STANDING ADVISORY COMMITTEE TO REVIEW THE FLOW OF INSTITUTIONAL CREDIT TO SMALL SCALE INDUSTRIES SECTOR

MEETING ON
18 APRIL 1987

AGENDA AND NOTES

RESERVE BANK OF INDIA
RURAL PLANNING AND CREDIT DEPARTMENT
CENTRAL OFFICE
BOMBAY

Meeting of the Standing Advisory Committee to review the flow of institutional credit to SSI sector scheduled to be held on 18 April 1987

AGENDA

1. Confirmation of the record of the discussions held during the previous meeting on 6 June 1986.

2. Observations on the suggestions made by various small scale industry organisations during the above meeting.

3. Important developments since the date of the previous meeting.

4. Financing of SSI sector in the North Eastern region.

5. Any other item with the permission of the Chair.

Standing Advisory Committee to review the flow of institutional credit to SSI sector

Agenda Notes - Index

Agenda Item 1

Standing Advisory Committee to review the flow of institutional credit to small scale industries sector- **Meeting held on 6-6-36**

Summary record of discussions

The first meeting of the Standing Advisory Committee to review the flow of institutional credit to small scale industries constituted by the Reserve Bank of India was held in the Bank at Bombay on 6 June 1986. A summary record of discussions is given in the following paragraphs :

Dr. P.D. Ojha, Chairman welcomed members and invitees. He then observed that while contribution of agriculture to Net Domestic Product (NDP) was around 35 per cent and that of manufacturing sector (including medium and large and small scale industries) was around 15 per cent, agriculture and small scale industries had each received 15.3 per cent of total bank credit at the end of December 1985. Referring to the institutional arrangements for credit to SSI sector Dr. Ojha observed that there were 52,000 branches of commercial banks and regional rural banks of which 32,000 were in rural areas. Further, there were urban co-operative banks which served SSI sector in urban areas and district central co-operative banks which financed co-operatives in SSI sector. There were also the State Financial Corporations which largely met the term credit requirements of SSI sector. Dr. Ojha added that at the national level the NABARD, the IDBI, the ICICI and the IRBI played an important role in providing refinance facilities. Dr. Ojha then mentioned that after the introduction of the credit guarantee scheme, bank credit to the SSI sector had risen from Rs.347 crores as at the end of December 1969 to Rs.7375 crores as at the end of

December 1985. In addition, the cumulative disbursements of the State Financial Corporations to the small scale industries amounted to Rs.1836 crores upto the end of March 1985. Dr. Ojha said that with large scale expansion of institutional credit it had become necessary to have a forum of all concerned with small scale industries so that problems which came up before the financing sector could be looked into on an on-going basis. Accordingly, the Reserve Bank of India had set up the Standing Advisory Committee with comprehensive terms of reference and had included in the Committee, persons to represent various interests. Dr. Ojha clarified that this committee would be looking into the problems of financing small scale industries other than cottage and village industries as the latter would be looked into by the High Level Standing Committee on flow of institutional credit to rural areas constituted by the Reserve Bank in December 1985.

Dr. Ojha then referred to the role of District Industries Centres (DICs) which had been created in the States with financial assistance from the Government of India to provide various services for the growth of SSI sector. He pointed out that DICs had not made available any developmental plans or input for preparation of district credit plans. He felt that one of the reasons could be that the DICs were not adequately staffed. Available data indicated that while each DIC was expected to have three project officers, in many cases no posts or very few posts were sanctioned and the number in position was still less.

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Dr. Ojha then referred to the growing sickness in SSI sector. He pointed out that at the end of June 1985, there were 97,890 sick units of which about 80,000 had been classified by banks as non-viable and the amount of bank funds locked up in the sick units was nearly Rs.955 crores. He added that 97 per cent of SSI units were reported to be proprietary or partnership concerns engaged in heterogenous activities covering a very wide range. Dr. Ojha then pointed out that the Reserve Bank had advised commercial banks to keep in view viability rather than security concept and hence it was important to ensure that necessary support in the form of supply of inputs, marketing and processing of output was effectively available. Thus, the problem was, Dr. Ojha said, that on one hand the banking sector had been given the message of lending to the small sector without commercial presentation and on the other hand the small sector was becoming sick. There was, therefore, the danger of banks' willingness to lend getting affected and resultantly the industrial climate getting vitiated. In this connection, Dr. Ojha felt that the State Level Inter-Institutional Committees (SLIICs) had not made much progress in the tasks assigned to them and their working had, therefore, to be reviewed. Dr. Ojha re-emphasised that it was necessary to ensure that both the banking sector and the SSI sector remained healthy. Incidentally he informed the Committee that the Reserve Bank of India had constituted a committee to examine problems relating to identification of sickness and formulation of parameters for considering reliefs to viable units and the report of the Committee was expected to become available soon.

