REPORT OF THE WORKING GROUP

ON AN

APEX FINANCIAL INSTITUTION

FOR THE

SMALL AND DECENTRALISED SECTORS OF INDUSTRY

REPORT OF THE WORKING GROUP

ON AN

APEX FINANCIAL INSTITUTION

FOR THE

SMALL AND DECENTRALISED SECTORS OF INDUSTRY

C O N T E N T S

		Page Nos.
Presentation		(i) to (vii)
Summary of Main Recommendations		(viii) to (xiv)
CHAPTER - I	Institutional Assistance: small-scale industries	1 - 54
CHAPTER -II	Credit Requirements of small and decentralised sector	55 - 68
CHAPTER -III	Recent measures to augment the flow of credit to small industries	69 - 80
CHAPTER -IV	Further Measures Necessary - Need for a New Apex Institution	81 -109
CHAPTER - V	Apex Institution - Functions and organisation	110- 125

<u>Statistical Tables</u>

Flow of institutional credit to small-scale industries	51
Capital formation in SSI and institutional term finance	58
Production and short-term bank credit	60
Estimates: Credit	64

APPENDIX

A. Statements	Page Nos.	Reference para in the text
I Share of small-scale industries in IDBI's assistance	126	1.13
II Advances by scheduled commercial banks to small-scale industries	127	1.21
III State-wise position of number of branches of scheduled commercial banks and their advances to small-scale industries as at the end of June 1969/78	128-129	1.22
IV Lending to small-scale industries by Public Sector banks	130	1.23
V Commercial bank credit to Small-Scale Industries - Population Group	131	1.25
VI Particulars relating to loans owed by units to institutional credit agencies	132	1.26
VII Percentage share of units of different sizes in output, employment and institutional loans	133	1.26
VIII Advances made by Regional Rural Banks to Small/Marginal farmers, landless labourers, Rural Artisans and others as on the last Friday of March 1979	134-135	1.30
IX Financial Assistance Sanctioned and Disbursed by State Financial Corporations to small-scale industries	136	1.33
X Statement showing the magnitude of assistance extended by Small-Scale Industrial Development Corporations under major activities.	137-141	1.35
XI Servicing cost of advances	142	1.72
XII Estimated target of production and employment of traditional cottage and household industries.	143	2.2
B. Annexures		
I Village and Cottage Industries (Illustrative list)	144-146	1.4
II Persons with whom the Working Group held discussion	147-148	4.2

Report of the Working Group on an Apex Financial Institution for the small and decentralised sectors of Industry

Presentation

At the instance of the Government of India, the Reserve Bank of India constituted, on May 3, 1979, a working Group to examine the question of setting up an Apex Financial Institution for meeting the credit requirements of the small and decentralised sectors of industry.

The composition of the Working Group is given below:

(1)	Shri W.S. Tambe Executive Director Reserve Bank of India Central Office Bombay.	(Chairman)
(2)	Dr. Ram K. Vepa Development Commissioner Small Scale Industries Government of India Ministry of Industry Deptt. of Industrial Development Nirman Bhavan New Delhi.	(Member)
(3)	Shri R. Srinivasan Development Commissioner Handlooms Government of India New Delhi.	(Member)
(4)	Shri Bharat Sahay Development Commissioner (Handicrafts) Government of India West Block VII R.K. Puram New Delhi.	(Member)

(5) Shri B.C. Patnaik (Member)
Director
Ministry of Finance
Deptt. of Economic Affairs
Government of India
New Delhi.

(6) Dr.S.A. Dave (Member)
Executive Director
Industrial Development Bank of India
Jolly Maker Chambers No.1,
Backbay Reclamation
Bombay.

(7) Shri S. Venkataraman* (Member)
General Manager
Canara Bank,
112/J.C. Road,
P.B. No.6648,
Bangalore-2.

(8) Shri K. Ramakrishnan (Member)
Chief Officer
State Bank of India
Small Industries &
Small Business Banking Department
Bombay-400 021.

(9) Dr.P.L. Ojha (Member-Secretary
Reserve Bank of India,
Bombay.

<u>Terms of Reference</u>

The terms of reference of the Working Group were as follows:

(1) To consider and suggest ways and means for increasing the credit flow to meet the requirements of the small and decentralised sector of industry, and in this context, to consider the possibility of setting up a separate financial agency for this purpose.

* Shri S.Venkataraman was nominated in place of Shri D.C. Gupta, Executive Director, Punjab National Bank, as the latter because of other pre-occupations, expressed his inability to serve on the Group.

(2) To consider matters of both legislative and administrative character (such as whether any such financial agency should be independent or should operate under the aegis of Reserve Bank of India and if so, in what manner), which will need to be sorted out prior to the actual establishment of a new financial agency.

(3) To consider whether any such agency should cover the entire gamut of the small scale sector, or agencies need to be established to meet the credit requirements of the small scale sector, and village and cottage industries, separately.

(4) To examine and determine the scope of activities, such as refinancing operations, marketing operations, etc. to be entrusted to the new financial agency.

(5) To consider and determine the linkage between the proposed financial agency and the existing credit channels such as commercial banks and State Financial Corporations.

<u>Extension of Time</u>

The Working Group was expected to submit its Report to the Government as early as possible, preferably by the end of June 1979. The Group however realised that the issues involved were rather complex having wide ramifications. It was also felt necessary to meet the experts in the field of small and decentralised sector of industry and representatives of small scale organisations to have the benefit of their views. The Group, therefore, requested the Reserve Bank for extension of time which the Bank gladly agreed; we are grateful to the Bank for acceding to our request.

<u>The Group's meetings</u>

The Group held in all six meetings of which four were held in Bombay, one in New Delhi and one in Madras.

<u>Overview of the Report</u>

The Group's Report is divided into five Chapters. The first three chapters provide the necessary background material which was assembled for enabling the Group to make an assessment of the nature of problems faced by the different segments of the small industry sector, in particular, those of tiny and decentralised industries. In the first chapter, we have broadly reviewed the role played by the financial and other institutions in assisting the small industry sector (summary at pages 51-54). In the second chapter, a broad idea of credit requirements of small (including tiny and decentralised industries) sector by the end of March 1983 is given, based on the latest assessment available (summary at pages 65-68). The third chapter contains a brief review of the recommendations of the various Working Groups set up recently to augment the flow of credit to small-scale industries; the action taken in respect of recommendations which have been accepted is also indicated (summing up at pages 79-80). It is in chapters four and five that we have examined the main issues covered by the terms of reference and made specific recommendations.

Chapter four devotes attention to the identification of some of the existing structural and organisational weaknesses which come in the way of smooth and increased flow of credit to the tiny and decentralised industrial sectors. It also discusses the nature of measures required to improve the situation in this respect. In this context the roles of Industrial Development Bank of India (IDBI) and Agricultural Refinance and Development Corporation (ARDC) in their respective fields-industrial and agricultural sectors - are analysed briefly with a view to determining whether any strengthening of the organisational pattern and reorientation of their functional responsibilities will prove adequate to meet the developmental and credit requirements of the tiny and decentralised industries. The Group's perception of the various requirements of the tiny and decentralised industries convinces it that there is a need for setting up a separate apex institution for the tiny and decentralised industrial sectors. Simultaneous steps will also be necessary to strengthen the credit delivery system, correct the organisational and structural weaknesses of the Government and Government sponsored promotional agencies, and in particular, organise efficient supporting organisations on an extensive scale to sustain viable production in the decentralised sector.

In chapter five, we have discussed the objectives, functions, structure, resources, linkages with other institutions, etc. of the proposed apex institution.

Chapter four thus answers the 1st and 2nd terms of reference while Chapter five deals with the other three terms. A summary of the main recommendations of the Group has been given on pages viii to xiv.

We are very grateful to the various persons

Acknowledgements

who spared their valuable time either to meet us or send their notes. Their views and suggestions have considerably facilitated the task of the Group. We are also thankful to the Industrial Finance Department, Reserve Bank of India, for providing excellent secretarial services. We are particularly

indebted to Shri B.Y. Pandit, Shri D.G. Borkar, Shri M. Narayanan for their valuable assistance and organising the work of the secretariat.

(W.S. TAMBE)
CHAIRMAN

(RAM K. VEPA) (S.A. DAVE)

(R. SRINIVASAN) (S. VENKATARAMAN)

(BHARAT SAHAY) (K. RAMAKRISHNAN)

(B.C. PATNAIK) (P.D. OJHA)

Summary of Main Recommendations

Keeping in view the growth strategy for the small-scale sector during the current Plan, the focus has to be on the development of tiny and decentralised industries (paragraphs 4.3 to 4.6).

2. Flow of institutional finance to such industries will have to be arranged through institutions which have a wide net-work of branches providing adequate coverage. Another grass-root organisation for this purpose is neither feasible nor necessary (paragraph 4.11). This would, however, be possible only if simultaneous action is taken to (a) strengthen and reorient the existing financial institutions for making the credit delivery system, at the grass-root level, more efficient and purposive than hitherto; (b) remove structural and organisational weaknesses in the promotional agencies in providing appropriate technical know-how, marketing support, supply of raw materials, identification of entrepreneurs, and their upgradation of skills, training, etc.; (c) develop strong and adequate support organisations. The Group has, therefore, recommended that:

(i) With a view to increasing the number of outlets for credit flow in the rural areas, it may be-necessary to supplement the present branch licensing policy of the Reserve Bank of India (RBI) by other measures (paragraph 4.11).

(ii) It should be ensured that the power delegated to the branch managers to sanction credit to the extent of Rs.25,000 to small industries in the decentralised sector is implemented effectively; further delegation may also become necessary (paragraph 4.11).

(iii) Branch managers should be trained suitably so as to bring about necessary attitudinal changes in them as also improve their professional competence. (paragraph 4.11).

(iv) The grass-root representatives of financial institutions should work in close association with the DICs and suitable formal arrangements worked out to ensure such co-ordination (paragraph 4.11).

(v) The information system in the financial institutions should be vastly improved so that the instructions issued by the Head Office to branches of commercial banks are effectively implemented at the branch level and also there is adequate and quick 'feed-back' from the branches to the Head Offices. (paragraph 4.12).

(vi) There should be effective monitoring of the functioning of the branches to ensure that the institutional credit is being efficiently utilised. (paragraph 4.12).

(vii) The branch managers should be motivated and encouraged to be increasingly innovative and constructive in responding to requests for assistance from the decentralised sector. There should also be an assurance from the higher management to the branch managers that their performance will be judged keeping in view fully the difficulties which they will experience in the field and the risks inherent in lending to the decentralised sector (paragraph 4.12).

(viii) There should be effective co-ordination of the efforts of Central and State Governments, the development agencies established by them and the financial institutions (paragraph 4.18).

3. However, the above measures by themselves will not be sufficient to deal with all the perceived problems of the tiny and decentralised sectors including increasing the quantum of resources, developing strong and adequate support organisations and a continuous review of the policies. The Group has, therefore,

recommended the setting up of an apex financial institution for the tiny and decentralised industrial sectors (paragraph 4.32), as, keeping in view the other responsibilities already entrusted to Industrial Development Bank of India (IDBI) and Agricultural Refinance and Development Corporation (ARDC), these institutions may not be able to undertake these functions (Paragraphs 4.29 and 4.30).

4. The apex institution will be the principal financial institution for co-ordinating the working of institutions engaged in financing, promoting or developing industries in the tiny and decentralised sectors, for assisting development of institutions for providing credit and other facilities for the development of industries in these sectors, providing appropriate finance and refinance facilities to such institutions (Paragraph 5.4).

5. The main functions of the apex institution will be: providing refinance facilities, and also direct finance for the purposes specified by the apex institution, subscribing to shares and debentures, guaranteeing loans, organising and operating National Equity Fund, strengthening the institutions both operationally and financially, co-ordinating and guiding the activities of

the, various concerned agencies, undertaking and assisting in identification, formulation, implementation, supervision and evaluation of projects, coordinating the flow of institutional finance with flow of budgetary assistance by the promotional agencies for human resource development, institution - building, subsidies, extension, etc. (paragraph 5.5).

6. The apex institution should be constituted as a Public Limited Company under the Companies Act so that it would have the necessary measure of operational flexibility (paragraph 5.6).

7. The apex institution may be appropriately named as "Development Bank for Decentralised Industries" (DBDI). (paragraph 5.6).

8. The authorised capital of the apex institution should be around Rs.50 crores. The paid-up capital, in the first instance, should be Rs.10 crores. Its capital should be provided by RBI, IDBI, ARDC and scheduled banks, RBI being the single largest shareholder. The apex institution should function as an associate of the Reserve Bank (paragraph 5.7).

9. The apex institution should have borrowing powers to the extent of 20 times its paid-up capital and reserves. The borrowings may be arranged through

issue of (a) Government guaranteed bonds and debentures, (b) borrowings from the Government of India, (c) loans from RBI by way of National Industrial Credit (NIC) Long-Term Operations (LTO) Fund and short-term accommodation under Section 17 (4BB) of the RBI Act and (d) from international agencies. (paragraph 5.8)

10. The RBI Act should be amended so that loans from NIC(LTO) Fund can be made available to the apex institution. (paragraph 5.8)

11. The operations of the apex institution will have to be commercially viable. Bearing in mind the rate of interest that may have to be charged to the ultimate borrowers in the decentralised sector and the servicing costs involved, funds may need to be provided to the apex institution, at rates of interest somewhat lower than those charged to the IDBI or ARDC. (paragraphs 5.9 and 5.10).

12. It is necessary to evolve cost effective means of assistance to the decentralised sector which would require a many faceted approach (paragraph 5.10).

13. In view of the envisaged role of the apex institution, (a) in the initial 10-year period, the original subscribers should forgo the dividend payable to them and the institution should be allowed

to use the funds for promotional purposes, (b) there should be no obligation on the part of the apex institution to declare a minimum dividend for the initial 10-year period and (c) the institution may be accorded 'tax exempt status' for the first 10 years, in the first instance (paragraphs 5.11 and 5.12)

14. The Board of Directors of the proposed institution should comprise 15 to 20 members with adequate representation to subscribers of share capital, apex promotional agencies and experts with the background and knowledge of decentralised sector. (paragraph 5.14)

15. As regards linkages with other organisations, (a) there should be reciprocal representation of the apex institution on the management of the apex promotional agencies, (b) budgetary outlays should be coordinated with the flow of institutional finance. In the case of outlays for promotional purposes, there should be adequate consultation while outlays for productive purposes should be increasingly routed through the apex institution.(paragraph 5.17 and 5.18)

....

Chapter I

Institutional Assistance : small-scale industries

1.1 It would at the outset be useful to refer, in brief, to the different segments of the small industry sector, review the progress made so far by this sector and take note of the policy frame within which small industries are functioning and are expected to function in future. The role played by the financial institutions in assisting this sector can be surveyed in this setting.

1.2 Small-scale industries is a concurrent subject and both Central Government as well as State Governments have responsibilities in the development of the industry in this sector. At the Centre, the Development Commissioner for Small-Scale Industries has under his jurisdiction, the Small Industries Development Organisation (SIDO). The broad objectives of the SIDO are : (a) evolving an all-India policy and programme for the development of small-scale industries; (b) co-ordinating the policies and programmes of various State Governments; (c) effecting liaison with the Central and State Governments, Planning Commission, Reserve Bank and other financial institutions; (d) co-ordinating the programmes for development of large and small-scale industries; and (e) co-ordinating the programmes for development of industrial estates and ancillaries. The activities of the SIDO relate to small industries other than those in the decentralised sector which are under the purview of the various specialised boards i.e. Khadi and Village Industries Commission (KVIC), All-India Handloom Board, All-India Handicrafts Board, Central Silk Board, Coir Board, etc., set up for the purpose.

1.3 At the State level, the Directorates of Industries are mainly responsible for registration of small-scale industries and overseeing the promotion of small industries in the respective States, though in some States there are separate Directorates for handlooms, while in all States the khadi and village industries sector falls within the purview of the respective State Khadi and Village Industries Boards.

1.4 A small-scale industrial unit is normally defined as one having investment in plant and machinery not exceeding Rs. 10 lakhs and engaged in manufacturing, processing, preservation and servicing activity.* The

Coverage of small industry sector

small industry sector is, however, not a homogeneous one, organisationally, locationally as well as in regard to production techniques employed. Within the ambit of the above definition comes the 'tiny sector' which has both "size" and "locational" dimensions. The tiny sector, thus, includes small-scale units

---

* Prior to 1967, a small-scale unit was defined as one having investment of a capital nature, (including the value of rented premises, if any, but excluding the amounts spent on housing and amenities for workers) not in excess of Rs.5 lakhs. This definition was revised in 1967 and industrial units having investment in plant and machinery not exceeding Rs.7.5 lakhs were included in small-scale industries. In May 1975, this limit was raised to Rs. 10 lakhs.

In the case of ancillary units the "Small-scale" definition is extended to cover units having investment in plant and machinery to the extent of Rs. 15 lakhs, subject to certain conditions regarding ownership, pattern of output, etc.

having investment in plant and machinery upto Rs.1 lakh and situated in towns with a population of less than 50,000. Another distinctive category is 'village and cottage industries' which covers artisans (irrespective of location) or small industrial activities in villages and cities involving, very often, utilisation of locally available natural resources and/or human skills, and almost invariably manual production techniques with very little use of mechanical energy. These village and cottage industries broadly constitute the 'decentralised sector', which includes activities such as khadi, handlooms, sericulture, coir, handicrafts, etc. (vide Annexure I). Thus, the three major sub-sectors of small industry sector are : (a) decentralised sector; (b) "tiny" sector and (c) modern small-scale industries sector located mostly in metropolitan and urban areas.* The last category of industrial activities which include ancillaries and consumer durables have considerable linkages with medium and large industries in the organised sector and are themselves mostly organised

---

* Metropolitan areas are centres with population above 10 lakhs and urban areas are centres with population between 1 lakh and 10 lakhs according to 1971 Census.

as factories employing mechanical production techniques and hired labour. The "tiny" sector industries are, in production techniques, akin to other modern small-scale industries. However, because of locational aspect, the problems of the 'tiny sector' are more akin to the decentralised sector in the matter of credit delivery and supporting facilities. Therefore, in this Report the term 'decentralised sector' has been taken to include the 'tiny sector', unless otherwise indicated.

