruits and food processing industries, milk product units, village level oil units and rural transport and services in rural areas. These industries which are in the SSI sector and spread quite widely over the country need readymade project profiles for financing. Rural entrepreneurs could take advantage of these schemes and make proposals to RRBs/C0-operative Banks for loans. These could then be refinanced by NABARD. NABARD should also set up a fund similar to National Equity Fund and make facilities available from it to rural industrial units with projects costs upto Rs.10 lakh. This fund would also function on the lines suggested for NEF.

(Para 2.25.02)

6.28 The Margin Money Scheme of KVIC is a well conceptualised one. Small rural entrepreneurs are, however, generally not aware of this. The rural branch managers also do not know about this. This scheme, therefore, needs a lot of publicity and pushing for take off.

(Para 2.26.02)

6.29 Reserve Bank of India should examine the difficulties being experienced by banks in implementation of the recommendations of Nayak Committee. Suitable modifications may be made if deemed appropriate. However, there is need for meticulous compliance of the instructions already issued as a sequel to acceptance of these recommendations and the Seven Point Action Plan. Banks may be advised to carry out special studies periodically to ascertain the position regarding implementation of guidelines issued by RBI in this regard and to introduce measures to ensure compliance.
(Para 3.13)

6.30 While carrying out inspections, the officials of the banks as well as RBI should insist and ensure that only the prescribed loan application forms are used.
(Para 3.14.02)

6.31 The filled in application forms submitted by the borrowers should always be examined by a bank official having adequate experience in credit operations who should also maintain a check list so that he advises the applicant what additional information is required to be submitted for completion of the application.
(Para 3.14.04)

6.32 The controlling offices of banks should reiterate their instructions directing branch managers/officials to extend necessary

help to applicants in filling up the application forms. Adequate number of copies of bank's instructions/schemes, RBI instructions and literature prepared by SIDBI, NABARD, State and Central Governments etc. should be made available at each branch.
(Para 3.14.05 & 3.14.07)

6.33 The loan application forms should be tri-lingual i.e. in Hindi, English and local language.
(Para 3.14.08)

6.34 A reliable agency, in private sector or joint sector, should be promoted to help small entrepreneurs in the preparation of Project Profiles and other papers. Industry and trade associations in different states and districts should take initiative in this regard. CII and WASME should design software packages for assisting entrepreneurs in filling up application forms and other dealings with the banks. IBA should get these copied and made available to each branch specially specialised SSI branches.
(Para 3.14.09)

6.35 RBI should review the application forms and ensure that superfluous items, if any, are deleted.
(Para 3.14.10)

6.36 The application form prescribed for facilities upto Rs.2 lakh could straightaway be permitted to be used for facilities upto Rs.10

lakh and that prescribed for facilities upto Rs.15 lakh could be used for such facilities upto Rs.50 lakh. Similarly, the form for limits upto Rs.1 crore could be prescribed for facilities beyond Rs.50.00 lakh and upto Rs.2 crore. The fourth category of proforma could be used by any SSI unit requiring facilities beyond Rs.2 crore.

(Para 3.14.10)

6.37 For the purpose of working out bank finance, in the case of an existing unit, the bank officials and entrepreneur should work out an agreed growth rate and projected turnover based on the past performance, the likely prospects and few other factors. For those sectors which are recording positive rate of growth and when the individual unit has also recorded positive rate of growth during the last 1-2 years, it may be permitted growth rate of a minimum of 15 per cent over the current year's turnover to arrive at the projected turnover and the working capital limits from banks be fixed accordingly. In case of new units, the projections accepted by the term lending institutions, for the first year of operation should normally be accepted unless there are specific reasons for not doing so.

(Para 3.15.02 & 3.15.03)

6.38 The banks should, with the approval of their Boards, lay down some clear guidelines for computing the working capital limits for various sub sectors granted to SSI borrowers, particularly those units where fund based working capital requirements exceed Rs.4 crore.

(Para 3.15.04)

6.39 Where the banks have a first charge over fixed assets, they should not ask for cash margins from SSI borrowers on non-fund based facilities, provided there is adequate surplus of security to cover their exposure.

(Para 3.16)

6.40 Banks should open more specialised SSI branches or shift/ restructure some of their existing branches and convert them into specialised branches for financing the small scale sector. The banking sector within the next two years should ensure collectively that at least one such branch is opened in every district of the country, particularly at those centres where the number of small units is at least 100. These branches should be opened by strong banks only. The Committee is confident that the number of specialised and profit making branches can easily increase by 1,000 within the next three years.

(Para 3.17.01)

6.41 The banks should ensure that specialised SSI branches entertain loan proposals from the tiny sector and village industries units unhesitatingly. Each such branch may look after upto 200 units, out of which a minimum of 150 should be from the tiny sector with loans less than Rs.10.00 lakh. This ratio should preferably be maintained in case the number of such units at a branch is less than 200.

(Para 3.17.02)

6.42 Selective specialised branches should be encouraged to innovate and experiment with new products such as factoring services and business credit cards.

(Para 3.17.03)

6.43 National Equity Fund should be disbursed through specialised SSI branches. SIDBI may provide direct credit lines to these branches.