Shri N. Dutta, President, Federation of Associations of Small Industries of India (FASII) expressed the hope that the Standing Advisory Committee would be able to really tackle the problems of SSI units. Referring to the alarming rise in the number of sick SSI units over a short period of 3-4 years, he pointed out that according to a diagnostic study conducted by the Development Commissioner (SSI), 30 per cent of sickness was accounted for by untimely assistance from banks which was often not related to the needs and only 10 per cent was on account of management deficiencies. Shri Dutta further observed that there were complaints that the guidelines issued by the Reserve Bank regarding margin, security, etc. were not followed by the bank managers. He felt that the discretionary powers delegated to branch managers had, instead of expediting and improving sanctioning of loans resulted in their sitting on judgement in every case without following the guidelines. He then pointed out that SLIICs in many States functioned only as recommendatory bodies and served no purpose. Shri Dutta suggested that RBI should prescribe a time-bound programme to be followed by banks for processing of loan applications of small units and similarly the IDBI should ensure that cases handled by SFCs were closely monitored. He added that the recommendations of SLIICs on nursing programmes should be honoured by banks. Shri Dutta further suggested that the investment limit of tiny sector units should be raised from Rs. 2 lakhs to Rs. 5 lakhs and composite loan limits from Rs.25,000/- to Rs.50,000/-.

Shri S.K. Khaitan, President, NAYE congratulated the Reserve Bank for constituting the committee and associating the representatives of SSI sector with the same. Shri Khaitan

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said that the main problem of SSI units was the difficulty faced in getting adequate credit limits sanctioned by banks and thereafter operating on them without any difficulty. He pointed out that the actual requirements of units were not taken into consideration by banks. For example, he pointed out that the SSI units had to pay deposits to traders and for power supply, etc. Since these were not taken into consideration by banks, the actual margin provided by a unit from its own resources became high. Shri Khaitan suggested that the margin money might not exceed 20 per cent and the current ratio for small units should be prescribed as 1: 1 provided there is plough back of funds. Shri Khaitan further suggested that working capital assessment should take note of book debts, goods sent on consignment and raw materials given to ancillaries for further processing. Shri Khaitan then pointed out that the SFCs were mostly located at State capitals with very few regional offices and hence it was desirable that all small units which were widely spread in smaller places were given both term loans and working capital. Referring to the reported delay in disposal of loan applications, Shri Khaitan suggested that the RBI should monitor the disposal of loan applications by banks. In regard to adequacy of credit, Shri Khaitan suggested that it should be need-based and not security-oriented. Shri Khaitan also pleaded that banks should charge concessional rate of interest for SSI units upto a credit limit of Rs.25 lakhs and that the limit for composite loans should be raised to Rs. 1 lakh. On sickness in SSI sector, Shri Khaitan was of the view that timely help as was available in some foreign banks was likely to prove useful.

Shri J. Bhuyan of Assam Entrepreneurs' Association indicated that adequate attention was not paid by all

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concerned to the development of small scale industries in the North Eastern Region. Neither the Tandon Committee in 1974 nor the Chore Committee in 1979 visited this part of India. The Region faces innumerable handicaps. The small units are required to maintain more inventory on account of communication problems and adoption of the First Method of lending recommended by Tandon Committee would have been appropriate. The Chore Committee has, however, suggested Second Method of lending. The All-India Small Scale Industries Board has been requested to increase the Central Investment Subsidy from 25 per cent to 33 per cent and Transport Subsidy from 75 per cent to 100 per cent. The Assam Entrepreneurs' Association has also pleaded for interest rate of 4 per cent to tiny units and 6 per cent to SSI units in the Region. Margin money should not exceed 10 per cent. Shri Bhuyan informed the members that the SSI sector is suffering on account of untrained and ignorant bank officers posted in this region where branch expansion has been substantial of late. The branch managers are even not aware of the instructions issued by their Head Offices regarding financing of small scale units. Instead of helping the entrepreneurs they look down upon them and turn down their proposals without any valid reasons. In the North-Eastern Region sickness among small scale units is about 60 per cent. However, the SLIIC meetings were held only three times during the period 1978-1980. Shri Bhuyan made a plea for a separate strong body which would ensure that RBI guidelines are implemented by banks and also ensure that the sickness in small scale industries is curbed at initial stages. He also suggested that an apex institution be set up to co-ordinate the work of corporations, training institutions, financial institutions and banks for development of small scale and cottage industries. Shri Bhuyan also hoped that the proposed Small Industries Development Fund to be administered by IDBI would be fruitfully utilised for the development of the North-Eastern Region.