<u>Progress in the small industry sector</u>

1.5 The Industrial Policy Resolution of 1956 governed, till recently, the Government's policy of achieving the objectives of growth, social justice and self-reliance in the industrial sphere. Since the Second Five Year Plan, small industries were assigned a key role and as a result of the various steps taken by the Government, small industry sector has made considerable progress. The value of production in both registered and unregistered units* went up by

---

* Registered units are those which have been registered with the State Directorate of Industries. Registration, however, is voluntary. Unregistered units are those which are not so registered.

nearly three times i.e. from about Rs.5,500 crores in 1972 - 73 to around Rs.14,000 crores in 1977-78*. The contribution of the small industry sector to the total industrial production is estimated to have gone up from 35 per cent in 1972 to 40 per cent in 1976. While industrial production during 1970 to 1977 increased by an annual average rate of 6 per cent, that of small-scale industries rose by 20 per cent,per annum,during this period. The value of production in the decentralised sector during 1977-78 was estimated around Rs.2,200 crores, of which handloom production alone accounted for about half (Rs.1,150 crores) followed by handicrafts (Rs.600 crores) and Khadi and Village Industries (Rs. 263 crores).

1.6 The number of persons employed in the registered and unregistered units went up from 47 lakhs in 1974-75 to 55.6 lakhs in 1976-77, the annual average increase in the number of persons employed being about 4 lakhs. Taking into account the number of persons employed in the decentralised sector (about 11 million persons in 1977-78), the employment in the small industry sector

---

* Source : Draft Report of the Working Group on Small-Scale Industries (Planning Commission). Data prior to 1972-73 are not available on a comparable basis.

would form about one-fourth of the employment in the non-farm sector (i.e. sectors other than agriculture) in 1977-78. In terms of the total unemployment situation, its impact was,however,not significant.

1.7 Thus, according to the Draft Five Year Plan, 1978-83, between 1971-78 when the labour force increased by 35 million, non-agricultural activities absorbed only 9 million, about half of which being in the organised sector. Agricultural activities absorbed 25 million. The Draft Plan observes that "in India fairly rapid growth in the non-agricultural sectors in the last 25 years of planned development has completely failed to make any noticeable impact on the industrial distribution of the work force. The share of mining and manufacturing in the work force has stuck around 9 to 10 per cent and the share of the tertiary sectors around 16-18 per cent for five decades. The inference is clear; employment growth in these sectors has been insufficient to absorb an increasing proportion of the labour force".*

---

* Vide Draft Five Year Plan 1977-78 - 1982-83, Government of India, Planning Commission, page 82, paragraph 4.14.

1.8 In the Draft Five Year Plan, 1978-83, unemployment in 1978 is estimated at 20.6 million persons, of which 16.5 million would be in rural areas. Thus, it is now realised that unless the non-agricultural activities, particularly in the decentralised sector, expand rapidly, generation of employment opportunities at a satisfactory rate may not be possible. It is in the light of this assessment of the situation that the Industrial Policy of the Government of India (announced in December 1977) lays stress on effective promotion of cottage and small industries widely dispersed in rural areas and in small towns. Thus, in the small industry sector, special attention would be given to the units in the "tiny" sector. Also, a greater measure of support is proposed to be extended to khadi and village industries. The focal point of development for small-scale and cottage industries will be taken away from big cities and State capitals to district head quarters, for which purpose nearly 400 District Industries Centres have been sanctioned. It is envisaged that programmes and

<u>Prospects</u>

policies will be so worked out and implemented as to enable the decentralised sector to generate anticipated levels of employment and output in the next five years.

1.9 As at the end of the Plan period (1982-83), the shares of the decentralised sector in total employment and output of the small-scale sector as a whole are expected to be 72 per cent and 20 per cent, respectively, the corresponding proportions for 1977-78 being 68 per cent and 14 per cent. The additional employment generation in the decentralised sector during the Sixth Plan period would be about 10 million persons or an annual average of 2 million persons in contrast to an annual average of only 4 lakhs persons in both registered and unregistered units of the small-scale industries sector during 1974-75 to 1976-77. This shows the magnitude of the challenging task. Institutional machinery has to be strengthened and new institutions created, if necessary, to fulfil this task.

II

INSTITUTIONAL ASSISTANCE

1.10 There is a wide range of institutions/agencies providing financial and other assistance to small industry sector. The activities of these institutions are briefly reviewed below.

(i) Reserve Bank of India (RBI)

1.11 The Reserve Bank, as the central banking authority, controls the operation of the banking system and credit policies which are directed towards ensuring adequate flow of institutional credit to support the order of economic growth, including industrial growth, envisaged in the Development Plans. The small-scale industries constitute an important segment of the priority category and the Bank monitors, from time to time, the progress made by the banks in augmenting the flow of credit to small-scale industries. In fact, in granting refinance or rediscount accommodation, the Bank takes due note of the performance of the concerned bank in extending credit to priority sectors, including small-scale industries. With a view to bringing down the cost of credit to small-scale industrial units, the Reserve Bank has stipulated that the term loans to small-scale units should not be charged more than 11% per annum while working capital advances to small-scale industries upto Rs.2 lakhs have been exempted from the stipulation governing the minimum lending rate of 12½%. The Reserve Bank set up or assisted in setting up various Committees* to ensure better and larger flow of bank credit to the small and

---

* Some of the Committees set up in recent years whose recommendations have been accepted and are being implemented include :

i) High Powered Committee on problems of sick units : Chairman Shri H.M. Patel, Finance Minister (October 1978)

ii) Working Group on small-scale industries with special reference to District Industries Centres : Chairman Shri W.S. Tambe, Executive Director, Reserve Bank of India (October 1978).

iii) Working Group on Role of Banks in promoting employment : Chairman Kum. N.K.Ambegaonkar, Adviser, Credit Planning and Banking Development Cell, Reserve Bank of India (October 1978).

iv) Working Group on Differential Rate of Interest Scheme : Chairman Kum. Kusum Lata Mital, Joint Secretary, Banking Division, Government of India (October 1978).

v) Study Group to review the Working of the Reserve Bank of India Scheme for Handloom Finance : Chairman, Dr.M.V.Hate, Chief Officer, Agricultural Credit Department, Reserve Bank of India (October 1977).

vi) High Powered Committee for examining bank credit problems of small-scale industries : Chairman Shri I.C. Puri, Development Commissioner (SSI), Government of India (April 1976).

decentralised sectors and it has taken necessary follow-up action on the basis of the recommendations of these Committees.

1.12 Reserve Bank of India also operates, on behalf of Government of India, the Credit Guarantee Scheme which provides a measure of protection to the financing institutions against the risk of defaults. The provisions of the Scheme have been liberalised from time to time. For example, the guarantee cover in respect of loans upto Rs.25,000 to artisans and village and cottage industries has been raised from 75% to 90%. Further, with a view to encouraging banks to finance the credit requirements of the smaller borrowers, guarantee claims for amounts upto Rs.25,000 are being settled on an automatic basis.

(ii) Industrial Development Bank of India (IDBI)

1.13 IDBI is enjoined to assist industries of all sizes - large, medium as well as small. In respect of the small-scale sector, the flow of IDBI's assistance is indirect, through State Financial Corporations(SFCs) and through the agency of banks (including regional rural banks). Over the years, IDBI has taken several measures to increase the flow of its assistance to this sector. As a result, IDBI's assistance (sanctioned) to the small-scale industries increased manifold from Rs.10.5 crores on 692 applications in 1970-71 to Rs.190.0 crores on 12,348 applications in 1978-79. The share of the small-scale industries in IDBI's total assistance sanctioned was around 40 per cent in terms of number of applications sanctioned and around 18 per cent in terms of amount during 1978-79. (Statement I)

1.14 The IDBI's assistance to small-scale industries is provided mainly through its scheme for refinance of industrial loans. In March 1968, the IDBI introduced a special scheme for concessional refinance in respect of loans by primary lenders, i.e. banks and SFCs to small-scale industries covered under Credit Guarantee Scheme (CGS). The minimum amount of loan eligible for refinance has been progressively reduced from Rs.1 lakh in 1968 to Rs. 10,000 in 1970, and from July 1978, the minimum limit has been completely removed. IDBI provides 100% refinance in respect of loans to small-scale industrial units and to units coming up in specified backward districts, and 90% in other cases. From 1972-73, IDBI has also been providing refinance for setting up of industrial estates as also for a variety of small activities, such as maintenance, repair, testing or servicing of machinery, vehicles etc. Further, from February 1973, IDBI has been providing foreign currency finance to SFCs for on lending to small-scale industries under the International Development Association and World Bank lines of credit. Recently, from February 1979, IDBI has introduced a "composite" loan scheme whereby composite term loans for equipment finance and for working capital, upto Rs.25,000 granted to artisans, village, cottage and tiny industries by the primary lending agencies are eligible for refinance from IDBI. The "composite" loans are covered under the Automatic Refinance Scheme.

1.15 In order to quicken the flow of credit to small-scale industries, IDBI introduced in 1970-71 the Liberalised Refinance Scheme (LRS), under which the procedure for sanction and disbursement of refinance in respect of loans upto Rs. 2 lakhs granted by SFCs to small-scale industrial units and covered under the Credit Guarantee Scheme was considerably simplified.

This facility was later on extended to cover banks. The LRS was liberalised over the years and effective July 1, 1978, replaced by the Automatic Refinance Scheme (ARS) in terms of which refinance in respect of loans upto Rs.5 lakhs to small-scale industries granted by banks and SFCs has been put on fully automatic basis. The operations under the Scheme have also been decentralised and at present all the 17 offices of IDBI dispense refinance to the small-scale sector. The IDBI's net-work of branch and regional offices now extends to all the State capitals, except some of the States in the North Eastern Region.

1.16 The small-scale industries also avail, to a limited extent, of IDBI's assistance under its Bills Rediscounting Scheme for purchase of machinery on instalment-sale basis. While normally the facility is not available for setting up of new projects, exception has been made in favour of the small-scale sector. From April, 1978, the concessional rate of discount (0.5% lower than the normal rate) has been introduced in respect of small-scale industries, the effective cost of finance of machinery in the small-scale sector being 13 per cent per annum as against 15 per cent in other sectors. Further, in order to induce banks to cater more effectively to small-scale industries, banks are given higher spread on bills/ promissory notes from small-scale industries of 1.25% as against the normal spread of 1%. The IDBI is also sanctioning from 1978-79 separate limits to banks for exclusive use by the small-scale industries. As a result, the small-scale industrial units have availed of the bills facility to the extent of Rs.16.40 crores during 1978-79.

1.17 IDBI has also been strengthening the resources of SFCs by contributing to their share capital and bonds. Its support to SFCs includes contribution to their special capital from which they, under schemes formulated by IDBI, provide seed capital assistance to small-scale industries. Besides, IDBI has taken several measures to improve its control and supervision of SFCs, aimed at upgrading the organisations and appraisal techniques, including arranging training programmes for their personnel.

1.18 IDBI in association with Industrial Finance Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI) took the initiative to set up a chain of Technical Consultancy Organisations (TCOs) in various parts of the country. In 1977, IDBI also created, out of its profits, a Technical Assistance Fund, which is utilised, inter alia, for financing Entrepreneurial Development Programmes, meeting the initial losses of TCOs and financing a variety of studies intended to benefit the modern small-scale industries as well as the decentralised sector.

1.19 Under the new Industrial Policy, the IDBI has been assigned the responsibility for guiding, co-ordinating and monitoring the entire range of credit facilities offered by other institutions for the small, tiny and village industries. Accordingly, in March 1978 IDBI set up a Small and Village Industries Wing which is headed by an Executive Director. The IDBI has also set up recently a Small and Village Industries Credit Committee, comprising the representatives of Government of India and the all-India promotional organisations in the decentralised sector, Reserve Bank of India, State Bank of India and Federation of the Associations of Small-Scale Industries, so as to have the benefit of the expertise and experience of those actively involved in the promotion of small and decentralised industry.

1.20 IDBI has taken several measures to increase the flow of assistance to the Small-scale sector. Already there has been over one hundred per cent increase in assistance to this sector during 1978-79. The share of the decentralised sector and the tiny sector has, however, remained quite small in the overall assistance of IDBI to the small-scale sector. Two important liberalisations of particular relevance to the decentralised sector which IDBI introduced recently, referred to above, are : removal of the minimum refinance limit of Rs.10,000 from July 1978 and extension of ARS to cover Composite Loans from February 1979. Another important decision taken in August 1979 is that IDBI would grant assistance, on a selective basis, to promotional and market/input support organisations for the decentralised sector to meet their term finance requirements for their own industrial activities, capital investments for setting up warehouses, emporia, marketing centres etc. and for margin for working capital. The full impact of these measures is likely to be felt from 1979-80 onwards.

(iii) Commercial Banks

1.21 The Commercial banks with their wide net-work of branches, and command over resources are obviously in the forefront. The total number of branches of commercial banks are now nearly 30,000 as against about 18,000 five years ago. More important, about half of the branch expansion in the last five years has taken place in the rural and unbanked areas. The credit facilities extended by scheduled commercial banks to small-scale industries at the end of December 1978 amounted to Rs.2156 crores (14.8 per cent of total bank credit(excluding food procurement advances) spread over 5.57 lakh borrowers (Statement II) Between December 1973 and December 1978, the outstanding credit to small-scale industries had gone up by about two and half times, while the number of units covered had increased by nearly three times during this period. The average amount of limits sanctioned to small-scale units had come down from Rs.67,136 in December 1973 to Rs.49,595 in December 1978 indicating some shift in favour of financing the smaller borrowers in the small industry sector.

1.22 The spread of bank assistance as among the States has, however, been highly uneven. About 80% of the outstanding credit to small-scale industries was accounted for in the States of Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh, Kerala, Punjab, Uttar Pradesh, West Bengal and Karnataka; (of the total number of branches nearly 75 per cent are in these States); the share of Assam, Orissa, Himachal Pradesh, Jammu and Kashmir, Meghalaya, Nagaland, Manipur and Tripura was hardly 2% (Statement III). Although the absolute amount of advances and number of accounts as well as the bank branches increased substantially in these States, the share in credit to the small-scale sector remains insignificant.

1.23 Sector-wise data on the flow of bank credit to small-scale industries are now being compiled by the Reserve Bank of India. The available data show that as at the end of March 1979, advances by the State Bank of India and its subsidiaries, and 10 nationalised banks (which account for nearly four-fifths of the total credit by all scheduled commercial banks to small-scale industries) to artisans, village and cottage industries amounted to only Rs.30.8 crores covering 2.40 lakh borrowers. This amount formed hardly 2 per cent of the total advances by these banks to the small-scale industries. The outstanding level of credit by the banks referred to above, to the tiny sector amounted to Rs. 99.8 crores spread over 1.10 lakh borrowers. Thus, the level of credit by the SBI and its subsidiaries and 10 nationalised banks to the tiny and decentralised sectors as at the end of March 1979 would be in the region of Rs.130 crores or 8 per cent of the total advances by these banks to the small industry sector (Statement IV).

1.24 The Differential Rate of Interest Scheme (DRI) covers a wide range of very small borrowers engaged in various activities such as agriculture, allied occupations, small business, small industries etc.* The total credit extended by the public sector banks (State Bank of India and its subsidiaries and 14 nationalised banks) under this Scheme amounted to

* Under the scheme very small loans are granted to individual borrowers; there are different loan ceilings for different activities, the limit for small industries being Rs.6,500.

Rs.103 crores as at the end of March 1979 spread over 7 lakh accounts. Nearly three-fourths of these advances were extended by the branches located in semi-urban and rural areas. Data furnished by the State Bank of India show that out of their total advances amounting to Rs. 37.8 crores as at the end of March 1979, Rs.5.9 crores or 18 per cent went to the borrowers in the small industry sector. It would, therefore, appear that the contribution of public sector banks to small industries under the DRI Scheme would be around Rs. 15 crores.

1.25 Location-wise, as at the end of June 1977, (latest available data) Small-scale industrial units in rural areas had credit facilities from banks amounting to Rs. 88 crores which formed about 6% of the total outstanding credit to the small-scale sector; for the units located in rural and semi-urban areas* together the outstanding amount was Rs.393 crores or 27% of the total outstanding to the Small-scale sector. The number of accounts in rural areas constituted only 16% of the total number of accounts (Statement V).

---

* Semi-urban areas are centres with population between 10,000 and 1 lakh and rural areas are centres with population below 10,000,according to 1971 Census.

1.26 Data regarding credit flow to small-scale industries located in different population settings are also available from the sample Survey of assisted small-scale industrial units, conducted by the Reserve Bank; the Survey covers the reference period from April 1976 to March 1977. These data relate to not only commercial banks but also other credit institutions, such as SFCs, Co-operative banks and Regional Rural Banks (RRBs) etc. According to this Survey, small-scale industrial units located at places with population upto 10,000 (i.e. in rural areas) had received credit of the order of Rs.220 crores or 15% of the total outstanding credit to small-scale sector (Statement VI) This Survey also presents data of production, employment and institutional finance in respect of small-scale units according to size of investment in plant and machinery (irrespective of location). It shows that units with investment less than Rs.1 lakh contributed as much as 44% of the output and 60% of employment of the assisted small-scale units but their share of institutional loans was only one-third of the total outstanding institutional loans. (Statement VII).