(Para 3.17.04)

6.44 Steps should be taken to open new SSI branches for servicing particular industry in a big cluster. These specialised branches should be managed by competent staff and should be properly equipped with computer and communication lines. A beginning should be made by opening such branches for electronics and software industries.

(Para 3.17.05)

6.45 The Committee was informed that one field officer in a specialised branch is able to handle about 50 SSI units. The number of field officers should be sufficient to take care of number of accounts entertained by a branch. Properly trained and preferably technically oriented direct recruits in adequate number should be posted in specialised SSI branches.

(Para 3.17.06)

6.46 Banks should undertake research activities on credit related policies in relation to specific sectors of SSI for a consistent medium term policy formulation purposes.

(Para 3.17.07)

6.47 Further delegation of sanctioning powers should be made in respect of specialised SSI branches in particular and other branches in general for prompt disposal of applications.

(Para 3.17.08)

6.48 Specialised SSI branches should be linked to national and international data banks and information centres including internet to enable them to provide latest information to their clients.

(Para 3.17.09)

6.49 Banks and financial institutions are hesitant to deal with SSI enterprises requiring loans of less than Rs.5 lakh. The Public Sector Banks, with resources and expertise available at their disposal, should sanction loans to SSI enterprises requiring loans upto Rs.5.00 lakh in a big way and SIDBI should refinance these on attractive terms.

(Para 3.18.01)

6.50 The limit of composite loans should be enhanced to Rs.5.00 lakh so that the entire requirement of such units is met by single documentation and security and charge creation process. This facility should also be extended to all SSI units requiring loans upto Rs.5.00 lakh irrespective of their location.

(Para 3.18.02)

6.51 Only banks should entertain projects both for term loans and working capital of borrowers with loan requirement, upto and inclusive of Rs.5.00 lakh. Only one organisation, either SFC or a bank may sanction both the term loan and working capital for projects requiring institutional credit for more than Rs.5.00 lakh and upto and inclusive of Rs.25.00 lakh. For Projects having loan requirement in excess of Rs.25 lakh, arrangements should be made by SIDBI with the Public Sector Banks to have an MOU signed between the SFC and selected Public Sector Banks active in different regions of the country for joint financing, whereby both the term loan as well as working capital should be shared alongwith sharing of securities on pari passu basis. However, the borrowers in this category who want to avail such facilities from a single agency i.e. bank or SFC, should be allowed to exercise their option.

(Para 3.18.03)

6.52 The scope of leasing, hire-purchase and equipment finance should be expanded and obstacles removed including legal hurdles. Financing institutions should be advised to have a flexible approach in fixing margins for financing of DG sets, modernisation or technology upgradation or equipment required for pollution control or obtaining quality markings under International Standards Organisation (ISO) programmes. Banks/SFCs may consider utilising the funds available from the National Equity Fund to be treated as margin.

(Para 3.19)

6.53 There is need to provide for NEF line (in addition to presently available for project outlay upto Rs.10 lakh) for purchase of equipment for modernisation/technology upgradation or DG set purchase upto Rs.10 lakh. Wherever amount from NEF is provided, no additional margin should be obtained.

(Para 3.20)

6.54 Special term loans for meeting pre-operative expenses, technical fee, collaboration costs, marketing expenses and investment in research and development facilities, where no tangible primary security is being created, may be permitted to be extended by banks/SFCs on liberal terms of margin and repayment period provided existing securities are adequate to cover such term loans also.

(Para 3.21)

6.55 Reserve Bank of India should have dialogue with the State Governments and the Central Government regarding delays in providing subsidies for financing the projects of SSI units. The State Governments may be well advised to discontinue schemes of subsidies if their financial strength do not warrant bearing this burden. However, where there are temporary financial problems, RBI should advise banks to consider providing bridge loans to cover the amount of subsidy. The State Governments should agree to bear the interest cost on such bridge loans.

(Para 3.22)

6.56 For ensuring competitiveness of SSI units, it is necessary to set up units with optimum size of operations and capital. There are a number of agencies in public sector engaged in preparing project profiles on economic sized units. Project Profile work can be undertaken by them also for SSIs. We can also depend on technical consultants in respect of hi-tech or new technology projects. The ultimate decision, however, shall have to be taken by

the controlling offices of banks which should periodically advise their branch managers accordingly.
(Para 3.23)

6.57 RBI may set up a task force consisting of SIDBI, bankers, experts and export oriented SSIs to outline new credit policies and procedures for SSI exporters.
(Para 3.24.01)

6.58 Banks should consider providing `SWIFT' services in specialised SSI branches catering to big clusters of SSI units engaged in export of goods.
(Para 3.24.02)

6.59 It is very essential that the loan applications are sanctioned promptly and normally within one month. Banks should be advised to adopt committee approach for sanction of the applications.
(Para 3.25.01 and 3.25.02)

6.60 There should be at least one Debt Recovery Tribunal (DRT) in each State and their functioning be smoothened by providing adequate support staff for expediting recovery of bank loans above Rs.10 lakh.
(Para 3.26.02)

6.61 Regarding loans below Rs.10 lakh, the State Government should provide all facilities and assistance for the recovery of these loans. Special revenue courts should be set up in each state to deal with SSI cases. The State Government should also get in touch with the respective High Courts and get a few Civil Courts (one at every district headquarters with proper infrastructure) designated as Recovery of Bank Dues Courts. These courts should deal with loan recovery matters in a summary manner. Government can also examine treating such loans on the pattern of agricultural loans upto Rs.10 lakh as Government dues and recover these as arrears of land revenue. The banks should take advantage of the Lok Adalats and arbitration to settle dues upto Rs.10 lakh. The banks should appoint special officers or designate existing officers having aptitude for work relating to recovery, who should exclusively deal with recovery.