The Chairman Dr. P.D. Ojha assured Shri Bhuyan that Reserve Bank was aware of the peculiar problems of the North-Eastern Region. A study team of Reserve Bank of India recently visited all the States of the North-Eastern Region and remedial action would be taken when its report is finalised.

Shri Manharlal Patel, Chairman, Gujarat State Small Industries Federation stated that the Reserve Bank's instructions were not implemented by banks and that deterrent action was not taken against big organisations for delay in payment of bills of SSI units, there was no uniformity in fixing margin money requirement, and third party guarantees were not discarded. He also pointed out that there was no uniformity in interest rates charged by commercial banks and co-operative banks and in respect of loans given under refinance and non-refinance schemes. He further pointed out that the service charges had been high and needed to be reduced and suggested that collection charges should not be levied for outstation cheques as the funds under these cheques were available to the banks without paying any interest on them until these were paid. In this connection Shri Patel explained how the Gujarat Small Scale Industries Corporation served 16,000 SSI units by providing raw materials, marketing and technical services and charging them interest at 15 per cent on funds so provided without guarantee, on the basis of mutual trust. He further pointed out that there was no default by members in payment of their dues. Shri Patel further added that banks charge the Corporation normal interest rate of 17.5 per cent which he felt should be reduced to 12.50 per cent. Shri Patel then observed that banks were very conservative while granting loans. They not only insisted on margin money, collateral security, etc. but also sanctioned inadequate finance, He was of the view that banks should accept recommendations made by DICs and grant working capital loans on the basis of project reports prepared by SFCs. As regards technical know-how, Shri Patel was of the view that the Small Industries Corporation should assist small scale industries in purchase of latest machinery and the Government should show a liberal approach to SSI entrepreneurs who would like to make foreign tours for obtaining latest technology.

Shri V.P. Chopra, President, Federation of Punjab Small Industries Associations also referred to the delay in disposal of loan applications by banks, their insistence on collateral security, guarantee fees, service charges for collection of outstation cheques and drafts, etc. He added that since a large percentage of small units belonged to the category of tiny sector with the value of their plant and machinery less than Rs. 2 lakhs, they should be charged interest at 10 per cent for credit limits upto Rs. 2 lakhs to help them to grow and small units with credit limits upto Rs. 5 lakhs should be charged interest at 12 per cent. Referring to the working of DICs, Shri Chopra observed that the DICs in

Punjab were not properly staffed and hence were not of much help to small industries. Referring to the problem of sickness in small sector, Shri Chopra felt that much could be achieved if there was a dialogue between institutional agencies and the small borrowers with a view to ensuring that there was no abrupt stoppage of credit facilities. He was of the view that it should be obligatory for the banks to get the approval of SLIIC for stopping credit facilities or for instituting legal proceedings against small units. Referring to the disturbed conditions in Punjab, Shri Chopra pleaded for at least 3 per cent reduction in the rate of interest and service charges to small units and that the concessions already given may not be withdrawn suddenly.

Shri A.V. Varadharajan, President , Tamil Nadu Small Scale Industries Association referred to the practices followed by banks such as removal of bills from cover, separate limits for stocks and for bills, delay in extending credit, higher service charges for demand drafts,collection of outstation cheques and guarantee fees, etc. and suggested that the procedure of renewing credit limits every year should be simplified with reference to basic facts like sales, collection, profitability and regularity and need for fresh applications etc. should be dispensed with. Further, adhoc sanction should be granted by local branch manager across the table if he is convinced that there is considerable increase in orders and sales. Banks should extend helping hand when a unit is in difficulties. He added that when operations on the bank

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account by SSI unit are not permitted for various reasons, no interest should be charged by the bank on the outstanding balance.

Shri Venkatraman, Development Commissioner(SSI) suggested that the Standing Advisory Committee should decide in advance, two or three topics on which discussion is to take place in the subsequent meeting and studies and material should be prepared on these topics including comments and suggestions from members so that discussions would be fruitful. Shri Venkatraman then observed that the small scale industrial units represented a vibrant sector having inherent strength to grow with new technology into a very prosperous sector within 10 to 15 years. In this connection he pointed out that one of the terms of reference of the Standing Advisory Committee was to look into the arrangements available for upgradation of entrepreneurs' skills and modern technology in respect of small scale units. He further pointed out that the Office of the Development Commissioner (SSI) was also required to play a useful role for dissemination of new technologies and offering training facilities to entrepreneurs through Small Industries Development Organisation (SIDO) and other associated organisations, and the Committee can usefully draw on their experience. On the role of DICs, Shri Venkatraman agreed that these had not become the focal point for promotion and development of industrial units and that there was also no effective co-ordination between them and other developmental agencies and various departments of the State Government in the districts. As regards sickness in SSI Sector, Shri Venkatraman pointed out that according to a Survey conducted by the Office of the Development Commissioner, shortage of working capital/inadequacy and untimely assistance from banks accounted for 30 per cent, scarcity of raw material 22 per cent and management deficiency 10 per cent of sick SSI units covered by the Survey. On the suggestion made often that the investment limit of tiny sector units be raised from Rs. 2 lakhs to Rs. 5 lakhs, Shri Venkatraman pointed out that 94 per cent of small units were with investment of less than Rs. 2 lakhs in plant and machinery.