1.27 Among the commercial banks, the State Bank of India has taken initiative in creating an equity fund for small-scale industrial units. For the year ending 31 December 1978, an amount of Rs.3 crores was set apart for this purpose. The Scheme is applicable only to new units and the total cost of project should be above Rs.25,000. The Scheme would thus cover the tiny sector and is not intended for the decentralised sector.

1.28 Although the commercial banks provide essentially credit facilities to small industries, their activities also have a promotional/developmental content. A number of banks have set up consultancy cells to assist small industries, while some of them have been conducting entrepreneurial development programmes.

(iv) Co-operative Banks

1.29 In the co-operative banking sector, credit facilities are provided by co-operative banks other than urban co-operative banks to weavers and other industrial societies for the production and marketing requirements. The amount of credit thus extended as at the end of June 1977 was Rs.38.6 crores, of which weavers' societies alone accounted for Rs.23.6 crores. Five States viz. Tamil Nadu, Maharashtra, Kerala, Karnataka and Haryana accounted for about 80 per cent of the outstanding credit. The credit facilities extended by urban co-operative banks to small-scale industries as at the end of June 1977 amounted to Rs.21 crores. The Reserve Bank had recognised in 1968, 22 broad groups of cottage and small-scale industries in addition to cotton, woollen and silk handloom weaving and powerloom 'weaving industry' as eligible industries for refinance accommodation by the Reserve Bank for financing their production and marketing activities. The Reserve Bank provides refinance accommodation at 2½% below the Bank Rate to State Co-operative Banks on behalf of Central Co-operative Banks for financing industrial societies and to the primary (urban) co-operative banks for financing industrial units outside the co-operative sector. The Reserve Bank also extends refinance facilities at 3% below the Bank Rate to State Co-operative banks on behalf of Central Co-operative Banks for financing weavers and other rural artisans engaged in any of the approved broad groups and cottage and small-scale industries through

Primary Agricultural Credit Societies, Farmers Service Societies and Large Size Agricultural Multi-purpose Societies. Since September 1972, the Reserve Bank has been providing refinance facilities to the Block Level Artisans (Balutedars) Multi-purpose Co-operative Societies organised in Maharashtra as a part of Employment Guarantee Scheme in respect of working capital advances provided to artisan members, treating the Society, only for the specific purpose of refinance, on par with the urban co-operative banks.

(v) <u>Regional Rural Banks (RRBs)</u>

1.30 The Regional Rural Banks have been set up mainly to develop the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. There are at present 56 Regional Rural Banks having 1836 branches. As at the end of March 1979, RRBs had granted loans to rural artisans and other small borrowers to the extent of Rs.45 crores which formed 30% of their total loans and advances (Statement VIII). Although the extent of finance granted by RRBs to the rural artisans alone, is not readily available, it is estimated to be of the order of about Rs.14 crores. It is expected that with the availment of refinance facilities from IDBI, the RRBs would be in a position to cover a wider range of artisans in the rural areas.

(vi) National Small Industries Corporation (NSIC)

1.31 The National Small Industries Corporation was established in 1955 as a Government of India undertaking, to aid, counsel, assist, finance, protect, and promote the interest of the small industries in the country. This Corporation has, since its inception, upto the year ending 31 March 1978 supplied machinery on hire worth Rs.95.98 crores to 14,116 units. The outstanding value of machines sold on hire purchase as at the end of March 1978 amounted to Rs.21.2 crores as against Rs.29 crores as at the end of March 1976. According to the Corporation, the hire purchase scheme which provides a package of assistance of selection, purchase and supply of machinery and equipment is expected to prove beneficial to the entrepreneurs in the rural areas.* The Corporation's other activities, cover mainly (a) marketing, (b) Government's Purchase Scheme and (c) Proto-type development training centres. The marketing activity is limited inasmuch as during 1977-78 the Corporation's sales amounted to Rs.12.7 crores comprising mostly sale of brass scrap procured from the Defence Department. The value of Government orders secured by small-scale units with the assistance of NSIC amounted to Rs.58 crores during 1977-78 as against Rs.54 crores in 1974-75.

III

(vii) State Financial Corporations (SFCs)

1.32 SFCs were set up in early fifties to provide term finance to small and small-medium industry. There are 17 such Corporations which are statutory and cover all the major States except for Tamil Nadu where this

---

* Vide, Annual Report of the Board of Directors for the year 1977-78 - page 9.

activity is undertaken by the Tamil Nadu Industrial Investment Corporation.* Over the years, SFCs have been giving special attention to small-scale industries and they offer several facilities to these units in the form of concessional rate of interest, lowering of margin requirements, relaxation of debt-equity norm and longer loan repayment period. To a limited extent, they have also set up branch offices and delegated, within limits, authority for sanctions and disbursement of assistance. From February 1973, they have been providing foreign currency assistance to industry from the "IDA/World Bank line of credit to IDBI for onlending to SFCs." From 1976-77 they are also giving seed capital assistance to small-scale industries from their Special Capital, which is contributed jointly by the IDBI and the concerned State Government.

1.33 SFCs' assistance to small-scale industries has increased significantly over the years. The assistance sanctioned has almost doubled from

---

* The area of operation of the Assam Financial Corporation is extended to cover the States of Manipur and Tripura. The SFCs in Gujarat, Kerala, Maharashtra, Delhi and Tamil Nadu also serve the adjoining Union Territories.

Rs.63.1 crores on 4501 applications in 1973-74 to Rs.135.1 crores on 6478 applications in 1978-79. The assistance disbursed has increased from Rs.32.9 crores in 1973-74 to Rs.85.0 crores during 1978-79 (Statement IX). The disbursal of loans as among the SFCs has been highly uneven; SFCs in 9 States viz. Andhra Pradesh, Bihar, Gujarat, Karnataka, Kerala, Maharashtra, Orissa, Rajasthan and Uttar Pradesh accounted for about 80% of total amount of loans disbursed to small-scale industries during 1978-79. The share of small-scale industries in SFC assistance (by amount) has increased from 61.7% in 1973-74 to 63.6% in 1977-78 and further to 69.2% in 1978-79.

1.34 Upto March 31, 1979, 17 SFCs had raised aggregate Special Capital of Rs.5.8 crores and had sanctioned Seed Capital assistance of Rs.95 lakhs for 163 projects.

(viii) State Small-Scale Industrial Development Corporations (SSIDCs)

1.35 During the sixties, a number of State Governments had set up Small-Scale Industrial Development Corporations (SSIDCs) with a view to assisting the growth of small industries in the respective States. The main functions of these included (a) distribution of raw materials, (b) extension of marketing assistance to industrial units, (c) running of industrial estates and development of industrial areas, (d) supply of machinery on hire purchase basis, (e) grant of financial assistance, (f) management of industrial units, etc. However, all the Corporations do not undertake each and every of these functions. It would be seen from Statement X that the activities undertaken by these Corporations vary widely as between the States.

1.36 There are 20 such Corporations which undertake the function of procurement and distribution of raw materials to small-scale industrial units; 16 Corporations extend marketing assistance and supply of machinery on hire purchase basis; 14 Corporations are engaged in the setting up and management of industrial estates; 10 Corporations manage and run production units and 8 provide equity assistance to small-scale units. On the whole, it appears that though the supply of raw materials and marketing are the foremost of the activities, they bear a very small relationship to the magnitude of these problems for the small-scale industrial sector. The total sales turnover of these Corporations from the latest available data was only Rs.67 crores in respect of raw materials and Rs.20 crores in respect of marketing of finished products.

1.37 These unfortunately are not up to date figures (which pertain to 1975-76 or 1976-77) and it is quite probable that these Corporations also may have made further progress, particularly in the area of distribution of raw materials in recent years. But in relation to the estimated value of production in the registered as well as un-registered units (1977-78) of Rs.14,000 crores, the scale of assistance provided by the NSIC and the State Small Industry Corporations together cannot be said to be significant. Even in regard to the hire purchase facility, the total assistance rendered by Small Industry Corporations amounted to only Rs.16 crores.

IV

Specialised Boards

1.38 Specialised Boards have been set up by the Government of India to look after specific small industries in the decentralised sector. These are essentially promotional bodies, which rely mainly on Government budgetary allocation for their activities.

(i) Khadi and Village Industries Commission (KVIC)

1.39 The KVIC is responsible for production of Khadi and 24 other specified village industries including (i) food processing industries, such as processing of cereals and pulses, ghani oil, (ii) forest-based industries, such as cottage match, cottage soap (iii) other industries, such as hand-made paper, bee-keeping, village pottery etc. The important functions of KVIC include procurement of raw materials and distribution to the producers, disposal of the finished goods, training of artisans, supervisory, technical and managerial personnel research and assistance for setting up suitable organisations and the promotion of improved technology for Khadi and Village Industries. The Commission has introduced a wide range of modern tools, equipments and machinery in the rural industries. The Commission has also undertaken promotional work in the development of Gobar Gas Plants, manufacture of soap from non-edible oil seeds, etc.

1.40 The developmental activities of KVIC are implemented through a net-work of 23 statutory State KVI Boards, 720 registered institutions and over 27,000 industrial co-operatives. There were 12 metropolitan sales emporia, and over 4,000 Khadi Gramodyog Bhandars and about 10,000 sales points at the production centres. The developmental programme of KVIC now covers about 2.8 million artisans which account for about one-fifth of the total number of persons engaged in industries or subsidiary occupations, according to 1971 Census. According to available data, KVIC has so far been able to cover about one-tenth of the estimated production in the decentralised sector.

1.41 In the Fifth Plan, a provision of Rs.208 crores was made from Central Government Budget for Khadi and Village Industries. The funds actually made available for the four years i.e. upto 1977-78 amounted to Rs.118 crores (or 57% of total). KVIC's total liabilities as at the end of March 1978 amounted to Rs.24 crores, of which the capital received from Government (including net result of profit and loss of KVIC) amounted to Rs.12.7 crores and Sundry Creditors for Rs.7.8 crores. The KVIC has been taking measures to obtain an increasing amount of institutional credit for its activities. They operate a comprehensive scheme of interest subsidy on loans raised from financial institutions. The scheme covers both capital expenditure and working capital required by both Khadi and Village Industries. As a result of this Scheme, KVIC has been able to enter into cash credit arrangement with banks for procurement of raw materials to the extent of Rs.22 crores, so far.

(ii) Handloom Board

1.42 The All India Handloom Board is an advisory body attending to formulation and implementation of the handloom development programmes keeping in view the need for providing increasing employment and standard of living to the handloom weavers and devising strategies for expanding the market for handloom products within the country and abroad.

1.43 At the Centre, there is a Development Commissioner and in most of the States there are separate Directors who look after handloom development. On the institutional side, in addition to apex co-operative institutions, 17 States have constituted Handloom Development Corporations to take care of the needs of the large number of weavers who are still outside the co-operative fold. It is estimated that about 32 per cent of all handlooms were in the co-operative sector and that about 75,000 looms are covered by Handloom Development Corporations.£

1.44 These Corporations have organised Intensive Handloom Development and Export Promotion Projects. So far, 25 Intensive Development and 21 Export Production Projects have been started all over the country. Most of these projects are run by the Handloom Development Corporations, set up by different State Governments.

1.45 There is no uniformity in the financing pattern of these projects. Broadly, it would appear that the Corporation or the implementing agency finances the purchase of yarn and raw-material from its own internal resources. In some cases, loans are also raised from Commercial Banks in the names of individual weavers for financing the operations. According to the Report of the Study Group referred to above, the quantum of finance made available by public sector banks to the handloom weavers outside the co-operative fold amounted to Rs.13 crores as at the end of 1978.

£ Report of the Study Group to 'review the financing of handloom weavers outside the co-operative fold/State Handloom Development Corporations by nationalised banks' - pages 6 and 7.

(iii) Handicrafts Board

1.46 The All India Handicrafts Board at the national level and the State Handicrafts Development and marketing Corporations in their respective territories are engaged in implementing policies, programmes and projects intended to achieve additional employment, preservation of traditional skills, expansion of domestic and overseas markets. The important functions of the Handicrafts Board include training, marketing, research and technical development, exhibitions, publicity, design development etc. The Board has five Regional Offices in the country located at New Delhi, Lucknow, Bombay, Calcutta and Madras. These Regional Offices are primarily engaged in maintaining close liaison with State Governments, help them in formulating developmental schemes and assisting in implementation thereof, providing guidance to craftsmen, trade, exporters, co-operative societies and other agencies connected with handicrafts. The Regional Offices also play an important role in operating the schemes of export promotion, holding of exhibitions, extending markets for crafts, training of artisans under master-craftsmen, conducting field surveys, etc.

1.47 With a view to developing new designs, commercially acceptable, and to evolve and apply suitable technology in the field of handicrafts, the Board has set up four Regional Design and Technical Development Centres, one each in Bangalore, Calcutta, Bombay and New Delhi. The main objectives of these centres are the development of low cost tools and equipment, research on utilisation of waste materials for making handicraft items, development of new techniques for creating imaginative designs, redesigning fast selling items, etc.

1.48 The Board has set up 34 Marketing and Service Extension Centres throughout the country to build up marketing infra-structure. The objective of setting up these centres is to organise a market oriented integrated service/development programme at the places of craft concentration, rural and tribal areas, to help the artisans/entrepreneurs in keeping pace with the fast changing market requirements. It also aims at identifying, developing and promoting new and tribal areas. One of the major handicaps faced by the artisans is the lack of an efficient link with the market both for raw materials and finished products. With a view to filling this gap, a scheme for the establishment of Rural Marketing and Service Centres at Block level for village artisans has been launched. Under this scheme, the Board has already issued sanctions for the establishment of 129 Rural Marketing and Service Centres.

1.49 The Board has also set up common facility service centres in hand printing textiles at Farrukhabad and Ahmedabad and is taking steps to set up such centres at several other places.

1.50 The Plan outlay for the year 1977-78 amounted to Rs.6.52 crores out of which Rs.4.71 crores was utilised. For the year 1978-79, the first year of the current Plan, a provision of Rs.12.25 crores was made out of which Rs.12.04 crores was actually spent.

1.51 According to rough estimates, there are about 20 lakh artisans working in about 5 lakh handicraft units spread over in different parts of the country. Over 90% of the credit requirements of the handicraft industries are stated to have been met by non-institutional sources, the share of banks and co-operative societies being hardly 7%.

(iv) Silk Board

1.52 The Central Silk Board, which is responsible for the co-ordinated development of sericulture industry in the country, also handles research, advanced training, basic seed production, quality control, standardisation, preshipment inspection of silk goods exported from the country, promotion of exports, stabilisation of prices of cocoons and raw silk, etc. There are four main research stations, three regional research stations, five service stations, fifteen research and extension centres, functioning throughout India under the overall supervision of the Central Silk Board. The Central Silk Board is running two special schemes (i) price stabilisation scheme for mulberry raw silk to bring about a measure of stability in the mulberry raw silk market conditions and (ii) raw material bank for tasar cocoons, to provide a reasonable price to the tribal weavers and free them from exploitation of middlemen. The plan outlay for the year 1977-78 amounted to Rs.9.7 crores of which Rs.7 crores were utilised.

(v) Coir Board

1.53 The Coir Board's promotional role, among other things, includes market promotion, research for product development, product betterment, modernisation of manufacturing techniques, diversification of products, improvement of designs ensuring remunerative returns to the workers, regulating export prices and purchase price of coir goods, quality inspection, training, extension, etc. The Board opened 14 show rooms and sales departments to exploit the demand potential of coir and coir goods within the country. Besides, there are 50 accredited dealers in important cities and towns. The budget estimate of the Coir Board for the year 1978-79 amounted to Rs. 98.07 lakhs; the actual expenditure is, however, expected to be around Rs. 62 lakhs.

V

Research and Technical Assistance

(i) Small Industries Service Institutes

1.54 The Small Industries Development Organisation (SIDO) which was set up in 1954 provides a wide range of technical services to the small-scale sector through its net work of 25 Small Industries Service Institutes, 18 Branch Institutes, 41 Extension Centres, 5 Production Centres and 4 Testing Centres. Each of these Institutes is manned by a team of competent personnel in various disciplines so as to provide a total package of assistance to small-scale units.

1.55 The Small Industries Development Organisation basically provides Industrial Extension Services for improved technical process used on modern machinery and equipment, preparation of new designs and lay outs, material handling etc. At present it has experts in the fields of Electrical, Electronic, Mechanical, Metallurgical Chemical, Glass and Ceramics, Leather, Footwear, Metal Finishing, Food Industries. The Small Industries Service Institute also provides the workshop facility services like Electroplating, Heat treatment and testing in the workshops and laboratory attached to the Institute.

1.56 The magnitude of the operations conducted by SIDO can be gauged from the fact that in 1978-79 as many as 1.4 lakh persons were given advice on technical matters, 82,000 visits were made by SIDO officers to give on-the-spot guidance to small-scale units and 45,000 jobs were executed by the work-shops and Testing Centres of the organisation.

(ii) Small Industries Extension Training Institute (SIET)

1.57 The Small Industry Extension Training (SIET) Institute was set up in 1962 at Hyderabad to act as the apex institution for training personnel connected with the administration and establishment of small industry. Its objectives have since diversified and grown into (i) organising training programmes in extension, management, consultancy and information and (ii) providing consultancy service to Central and State Government organisations as well as individual units in the field of management and financing.

1.58 So far 9,000 entrepreneurs, administrators and participants from all over India have utilised the training programmes organised by the SIET. The subjects include small industry promotion in developing economics, small industry financing, information storage and retrieval systems, management consultancy and handicrafts marketing. The SIET institute has also been active in organising training programmes for the general managers of the District Industries Centres.