(Para 3.26.03 & 3.26.04)

6.62 The definition of sick SSI unit may be changed to read as under :

(a) If any one of the borrowal accounts of the unit remains sub-standard for six months i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding one year,

(b) There is erosion in the net worth due to accumulated losses to the extent of minimum 50% of peak net worth during the previous accounting year, and

(c) the unit has been in commercial production for at least three years.

(Para 3.27.02)

6.63 SLIICs should be converted into Statutory Bodies under a special Statue and given adequate statutory and administrative powers to enforce their decisions on bankers and financial institutions and other agencies concerned with the rehabilitation of potentially viable SSI units.

(Para 3.28)

6.64 Branches/benches of SLIICs could be established in districts having large concentration of SSIs. Besides potentially viable sick units should be dealt with by separate specialised branches as far as possible for the purpose of rehabilitation.

(Para 3.28.01 & 3.28.02)

6.65 To encourage banks to take up rehabilitation of potentially viable sick SSIs some relaxation in Income Recognition and Asset Classification norms should be provided. A period of one year both for the additional exposure as well as old outstanding advances, to such SSI units should be permitted and these facilities treated as standard advanced for a period of one year whereafter the classification should be changed depending upon the record of recovery.

(Para 3.28.03)

6.66 Banks should be directed to report separately the figures of those sick SSI units which are neither defunct nor closed (other than temporary closure) nor have been set up under Government sponsored schemes. RBI should also take suitable measures to ensure that the statistics relating to sick SSI units are collected and reported correctly. Banks should motivate specialised SSI branches to take up innovative products and new schemes. They could be given some autonomy and freedom to take up such innovative products.

(Para 3.30 & 3.31)

6.67 SSI should get a special treatment in the matter of interest rates. In view of their contribution to the economy, they should normally get credit at PLR.

(Para 4.01.04)

6.68 The overall interest payable by SSI should remain within the existing parameters fixed by RBI i.e. maximum of PLR plus four per cent. The PLR should take care of the cost of funds incurred by the banks. Additional spreads over the PLR will be used as premium for guaranteeing the repayment of the loan. Naturally, SSI units, with good track record will have to pay lower premium and can derive some advantage out of lower spreads.

(Para 4.01.05)

6.69 The existing Credit Guarantee Scheme being operated by DICGC should be scrapped and be replaced by a more objective and suitable scheme to be operated by a new Guarantee Corporation. Reserve Bank of India should take the initiative for setting it up in SIDBI. The proposed corporation should cover only those loans which are sanctioned by Public Sector Banks/financial institutions and where principal amount sanctioned does not exceed Rs.10.00 lakh. The coverage for the purpose of guarantee will be limited to 80% of the amount in default. Depending upon the experience gained over a period of time, the scheme can be extended to loans with higher credit limits.

(Para 4.02.02)

6.70 The proposed Credit Guarantee Corporation should have a strong corpus of at least Rs.500 crore which can be contributed by SIDBI, NABARD, Government of India, State Governments and banks. The proposed Corporation may appoint either selected bankers as their agents or the Corporation can set up its own offices in different States for extending such guarantees. The premium under the Scheme would also be decided by the agents subject to a maximum of 4 per cent points depending upon the risk perception.

(Para 4.02.04)

6.71 Unlike DICGC, option to have guarantee cover or not in individual accounts should rest with the banks. On a reciprocal basis, acceptance or not of a borrower for extending guarantee cover shall be at the discretion of the Guarantee Corporation. Simultaneously or as an alternative, the banks can set up special funds for meeting losses arising on account of defaults of repayments in SSI loan accounts. RBI should take up the matter suitably with the Government of India to ensure that necessary amendments are carried out in related Tax Laws to enable the banks to set up such funds and provide effective in-house guarantee for loans granted by them.

(Para 4.02.05 & 4.02.06)

6.72 In order to promote some guarantee service associations on the lines being operated in Italy, it is necessary to provide incentives to some of the banks to take up a kind of service-cum-guarantee arrangement in respect of few clusters. Reserve Bank of India should give them or get from the Government of India some small corpus fund of say Rs.10.00 crore which could be made use of in a few such clusters like bicycle component manufacturers in Ludhiana.