Shri Venkatraman then referred to the credit guarantee scheme and said that inordinate delay experienced by banks in getting their claims settled by the DICGC suggested that the scheme had to be reviewed de novo.

Shri D.N. Ghosh, Chairman, State Bank of India agreed with Shri Venkatraman that the SSI Sector was a vibrant sector and its composition was changing fast. He also agreed that there should be dialogue not only between the bank and the borrower but also others interested in the growth of the SSI units. On the question of high service charges Shri Ghosh was emphatic that the increase had been necessitated by increase in costs to the banks and that there was no possibility of reducing them. Regarding complaints of delay in processing of loan applications, inadequacy of finance and lack of expertise on the part of bank managers in

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dealing with small units, Shri Ghosh said that his bank had a system of continuous dialogue with the aggrieved units for redressal of their grievances.

Shri Ghosh then referred to the problem of sick small scale industrial units. He was of the firm view that within the guidelines of the RBI it should be left to the financing bank to decide whether a unit was viable and if so, how to nurse it back to health. According to Shri Ghosh the decisions could not be left to be taken by any other agency. However, the RBI could monitor the progress through suitable data to be obtained from the banks.

Shri Goiporia, Chairman, Indian Banks' Association pointed out that the steep rise in loans to SSI sector by commercial banks from Rs. 347 crores in 1969 to Rs. 7375 crores in 1985 was itself indicative of the efforts made by banks in financing this sector. He further pointed out that banks had already given a lot of soft terms to small scale industrial sector in respect of margin money, current ratio, security, etc. and they could not be expected to lower them further without endangering the financial discipline. Shri Goiporia agreed with Shri Ghosh that the decision to finance a SSI unit should be left to the banks only and no other authority should intervene in the matter. He added that resources raised by banks through deposits were money held in trust.

The banks had to maintain their own viability. Shri Goiporia further pointed out that the entrepreneur generally knew much in advance of the financing bank if he was getting into difficulties and there was a tendency to withdraw his own investment first. He also did not approach the bank for help when he was on the threshold of sickness despite the fact that banks have opened sick unit cells in their regional offices to deal with cases of sickness and incipient sickness. Shri Goipria further mentioned that many SSI units did not furnish balance sheets even after the stipulated period of 6 months with the result that financial position of the assisted units was not available to ascertain whether funds were used profitably and dues and taxes were paid to the Government. On the question of increase in service charges, Shri Goiporia stated that there had not been any revision in service charges for 22 years and hence the increase now introduced had probably received the attention but service costs had gone up considerably and had to be met as a commercial proposition. Shri Goiporia mentioned that the Indian Banks' Association proposes to review service charges every year.

Dr. S.A. Dave, Executive Director, Industrial Development Bank of India felt that the functioning of District Industries Centres had to be re-oriented and made more effective by increasing training facilities.

Summing up the discussions, Dr. Ojha thanked all participants for freely expressing their views on the problems of SSI sector. Dr. Ojha said that in any discussion on the role of banks in extending credit, it was necessary to keep in view the fact that banks did not own the funds which they lent and that the funds were raised through mobilisation of deposits from public who kept the money with banks not only to earn income but also due to their faith in the banking system. Dr. Ojha said that it

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should be the goal of all concerned to strengthen this trust and hence the users of the funds had also to extend in their own interest co-operation to banks to earn the confidence of depositors by creating healthy investment climate. For this purpose it was necessary to activise District Industries Centres so that they could develop expertise for project formulation and play a useful role in helping small industries.

Dr. Ojha assured the members that the Standing Advisory Committee would endeavour to be an active forum for facilitating formulation of suitable policy decisions and offering solutions at the operational level so that the banks would be able to perform their role effectively.

Endorsing the suggestion made by Shri Venkatraman of taking up specific issues, Dr. Ojha suggested that the Committee may discuss at its next meeting the following two specific issues :

(1) Co-ordination between banks and term lending institutions in regard to appraisal of projects of small-scale units and sanction of working capital limits.

(2) Problems of institutional credit to small-scale industrial sector in the North-Eastern Region.

Dr. Ojha requested members and particularly the representatives of MSFC, SBI and IDBI to prepare ~~pxxx~~ papers on the first subject and forward the same to the Member-Secretary for raising all the relevant issues in the agenda note.