1.59 A National Documentation Centre (SENDOC) has been functioning at SIET since 1971 and provides information through brochures and journals which are brought out regularly. The SIET has over the years, grown to be the National Apex Organisation for training in all aspects of small industry development in the country.

(iii) Technical Consultancy Organisations (TCOs)

1.60 In order to meet the gap in consultancy services to small and medium industry especially in the less developed areas, the all-India term financing institutions, (i.e. IDBI, IFCI and ICICI) and public sector banks together with the State level industrial promotion institutions have set up a net-work of Technical Consultancy Organisations. 13 such TCOs have been set up so far, which between them cover almost the entire country; the States covered are : Kerala, North-Eastern Region, Bihar, Uttar Pradesh, Orissa, Andhra Pradesh, Jammu and Kashmir, West Bengal, Himachal Pradesh, Rajasthan, Madhya Pradesh, Gujarat and Tamil Nadu.

1.61 The prime objective of TCOs is to provide a package of services under one roof to entrepreneurs, particularly in the small and medium sectors, from the stage of project identification to implementation and successful working of the unit. The services offered include project identification, preparations of feasibility and project reports, assistance in project implementation, providing technical and managerial guidance to problem units, market surveys etc. TCOs have been directed to develop close contacts with District Industries Centres (DICs) and help them wherever necessary, in drawing up action plans and project reports for potential entrepreneurs.

1.62 They also undertake new activities, such as Entrepreneurial Developmental programmes (with funding from the Technical Assistance Fund), turn key assignment for setting up functional industrial estates, etc.

VI

District Industries Centres

1.63 The DIC programme has been launched to provide a focal point for the promotion of small and village and cottage industries and to provide all services and support to the decentralised industrial sector, under a single roof, at pre-investment, investment and post-investment stages. The DICs are also expected to undertake economic investigation of the potentials for the total development of the district, including its raw materials, demands, skills and other resources, identification of entrepreneurs, selection of suitable items of production, registration of units, preparation of project profiles, assistance in procurement of machinery, equipment, raw materials and infrastructural facilities, making effective arrangements for credit facilities, quality control, research, extension and entrepreneurial training and rendering marketing assistance.

1.64 The DIC Scheme is a centrally sponsored scheme implemented through State/Union Territory Governments as per the guidelines issued by the

Central Government from time to time. The scheme provides for posting of a General Manager and 7 Functional Managers with supporting staff at each DIC. The various Functional Managers are expected to provide assistance in disciplines, such as economic investigation, machinery and equipment research, extension and training, raw materials, credit, marketing and cottage industries.

1.65 As at the end of March 1979, 346 DICs covering 358 districts were sanctioned. The information furnished by 144 DICs shows that as at the end of January 1979, 47543 entrepreneurs had been identified for assisting them to choose the appropriate industrial opportunities, 12952 project profiles had been prepared resulting in establishment of 33459 units in the decentralised industrial sector. Nearly one-third of the new units are located in semi-urban and rural areas. The seed/ margin money assistance had been given to 1627 units, the amount involved being Rs.1.35 crores. A programme of assistance to sick units has been initiated and 364 units had been assisted.

VII

Cost of Credit to Small Industries

1.66 Small-scale industries, being one of the categories of the 'priority sector lending' are granted credit facilities by financial institutions, at a concessional rate of interest as compared to medium and large industries. The extent of concession, as between small-scale industrial units, inter se, depends primarily upon the size of the borrowing units, their location and source of finance.

1.67 At present (1979), commercial banks are required to charge not more than 11% on term loans to small industries, irrespective of whether they obtain refinance from the IDBI or not; for backward areas, the rate of interest is 9½%. The rate of interest charged by State Financial Corporations on loans to small industries is, in almost all cases, 11 per cent for developed areas and 9½ per cent for backward areas. The National Small Industries Corporation has prescribed a rate of interest ranging between 9 and 13 per cent (effective) on plant and machinery acquired by the hirers, the concessional rate being applicable to small borrowers and those located in backward areas.

1.68 So far as working capital loans are concerned, advances granted by banks to small industries upto Rs. 2 lakhs are exempted from the minimum lending rate of 12½% prescribed by the Reserve Bank. This has enabled banks to provide working capital to small-scale units at lower rates of interest. Under the DRI Scheme, banks are required to charge 4% on their loans and advances to the artisans.

1.69 As regards bank advances to artisans and village and cottage industries (whose credit requirements would not normally exceed Rs.25,000 and are granted in the form of composite term loan) the maximum rate of interest is 9½% for the units in the specified backward districts and 11% in other areas. For the units in the tiny sector, in respect of credit limits for working capital for amounts from Rs.25,000 to Rs.1 lakh, banks are required to charge not more than 12½%.* The regional rural banks charge a rate of interest of 9½% on their advances to the artisans.

---

* Small banks whose aggregate demand and time liabilities do not exceed Rs.25 crores may charge interest rate not exceeding 13½%.

1.70 In the co-operative sector, central co-operative banks lend to industrial co-operative societies at 8 per cent (6½ per cent where State Government subsidy is available) where they avail of refinance from the Reserve Bank; the urban co-operative banks lend to the units engaged in cottage and small industrial activities at 9½% - 10%.

1.71 In addition, some budgetary funds are made available to the KVIC for on-lending to khadi and village industries under its jurisdiction. The rate of interest charged by KVIC on these loans is 4% per annum. Further, under the comprehensive interest subsidy scheme, a few banks lend to these industries, both for capital expenditure and working capital at 4 per cent, the difference between this rate and their normal lending rate being subsidised by the Government through the KVIC.

1.72 The concessional rate of interest charged to small industries has also to be viewed in the context of servicing cost of advances to these industries. No uptodate data in this regard are available. However, data available in the Report of the Banking Commission as well as in the study on 'Cost of banking services, 1976 published in Reserve Bank of India Bulletin are given in the enclosed statement XI . It will be seen that according to the RBI Study, the servicing cost of advances to the small-scale industries (in 1976) was 3.42% as against 0.70% of outstanding loans for medium and large industries (Statement XI)

VIII

Summary and concluding observations

1.73 On the basis of the foregoing review, the position in regard to the flow of institutional credit to small-scale industries is summarised in the following table:

(Rupees in crores)

INSTITUTIONS	Outstandings
Scheduled commercial banks	2156 (Dec. 1978)
Co-operative Banks	59 (June 1977)
Regional Rural Banks	14 (March 1979)
State Financial Corporations	354 (March 1979)
National Small Industries Corporation (Hire Purchase Scheme)	21 (March 1978)
State Small Scale Industries Development Corporation (Hire Purchase Scheme)	16*
Total ...	2620

* Latest year for which data are available viz. 1975-76/1976-77.

It will be seen that commercial banks account for the bulk of outstanding credit to small industries, the next in order of importance being the SFCs.

1.74 The above review of financial and other assistance extended by the various agencies to small-scale industries brings out that :

a) although there has been a significant increase in the flow of institutional credit to small-scale industries in last 5 years or so, bulk of this credit has gone to small industrial units in the metropolitan and urban areas, the share of the tiny and the decentralised sector, in particular, being small. This to a large extent, is attributable to the historical factors and to play of market forces. Those dependent upon medium and large industries for supporting facilities, including raw materials and technical assistance, preferred to be nearer to the main units. The ancillaries got set up in the vicinity of medium and large industrial units - mostly in urban and metropolitan areas. The flow of credit was in response to the demand thus created. In recent years, however, both the direction and quantum of credit flow have shown discernible improvement in favour of the decentralised sector and units coming up in rural areas - though the level is quite small by any standards.

b) The provisions so far made by the financial institutions for contributions to equity/quasi equity capital of small-scale industrial units amounts to hardly Rs. 9 crores, which appear highly inadequate in relation to the projected requirements of the small-scale sector at Rs.560 crores during 1978-83 as estimated by the Sub-Group on 'Credit requirements of Small-Scale Industries.'

c) The scale of activities of the National Small Industries Corporation and State Small Industrial Development Corporations has been limited both in respect of the volume of assistance as well as the geographical coverage to make any significant impact on the development of small-scale industries, particularly in semi-urban and rural areas.

d) While the Technical Consultancy Organisations, the Small Industry Service Institutes with their extension centres provide essentially technical consultancy services, the arrangements for marketing, either at a national or regional level, are highly inadequate in relation to the felt need. The position of the industries in the decentralised sector in this regard is even more unsatisfactory.

e) The specialised boards and their counterparts in the States have been depending heavily on Government's budgetary allocations and their links with the financial institutions and other promotional agencies are rather tenuous.

...

Chapter II

Credit Requirements of small and decentralised sector

2.1 It has not been possible for the Working Group to attempt afresh, in the short time, any precise estimates of the existing and likely credit requirements of the small and decentralised sector in the next few years. However, in order to get a broad idea of the credit requirements of this sector, the relevant data from available sources was taken as a basis for its deliberations. These data are briefly reviewed in this Chapter.

I

Output

2.2 According to the draft Report of the "Working Group on Small-Scale Industries" set up by the Government of India (Planning Commission), the total production in the industries coming within the purview of the Small Industries Development Organisation (SIDO) covering both registered and unregistered units (including units in the tiny sector) is expected to go up from Rs.13,200 crores in 1977-78 to Rs.19,300 crores in 1982-83 (both at 76-77 prices). Thus, the net increase in production between 1977-78 and 1982-83 would be Rs.6,100 crores (or by 46 per cent). According to the available data, production in the traditional cottage and village industries (including powerlooms) is expected to go up from about Rs.3600 crores in 1977-78 to about Rs.7100 crores in 1982-83 (Statement XII).

<u>Employment</u>

2.3 The Sixth-Five Year Plan for 1978-83 envisages creation of additional employment of 13 million persons in the small-scale industrial sector, of which village and cottage industries would account for about 10 million persons, the balance of 3 million persons being mostly in small industries located in urban and semi-urban areas. According to the above-mentioned Working Group of the Planning Commission, the estimated additional employment (including self-employment) in the industries covered by the SIDO is expected to be of the order of 28.5 lakh persons between 1977-78 and 1982-83 and 34.4 lakh persons upto 1983-84.

2.4 The estimates of credit requirements discussed in the following paragraphs are based on these data on production and employment.

<u>Credit Estimates Basis</u>

2.5 The Planning Commission had set up a Sub-Group on "Credit Requirements of Small-Scale Industries" (referred to hereinafter as Sub-Group) during the Five Year Plan, 1978-83 to make estimates of the existing credit requirements as well as the likely requirements in the small and decentralised sector. The Sub-Group submitted its report in August 1978. These estimates were subsequently revised by the Working Group on Small-Scale Industries for the Sixth Five Year Plan (referred to above). The draft Report with revised estimates was circulated to the members of the Group in April 1979 and the estimates of credit discussed below are based on this revised Report. In this Report, estimates of credit requirements in the small-scale industries as well as traditional cottage and village industries have been made separately for the year 1977-78 and during the Plan period 1978-79 to 1982-83.

II

Credit Requirements - 1977-78

2.6 In the Report of the Sub-Group, the following data have been given which show that during 1976-77, 36% of the project cost of small industries was financed by banks and SFCs.

Term Credit •

Capital formation in SSI and institutional term finance

(Rs. crores)

	Institutional Finance* (Banks & SFCs)	Capital formation estimates for SSI**			Percentages	
		Fixed assets	Working Capital	Project cost	(1) as % of (2)	(1) as % of (4)
	(1)	(2)	(3)	(4)	(5)	(6)
1974-75	75	225	194	274	33.3	27.4
1975-76	98	251	230	309	39.0	31.7
1976-77	97	220	209	272	44.1	35.7

Note: To conform to the conventional concept of 'Project Cost' used in relation to industries, (4) has been arrived at by adding 25% of (3) with (2).

* Including assistance for setting up of industrial estates.

** Based on Ministry of Industry Annual Report 1977-78 (page 130).

Assuming a debt:equity ratio of 2:1, the Sub-Group has come to the conclusion that term loans provided by financial institutions accounted for only half of what the small-scale industrial units might have been eligible for. On this basis, the Sub-Group came to the conclusion that there may have been a resource gap which was met by non-institutional sources.

Further, using the same reasoning and assumption, the Working Group set up by the Planning Commission estimated that term loan requirements of small industries (excluding traditional and cottage industries) for 1977-78 would have been Rs.400 crores. Actual disbursements of term loans during 1977-78 amounted to Rs.150 crores - roughly 38 per cent - thus leaving a gap of Rs.250 crores to be met from non-institutional sources.

2.7 The Sub-Group referred to above has observed that during 1974-77, on an average, the percentage of short-term credit outstanding from scheduled commercial banks to the value of production in the small industry sector was around 15. The Sub-Group assumes that production cycle of four times during a year should be considered normal. On this assumption, working capital requirements should have been 25 per cent of the total value of production.

<u>Working Capital</u>

Production and short term bank credit

(Rs. crores)

Year	Bank Credit to SSI sector		Production in SSI sector*	Bank Credit as % of Production	
	Limits	Out-standings		Limits	Outstandings
1974	1204	758	4932	24.4	15.4
1975	1338	862	5742	23.3	15.0
1976	1477	935	6700	22.0	14.0
1977	1742	1153	7570	23.0	15.2

* Source: Ministry of Industry Annual Report 1977-78.

The Working Group, using the same assumption about production cycle, worked out the short-term credit requirements for 1977-78. It was estimated at Rs.3110 crores. As against this, data from scheduled commercial banks indicated that short-term credit made available was Rs.1700 crores.

III

2.8 For the traditional village and cottage industries, the production cycle was assumed to be 2.5 times in a year in view of the observed seasonality in the pattern of production and marketing of products in this sector. Applying this norm, the Working Group, for the estimated level of production during 1977-78 (Rs.3600 crores), estimated short-term credit requirement at Rs.1400 crores. In that year, the available (partial) data show that an amount of about Rs.400 crores was made available to this sector through various agencies like KVIC, co-operative banks, Regional Rural Banks, commercial banks, Central and State Governments, etc.

IV

Estimates of Credit Requirements - 1978-83

2.9 The assumptions in regard to debt:equity ratio, production cycle, etc. referred to above, have been taken by the Working Group to derive estimates of credit requirements during 1978-83. The estimates of credit requirements of the small-scale industries as well as the traditional village and cottage industries have been made for the five year period 1978-83, on the basis of the additional production envisaged in these sectors as a result of specific programmes/schemes proposed for the development of these industries. In the case of small-scale sector other than the traditional sector, in working out the estimated requirements of credit, among other factors, the Working Group has taken the following factors into consideration : (a) normal growth of units; (b) reservation of additional items for exclusive development in the small-scale industries sector; (c) export-oriented growth in production in specific product lines; (d) growth in production of items enjoying fiscal concessions; (e) special schemes like commercial estates; village industries, marketing organisations, mini-industrial estates, etc.; (f) rural electrification acting as a catalyst for the growth of small-scale industrial units and (g) programme for fuller utilisation of capacity through rehabilitation, modernisation and rejuvenation.

2.10 In the case of industries in the traditional sector, certain production targets for the terminal year (1982-83) fixed by the developmental agencies have been used by the Working Group for the estimation purposes. The replacement of non-institutional sources of finance by institutional credit has also been taken into account in estimating financial needs of this sector.

2.11 On these assumptions and reasoning, the Working Group (set up by the Planning Commission) has estimated the term loan requirements for small-scale industries, (other than those in the traditional sector), during the period 1978-83, at Rs.1910 crores. The term credit requirements of the traditional village and cottage industries during the period 1978-83 have been estimated at Rs.460 crores.

Term loans

2.12 The short-term credit requirements of small-scale industries have been estimated by the Working Group at Rs.1410 crores during the period 1978-83. In addition, the credit requirements of the marketing agencies have been put at Rs.425 crores. The credit requirements of the traditional village and cottage industries during the period 1978-83 have been estimated at Rs.1160 crores.

Working Capital

2.13 In the Report of the Working Group, estimates of credit requirements of small industry sector during each year of the Sixth Plan period have not been attempted and these estimates relate to the position for the last year of the Sixth Plan period i.e. 1982-83.

2.14 The credit requirements (term and working capital together) of the small industry sector as a whole are thus expected to be of the order of Rs.8065 crores by 1982-83 of which Rs.5365 crores relate to the credit requirements during the Sixth Plan period (vide table below).

Estimates : Credit

(Rupees in crores)

	Credit requirements in 1977-78	Estimated credit requirements during 1978-79 to 1982-83	Total
A. SSI Sector (including tiny sector)	1700	3320	5020
i) Term loans	250	1910	2160
ii) Working capital SSI units	1450	1410	2860
B. Traditional Sector	1000	1620	2620
i) Term loans	-	460	460
ii) Working capital	1000	1160	2160
C. Marketing Agencies - Working capital	-	425	425
D. Grand Total (A+B+C)	2700	5365	8065

Source: Draft Report of the Working Group on Small-Scale Industries.

V

Summing up and concluding observations

2.15 The above estimates of the credit requirements of the small and decentralised industrial sector have to be viewed with some qualifications as they are based on several assumptions. For instance, it is being implicitly assumed that (a) the projected output level will materialise, (b) that all those engaged in the small and decentralised activities will exclusively depend upon institutional credit and (c) that all the requisite supporting facilities to enable them to absorb the available credit will be adequately supplied. However, past experience, if it is of any guide, indicates that these assumptions may not hold good fully. It is quite possible that some of the entrepreneurs may not like to subject themselves to the financial discipline of banks and other institutions and hence, may prefer to use their own funds and/or those obtained from friends and relatives or any other sources as far as possible as they have done in the past.