(Para 4.03.02 & 4.03.03)

6.73 With a view to reduce the cost of funds to the promoters, ensure availability of liquidity, improve debt equity ratio, and pave the way for setting up of more viable projects and provide an incentive to the banks/financial institutions to take up cases of tiny units with credit limits upto Rs. 10 lakh, these institutions should be permitted to utilize the national equity fund of SIDBI in addition to the normal margin to be contributed by the entrepreneurs. The restriction on applicability of NEF in the metropolitan areas should be removed. To cope with increased fund requirement, the corpus of NEF should be expanded. However, NEF facility should not be available to those units which are getting margin money from KVIC or any grant/subsidy under any scheme of Central/State Government or their undertakings.

(Para 4.04.03)

6.74 Reserve Bank of India should initiate appropriate policy measures for phasing out the system of collateral securities. Greater emphasis may be laid on the viability of the project and the management of the enterprises rather than on collateral security.

(Para 4.05.02)

6.75 A revised floor level of Rs.2.00 lakh for exemption of borrowal accounts from obtention of collateral securities is recommended as against the existing level of Rs.25,000/-. In respect of other accounts, the collateral security including third party guarantee should be in relation to the risk undertaken. The Committee also suggests that for loans upto Rs.10.00 lakh, the value of collateral security or the net means of third party guarantee should not be more than 50% of the fund and non-fund based exposure of the bank/financing institution. Beyond loans of Rs.10.00 lakh, the banks may exercise their commercial judgement in determining the level of collateral or third party guarantee. However, in no case a bank should obtain a collateral security or third party guarantee which is in excess of the loan amount. Reserve Bank of India may also prescribe that at least 10% of the SSI loans sanctioned by a bank branch should be without collateral guarantees.

(Para 4.05.03)

6.76 The Committee proposes the setting up of a collateral Reserve Fund with an initial corpus of Rs. 100 crore to be contributed by Government of India, SIDBI, NABARD, State Governments and banks with a view to providing support to first generation entrepreneurs who find it very difficult to furnish collateral securities or 3rd party guarantees. The support from this fund will be limited to projects costing upto Rs. 10.00 lakh. However, they, i.e. entrepreneurs will have to contribute to this fund by paying some token amount of interest in addition to the PLR to avail of this assistance.

(Para 4.05.04)

6.77 Consequent upon revision in the definition of SSI the 40% allocation of SSI credit for units having investment in plant and machinery upto Rs. 5.00 lakh may continue. However, the allocation of 20% for units having investment between Rs. 5.00

lakh and Rs. 25 lakh should be raised to 30%. The balance 30% may be given to the units with investment in plant and machinery between Rs. 25-60/75 lakh.

(Para 4.06.03)

6.78 The commercial banks should not be permitted to utilise funds earmarked for direct priority sector lending for:

(i) Subscription to bonds issued by NABARD with the object of financing exclusively agriculture/allied activities as well as non-farm sector.

(ii) Subscription to bonds floated by SIDBI, SFCs/SIDCs and NSIC exclusively for financing SSI units.

(iii) Subscription to bonds issued by NHB & HUDCO.

(Para 4.06.04)

6.79 The banks should neither be permitted to exercise soft options nor rewarded for not meeting their targets of priority lending by payment of high interest on funds placed with SIDBI/NABARD. Rates of interest available to recalcitrant banks which continue to default in meeting the targets for lending to priority sector may be reduced to 5-6 per cent and over 3 years' time, the banks which still continue to default should be allowed a nominal return of only 1-2 per cent.

(Para 4.06.06)

6.80 It would be appropriate to assess the flow of credit to SSI by using data on disbursement rather than outstanding balances'. The Committee feels that it is possible for banks to achieve a growth rate of 30% p.a. in disbursement terms and accordingly, the banks should be advised to fix their disbursement targets alongwith outstanding balances. Reserve Bank may also advise the banks to pay more attention to the backward states such as Bihar, J&K, M.P. and North Eastern States while fixing the lending targets and seek progress in this behalf separately.

(Para 4.06.07)

6.81 The existing systems of technical assistance and consultation available to SSIs is very meagre. The Government may provide some advisory structures which could help the industry generate new project profiles and provide technical and financial consultancy. The banks could have easy access to it.

(Para 4.07.01)

6.82 The District Industry Centres should be rejuvenated and rechristened as Micro Enterprise Development Centres. These should be set up by Business Chambers, NGOs, Technical Universities and Management Institutes. State Government agencies/KVICs/KVIBs and entrepreneurs can also join hands in strengthening these centres. The existing staff and budget of DIC could be transferred to these MED Centres which could be restructured as a non-profit making company under Companies Act with the share holding progressively being shifted to its beneficiaries. These centres should preferably be headed by successful businessmen or professionals and should provide advice on various matters. These centres may charge appropriate fee for their services.

(Para 4.07.02)

6.83 There are certain doubts whether RIDF set up in NABARD can be used for supporting infrastructure for rural industries as well. Reserve Bank of India should examine the matter and permit this fund to be used for such purposes as also for provision of alternate power sources.

(Para 4.08.01)

6.84 Reserve Bank of India may consider, in consultation with Government of India, the need to set up a Small Industries Infrastructure Development Fund for developing industrial areas in/around metropolitan cities, urban and semi-urban areas which are not covered by RIDF of NABARD. To start with, a corpus of such fund say Rs.1,000 crore be kept with SIDBI for lending to the State Governments.