The meeting ended with vote of thanks to the Chair.

Agenda Item 2

Observations on the suggestions made by various small scale industry organisations

Subject (1)	Suggestion/issues raised (2)	Observations (3)
Loan application forms	Application form should be prepared in vernacular language and should be so precise that once it is completed no further queries should be raised.	Reserve Bank has advised commercial banks that the application forms for credit assistance should also be made available in regional languages and branches should be supplied with adequate stocks of these forms.
Delay in processing of loan applications	A small entrepreneur should know about the fate of his loan application at least within one or two months. RBI should suggest a time-bound programme and it should be implemented by banks. A register of proposals received and sanctioned should be maintained by banks for subsequent monitoring by RBI. RBI should issue guidelines to all commercial banks that no application for term loan or working capital from SSI units should remain pending for more than 60 days. RBI should call for quarterly returns from all banks giving details of the loan applications received by them during that quarter, cases disposed of and cases carried off, giving reasons thereof.	We have advised the banks that the branch managers are required to be vested with adequate discretionary powers for ensuring that 60 to 80 per cent of the credit decisions for priority sector are taken at branch level itself. The intention is that all loan applications upto a credit limit of Rs.25,000/- are normally disposed of within a fortnight and those for over Rs.25,000/- within 8 to 9 weeks. Further, banks are required to maintain a register at each branch wherein the date of receipt, sanction/ rejection with reasons therefor etc.

(1)	(2)	(3)
	Time limit of maximum one month should be fixed for sanction of limits under the loan applications. Sample survey should be conducted and suitable action should be taken for unnecessary delays made by the banks in finalisation of the limits. Time limit should be prescribed for consideration of loan applications either for sanction or for rejection. Special consideration should be given to successful and prompt units.	should be recorded. The register should be made available to all inspecting agencies (i.e. internal audit/inspection teams of the banks as also the inspecting officers deputed from the Reserve Bank) Detailed guidelines have also been issued by the Head Offices of the banks to heads of regional offices/zonal offices (heads of controlling offices of branches by whatever name called) to visit the branches in their area of operations periodically and conduct checks as regards the receipt, sanction and rejection of credit proposals received from priority sector borrowers. Besides, Divisional Managers/Regional Managers/Zonal Managers receive on 15th of every month, the aggrieved customers/intending borrowers without prior appointment and take redressal measures in respect of their grievances.

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Branch/Regional Managers' approach to SSI borrowers	(i) SSI borrowers are left to the whims and mood of bankers in regard to facilities for SSI units. No senior officer is available to SSI borrowers to whom they can convey their difficulties. The banking system may be streamlined to ensure the involvement of senior bank officers in the deal so that the system is not a one man show. (ii) Branch Managers interprets the circulars issued by their Regional Office in their own way. Copies of these circulars may be made available to local SSI Associations. (iii) Regional Offices of banks sometimes issue circulars which are quite contrary to the banking norms. For example, in the case of contingent overdraft facility to SSI units, the Regional Manager often prescribes a condition that the branch managers have to certify about fair dealings of the borrowers with the bank during the last twelve months. This condition is redundant as the banks do review the dealings of SSI borrowers every, at the time of renewal of credit facility. This system should be withdrawn or at least streamlined. (iv) It has also been found that due to conflicts between the branch and the Regional Office of banks, recommendations made by the branch in favour of the borrowers are not accepted by the Regional Office which results in delay in the disposal of cases. Some strong administrative arrangements may be introduced to prevent such controversies.	Reserve Bank of India has issued detailed guidelines to commercial banks on disposal of applications, margin money and security norms vide circular letter RPCD. No.BC.29/PS.22-84 dated 16 March 1984 (Ref:Booklet - Guidelines for Advances to Priority Sector). These guidelines are considered adequate and abundantly clear. All banks have set up machinery at their regional (controlling) offices (a) to entertain complaints from the borrowers if the branches do not follow these guidelines and (b) to verify periodically that these guidelines are implemented by the ~~kmm~~ branches in actual practice. The names and addresses of the officers with whom complaints can be lodged are displayed on the notice board of every branch. Delays sometimes occur due to applications being ~~im~~ incomplete, inadequate data furnished therein, applicants not turning up subsequently, vague and incomplete addresses of applicants, etc. The Chief Executives of Public Sector Banks as also the relative heads of the controlling offices have formulated programmes to meet aggrieved customers/borrowers on specific days during every fortnight and take immediate corrective measures for prompt redressal of grievances. The Public Sector Banks have set up Customer Service Centres at different places to attend to the grievances of customers/borrowers on top priority basis. In terms of RBI circular DBOD.No.Leg.BC.119/C.466(iv)-86 dated 28 October 1986 addressed to the Chairmen of Public Sector Banks on the subject of "Customer Service in Banks", banks have been advised that Senior Officers from Regional Manager to Chairman and Managing Director levels should, once in a month, visit some rural branches and send a copy of their ~~xix~~ visit notes to the concerned branches for necessary follow-up action. The concerned branch will take necessary action based on the report and send an