2.16 Although, no study has come to the notice of the Group in respect of the absorptive capacity of small units, particularly in the decentralised sector, it is now increasingly being realised that credit is only one of the essential inputs and unless other supporting facilities including adequate and timely availability of raw materials, skilled labour, and marketing support, etc. are provided on an assured basis, entrepreneurs may not be able to prepare viable proposals and productively utilise credit that may be made available by financial institutions. Then there is the crucial assumption about the role of middlemen (e.g. master-weavers). For instance, it is being implicitly assumed that the role of middlemen and the moneylenders would be totally eliminated by the end of Sixth Plan period, and replaced by institutions. Taking a realistic view of the situation, this assumption also looks of some doubtful nature. The Avadhani Committee (referred to in Chapter III) have in their Report discussed the vital functions performed by the master weavers in the handloom sector and have observed that "it will not be possible to do away with this institution of master weavers since there is no alternative agency at present to undertake these functions". *

* Vide "Report of the Study Group to review the financing of handloom weavers outside the co-operative fold/state handloom development corporations by the nationalised banks" - Page 38, paragraph 8.4

Lastly, to the extent to which (i) there is a shortfall in the projected production which, on the basis of the past experience, is not unlikely and (ii) credit from non-institutional sources continue, demand for credit will get pruned.

2.17 The Group, as stated at the beginning of this Chapter, has not attempted any estimates of credit requirements on its own, and it is not in a position to assess the credit requirements from institutional sources to meet the demand of the small-scale industry/traditional sector in the coming years with any greater precision. Looking to the existing level of institutional credit made available (Rs.2620 crores vide Chapter I, Section VIII) for the small scale sector as a whole and taking into account the likely perception of the demand for goods of this sector in response to the anticipated increases in employment and output, the requirement of credit will certainly be much larger than the existing level. At this stage, the estimated credit requirements of the small industries by the Working Group, (Planning Commission) at Rs.8065 crores by the end of March 1983, can at best be taken to represent the outside limit. The actual credit requirements of this sector in the ultimate analysis would be dependent on several factors, demand for their products and the provision of supporting facilities being two of the more important factors.

...

Chapter III

Recent measures to augment the flow of credit to small industries

3.1 During the course of last one year or so, several Working Groups have examined the question of enlarging the flow of bank credit to small industries. It would be useful to recapitulate some of the main recommendations of these Groups which have a bearing on the field of our enquiry and the follow-up action taken in respect of the recommendations which have been accepted is also briefly indicated at appropriate places.

3.2 A Working Group on Small-Scale Industries was set up in October 1978, by Ministry of Finance (Government of India) under the Chairmanship of Shri W.S. Tambe, Executive Director, Reserve Bank of India, for evolving specific measures for expanding bank credit to small-scale and cottage industries, artisans etc. with special reference to District Industries Centres. The Group made several recommendations for channelising institutional credit on an increasing scale to the 'tiny' modern small-scale industries and the village and house-hold industries. The Group has also defined the role of credit managers (who are deputed by the lead banks) in the DICs in the matter of assisting financing of small-scale industries; the Group reported in December 1978.

3.3 The recommendations of the Group have been accepted by the Government and Reserve Bank of India. Accordingly, in order to implement these, detailed instructions were issued by the Reserve Bank in December 1978 to commercial banks. These instructions mainly relate to grant of 'composite' term loan upto Rs.25,000 to an individual artisan or a village or cottage unit with repayment period of 7 to 10 years or even more, with an initial moratorium period of 12 to 18 months for interest and principal, non-insistence on 'margin' money and collateral security/guarantee, stipulation of maximum rates of interest at 9½% in backward districts and 11% per annum in other areas. In regard to finance for the 'tiny' sector, a maximum ceiling of 12½% interest per annum has been prescribed for working capital limits upto Rs.1 lakh (13½% per annum for small banks with aggregate demand and time liabilities of less than Rs.25 crores).

3.4 In respect of loans and advances to artisans and village and cottage industries and 'tiny' sector, banks have been advised not to charge penal interest. They have also been advised to ensure that all proposals upto Rs.1 lakh are disposed of within a period of 30 days from the date of receipt of application. Necessary follow-up measures in regard to the other main recommendations such as extension of refinance under the IDBI's Automatic Refinance Scheme, enhancement in 'guarantee' cover in respect of loans to village and cottage industries upto 90%,and automatic claims payment upto Rs.25,000 have also been taken.

3.5 Further, an Inter-disciplinary Group has been set up by the Reserve Bank of India which has representatives from IDBI, a few banks and the All India Promotional Organisations viz. Small Industry Development Organisation, Handloom Board, Handicrafts Board, Central Silk Board, KVIC as members. This Group, besides considering the various issues relating to the adoption of an integrated approach to marketing finance, is also expected to act as the apex co-ordinating and monitoring Group to ensure adequate flow of institutional credit to the small industry sector especially in rural and semi-urban areas.

3.6 The Working Group had recommended a two-tier approach for providing institutional finance to the tiny and village and cottage industries; one to the artisans for the production activities and the second to a recognised Village Industries Marketing Organisation (VIMO). These VIMOs as recommended by the Group are being considered for inclusion as 'priority sector' eligible for concessionery finance from banks and eligible for guarantee cover of the Credit Guarantee Organisation/Deposit Insurance and Credit Guarantee Corporation. The all-India promotional organisations like KVIC, All-India Handloom Board etc., have been requested to formulate concrete proposals for application of an integrated approach to production and marketing. The proposals would be put into operation after being discussed and considered by the Inter-Disciplinary Group set up by the Reserve Bank of India referred to earlier and by appropriate authorities in this behalf.

II

3.7 In the context of wide-spread sickness in the industry sector, a High Powered Committee to study and suggest remedial measures relating to the problems of sick units was set up in October 1978 under the

Chairmanship of Shri H.M. Patel, (the then Union Finance Minister). The Committee submitted its report in November 1978. The recommendations have been accepted by the Government. In pursuance of the decision of the Committee, banks have since been advised to refer to IDBI cases of rehabilitation of sick units where they are not in a position to provide the required assistance. When such cases are referred to IDBI, it would consider the required package of measures, including injection of long term funds for the rehabilitation of the units and bring together concerned agencies for finalising the package. Besides, it has been enjoined upon the banks not to charge penal rates of interest from sick units. While drawing up nursing programmes, banks should review the penal charges levied in the account and provide necessary relief in appropriate cases. Banks have also been advised to provide consultancy services to small-scale units and small entrepreneurs, wherever necessary.

3.8 In pursuance of another recommendation of this Committee, it has been decided to set up a committee at all centres under the Convenorship of regional heads of Department of Banking Operations and Development, Reserve Bank of India, to facilitate adequate inter-facing between State Government officials and State level institutions on one side and banks and term lending institutions on the other.

3.9 Another suggestion of the Committee related to setting up of a National Equity Fund for strengthening the equity base of small-scale units and a Soft Loan Fund from which loans could be extended to those banks giving 'relief package' to rehabilitate sick small-scale units. The question of National Equity Fund has been referred to the Government of India and the setting up of a Soft Loan Fund is being examined by Reserve Bank of India in consultation with Industrial Development Bank of India.

III

3.10 A Committee, (in April 1976) under the Chairmanship of Shri I.C. Puri, the then Development Commissioner (Small-Scale Industries) was set up for examining bank credit problems of small-scale industries. As recommended by this Committee, the application forms for credit facilities not exceeding Rs.2 lakhs have been considerably simplified. The repayment schedules fixed have to be reviewed and rescheduled to the extent necessary whenever an industrial unit is unable to make payments due to genuine reasons. Applications for Credit limits upto Rs.25,000 and exceeding this amount but upto Rs.2 lakhs are required to be disposed of within a period of four weeks, and 8 to 9 weeks, respectively, from the date of receipt of the application. The banks have also been advised to adopt a flexible approach towards 'margin' requirements.

IV

3.11 A Working Group set up in October 1978 under the Chairmanship of Kum. Kusum Lata Mital (Joint Secretary, Banking Division, Government of India) reviewed the Differential Rate of Interest (DRI) Scheme and considered ways of enlarging its scope and benefits. The Group had recommended strengthening of administrative machinery of banks, proper prelending appraisal and post lending supervision, conducting periodical sample surveys in each State to evaluate the efficiency of the Scheme for undertaking corrective measures and simplification of the claims settlement procedure of the Deposit Insurance and Credit Guarantee Corporation. The Group had also recommended soliciting the support of the State Governments and their various development organisations not only in identifying eligible borrowers but also in effecting recovery, by enacting legislation.

3.12 Steps have been taken to implement these recommendations. Among other things, the DRI Scheme has been suitably amended for routing credit through Co-operative Societies/Large Size Agricultural Multipurpose Societies (LAMPS) organised specifically for the benefit of the tribal population in areas identified by Government. Banks have begun to use the medium of co-operative societies/LAMPS for routing credit under the Scheme. The minimum percentage of total bank advances to be made under the DRI Scheme has been raised from 0.50% to 1%.

V

3.13 The recommendations of a Working Group on "Role of Banks in promoting employment", set up in October 1978 under the Chairmanship of Kumari Nalini Ambegaonkar, Adviser, Credit Planning and Banking Development Cell, Reserve Bank of India are also being implemented. Accordingly, banks have been advised by Reserve Bank of India to achieve during a year an increase of atleast two additional borrowers per branch per month. Some banks have created employment oriented lending cells in selected branches which would dovetail their efforts with the Government's own employment programmes. As suggested by the Working Group, banks have been advised to take specific measures to draw up special bankable schemes suited to the needs of the members of Scheduled Castes/Scheduled Tribes for increased flow of credit to them for self-employment. The banks have initiated measures to strengthen their organisational machinery in the districts for which they have lead responsibilities for ensuring proper co-ordination as also for monitoring and implementing the District Credit Plans under the Lead Bank Scheme.

VI

3.14 A mention may also be made here of the two other Study Groups set up recently by the Government of India to review the problems of financing the handloom industry which, both from the production as well as employment angle, occupy an important place in the decentralised sector. A Study Group was set up in October 1977 under the Chairmanship of Dr. M.V. Hate, (the then Chief Officer, Agricultural Credit Department, Reserve Bank of India) to review the working of the Scheme for financing handloom weavers in the co-operative sector; another Study Group was set up in August 1978 under the Chairmanship of Shri S.R. Avadhani (the then Chief Officer, Department of Banking Operations and Development, Reserve Bank of India) to review the financing of handloom weavers outside the cooperative fold/State Handloom Development Corporations, by the nationalised banks. The policies and procedures followed by the Reserve Bank, wherever necessary, have been suitably modified on the basis of the recommendations of the former Study Group; the recommendations of the latter Group are under examination of the Reserve Bank of India.

VII

3.15 <u>Summing up</u> :

Thus, it will be seen from this brief review that several measures have been introduced in order to increase the flow of institutional credit to the small and decentralised industrial sector in the recent months. The recommendations of the various Working Groups/Committees have also created an awareness about the key areas which need constant and continuous review/examination with a view not only to increasing the flow of credit but also to ensuring proper use of the same so as to result in increased employment, output and incomes - the ultimate objectives in this respect.

In the very nature of things, the wide range of measures taken by banks and other financial institutions to assist, particularly the tiny sector and the village and cottage industries, will take time to produce visible concrete results. It takes quite some time to organise the machinery for percolating the decisions taken at the top management level to the branch level. More importantly, the overall appreciation of the problems of village and cottage industries would necessitate attitudinal changes in all the concerned agencies, not only at the grass root level but also at other levels of management. The process of change has already begun; the problem is to give it a sustained momentum.

...

Chapter IV

Further Measures Necessary - Need for a New Apex Institution

4.1 In the previous three Chapters, the present status of the small and decentralised industrial sector has been briefly reviewed and an assessment of the financial needs of this sector for the period ending 1982-83 has also been attempted. The recent measures taken to increase the flow of institutional finance to small-scale industry have also been briefly enumerated. Keeping in view this background information, the Group has addressed itself to the main issue under reference viz. (i) whether the measures taken or being taken so far to increase the flow of credit to small-scale industry, particularly those in the decentralised sector, were adequate, (ii) if not, what measures needed to be taken to overcome the problems perceived and (iii) whether there was a need for an apex financial institution (either existing or new) to co-ordinate and monitor the flow of credit to this sector.

4.2 The Group, fully aware of the complexity of the subject and keeping in view the time constraint, had considered it necessary to ascertain the views of persons who had experience and knowledge of this sector as also of representatives of the small-scale industries organisations, financial institutions, developmental agencies, State Governments etc. The names of the individuals who responded to our request and were good enough to meet the Group are mentioned in Annexure-II. Some other experts who were unable to meet the Group very kindly sent us notes containing their views. The Group greatly benefitted from the views and advice of these experts and the assessment which the Group has attempted in the succeeding paragraphs takes into account these views.

4.3 Throughout the Indian Planning process, there has been an awareness that the growth of the small-scale industrial sector was an essential element of the planning strategy. This was based on several diverse considerations such as the need for preserving and encouraging the growth of the existing artisan occupations, specially in the rural areas, the complementarity of the large and medium scale industry and the supporting ancillary small-scale units, need for encouragement and growth of new entrepreneurship and wider ownership of means of production, dispersal of industries with a view to correcting regional imbalances, the lesser capital intensity of small industries and so on. In Chapter I, a review has already been made of the growth of various promotional agencies and their present status. The efforts made to increase the flow of institutional finance to this sector have also been noted. It needs, however, to be stressed that the new industrial policy initiated in 1977 and the developmental perspective of this sector in the current Plan, represents an important shift in the growth strategy for this sector.

4.4 The change essentially relates to the great emphasis now laid on the creation of durable employment opportunities as a distinct Plan objective. It is acknowledged that bulk of such opportunities will need to be created in the rural areas and that growth of agricultural and allied activities themselves will not have sufficient scope for this purpose. Recognising their existing, as well as the future employment potential, special attention is, therefore, being devoted to the development of the tiny and decentralised industries-involving greater utilisation of existing skills, upgradation of these skills, increasing use of local raw materials and exploitation and development of domestic markets-to increase output and incomes on a sustained basis.

4.5 It has to be realised, however, that the use of local skills will not always result in production which can be absorbed in the (present or potential) proximate markets. Nor can the development of rural markets be planned on purely rural production. Decentralisation of production and the development of rural markets will thus both require linkages which may extend beyond the immediate vicinity and could well spread beyond the boundaries of a district or a State or the whole of India, as even now happens in a limited way.

4.6 The magnitude of shift in the emphasis can be judged by the very sharp increase both in employment and output which are being planned for the decentralised sector. Small-scale industries (registered and unregistered) are expected to increase their production by 38 per cent and employment by 54 per cent by 1982-83. For the decentralised sector, an even sharper increase of 125 per cent in production and 90 per cent in employment are planned. As a result, the share of the decentralised sector in the output of small-scale sector as a whole is likely to increase from nearly 14 per cent in 1977-78 to about 20 per cent by 1982-83 - 75 per cent of the incremental employment of the small sector is being planned to arise in the decentralised sector.

4.7 Given India's demographic situation, its present level of incomes, the constraints on its growth rate largely on account of domestic resource availability and partly due to the international environment which can be reasonably visualized over the next decade or two, the need for developing non-farm rural employment opportunities will continue well beyond the present plan period. It is in this general perspective that the Group has given consideration to the issues referred to it.

4.8 The credit requirements of the small-scale sector, as has been mentioned earlier, are only partly met by institutional finance. For the organised small-scale sector a little over 50% of its fund requirements are met by institutional finance; the proportion for the decentralised sector is even lower, being less than 30% even after taking into account the flow of funds from budgetary resources. If the plan objectives are to be fulfilled, the tiny and decentralised industries will have to provide the bulk of the new employment opportunities in the small scale industries sector and, as estimated earlier, this will involve a very substantial increase in the flow of institutional, credit to such industries. The main focus of our examination is, therefore, on this aspect.

4.9 There are several important structural and organisational weaknesses in the present situation for channelising and increasing credit flows to the tiny and decentralised sectors.

i) The existing promotional bodies and extension agencies have not been able to provide appropriate technical know-how, marketing support and other inputs to industries in these sectors in an adequate measure.

ii) Supporting organisations for the transfer of improved techniques and the supply of raw materials are inadequate while those for marketing handle only a small proportion of the production.

iii) Arrangements for the identification of entrepreneurs and their training, for upgradation of skills of workers and artisans, for orientation and training of personnel of second-tier institutions (such as Small-scale Industries Corporations, State Handloom and Handicraft Corporations, etc.) are inadequate.

iv) The growth of industries in these sectors is usually not being well planned and integrated in the perspective of a regional or area development programme, taking into account the intersectoral linkages at the regional or the national level.

4.10 Insofar as the village, cottage and artisan industries are concerned, it has to be specially emphasised that their need for adequate technical inputs and upgradation of skills is not in any manner diminished merely because the main production process in such industries is manual. In fact, the need gets enhanced because an adequate remuneration for persons engaged in such industries can often only be ensured if the production techniques, including preparatory and finishing processes are modified so as to improve both the quality and the volume of output. Market requirements, particularly when the volume of production is sought to be increased, would also require a measure of uniformity in the quality of output as also its periodic adoption to changing consumer requirements.

Adequate technical inputs and upgradation of skills is, therefore, a very important ingredient in any programme for development of such industries, as in its absence the scope for development of such industries will be greatly reduced.