(Para 4.08.02)

6.85 The banks have been directed to ensure that not less than 25 per cent of total credit purchases are through the bills drawn by the seller so as to develop bills culture. RBI may examine the possibility of increasing this percentage to 50 per cent in the next year depending on the experience gained during the current year.

(Para 4.09.02)

6.86 Government of India may be requested to make amendments in the Companies Act to provide that the company accounts and reports should contain a separate section indicating period-wise delays in the payment of SSI dues.

(Para 4.09.03)

6.87 Public Sector bodies/corporates/individuals/firms which delay payments to SSI beyond 90 days should not be allowed to deduct any expenditure relating to such supplies made by SSI units and adjust it against income. Section 43(b) of the Income Tax Act, 1961 should be amended accordingly.

(Para 4.09.04)

6.88 The Union Finance Minister has recently announced in his Budget speech that steps would be taken to amend the `Delayed Payments Act' to make it more effective. The new legislation may provide for the setting up of a statutory authority on the lines of MRTP Commission which should be empowered to impose deterrent penalties.

(Para 4.09.05)

6.89 Venture Capital funding has not been successful in India. The Committee is of the view that the policy framework should encourage Venture Capital particularly for SSI sector. The policy measures required for popularising this concept should be got examined and decided. A separate legislation be enacted to promote the growth of venture capital in the country.
(Para 4.10.02)

6.90 The mechanism of 'Factoring' should be got studied afresh by an expert Committee with a view to expand the scope and reach of these services. This could be followed by enacting a new law, if necessary, so as to remove legal impediments relating to stamp duty, registration fee, assignment of contracts etc.
(Para 4.11)

6.91 Some Lead Banks due to their weak financials are not able to lead in lending. Reserve Bank of India should review the performance of such banks with regard to their lending to priority sector and reallocate the responsibility of lead banks to stronger banks which are able to take a lead in lending to SSIs.
(Para 4.12)

6.92 Considering the importance of SSI, the Committee suggests that all the banks, including RBI, SBI and Foreign Banks should have at least one representative from this sector on their respective Boards. Care should be taken to ensure that the best representative of this sector is taken. Similarly, SIDBI should have a number of representatives of SSI sector on its Board and NABARD also should have one such member representing the small scale industries. The Public Sector Banks also should have Regional Advisory Boards and SSI should also be represented on these boards suitably.

(Para 4.13.01)

6.93 The work done by SFCs in the 23 districts allocated to them should be evaluated by RBI and the districts where they have not performed well, may be reallocated to Public Sector Banks.

(Para 4.14.02)

6.94 Credit rating for SSI units can help in augmenting the flow of credit to SSI. The existing agencies are not equipped to cater to the credit rating requirement of a large sector like SSI. SIDBI should assist in the formation of new credit rating agencies which can be set up by professionals having experience in SSI financing. While rating SSI units all relevant factors may be taken into consideration. While lending the banks should take into consideration the rating provided by such agencies.

(Para 4.16)

6.95 Bankers should publicise that it is borrowers' right to get loans from the bank in case these are merited. The SSI entrepreneurs should also bear in mind that they can get loans only

if their projects are viable and they are found to be creditworthy by the banks. Borrowers have also to be clearly told that while it is their right to get the loans, they also have a corresponding duty to earnestly implement their projects and repay the dues of the bank as per the terms agreed to at the time of sanction.
(Para 5.01.01)

6.96 Banks should develop a set of written loan policies. Such policies should, inter alia, specify explicitly customer and group exposure limits, standards for documentation, sectoral exposure limits and delegation of powers. The smallest customer should expect and receive the courtesy and service reserved today for the biggest company. The prescribed comprehensive code of Banking Practices should be drawn up expeditiously outlining standards for disclosure of information about the bank's services and available products and the rights and obligations of its customers.
(Para 5.01.02)

6.97 Government should set up a national research institute for SSI and ensure that reliable information about SSIs is not only circulated, but discussed and regularly published in the leading Economic Dailies/TV network, which should be made available to the branches of the banks.
(Para 5.02.02)

6.98 The banks should upgrade their systems to be able to access the latest information about technology even from international sources including Internet. The Public Sector Banks should select one or two Regional Centres where they can get all the technological information inputs. The same could then be shared with the branches as per their requirement. The banks could also keep a panel of technology consultants who could be addressed specific problems relating to technology. The fee payable to these consultants should be predetermined which may be borne by the entrepreneurs.

(Para 5.03.02)

6.99 Some special training courses have been designed by Entrepreneurship Development Institute (EDI), Ahmedabad to help bank managers and trainers of bank staff requiring the requisite skills for appraising small projects and the entrepreneurs behind them. RBI may like to advise banks to make use of such training programmes and incorporate the same in the training courses provided by Bankers Training Institutes.

(Para 5.03.03)

6.100 RBI should update its instructions relating to the software industry which were issued during 1988.

(Para 5.04)

6.101 There has been a hefty escalation in fee, commission and charges levied by the banks on various facilities. While no concessions should be given, yet excessive charges which are not directly related to the costs should be suitably rolled back to make such services cost effective for the borrowers.
(Para 5.05)

6.102 A limited company running an SSI is considered to be more suitable by the banks than either a partnership or proprietorship firm. However, taxation laws are not designed to encourage such transformations. RBI should take up with the Central Government for a review of this policy in order to encourage SSIs to convert themselves into limited companies.
(Para 5.06).