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	(v) Separate cells may be formed in Area/Regional and Head Offices of all nationalised banks to ensure immediate follow-up against the grievences and requirements of SSI borrowers. The policy of all nationalised banks should be determined by RBI and should be uniform in respect of all banks. (vi) A meeting of SSI borrowere with senior officials of banks should be arranged at least twice in a year to discuss their problems freely.	'action-taken' report to the officer who visited the branch with a copy to Head Office. During such visit, the visiting officers may also, inter alia, look into the punctuality aspect at the branches. The action taken in the matter is also to be advised to the Reserve Bank of India in due course. Training programmes/workshops/seminars are continuously organised by RBI/banks/FIBM to bring about attitudinal changes with a view to motivating ground level staff to work with all dedication and earnestness and assist small entrepreneurs as also small borrowers in general with a spirit of service.
Branch Managers in North-Eastern Zone	Branch Managers/Field Officers are not aware of norms for margin, security etc. On account of lack of managerial experience, integrity or business acumen, proposals of several units are rejected without giving any reasons. Spirit of dedication has to be ~~inmk~~ inculcated. Training has to be imparted.	All branch managers have been vested with discretionary powers to sanction proposals from weaker sections without reference to any higher authority. Branch managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of branch managers. A register should be maintained at branch wherein the date of receipt, sanction/rejection with reasons therefor etc. should be recorded. The register should be made available to all inspecting agencies. The RBI has recently advised the scheduled commercial banks to organise at frequent intervals district-wise crash training programmes for ensuring that all instructions are effectively explained to branch level officers, vide circular letter RPCD.No.SP.BC.69/C.568A-85/86 dated 29 April 1986. This followed complaints that instructions - particularly those relating to non-compounding of interest, observance of prescribed repayment schedules, non-insistence on collateral security, disbursement of loans by rural branches on fixed days etc. are either not ~~ixpe~~ implemented or not known to branch level officers.

1.	2.	3.
		The banks are required to obtain ~~xrk~~ through their controlling offices certificates from all branches that the instructions issued from time to time are available in the branch and are faithfully implemented. The RBI is to be apprised of the compliance by the branches regularly. Specific cases of delay may also be brought to the notice of RBI to enable it to take up the matter with the bank concerned. Thus every effort is made to ensure that SSI borrowers are not left to the whims and moods of bankers in regard to facilities for SSI borrowers.

Observations on the suggestions made by various SSI organisations

Subject (1)	Suggestions made/Issues raised (2)	Observations (3)
Security-oriented approach of banks	RBI guidelines on guarantees and securities are being flouted by banks. Banks ask for security even for composite loans of Rs.25,000. Viable proposals have been rejected for want of security.	In March 1984 we have issued detailed guidelines to banks with respect to advances to priority sector borrowers, vide our circular letter RPCD.No.BC.29/PS 22-84 dated 16 March 1984. These guidelines have been printed and the copies of the printed booklets have been supplied to all the branches of commercial banks for ready reference. Under the current guidelines the security norms in respect of small scale industries are as under :

Security norms

Type of borrowers	Loan/credit limit	Security to be furnished
(a) Artisans, village and cottage industries	Composite loan upto Rs.25,000	Pledge/hypothecation/ mortgage of assets created out of the loans Collateral security/ third party guarantee should not be taken.
(b) Other small scale industries	Limits upto and inclusive of Rs.25,000	
(c) -do-	Limits over Rs.25,000	As determined by the bank on the merits of each case.

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(1)	(2)	(3)
	Despite clear cut RBI guidelines, banks ask for collateral security/third party guarantees from entrepreneurs. RBI should hold periodical seminars and workshops to educate the officers of commercial banks to implement RBI guidelines.	It has been made clear to the banks that while considering credit proposals they have to be guided by the viability of the projects, applicant's skill/experience, integrity and ability to organise business and not merely by the tangible security which the borrower can provide. No worthwhile proposal is to be rejected merely for want of collateral security/guarantee. In respect of advances over Rs.25,000 collateral security by way of immovable property or third party guarantee may be sought only in cases where primary security is inadequate or for other valid reason and not as a matter of routine. Proposals otherwise viable are also not be turned down merely for want of such collateral security from third party guarantee. The branches are required to maintain permanent registers for recording the dates of receipt of credit proposals as also the particulars of sanction/rejection with reasons therefor. The registers should be made available to all inspecting agencies (i.e. internal audit/inspection teams of the banks as also the inspecting officers deputed from the Reserve Bank).