4.11 Growth of production and employment opportunities in consonance with the Plan objectives will, therefore, require that these weaknesses are removed by appropriate measures by Governmental agencies and promotional bodies It will only then be possible for institutional finance to flow in the requisite measure to meet their growing needs. Tiny, village and cottage industries, dispersed as they are in rural and semi-urban areas, can only be provided institutional finance through financial institutions which have a wide net-work of branches providing adequate coverage in these areas. Such institutions presently are the commercial banks, the regional rural banks and co-operative banks. It will neither be feasible nor does it seem necessary that yet another grass-root organisation should be built up for delivery of credit to units in the decentralised sector. It will, however, be necessary to strengthen the existing organisations and also impart some re-orientation to their personnel for making the delivery system more effective. The salient aspects, which need to be considered in this context, are as under :-

(a) Adequacy of coverage - Insufficiency in number of outlets for credit flow in the rural areas has so far stood in the way, there being wide disparities in the matter of coverage from region to region or State to State. The present branch licensing policy of the Reserve Bank is expected to remedy this situation over the next 3 or 4 years but it may also be necessary to consider some supplementary measures to overcome this problem fully.

(b) Delegations - Sufficient powers will need to be delegated by the financial institutions to their branch managers to ensure that requests for credit from such industries are dealt with expeditiously at the local level. A decision has already been taken that all banks should delegate to their branch managers powers to sanction credit to the extent of Rs.25,000 to such industries. The implementation of this decision will need to be ensured and further delegation may also become necessary.

(c) Orientation - The branch managers will also need to be trained suitably so as to bring about necessary attitudinal changes in them as also improve their professional competance.

(d) Co-ordination - The grass-root representatives of financial institutions would also need to work in close association with the DICs and suitable formal arrangements worked out to ensure such co-ordination.

4.12 These improvements at the branch level will, however, be effective only if the financial institutions also improve the existing arrangements in the following respects :-

(i) The information system within the institutions will have to be vastly improved. At present, several months seem to elapse between the issue of instructions by the head offices of commercial banks and their effective implementation at the branch level. The upward flow of information (i.e.feed-back) is equally slow. This is hardly conducive to effective implementation of a developmental effort, which, by its very nature, will require flexibility and frequent modifications of policies in response to changes in economic conditions.

(ii) There is also a need for the effective monitoring of the functioning of the branches not as much from a regulatory point of view as with a view to seeing that the institutional credit is being efficiently utilized. Such monitoring can give a good feed-back to the managements of the concerned financial institutions, signalling need for changes in the lending policies or terms. The process of monitoring should also provide guidance to the field staff in their operations.

(iii) The branch manager is a crucial person for the success of all efforts for promotion of the decentralised sector. This fact has to be well recognised and there should be a better appreciation of his role than hitherto. The branch managers will have to be motivated and encouraged to be increasingly innovative and constructive in responding to requests for assistance from this sector. It has also to be recognised that in large number of cases they will have to extend financial assistance without security and for activities whose viability will depend to a large extent on factors beyond the control of the respective borrowers. In such situations, in view of the higher risks of failures, the managers are likely to be hesitant in dealing with proposals unless they have an assurance from their higher management that their performance in this sphere will be judged keeping in view fully the difficulties which they will experience in the field and the risks inherent in such lendings.

What is stated in paragraphs 4.11 and 4.12 above has equal relevance to the co-operative banking sector too and their concerned officials.

4.13 The strengthening of the credit delivery system in the field will, however, need to be accompanied by removal of the structural and organisational weaknesses mentioned at paragraph 4.9 above. Such weaknesses, as already noted, are of much greater relevance to the decentralised sector than to the organised small industries sector.* Persons running units in the decentralised sector can hardly be expected to operate efficiently or viably without the assistance of larger support organisations supplying raw material,

---

* Although organised small industrial units suffer from some of the weaknesses mentioned in paragraph 4.9, in varying degrees, they have certain distinct advantages, when compared with those in the decentralised sector. For instance, persons running the organised units are entrepreneurs in the conventional sense. They have easier access to infra-structural and supporting facilities existing in the urban areas etc. Such units, because of their larger scale of operations, can also afford to avail of specialised skills in a greater measure.

technical and design guidance and marketing assistance. The full production potential of these units can only be realised and their continued economic viability ensured only by the simultaneous and adequate growth of such support organisations.

4.14 The traditional structure of the village and artisan industries, where the intermediaries provide such support, is a reflection of this essential need. The economic relationship of such intermediaries with the persons actually engaged in production is often exploitive but the fact remains that these intermediaries have been serving a necessary economic function and that a very large proportion of the production of decentralised industries is organised by and marketed through them.

4.15 During the last three decades, efforts have, no doubt, been made to create alternate supporting structures which would not be exploitive in character. Some headway has been made in the handloom sector where, in States like Tamil Nadu and Andhra Pradesh, a considerable proportion of the production is now organised and marketed through the co-operatives. The KVIC has organised some production through co-operatives and registered associations. State-level Handloom and Handicraft Corporations and Handloom and Handicraft Export Corporation and the Central Cottage Industries Emporium have also made some headway. All these efforts, however, embrace only a small segment of the decentralised sector and the progress has been limited.

4.16 During its deliberations, the Group considered the feasibility of making use of the presently dominant intermediary channel, e.g. that of the master weavers to overcome this structural weakness. A suggestion on these lines has also been made by the Avadhani Committee which has recently looked into the question of providing institutional finance to handlooms outside the co-operative sector. The consensus, which has emerged during our deliberations, however, is that it would not be worthwhile to place any great reliance on the improvement in the working style of the existing intermediaries, as they are not likely to give up their present exploitive arrangements. In fact, they can only be expected to submit themselves to the discipline of institutional finance and share the benefits of the production activities more equitably if sufficiently strong and extensive alternate supporting structures are set up in the public or the co-operative sectors.

4.17 In sum, the flow of institutional credit needed for the fulfillment of the Plan objectives for the small-scale sector, and in particular for the decentralised sector, can only be possible if simultaneous action is taken :-

(i) to remove the structural and organisational weaknesses, mentioned in paragraph 4.9

(ii) to develop strong and adequate support organisations, as discussed above, and

(iii) to strengthen the credit delivery system at the grass-roots on the lines suggested in paragraph 4.11.

The experts whom the Group met, also unanimously saw the need for action on the lines stated above.

4.18 In the first instance, to remove some of these deficiencies, there exists a clear need for effective co-ordination of the efforts of the Central and State Governments, the developmental agencies established by them and the financial institutions, i.e. the commercial banks, the regional rural banks and the co-operative banks, as also the SFCs, SSIDCs, etc. This will help formulation and implementation of integrated policies for the development of the decentralised sector thereby bringing about an efficient utilisation of financial and other resources to achieve the Plan objectives. Admittedly, such co-ordination will be a necessary step but this in itself may not be sufficient to deal with all the perceived problems of the decentralised sector including increasing the quantum of resources, developing strong and adequate support organisations, etc. A continuous review of the policies will also be necessary. It is for these reasons that consideration of an apex financial institution becomes relevant.

4.19 The Group felt it useful to review the functions of some other apex organisations, such as the Agricultural Refinance and Development Corporation (ARDC), the Industrial Development Bank of India (IDBI), the Rural Electrification Corporation (REC), the National Co-operative

Development Corporation (NCDC), etc. While these apex organisations differ from each other in the exact scope and nature of their activities and are meant to serve the development of different sectors/ sub-sectors of the economy, it appeared to the Group that all of them have been entrusted with the following responsibilities :-

(i) Finance/refinance responsibility which derives from considerations of increasing the quantum of funds for the particular economic sector at terms and conditions conducive to growth in that sector. Some of these institutions provide equity support to other organisations at the State level or as in the case of the NCDC, to the particular industrial enterprise through the State Government because equity support, as distinct from term lending, is seen to be a felt need for that particular sector.

(ii) It is, however, noteworthy that these institutions are not purveyors of financial support alone. All of them have important developmental functions, such as :-

(a) assisting the grass-root agencies retailing credit in the formulation of suitable projects/schemes.

(b) arranging for the training of the personnel of the grass-root organisations, (both credit and non-credit) and

(c) guiding the development of the organisational structure of the grass-root agencies so that they become equipped to perform the specific development tasks expected of them.

(iii) The apex institutions also monitor financing policies for the specific sector and ensure that they are altered or modified in accordance with the changing economic situation.

(iv) The apex institutions also inter-act with the Central and the State Governments, the intermediary financial institutions or concerned promotional and research agencies established by the Government in the formulation of developmental policies for the concerned sector. Two important aspects of the developmental policies for any sector normally kept in mind are the problems of regional imbalances and the need to ensure that the small and economically disadvantaged persons engaged in activities in that particular sector are adequately assisted.

In brief, these apex institutions not only augment the flow of finance through the intermediary financial institutions to a particular sector but also ensure that the institutional credit going to a particular sector is efficiently utilized and that the development of that sector takes place in conformity with the broader national policy objectives.

4.20 The foregoing review, in the opinion of the Group, clearly brings out that apex financial institutions have, in the Indian context, played a pivotal role in promoting growth of specific economic sectors, and an effective apex financial institution can play a similar crucial role in the growth of small-scale industries. In this background the Group then examined feasibility of the IDBI and or/ARDC fulfilling this requirement.

4.21 The IDBI, under its present charter, is responsible for discharging this responsibility (i.e. of an apex institution) for the entire industrial sector. In the earlier chapters, we have already reviewed the measures taken by the IDBI in this direction and noted the increase in flow of credit to the small-scale industries as also its pattern. It would not be unfair to surmise that at least till very recently, almost the entire flow of assistance to the small-scale sector by agencies which are under the aegis of the IDBI, has gone to the organised small-scale sector in urban and metropolitan areas. As of date, neither the IDBI nor the SFCs have any significant links with the decentralised industrial sector or even with small mechanised industrial units set-up in the rural areas.

4.22 By the very nature of the production process of industries in the decentralised sector (which requires very little of fixed plant and equipment) as also because of their dispersed location, the best agencies for retailing institutional financial assistance to this sector would be the commercial, co-operative and the regional rural banks. These can be expected to meet both the working capital requirements of such units (which would be preponderant portion of their total financial needs) as also their limited fixed capital demands. Indeed, this is also the present pattern. The same situation would be true of the "tiny" sector industries. The policy co-ordinations for these banks is, however, provided not by the IDBI but by the Reserve Bank of India.

4.23 The SFCs and the technical consultancy organisations promoted by the IDBI in different States have so far been oriented, by and large, to the problems and requirements of the comparatively large-sized small-scale industrial units. They have not yet developed any particular expertise for providing technical guidance and assistance to the decentralised sector.

4.24 We have already earlier discussed that a rapid growth of the industries in the decentralised sector as also the tiny sector would require a simultaneous development of support organisations which would provide technical and design guidance, raw material supply, as also marketing outlets for the production of the decentralised sector. Such support organisations at present have only marginal links with IDBI and few of them have only been recently made eligible for IDBI's finance. Their linkages with the formal financial system have been basically with the commercial banks and that too to a very limited extent.

4.25 It has also to be recognised that the linkages between the organised small-scale sector, and the large and medium industries are numerous and more organic than the linkages between the decentralised sector and the medium and large scale sector. For the decentralised sector a linkage does, of course, exist insofar as raw materials are concerned, e.g. yarn for handlooms and carpets, raw metal for various metal-crafts, etc. while another linkage viz. of marketing of the products of the decentralised sector through outlets established by the large industries is possible.

4.26 The production techniques and organisation structures in organised small scale units are broadly similar to those in the large and medium industries. This does not hold good for the decentralised sector.

4.27 The growth of the decentralised sector will also require involvement of Governmental agencies, both Central and State, to a much larger extent than in the organised small-scale sector or in medium or large industries, basically because persons engaged in the decentralised sector would really not be "Entrepreneurs" in the same sense as those in other sectors of industries.

4.28 In this background, given the great importance attached to the growth of the decentralised sector in our new planning strategy, there does not seem to be any inherent advantage in the IDBI expanding its present activities to become an effective apex organisation for the decentralised sector.

4.29 As mentioned earlier, the new emphasis on the growth of non-farm rural employment will have to be sustained well beyond the present plan period and the growth of industries in the decentralised sector will thus have to be a continuous matter of priority over the long term. These considerations also argue in favour of setting up a new apex organisation for these sectors of small-scale industries rather than trying to look after the needs of this sector through the IDBI. In coming to this conclusion, the Group has also been guided by the consideration that with the increasing tempo of industrialization all sectors of industry will expand and their requirements will have to be met. There will also be increasing exports of engineering goods including exports of turnkey projects. The Group felt that the IDBI will have to maintain its focus, particularly at the top management level, on the growth of the organised industrial sector, whether large, medium or small. The emphasis on the development of the decentralised sector, however, derives more from the employment objective than the growth objective and it is best that the very different problems of this sector are looked after by a separate apex organisation.

4.30 The feasibility of the ARDC (by suitable expansion and reorientation of its activities) to serve as an apex organisation for the tiny and decentralised sectors was also considered by the Group. The Group is, however, of the view that except for some extension of the activities of the ARDC to provide support for land-linked decentralised industries, such as sericulture (upto the stage of raw silk) it would not be advisable or advantageous to seek to expand the role of the ARDC to cover all possible industries in the tiny and decentralised sectors. It is possible to speculate that with suitable strengthening and modifications, ARDC may expand its activities to include all programmes for integrated rural development. This may sound logical. However, taking a realistic view of the prevailing and emerging situation, it is certain that the problems of developing the agricultural sector proper and also, of land associated allied activities are of such a magnitude that the Corporation will be fully preoccupied with these for quite some time. One may, therefore, find that the extent of attention the Corporation is able to devote to the development of non-agricultural activities including the development of supporting facilities in the rural sector falls short of what is required under the present policy frame. Besides, the present gap in regard to "tiny" sector and artisans in non-rural areas will continue to remain even if one assumes that ARDC will be able to look after adequately the developmental and financial needs of the rural industries in its integrated development programmes. It will, therefore, be unpractical to expect the ARDC to fulfil the requirement of decentralised sector.

4.31 In the discussions which the Group had with various experts and knowledgeable persons, different views were expressed as regards the need for an apex financial institution for the small-scale sector. One point of view was that the mere setting up of a new apex financial institution will not really ensure an increased flow of resources to a particular sector, given the overall constraints of resources and the competing demands of other priority activities. In the case of the small-scale sector (particularly, the decentralised sector) the problem really was one of improving the absorptive capacity of the dispersed small producers which required strengthening of the credit delivery system at the grass-root level and the growth of other supporting organisations. The apex institution, by itself, would not be of much significance. Some of the experts also felt that the IDBI could itself undertake the functions of an apex institution for the small-scale industries, as the IDBI is even presently responsible for the entire industrial sector.

On the other hand, some representatives of the small-scale industries as also representatives of the KVIC and the Central Silk Board felt that there was an urgent need for an apex financial organisation to look after the institutional finance needs of the small-scale sector. The representatives of the KVIC and the Silk Board particularly made the point that the requirements of the decentralised sector are of a special character and under the present arrangements this sector has not received adequate support from the financial system.

4.32 The Group, however, unanimously came to the conclusion that, keeping in view the emphasis now being placed on the growth of the "tiny" and decentralised sectors of small-scale industry and the special nature of the structural and financial problems which will need to be resolved to ensure their growth, there is a need for setting up an apex financial institution for these sectors. This need derives not so much from the point of view of ensuring adequacy of resources (though this itself is a matter of considerable importance), but from considerations of ensuring an efficient use of the financial resources which will flow to this sector.

This in turn will, inter alia, require evolution and development of adequate supporting structures as also of methods by which the flow of institutional finance could be matched and integrated with the flow of budgetary resources for the growth of these sectors.

4.33 We shall, in the next chapter, discuss in detail the functions and responsibilities which would need to be entrusted to this apex organisation and make suggestions about its possible structure and its inter-relationship with other organisations.

...

Chapter V

Apex Institution - Functions and organisation

Objectives

5.1 From the discussions in the earlier chapters it is evident that the proposed apex institution will have to be essentially a development bank and play a key role in the development and promotion of the decentralised sector. Its direct financing and refinancing activities will, in a sense, be subordinate to its developmental role because the crucial objective has to be one of ensuring the cost effective utilization of all the funds, whether institutional, budgetary, or otherwise, which flow to this sector. In the present situation, it is not the non-availability of the funds as such which is the major impediment; the problem is more of non-existance or inadequacy of the supporting structures, the credit delivery system and the production processes.

5.2 As already discussed, the individual production units in the decentralized sector are operated by persons who are not entrepreneurs in the conventional sense of the term. The scale of their operations will also be so small as to make their viability dependent on the efficient capability of supporting structure responsible for providing them with raw materials, technical inputs and for marketing of their products. The financing of such micro units can, therefore, be optimally done only in the context of an overall appraisal of the total economic cycle, many components of which cannot be perceived adequately at the grass-root level. Increasingly, therefore, efforts will be necessary to provide adequate institutional financing for the entire economic cycle which will, in turn, require the preparation of projects/programmes at a more aggregative level so as to encompass the needs not only of production but also of raw material supply, marketing, etc. The implementation of such projects and programmes will also entail the growth of supporting organisations and their structures will also need to be appraised. The training of persons engaged in the decentralized production units as also the training of persons manning the support organisations and the credit delivery system will have to be dovetailed with such projects/programmes. The development of appropriate production technologies will also have to be simultaneously fostered. The apex institution will have to entrust itself with all these facets of development of this sector and ensure that these are either taken care of by the Central and State promotional agencies or where necessary supplemented by direct initiative of the apex institution.

5.3 The apex institution will also have to take considerable interest in the supervision and monitoring of the projects/programmes under implementation. This aspect assumes a special importance in the sector of decentralized industries where the base level production units will be of very small size susceptible to the vagaries of a host of external factors and where very little progress has been made in the development of strong supporting organisations either to provide commercial support for economic activities or for promotional purposes. In a country of the size of India, with its vast regional disparities no general countrywide solutions can be possible particularly for the sector in view, and it will be necessary to, therefore, maintain a dynamic balance between innovation and corrective regulations.