6.103 The Committee endorses the recommendation of the Expert Committee that a separate law for small enterprises should be framed as a basic law. This law should also contain a chapter on provision of credit to the SSIs which should, inter alia, provide for sanction of loans, recovery of dues and settlement of claims of the banks, etc.
(Para 5.07.01)

6.104 The Committee also endorses the following recommendations made by the Expert Committee:

(i) Setting up of a marketing development assistance fund for helping targeted exporting units,
(ii) restructuring/corporatisation of DICs, SISIs and other development agencies,
(iii) restructuring State Financial Corporations and
(iv) promotion of SSI cluster level activities and facilities.
(Para 5.07.02)

6.105 The Committee also supports the recommendation of Expert Committee for setting up of a special fund for taking care of the equity support and interest rate concessions for expansion of SSIs, technology upgradation, modernisation and training. This fund should be of 5 annual tranches of Rs. 100 crore each for technology upgradation etc. of those SSI units which are facing problems on account of liberalisation (including deregulation) and increasing competition. These funds could be used to provide finance to SIDBI, banks and other SFCs for low cost funding.
(Para 5.07.03)

6.106 The scope of lending of micro credit should be increased considerably.
(Para 5.08)

6.107 Every bank should be asked to earmark a part of its credit for assisting SSI units established by women entrepreneurs. Separate schemes could also be framed to promote women enterprises by the banks in consultation with Government Ministries and departments engaged in developing programmes and enterprises for women.

(Para 5.09)

6.108 Funds available under the existing schemes for promoting employment in the Government and Semi-Government agencies for persons belonging to Scheduled Castes, Scheduled Tribes and Backward Classes should be profitably and gainfully employed in taking up risk positions in new ventures set up by weaker sections, particularly those belonging to the scheduled castes and scheduled tribes. SIDBI could examine the possibility of setting up a separate Venture Capital Fund for promoting such enterprises. States also could be advised to set up such venture capital funds in one of their existing corporations for promoting these categories of entrepreneurs.

(Para 5.10)

6.109 SSI branches should hèlp their customers in the designing of their (banks') products and thereby offer a new kind of customised and personalised banking service.

(Para 5.10.01)

6.110 RBI should ask the Public Sector Banks to upgrade skills and training programmes of the bank staff to enable them to deal freely with the appraisal of diverse SSI projects and their credit related needs.

(Para 5.11.01)

6.111 The aspect of training for the bankers particularly those posted in new SSI branches has to be adequately focussed at the highest level in the bank. The training programmes should attempt to prepare the managers for meeting the challenges involved in dealing with this vital and demanding sector.

(Para 5.11.03)

6.112 Banks may be advised to improve their system of promotion and reward to calibrate the same to the individual performance, not only in matters of deposits and house keeping but also in respect of granting loans, particularly to SSI. If required, the Annual Confidential Report Forms and procedures should be modified to provide for the above. Banks should give due importance to loaning activities for assessing the performance of individual manager. While judging the performance of a Manager/Officer in case of specialised SSI branches this should rank as the most important criteria. A Balanced Score Card can be introduced in our banking system.

[Para 5.11.06(i)]

6.113 Some ad hoc rewarding system could be introduced and encouraged. The banks may take up grant of some non monetary

rewards to recognise and promote good performance. These managers could be deputed to some specialised training programmes outside the banking system both within and outside the country. Outstanding performance can even be considered as a qualification for attractive postings abroad, wherever feasible.
[Para 5.11.06 (ii)]

6.114 While fixing accountability a line should be drawn to separate malafide decisions from normal bonafide credit decisions in order to keep the morale of the staff high.
(Para 5.11.08)

6.115 To instill confidence in the staff and encourage them to make decisions including some bonafide mistakes, there is a need to evolve in Public Sector Bank a system of maintaining a Balanced Score Card for assessing of performance of each officer in taking credit decisions.
(Para 5.11.09)

6.116 Cases involving amounts upto Rs. 25 lakh should be dealt with by the Chief Vigilance Officer of the bank instead of referring it to the Central Vigilance Commission.
(Para 5.11.10)

6.117 Computerised information and monitoring system should be developed by banks for SSI units. There should also be a provision

for inputs from the individual industrial units themselves either directly or through the SSI associations. SIDBI should be the nodal institution for this task of furnishing client input for inclusion in the information system.
(Para 5.12)

6.118 Public and Private Sector Banks should take up schemes in respect of professionals needing financial assistance for meeting their professional requirements including their needs of finance to bankroll their own businesses. One such area where there is requirement for such funds is the computer software business set up by professionals.
(Para 5.13)

6.119 SIDBI should be asked to open its branches in those districts out of the allocated 23 where term lending services are not adequately provided.
(Para 5.14).