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(1)	(2)	(3)
		The banks have been advised further as under There should be a machinery at the regional offices (a) to entertain complaints from the borrowers if the branches do not follow these guidelines and (b) to verify periodically that these guidelines are implemented by the branches in actual practice. The names and addresses of the officers with whom complaints can be lodged should be displayed on the notice board of every branch. Detailed instructions have also been issued by the head office of the banks to heads of regional offices/zonal offices (heads of controlling offices of branches by whatever name called) to visit the branches in their area of operations periodically and conduct checks as regards the receipt, sanction and rejection of credit proposals received from priority sector borrowers. Besides, Divisional/Regional/Zonal Managers as also Chairmen and Managing Directors of banks have made it a practice to keep themselves free in order that aggrieved customers/intending applicants for credit assistance can meet them and seek redressal of their grievances.

(1)	(2)	(3)
		Reserve Bank, NIBM, NABARD and banks in their training colleges set up by them, have formulated programmes for training branch managers and field staff in extending credit to the beneficiaries under priority sector including Village and Small Industries Sector. The course contents of all these training programmes have been structured so as to bring about attitudinal change in the operating staff at grass root level so that they work with sympathy, understanding and zeal to assist beneficiaries from the priority sector including SSI sector. Reserve Bank monitors the implementation of its guidelines during the periodical visits by the Lead District Officers from the Regional Offices of the Bank during the visits to the branches as also checks the practices of the banks/ branches in this regard during the course of periodical inspections conducted by Reserve Bank.

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(1)	(2)	(3)
Security - oriented approach of banks	As guarantee premium is already being collected by banks from SSI units, no further guarantee of third party should be demanded by banks.	The guarantee organisation (DICGC) pays only 60% of the claims in the case of defaults where outstandings are less than Rs.2 lakhs and 50% of the claims in respect of defaults for higher amounts with a ceiling of Rs.10 lakhs per borrower. Notwithstanding this, as stated earlier, banks have been advised not to insist on third party guarantees as a matter of routine.

1.	2.	3.
Working capital requirements of SSI units	For lending under cash credit account to small scale industries corporations, the first method of lending (25% of net working capital as margin) should be adopted rather than second method of lending where 25% of total current assets is to be kept as margin. The small scale industries corporations have to carry huge inventory and book-debts in the course of their business.	The second method of lending requiring a current ratio of at least 1.33: 1 has been made applicable to all borrowers with aggregate credit limits of Rs.50 lakhs and over since December 1980 following the acceptance of the recommendations of the ~~charge~~ Chore Committee. The first method of lending continues to apply to all borrowers enjoying aggregate credit limits between Rs. 10 lakhs and Rs. 50 lakhs and it is quite likely that a large number of small-scale industrial units are enjoying credit limits within the above range. Further, sufficient flexibility is being shown in enforcement of the second method of lending. Thus, this method is not being insisted upon in the case of sick industrial units and exemption was granted for an initial period of three years in respect of new units as well as these which had embarked upon or finalised modernisation/expansion programmes in view of the difficulties likely to be encountered by them by the new measure.

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1.	2.	3.
		Even in the case of borrowers having aggregate credit limits of Rs.50 lakhs and above which were prima facie unable to comply with the second method of lending, the shortfall towards achieving a minimum current ratio of 1.33:1 was converted into a working capital term loan (WCTL) to be repaid over the next few years and as such no hardship was caused to them through lack of adequate bank credit for meeting working capital requirements. The second method of lending which requires that the surplus from long term sources of funds after meeting the fixed and non-current assets, i.e. the net working capital is at least 25% of the total current assets, is primarily designed to ensure that the basic financial structure is satisfactory and is as much in the interests of the borrowers themselves as in the interests of the bankers. The level of inventory and receivables will have to be in accordance with the norms prescribed by the Reserve Bank of India in this regard or past trends which are reasonable and as such the observation that the small-scale industrial units have to carry huge inventory and book-debts in the course of business is not tenable. Holding of inventory and book-debts in excess of the genuine requirements will lead to larger carrying costs and avoidable burden by way of interest, etc.