5.4 In the light of this perception of the tasks which have to be performed, the apex institution will be the principal financial institution for a) participating in the translation of the industrial development programmes incorporated in the Five Year Plans relating to industries in tiny and decentralised sectors into bankable propositions, b) coordinating, in conformity with the national priorities, projects/programmes of institutions engaged in financing, promoting or developing industries in these sectors, c) assisting the development of institutions providing credit and other facilities for industries in these sectors, and d) providing appropriate finance and refinance facilities to such institutions.

5.5 To fulfil the above objectives, the apex institution will perform the following functions :

<u>Functions</u>

i) To grant loans and advances, on such terms and conditions as the apex institution may think proper, to scheduled commercial banks, State Co-operative banks@, Central Co-operative banks, Urban Co-operative banks, Regional Rural Banks and State Financial Corporations by way of refinance of loans and advances granted by them to the industrial units in the tiny and the decentralised sectors and to agencies providing assistance to these sectors.

ii) To grant loans and advances to support organisations providing assistance to the tiny and decentralised sectors, for purposes specified by the apex institution.

iii) To subscribe to or purchase stocks, shares, bonds or debentures of any eligible institution providing assistance to the industries in the tiny and the decentralised sectors.

@ The present arrangement of providing short-term refinance accommodation by the Reserve Bank of India to State Co-operative banks and central co-operative banks for financing the production and marketing activities of cottage and small-scale industries (vide paragraph 1.29 Chapter-I) will continue. The apex institution will, wherever necessary, provide refinance against term loans.

iv) To guarantee loans raised by agencies providing assistance to the industrial units in the tiny and decentralised sectors.

v) To organise and operate a National Equity Fund for the benefit of the industries in the tiny and the decentralised sectors.

vi) To strengthen the capabilities of support institutions/agencies both operationally and financially so as to enable them to expand their coverage of industries in the tiny and the decentralised sectors.

vii) To coordinate the formulation and implementation of projects/programmes by various support organisations in the tiny and decentralised sectors.

viii) To undertake and assist in identification, formulation, implementation, supervision and evaluation of projects in order to improve the decision making process in the apex institution as well as in the financial and other institutions in the field of the industries in the tiny and the decentralised sectors.

ix) To coordinate the flow of institutional finance with flow of budgetary assistance by the promotional agencies for human resource development, institution-building, subsidies, extension, etc.

x) To undertake research, surveys and techno-economic studies in connection with the development of industries in the tiny and the decentralised sectors.

xi) To assist in development of technical and managerial skills for promotion, management and expansion of industries in the tiny and decentralised sectors.

xii) To pay special attention to formulation and implementation of projects/programmes intended for the benefit of the backward areas and weaker sections with a view to removing existing imbalances.

xiii) To do all such matters and things as are incidental to or conducive to the attainment of the above objects.

5.6 Taking into account the objectives and functions visualised for the apex institution it is obvious that it will have to be a "body corporate". The Group

Structure and Resources

considered the merits and demerits of the two possible structures viz. a statutory corporation or a public limited company. Amongst these two alternatives, the Group feels that the institution can be preferably constituted as a public limited company under the Companies Act, as this structure would be helpful to the institution in having the necessary measure of flexibility both in evolving its corporate structure and in its operations. The institution may be appropriately named as "Development Bank for Decentralised Industries" (DBDI).

5.7 Taking into account the expected scale of its operations over the next decade or so, its authorised capital should be around Rs.50 crores. The paid-up capital, in the first instance, could be set at Rs.10 crores.

This capital should be provided by the Reserve Bank of India, the IDBI, the ARDC, and the scheduled banks. The institution, in the context of its functional role, will need to have direct and effective links with commercial banks, co-operative banks and the regional rural banks. This can best be ensured, if the apex institution functions as an associate of the Reserve Bank. In view of these considerations, the Reserve Bank should be the single largest shareholder, have the major say in policy formulation and also be responsible for top management appointments.

5.8 The institution should have borrowing powers to the extent of 20 times its paid-up capital and reserves as in the case of ARDC. These borrowings may be arranged by the institution by :

i) issue of bonds and debentures with Government guarantee ;

ii) borrowings from the Government of India ;

iii) loans from the Reserve Bank of India a) from LTO funds and b) short-term accommodation under Section 17(4BB) of the Reserve Bank of India Act ;

iv) from international agencies with the approval of the Government of India.

The institution may also be empowered to accept grants, donations, gifts, etc. to support its promotional activities either from the Government or from other bodies.

Presently, under the Reserve Bank of India Act [Section 46C(2)(a) read with Section 17(4G)], loans and advances from the National Industrial Credit (Long Term Operations) Fund can be made only to the IDBI an amendment of the RBI Act will be necessary.

5.9 The bulk of the resources of the apex institution will be used for providing refinance to primary lending agencies, such as, commercial banks, co-operative banks, Regional Rural Banks, etc., who would, in turn, meet the credit needs both of the individual units as also the supporting organisations in the decentralised sector. Direct financing of supporting organisations to a limited extent may also be necessary. These operations of the apex institution will have to be commercially viable and the following considerations would, therefore, need to be kept in view while determining the cost at which funds are made available to this institution by the Government of India, Reserve Bank of India, etc. :-

i) A significantly enlarged flow of funds to support productive activities in the tiny and decentralised sectors from institutional sources will only be possible at reasonable rates of interest which cover the cost of lending. In the medium term, this ought to be possible by a more efficient organisation of the production cycle including timely supply of raw material and proper marketing. At present, only a limited volume of institutional finance flows to borrowers of this sector at rates of interest which are significantly lower than those available to other borrowers, partly by budgetary funds made available through the KVIC, partly by commercial banks under the DRI Scheme and partly at the concessional lending rates prescribed for institutional lendings in specified backward areas. While the medium term objective has clearly to be one of ensuring a much larger flow of institutional finance to this sector, any abrupt increase in the present interest rates regime, till the structural weaknesses are removed, would however, militate against the growth of this sector.

ii) At the same time, the service cost of lending to a large number of small borrowers in the decentralised sector, who would be scattered over wide areas, is bound to be high. The servicing cost of finance to small-scale industries in the aggregate is itself substantially higher (3.42%) than that for medium and large scale industries (0.70%), as already pointed out in Chapter-I. Since bulk of the present small-scale finance is directed to units located in metropolitan and urban areas, it is obvious that the service cost to borrowers in the decentralised sector would be even higher. The present spread of 3½% provided in IDBI refinancing at present could thus prove inadequate to the primary lending institutions when lending to the decentralised sector is stepped up.

5.10 Both the aforesaid considerations may necessitate that funds are provided to the apex institution at rates which are somewhat lower than those available to the IDBI or ARDC. In the longer perspective, these considerations also underline the need for evolving cost effective means of assistance to this sector which would require a many faceted approach.

5.11 It would be desirable therefore, at least in the initial ten-year period for the original subscribers to forgo the dividend payable to them and allow the use of such funds to the institution for promotional purposes. There should also be no obligation on the part of the institution to declare any specified minimum dividend for the initial ten-year period. This position may be reviewed by the Board at the end of this period.

5.12 The Group would also recommend that the institution may be accorded a "tax-exempt" status for the first ten years, in the first instance.

5.13 The foregoing discussion also makes it clear that separate funds will require to be provided to the institution more or less on grant basis for undertaking promotional activities including schemes aimed at augmentation of equity of subordinate field organisations or units. Similarly, such low-cost funds may be needed for extending interest subsidies to support organisations in initial stages.

5.14 The Board of Directors of the proposed institution should comprise 15-20 members in which adequate representation will need to be provided to the subscribers of share capital as also to the apex promotional agencies, such as SIDO, KVIC, Handloom Board, Handicraft Board, etc., apart from Government representatives. It will be desirable to also induct on the Board 2 or 3 experts with adequate background knowledge of and association with the decentralised sector.

Organisational Aspects

5.15 The Group would suggest that the head office of this institution should not be in any metropolitan area. It can be located in a city or a town which is centrally situated, preferably in some backward State. It will also need to have offices, as in the case of IDBI and ARDC, at least in each major State, to begin with. Such regional presence will be very necessary for co-ordination of activities with the State Government agencies.

5.16 The institution will need to have personnel drawn from several disciplines and a mix of technical experts and field experience will have to be aimed at. While these are matters which will need to be gone in through in detail by the institution itself, the Group would like to emphasize that the structure and organisation of the institution should be such as would allow it sufficient flexibility to draw its personnel from several institutions, and sources.

5.17 A reference has been made in this report on more than one occasion to the need for

<u>Linkages with other organisations</u>

co-ordinating the activities of the proposed apex institution with the various apex promotional agencies set up for the development of the decentralised sector. While representation of the apex promotional agencies on the Board of the proposed institution will provide one important linkage, it also appears necessary that reciprocal representation of this institution on the management of these agencies is also arranged.

5.18 Co-ordination of budgetary outlays with flow of institutional finance will also be very important. Budgetary outlays may be broadly sub-divided into outlays for promotional purposes and outlays for providing financial support for productive activities. The former type of outlays would normally precede the flow of institutional finance while the latter type of outlays would be contemporaneous.

It may, therefore, be desirable to move to a position where in the case of promotional outlays there is adequate consultation while outlays for productive purposes are increasingly routed through the proposed apex institution.

...

A P P E N D I X

S T A T E M E N T S

AND

A N N E X U R E S

STATEMENT I

Share of small-scale industries in ILBI's assistance

(Rs. in crores)

	1977-78 No.	1977-78 Amount	1978-79 No.	1978-79 Amount
A. Assistance sanctioned to Small-scale industry	4886	82.3	12348	190.0
(A) as percent of (B)	(34.4)	(11.6)	(40.4)	(17.9)
i) Refinance to small scale industries	4719	78.6	12056	173.6
ii) Bills Rediscounting to small scale industries	167	3.7	292	16.4
B. Total IDBI Assistance Sanctioned	14212	709.5	30555	1061.4
C. Assistance disbursed:				
Refinance	57.0			100.6
Bills	2.8			11.8
Total.	59.8			112.4

Source: IDBI Annual Report

Statement II

Advances by scheduled commercial banks to small scale industries*

(Rupees in crores)

As on the last Friday of	No. of units	Limit sanctioned	Balance outstanding
June 1968	38927	375.30	189.80
December 1969	71594	698.06	346.89
,, 1970	102687 (43.43)	856.19 (22.65)	469.10 (35.23)
,, 1971	118779 (15.67)	913.84 (6.65)	542.32 (15.61)
,, 1972	142315 (19.81)	1058.60 (15.84)	646.31 (19.18)
,, 1973	200563 (40.93)	1346.50 (27.20)	858.60 (32.85)
,, 1974	227423 (13.39)	1529.97 (13.63)	1017.43 (18.50)
,, 1975	269299 (18.41)	1715.46 (12.12)	1147.29 (12.77)
,, 1976@	397022 (47.43)	1996.21 (16.37)	1421.08 (23.86)
,, 1977@	476835 (20.10)	2273.44 (13.89)	1702.80 (19.82)
,, 1978@	557656 (16.94)	2765.68 (21.65)	2156.32 (26.63)

* Including term loans instalment credits and advances to craftsmen and other qualified entrepreneurs.

@ Data are provisional.

Note: (i) Figures in brackets show percentage increase.

(ii) From September 1975 onwards data cover advances to small-scale industrial units having investment in plant and machinery up to Rs.10 lakhs as against Rs.7.50 lakhs for the earlier period.

Source: Reserve Bank of India Bulletin.

Statement III

State-wise position of number of branches of Scheduled Commercial Banks and their advances to Small-Scale Industries as at the end of June

(Rupees in crores)

State/Union Territory	No.of branches		No. of units		Balance Outstanding		% to Total of Col.No.7
	1969	1978	1969	1978*	1969	1978*	
1.	2.	3.	4.	5.	6.	7.	8.
1. Andhra Pradesh	567	2134	6228	41851	20.73	106.05	5.8
2. Assam	74	414	204	8339	1.55	9.89	0.5
3. Bihar	273	1397	613	17937	3.25	45.71	2.5
4. Gujarat	752	2077	5196	24699	24.77	156.60	8.6
5. Haryana	172	674	1107	11890	6.56	57.12	3.1
6. Himachal Pradesh	42	292	27	1961	0.14	3.97	0.2
7. Jammu & Kashmir	35	337	86	5998	0.34	8.77	0.5
8. Karnataka	756	2339	5161	45420	17.67	121.16	6.6
9. Kerala	601	2011	2597	26160	23.32	100.60	5.5
10. Madhya Pradesh	343	1465	1709	23535	8.63	53.07	2.9
11. Maharashtra	1118	2913	10796	44709	63.32	361.21	19.8
12. Manipur	2	32	3	645	+	0.22	+
13. Meghalaya	7	49	-	489	-	0.27	+
14. Nagaland	2	29	4	248	0.02	0.29	+
15. Orissa	100	660	209	14530	1.42	14.71	0.8
16. Punjab	346	1425	3839	20746	14.65	109.21	6.0
17. Rajasthan	364	1150	1901	32988	5.44	45.30	2.5
18. Sikkim	-	1	-	25	-	+	+
19. Tamil Nadu	1060	2552	7193	79493	37.51	194.51	10.7
20. Tripura	5	67	1	633	+	0.43	+
21. Uttar Pradesh	747	3055	5053	56689	20.84	146.39	8.0
22. West Bengal	504	1804	2667	41413	21.41	155.97	8.5

(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Union Territories							
1.	Andaman and Nicobar	1	12	-	23	-	0.04	+
2.	Arunachal Pradesh	-	13	-	189	-	0.01	+
3.	Chandigarh	20	74	39	793	0.29	6.92	0.4
4.	Dadra and Nagar Haveli	-	4	-	22	-	0.38	+
5.	Delhi	274	768	1903	9197	10.61	114.92	6.3
6.	Goa, Daman and Diu	85	216	157	1147	0.65	10.73	0.6
7.	Lakshadweep (includes Amindivi and Minicoy.)	-	5	-	-	-	-	-
8.	Mizoram	-	6	-	79	-	0.02	+
9.	Pondicherry Mahe	12	42	66 224@	1094	0.28 2.21@	3.30	0.2
	TOTAL:-	8262	28017	56983	512942	285.61	1827.77	100.0

* Data are provisional

\+ Negligible

@ Unspecified Union Territory

Source: i) Report on Currency and Finance

ii) Reserve Bank of India - Bulletin.

Statement IV

Lending to small-scale industries by public sector banks*.

(As at the end of March 1979)

(Amount in lakhs of rupees)

	No.of borrowers	Amount outstanding
Aggregate advances to small-scale industries of which :	513104	1702,34
(a) Advances to artisans, village and cottage industries	239745	30,79
(b) Advances to tiny sector	109506	99,76

* : Data relate to State Bank of India and its subsidiaries and ten other nationalised banks.

Note : Data are provisional

Source : Reserve Bank of India.

Statement V

Commercial bank credit to Small-Scale Industries.

(Amount in lakhs of Rupees).

Population Group	AS ON THE LAST FRIDAY OF					
	JUNE 1974			JUNE 1977		
	No. of Accounts	Limits sanctioned	Balance Outstanding	No. of Accounts	Limits Sanctioned	Balance Outstanding
1) Rural	24371 (10.6)	7905.10 (4.9)	5465.64 (5.4)	55393 (15.5)	12515.56 (6.0)	8795.07 (6.0)
2) Semi Urban	64700 (28.2)	30090.82 (18.6)	19191.50 (19.1)	115542 (32.2)	45413.63 (21.7)	30478.31 (20.9)
3) Urban	78907 (34.4)	64871.14 (40.2)	34657.80 (34.5)	112317 (31.3)	70144.88 (33.5)	49314.81 (33.7)
4) Metropolitan	61533 (26.8)	58505.52 (36.3)	41195.49 (41.0)	75388 (21.0)	81435.63 (38.8)	57627.18 (39.4)
	229511 (100.0)	161372.58 (100.0)	100510.43 (100.0)	358640 (100.0)	209509.70 (100.0)	146215.37 (100.0)

Note : Figures in brackets show percentage to total.

Source : Basic Statistical Returns.

Statement VI

Particulars relating to loans owed by units to institutional credit agencies

Population size of the place of location	Percentage distribution of units	Average value per unit	Amount Outstanding (Rs. in crores)
		Rs.	
Upto 10,000	24.89	37,735	219.05 (14.7)
10,000 - 1 lakh	34.96	46,413	378.49 (25.3)
1 lakh - 10 lakhs	26.74	65,236	406.94 (27.3)
Above 10 lakhs	13.39	1,56,258	488.17 (32.7)
	100.00	64,002	14,92.65 (100.0)

Figures in brackets show percentage to total

Explanatory Note : The sample survey covered all the small scale industrial units assisted by the commercial banks and coming within the purview of the Central Guarantee Scheme. An overall sample of about 15,000 assisted units was selected for investigation in the survey. The units were selected through a two stage stratified random sampling procedure.

The reference period for the survey was the accounting year ended during April 1976 to March 1977. In respect of units which did not adopt any particular accounting year, the reference period was the year ended March 1977.

Source : Survey of small-scale industrial units - 1977 (Statistical Report Vol. I). - Reserve Bank of India.