6.120 With a view to redress customers grievances, time limits and systems prevalent in banks should be made as transparent as possible and well publicised.
[Para 5.15.11 (1)]

6.121 The procedures for making complaints should be simple and as informal as possible.

[Para 5.15.11(2)]

6.122 Each Public Sector Bank should appoint an Ombudsman who should be a person of high integrity and inclined to do public service. He can look after the credit related grievances of the borrowers which are outside the scope of Banking Ombudsman Scheme. In addition to having one Ombudsman, banks can have a Commissioner of Grievances, one in each zone, who should look after the complaints arising from 500 branches. Eminent retired citizens having adequate background of banking/industry/business may be appointed as Commissioners. The Governor, RBI may appoint each such Ombudsman or Commissioner on the recommendations of the bank concerned.

[Para 5.15.11 (3)]

6.123 There should be machinery at all Controlling Offices of banks to entertain complaints from the borrowers if the branches do not follow the prescribed guidelines. Regional Offices/Controlling Offices could periodically verify that these guidelines are implemented by branches in actual practice.

[Para 5.15.11 (4)]

6.124 RBI should consolidate all the guidelines relating to grievances redressal and reiterate their implementation by the bank branches.

[Para 5.15.11 (5)]

6.125 Instructions issued by RBI do not percolate to bank branches and these are not meticulously followed by them. For instance, the borrowers availing of credit facilities from a bank find it extremely difficult to shift to another bank. RBI should look into this aspect and ensure compliance by the branches of various instructions/guidelines issued by it in this regard.

[Para 5.16]

6.126 It is recommended that the Small Scale Companies who wish to have overseas presence should be allowed to invest upto US$ Twenty thousand based on a simple procedure and the banks should assist them for this purpose. This will help SSI units to increase exports and upgrade technology.

(Para 5.17)

ANNEXURE I
LIST OF MEETINGS/VISITS

A. List of Individuals/Officials/Organisations with whom the Committee had a meeting

	Name/Organisation	Date
1.	Dr.Bimal Jalan Governor, RBI,	27th December 1997
2.	Shri Dalbir Singh, CMD, Oriental Bank of Commerce	9th January 1998
3.	Shri B.L.Chaddha, Ombudsman, Delhi & Haryana	13th January 1998
4.	Shri Rashid Jilani, CMD, Punjab National Bank, New Delhi	14th January 1998
5.	Rajasthan State Government officials, Chairmen of banks with Head Offices in Jaipur, Zonal/ Regional Heads of banks and Representatives of SSI Associations at Reserve Bank of India, Jaipur (Rajasthan)	16th January 1998
6.	District officials, Representatives from banks and SSI Associations at Kishangarh (Rajasthan)	17th January 1998
7.	Representatives of State Government, banks and SSI Associations at Panchkula (Haryana)	23rd January 1998
8.	Officials of State Government, Representatives of banks, financial institutions, SSI Associations and PHD Chambers of Commerce & Industry at Chandigarh.	23rd January 1998
9.	Representatives of banks, financial	24th January 1998

institutions and SSI Associations
at Jalandhar (Punjab)

10.	Shri O.P.Setia, M.D., SBI at State Bank of India, New Delhi	31st January 1998
11.	Shri Shailendra Narain, MD, Small Industries Development Bank of India (SIDBI) at New Delhi	13th February 1998
12.	Shri Hari Kumar, ED, Reserve Bank of India at Mumbai	23rd February 1998
13.	Shri Yashwant Bhave, Secretary, Industry, Government of Maharashtra, Representatives from banks and SSI Associations in Mumbai	24th February 1998
14.	Shri A.T.Pannir Selvam, Chairman, Indian Banks Association(IBA) and CMD, Union Bank of India, Mumbai	24th February 1998
15.	Shri Solomon Raj, M.D. IndusInd Bank, Mumbai	24th February 1998
16.	Indian Merchant Chambers (IMC), Mumbai	25th February 1998
17.	Shri P.Kotaiah, Chairman, National Bank for Agriculture and Rural Development (NABARD), Mumbai	26th February 1998
18.	All India Manufacturers Association (AIMO), Mumbai	26th February 1998
19.	Shri G.P.Pandey, Director and Head Corporate Bank, India, Grindlays Bank, Mumbai	26th February 1998
20.	Dr. Bimal Jalan, Governor, RBI	3rd March 1998
21.	Shri R.V.Gupta, Ex-Deputy Governor, RBI	5th March 1998

22.	Open House Meeting in Ludhiana (Punjab) held by Deputy Governor, RBI with senior Government officials, bankers and Representatives of SSI Associations	6th March 1998
23.	Shri S.S.Kohli, CMD, Punjab & Sind Bank, New Delhi	11th March 1998
24.	Shri Jayant Dang, MD, Escorts Financials, New Delhi	16th March 1998
25.	Shri Pradeep Sholapurkar, SBI Factors, New Delhi	16th March 1998
26.	Branch Managers of Specialised SSI branches in Delhi	16th March 1998
27.	Confederation of Indian Industry (CII), Delhi	17th March 1998
28.	Shri J.P.Singh Secretary, Industry, NCT of Delhi	20th March 1998
29.	State Government officials, Representatives of banks, financial institutions and SSI Associations at RBI, Patna.	21st March 1998
30.	Small & Ancillary Industries Committee, PHD Chambers of Commerce & Industry, New Delhi	26th March 1998
31.	State Government officials, Representatives of banks, financial institutions, SSI Associations & SIDBI at Lucknow (U.P.)	28th March 1998
32.	Shri Ravindra Gupta, Secretary Industry, Government of Uttar Pradesh at Lucknow	28th March 1998
33.	Shri Harish Bhasin of H.B.Portfolio & H.B.Leasing, New Delhi	2nd April 1998
34.	Mr. Vir Chandra of World Assembly of Small & Medium Enterprises (WASME), New Delhi	3rd April 1998

35.	State Government officials, Representatives of banks, financial institutions and SSI Associations in RBI, Calcutta	6th April 1998
36.	Shri Manish Gupta, Chief Secretary, & Ms. Kalyani Chaudhary, Secretary, Finance, Government of West Bengal, Calcutta	6th April 1998
37.	State Government officials, Representatives of banks, financial institutions and SSI Associations at RBI, Guwahati.	7th April 1998
38.	Shri P.K.Bora, Chief Secreary, Government of Assam, Dispur	7th April 1998
39.	Shri Jayanta Madhab, Chief Executive, NEDFI, Guwahati, Assam	7th April 1998
40.	Shri Dhruv Chaudhary, Senior Vice President, IL&FS Venture Capital, New Delhi	16th April 1998
41.	Professor Mahapatra of VISION, Dr. N.K.Singh of ASEED, NGOs, New Delhi	17th April 1998
42.	Electronics and Computer Software Export Promotion Council at PHD House, New Delhi	20th April 1998
43.	State Government officials and representatives of banks, financial institutions and SSI Associations at RBI, Chennai	24th April 1998
44.	Shri P.V.Rajaraman, Secretary Finance and Smt. O.P.Sosamma, Secretary, Small Industries, Govt. of Tamil Nadu, Chennai	24th April 1998
45.	State Government officials,	25th April 1998

Representatives of banks. financial institutions and SSI Associations at RBI, Bangalore

46.	Shri Gopal Reddy, Principal Secretary, Finance, Govt. of Karnataka MD, KSFC and CMD, KSIDC, Bangalore	25th April 1998
47.	Shri K.V.Irniraya, Addl. Secretary and Development Commissioner, SSI, Govt. of India, New Delhi	30th April 1998
48.	Consortium of Women Enterpreneurs of India (CWEI) in RBI, New Delhi	Ist May 1998
49.	District Magistrate, other government officials. reprsentatives of banks, NABARD and SSI entrepreneurs at Gwalior	2 May 1998
50.	Shri A.Bhargava, Chief Executive Officer, Khadi & Village Industries Commission (KVIC) at New Delhi	5th May 1998

B. LIST OF PLACES/ORGANISATIONS WHICH THE COMMITTEE VISITED

51.	Specialised SSI branch of Punjab & Sind Bank in Jalandhar, Punjab	24th January 1998
52.	Specialised SSI branch of Punjab National Bank in Jalandhar, Punjab	24th January 1998
53.	Specialised SSI branch of Canara Bank in Faridabad, Haryana	20th February 1998
54.	SSI Club of Bank of Baroda in NOIDA, UP	20th February 1998
55.	SSI branch of Union Bank in Wazirpur, New Delhi	21st February 1998
56.	Specialised SSI branch of Punjab National Bank, Ludhiana, Punjab	6th March 1998
57.	Gurgaon Gramin Bank, Gurgaon (Haryana)	14th March 1998
58.	Rudset Institute, Gurgaon and interface with borrowers	14th March 1998
59.	Specialised SSI branch of Punjab National Bank in Patna (Bihar)	21st March 1998
60.	SIB branch of State Bank of India, Faridabad (Haryana)	Ist April 1998
61.	National Cooperative Bank Ltd., Bangalore	25th April 1998
62.	Units financed under NABARD's DRIP Scheme in Dabra and Barhi, Madhya Pradesh	2nd May 1998

ANNEXURE II

List of Specialised SSI Branches operationalised by Public Sector Banks

Position as on 31 March 1997

Name of Bank	Newly opened	Converted
1. Allahabad Bank	3	1
2. Andhra Bank	5	3
3. Bank of Baroda	18	2
4. Bank of India	16	9
5. Bank of Maharashtra	2	4
6. Canara Bank	31	4
7. Central Bank of India	4	28
8. Corporation Bank	3	-
9. Dena Bank	1	21
10. Indian Bank	8	1
11. Indian Overseas Bank	11	-
12. Oriental Bank of Commerce	14	-
13. Punjab National Bank	11	4
14. Punjab & Sind Bank	4	1
15. Syndicate Bank	5	-
16. UCO Bank	-	6
17. Union Bank of India	23	-
18. United Bank of India	-	15
19. Vijaya Bank	6	-
20. State Bank of India	18	33
21. State Bank of Bikaner & Jaipur	2	-
22. State Bank of Hyderabad	6	-
23. State Bank of Indore	2	1
24. State Bank of Mysore	4	1
25. State Bank of Patiala	11	3
26. State Bank of Saurashtra	3	1
27. State Bank of Travancore	4	-
	215	138