Statement VII

Percentage share of units of different sizes in output, employment and institutional loans *

Size of units in terms of investment in plant and machinery (Rs.)	Percentage distribution of units	Percentage		
		Total value of output	Total employment	Institutional loans
Less than 1 lakh	89.0	44.1	61.0	31.1
1 - 2 lakhs	5.0	17.3	11.7	17.2
2 - 5 lakhs	3.9	18.3	12.7	22.7
5 - 10 lakhs	1.8	15.1	11.8	22.5
Above 10 lakhs	0.3	5.2	2.8	6.5
Total	100.0	100.0	100.0	100.0

* Institutional loans comprise the outstanding loans of the unit at the end of the latest accounting year to (1) commercial banks; (2) Co-operative banks and societies; (3) Government; (4) State Financial Corporations; (5) National/State Small Industries Corporations (6) State Industrial & Investment Corporations (like the State Industrial & Investment Corporation of Maharashtra) and (7) other institutional agencies not classified under the above categories.

Source: Survey of Small-scale industrial units - 1977.

For details kindly refer to the explanatory note to Statement VI.

Statement VIII

Advances made by Regional Rural Banks to Small/Marginal farmers, landless labourers, Rural Artisans and others as on the last Friday of March 1979.

(Amounts in lakhs of rupees)

State/Union Territory	No.of banks	No.of branches	No.of accounts	Amount outstanding
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh	3	237	274366 (118655)	3574.81 (1361.34)
Assam	1	30	5153 (2757)	75.45 (19.61)
Bihar	10	222	73508 (25539)	699.96 (224.98)
Gujarat	2	2	189 (48)	1.97 (0.40)
Haryana	2	59	27562 (8040)	444.15 (115.79)
Himachal Pradesh	1	22	4751 (1769)	76.49 (25.65)
Jammu and Kashmir	1	42	8566 (703)	134.07 (14.92)
Karnataka	4	139	124907 (58797)	1366.00 (489.32)
Kerala	2	104	266964 (66712)	1539.86 (451.83)
Madhya Pradesh	5	140	61246 (24658)	657.80 (271.98)
Maharashtra	1	49	6541 (2283)	123.94 (22.61)

(1)	(2)	(3)	(4)	(5)
Orissa	4	148	200938 (34327)	1511.72 (315.26)
Rajasthan	4	162	48148 (20454)	835.06 (254.82)
Tamil Nadu	1	53	42817 (12689)	394.80 (93.58)
Tripura	1	24	20644 (5362)	166.26 (75.11)
Uttar Pradesh	10	310	202356 (45473)	2078.55 (621.93)
West Bengal	4	93	47245 (11358)	649.74 (125.95)
	56	1836	1415901 (439624)	14330.63 (4485.08)

Note : Figures in bracket relate to Rural Artisans and others.

Source: Reserve Bank of India.

Statement IX

Financial Assistantce sanctioned and Disbursed by State Financial Corporations to Small Scale Industries

(Rupees in Crores)

Year (April-March)	No. of Loans	Sanctions	Disburse-ments	Outstand-ings
1970-71	4639	35.1	24.8	51.5
1971-72	3969	44.2 (26.0)	25.9	60.5
1972-73	3778	50.4 (14.1)	31.2	84.3
1973-74	4501	63.1 (25.2)	32.9	112.6
1974-75	5237	76.3 (20.8)	46.6	152.9
1975-76	6186	84.2 (10.3)	52.1	200.4
1976-77	6726	106.0 (25.9)	56.6	244.0
1977-78	6861	105.3 (-)	63.8	281.9
1978-79	6478	135.1 (28.3)	85.0	354.2

Note : Figures in brackets show percentage rise.

Source: Annual Reports of State Financial Corporations including Tamilnadu Industrial Investment Corporation Ltd.

STATEMENT X

Statement showing the magnitude of assistance extended by Small-Scale Industrial Development Corporations under major activities

(Rupees in lakhs)

Name of the SSIDC	Raw materials and marketing activities: Raw material	Marketing & finished goods	Sub-total	Financing activities (During the year): Term Loan	Hire-Purchase	Equity assistance	Margin money	Others	Sub-total	Total (4 + 10)	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Andhra Pradesh (76/77)	128.17 (38.8)	101.87 (30.8)	230.04 (69.6)	@	79.73 (24.1)	20.82 (6.3)	NA	NA	100.55 (30.4)	330.59	@APSSIDC :- Provides Bridge loans, short term loans and working capital loans to weaker sections; also provides equity capital to joint ventures.
					216.79+ (53.0)	105.72+ (25.9)	NA	86.40+ (21.1) (Nature not known)	408.91+ (100.0)	408.91+	
2. Assam (74/75)	121.00 (55.9)	79.72 (36.8)	200.72 (92.7)		15.00 (6.9)	0.80 (0.4)	NA	NA	15.80 (7.3)	216.52	
					6.47+ (13.2)	11.15+ (22.8)	3.91+ (8.0)	27.39+ (56.0) (advance- Nature not known)	48.92+ (100.0)	48.92+	
3. Bihar (76/77)	60.50 (56.5)	46.64 (43.5)	107.14 (100.0)		-	NA	-	-	-	107.14	Bihar :- Corporation has recently started investment in joint ventures.
					-	-	-	-	-	-	
4. Chandigarh (75/76)	59.83 (100.0)	NA	59.83 (100.0)		NA	-	-	-	-	59.83	
					-	-	-	-	-	-	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
5.Delhi (74/75)	320.17 (87	NA	320.17 (87.2)		0.49 (0.1)	-	44.29 (12.1)	2.07 (0.6) (assistance to sick units)	46.85 (12.8)	367.02	
						-	NA	-		-	
6.Gujarat (74/75)	1068.81 (99.0)	NA Procures orders for SSI units	1068.81 (99.0)		11.05 (1.0)	-	NA	NA (x)	11.05 (1.0)	1079.86	(x) Gujarat: Procures orders for SSI and provides assistance to SSI units for purchase of machiner
					20.42+ (19.3)	-	-	85.80+ (80.5)	106.22+ (100.0)	106.22+	
7.Haryana (76/77)	857.70 (88.1)	116.32 (11.9)	974.02 (100.0)		-	-	-	NA	-	974.02	
					-	-	-	-	-	-	
8.Himachal Pradesh (75/76)	66.15 (94.7)	3.71 (5.3)	69.86 (100.0)		NA	-	-	NA	-	69.86	
					9.48+ (39.8)	-	-	14.35+ (60.2) (advance Nature not known.	23.83+ (100.0)	23.83+	
9.Jammu and Kashmir (76/77)	86.51 (100.0)	Helps secure orders for SSI units.	86.51 (100.0)		-	-	-	-	-	86.51	
					-	-	-	-	-	-	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
10.Karnataka (76/77)	190.55 (84.1)	Undertakes tender marketing on behalf of SSI units.	190.55 (84.1)		1.03 (0.5)	1.40 (0.6) (Nature not known)		33.56 (14.8)	35.99 (15.8)	226.54	
					15.24+ (91.6)	1.40+ (8.4)	-	NA	16.64+ (100.0)	16.64+	
11.Kerala (76/77)	311.61 (100.0)	NA	311.61 (100.0)		NA	-	NA	NA	-	311.61	
					43.59+ (8.1)	105.15+ (19.5)	47.70+ (8.8)	342.94+ (63.6) (advance Nature not known)	539.38+ (100.0)	539.38+	
12.Madhya Pradesh (71/72)	133.08 (69.0)	59.92 (31.1)	193.00 (100.0)		-	-	-	NA	-	193.00	HP Scheme discontinued.
					2.82+ (100.0)	-	-	"	2.82+ (100.0)	2.82+	
13.Maharashtra (76/77)	818.41 (44.1)	1034.37 (55.7)	1852.78 (99.8)		3.61 (0.2)	0.60 (..)	- -	-	4.21 (0.2)	1856.99	HP Scheme suspended w.e.f. 17-1-1977.
					185.60+ (42.8)	6.93+ (1.6)	-	241.08+ (55.6)	433.61+ (100.0)	433.61+	
14.Orissa (76/77)	60.86 (83.0)	12.45 (17.0)	73.31 (100.0)		NA	-	NA	NA	-	73.31	HP Scheme suspended for want of funds.
					72.30+ (100.0)	-	"	"	72.30+ (100.0)	72.30+	

... 4/...

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
15. Punjab (75/76)	742.40 (79.7)	126.99 (13.6)	869.39 (93.3)		4.58 (0.5)	-	57.79 (6.2)	NA	62.37 (6.7)	931.76	
					25.15* (100.0)	-	NA	"	25.15* (100.0)	25.15*	* Punjab : Assistance outstanding as on 31-12-1978
16. Rajasthan (76/77)	550.39 (75.0)	183.74 (25.0)	734.13 (100.0)	NA	NA	- (Nature not known).	-	-	-	734.13	
				18.10+ (62.5) (0.26+17.84)**	9.04+ (31.2)	1.81+ (6.3)	-	-	28.95+ (100.0)	28.95+	** Rajasthan : Rs.0.26 lakhs loans to artisans. + Rs.17.84 lakhs. Advances for purchase of machinery and expenses. Rs.18.10 lakhs
17. Tamil Nadu (76/77)	208.62 (94.7)	0.51 (1.2)	209.13 (94.9)	NA	1.79 (0.8)	-	9.36 (4.3)	-	11.15 (5.1)	220.28	TNSIC
				26.35+ (4.2)	501.39* (80.7)	-	19.56+ (3.2)	74.03+ (11.9) (loans for construction of worksheds)	621.33+ (100.0)	621.33+	* includes Rs.131.32 lakhs representing sale of work sheds on HP basis.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
18. Uttar Pradesh (76/77)	588.00 (96.2)	Helps secure orders for SSI Units.	588.00 (96.2)		23.00 (3.8)	0.15 (..)	-	NA	23.15 (3.8)	611.15	UPSIC helps in securing orders for SSI units and extends financial assistance for procurement of raw materials against import licences or sale notes. During 1976-77 such assistance extended rose to Rs.106 lakhs as against Rs.16 lakhs during the preceding year.
					316.53+ (86.8)	14.83+ (4.1) (investment in subsidiary)	0.28+ (0.1)	33.00+ (9.0) (for industrial sheds)	364.64+ (100.0)	364.64+	
19. West Bengal (76/77)	345.41 (53.1)	287.30 (44.2)	632.71 (97.3)	-	7.28 (1.1)	10.50 (1.6)	-	NA	17.78 (2.7)	650.49	*WBSIC: advances to SSI units under financial assistance scheme - constructed 3 Ind. and 1 commercial estate at a total cost of Rs.147.64 lakhs with Bank finance and margin money and loan from State Government.
					32.79+ (30.0)	10.53+ (9.6)	56.49+ (51.7)	*9.47 (8.7)	109.28+ (100.0)	109.28+	
Total :	6718.17	2053.54	8771.71	44.45	1605.17	291.79	239.38	950.09	3130.88	11902.59	

Source : Annual Reports and other information received from SSIDC.

Note : a) Figures are provisional.
b) Figures in brackets show percentage to total i.e. Column 11.

NA - Not available.
\+ - Assistance outstanding as at the end of the year.

c) Data in respect of Manipur, Tripura SSIDCs are not available. Tripura SSIDC runs a few industrial units owned and managed by it; principal activity of Manipur SSIDC is procurement and distribution of raw materials to small-scale industrial units (Rs. 8.75 lakhs, during 1977/78).

Statement XI

Servicing Cost of Advances

	Medium & large Industries	Small Scale Industries	Direct Finance to Agriculture	Other Priority Sectors	Others	All advances
	1	2	3	4	5	6
	Cost in % per annum of outstanding					
Banking Industry	0.70 (0.32)	3.42 (3.42)	4.41 (2.72)	- (1.90)	2.32* (1.88)	1.64 (1.16)
Bank Groups						
Group I - SBI & 4 Big Nationalised Banks	0.51	3.58	4.14	-	2.84*	1.46
Group II - 10 Nationalised Banks & Foreign Banks	1.02	2.73	4.68	3.03	1.94	1.85
Group III - Other Banks	1.30	4.00	5.47	2.49	1.76	2.02
Population Groups						
Metropolitan & Urban	0.57	3.25	4.29	-	1.82*	1.17
Semi Urban	0.75	3.69	4.29	-	3.10*	2.36
Rural	0.98	2.78	4.06	-	4.71*	3.24

Note: Comparable estimates based on Banking Commission's study are given in brackets.

* Including other priority Sectors.

Source : "Cost of Banking Services - 1976" published in Reserve Bank of India Bulletin, April 1978 - Statement at page 257.

Statement XII

Estimated target of production and employment of traditional cottage and household industries

(Rupees in crores)

Industry	Production			Employment (in lakhs of persons)		
	1977-78	1982-83	Incrase	1977-78	1982-83	Increase
	Rs.	Rs.	Rs.			
1. Handloom (cotton)	1150	1850	700	57	109	52
2. Powerloom (cotton)	1440	2080	640	10	19	9
3. Khadi	65	159	94	9	16	7
4. Village Industries	198	985	787	13	35	22
5. New Village Industries	-	87	87	-	2	2
6. Handicrafts	600	1600	1000	20	29	9
7. Sericulture (Industrial activities only)	130	230	100	9	17	8
8. Coir products	62	85	23	5	9	4
	3645	7076	3431	123	236	113

Source: (i) Working Group on Small-Scale Industries for the Five Year Plan 1978-83 - Report of the sub-Group on credit requirements of small-scale industries.

(ii) Note received from KVIC.

(iii) Note received from All-India Handicrafts Board.

Annexure I

Village and Cottage Industries
(Illustrative list)

1. Khadi
2. Handlooms
3. Handicrafts
4. Sericulture and Silk
5. Coir
6. Cotton Ginning Work
7. Processing of cereals and pulses
8. Ghani oil
9. Manufacture of canegur and khandsari
10. Palm-gur making and other palm products
11. Cottage match
12. Cottage soap
13. Manufacture of shellac
14. Collection of forest plants and fruits for medical purposes
15. Bamboo and cane work
16. Manufacture of gums and resins
17. Manufacture of Katha
18. Hand-made Paper
19. Bee-keeping
20. Village pottery
21. Playing, curing and tanning of hides and skins and ancillary industries connected with the same and cottage leather industry
22. Fibre other than coir

23. Manufacture and use of manure and methane gas from cowdung and other waste products(such as flesh of dead animals, night soil, etc.)

24. Lime manufacturing

25. Blacksmithy

26. Carpentry

27. Fruit processing and fruit preservation

28. Manufacture of household utensils in aluminium

29. Preparation of starch from maize(Processing of maize)

30. Leaves collection and making leaf-plates

31. Preparation of malt-food from Ragi (Processing of Ragi)

32. Manufacture of Charcoal

33. Timber (Log cutting) industry

34. Bell Metal, Copper, Brass Utensils and Tin Industry

35. Manufacture of Boards, packing materials out of straw

36. Manufacture of Poultry and cattle feeds

37. Processing of Fertiliser Mix(Manure)

38. Manufacture of Papier machie

39. Manufacture of musical instruments

40. Processing of Chillies, condiments, Masalas and Pickles

41. Toilet industry including tooth powder, face powder, Mehandy, Tilak, Surma, Hair oil and Attar

42. Beedi and Snuff Industry
43. Ink Industry
44. Candle making industry
45. Pencils, Slates and Scales industry
46. Toy making
47. Salt manufacture
48. Extraction of Essential oils

49. Processing of Dry fish etc.
50. Stone cutting
51. Manufacture of pressed wool articles(Namdha)
52. Manufacture of articles from soft stone
53. Embroidery
54. Tinning
55. Small Scale design printing
56. Sealing wax
57. Book-binding
58. Small scale confectionary
59. Manufacture of Kanch Churi(Bangle manufacturing)
60. Nylon Fishnet Manufacture Industry
61. Carpets
62. Handprinting
63. Artistic Textiles
64. Embroidery & zari work
65. Metalware
66. Jewellery
67. Bangles & Beads
68. Conch Shell
69. Woodwork
70. Ceramics
71. Cane, bamboo, draw, etc.
72. Flax & Fibre
73. Ivory, horn & bone
74. Leather
75. Incense & perfumery

Annexure II

Persons with whom the Working Group held discussion

Name		Designation
1.	Prof. M.L. Dantwala	Chairman, The Indian Society of Agricultural Economics, Bombay
2.	Shri B. Shivaraman	Chairman of the Committee 'to Review Arrangements for Institutional Credit for Agricultural and Rural Development'
3.	Shri M.A. Chidambaram	Managing Director, Agricultural Refinance Development Corporation
4.	Shri Y.A. Pandit Rao	Director, Economic Research and Bank Finance, Khadi & Village Industries Commission
5.	Shri P.C. Patnaik	Managing Director, North Eastern Industrial Technical Consultancy Organisation Ltd.
6.	Shri M.R. Kolhatkar	Former Managing Director, Maharashtra SFC.
7.	Shri T.S. Kannan	Chairman, National Small Industries Corporation
8.	Shri Y.D. Arya	Representatives of Federation of Association of Small Industries of India, New Delhi.
9.	Shri R.P. Puri	
10.	Shri O.N. Kapoor	
11.	Shri M.S. Parthasarathy	President, Tamil Nadu Small Scale Industries Association
12.	Shri O. Swaminatha Reddy	Chairman, Andhra Bank Ltd.
13.	Shri S.M. Patnaik	Representative of the Council of Small Industries Corporations of India
14.	Shri K.P. Geethakrishnan	Commissioner and Secretary, Industries Department, Government of Tamil Nadu.
15.	Shri C. Ramachandran	Director of Industries, Government of Tamil Nadu
16.	Shri V. Sankarasubbiyan	Director of Handloom, Government of Tamil Nadu.
17.	Shri A.R.S. Gopalachar	Secretary, Central Silk Board

V-08

Persons who sent us notes

1. Dr. Bhabatosh Datta — 1/1-K, Jodhpur Park, Calcutta-700 068.
2. Shri D.C. Gupta — Executive Director, Punjab National Bank, New Delhi.
3. Shri V.J. Dalal — Industrial and Business consultant, Bombay.