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1.	2.	3.
	At present percentages of margin money for raw materials, goods-in-process and finished goods are different. This should be rationalised and maximum margin of not more than 20% should be fixed for each.	The Concept of margin money is partly related to the marketability of the goods pledged/hypothecated. As the marketability of raw materials, goods-in-process and finished goods is itself a varying factor, there cannot be uniform margin on all these items of production. We have prescribed definite guidelines as regards margin money in respect of SSI Sector and they are as under:

Amount of credit limit	Margin to be maintained
(a) Credit limit upto and inclusive of Rs.25,000	Nil
(b) Credit limit over Rs.25,000	15 to 25 per cent (depending upon the purpose and quantum of loan)

Where subsidy/margin money assistance is available from Government and/or other agencies and is not less than 15 per cent of loan amount, it should serve as margin and no fresh margin should be asked for. Where lower margins (i.e. less than 15%) are prescribed by banks in respect of special schemes for technocrats, etc., these may be continued.

Margin money may be permitted to be introduced in stages, as and when required, and it should not be insisted that such margin money should be brought in at the beginning of the loan operations.

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2.	3.
Computation of Working Capital requirements should take into account deposits for power supply, deposits with Sales Tax Department, earnest money witn tenders, security deposits against Government orders, etc.	For the purpose of assessment of working capital and computation of the permissible bank finance, banks are required to classify assets and liabilities as current or non-current in accordance with the guidelines given in DBOD circular NO. CAS.BC.119/C.446-75 dated 31 December 1975 and further clarified in Annexure to our D.O.Circular NO.IECD.CAD(PMS) 101/C.446(PMS)-85 dated 14 January 1985. In terms of these instructions, the term current asset is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realised in cash or sold or consumed or turned over during the operating cycle of the business usually not exceeding one year. The current assets comprise, inter alia, deposits kept with public ~~xxxxxx~~ bodies, etc. for the normal business operations.
Current ratio of more than 1:1 should not be insisted upon, if the fund invested by the small scale units including ploughed back profit is more than 20% of total fixed and current assets.	The borrowers having aggregate credit limits of Rs.50 lakhs and above are required to bring 25% of the current assets from owned funds and long-term resources under second method of lending yielding a minimum current ratio of 1.33:1 while the smaller borrowers have to comply with the first method of lending in terms of which the current ratio should be at least 1:1. This has been prescribed with a view to reducing over-dependence on bank credit for working capital requirements and to ensure that the basic financial structure is satisfactory. The suggestion is not consistent with the above objective.

1.	2.	3.
	Working capital should be provided for all current assets including book debts, goods sent on consignment and raw materials given to ancillaries for further processing or conversion.	All eligible items of current assets are taken into account in the build-up of current assets for computation of the permissible bank finance in accordance with the prescribed norms relating to inventory and receivables and the method of lending. The quantum of bank credit so arrived at is split up into various types of credit facilities such as cash credit, overdrafts, demand loans, packing credit, bills purchased/discounted etc., depending upon the requirements of the borrower concerned on the one hand and the availability of enforceable security, adequate margin, etc. as stipulated by the bank(s), on the other. As regards financing of book-debts, banks have been advised to take steps to review all cash credit accounts with facility against book-debts and convert such cash credit limits into bill limits wherever possible. While banks have not been prohibited from extending financing against book-debts, it is our objective that such facility should be replaced by bill limits wherever possible. Banks provide finance against goods sent on consignment and stocks sent for processing also wherever such facilities are required by borrowers subject to adequate safeguards to protect their interests.

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1.	2.	3.
	Normally separate limits are sanctioned for stocks and for bills. Sometimes the entre-preneur is is able to bring down stocks and value of stocks is transformed into bills. In such situations it will be helpful if clubbing of limits are allowed subject to the maximum of total sanctioned limits.	Banks have been permitted to reallocate limits sanctioned to individual parties for working capital purposes within the overall limit provided : (i) Such interchanges do not result in the waiver of any specific condition on which authorisation (in the case of CAS Borrowers) was granted earlier; and (ii) Such interchanges should not be from exempted categories (i.e. those which do not require prior authorisation) to the non-exempted categories. It should also be ensured that where there are separate norms for inventory and receivables, the clubbing of limits should not result in holding of inventory/receivables in excess of of the norms.

1.	2.	3.
~~Thexpresentxsyst~~	The present system of renewing limits every year may be dispensed with and the limits should be monitored on the basis of basic facts like sales, collections, profitability, etc.	Apart from monitoring production, sales, receivables, inventory management, profits, etc. of the borrowing units, banks are required to review the credit limits periodically (say, at least once a year) with a view to ensuring that the borrowal accounts are conducted as per the terms of sanction, the borrowing unit has not developed incipient sickness, the existing credit limits are need-based and are utilised for productive operations, there is no diversion of funds, the unit submits control data/ statements regularly at the prescribed intervals, watch is kept on slow-moving and non-moving items of stocks as also over long outstanding book debts/ receivables, etc. In the event of the annual review disclosing the need for enhanced credit limits, the unit will benefit by such review, as the lending bank would have to sanction higher credit limits to support the increased volume of operations.

1.	2.	3.
	For enhancement of limits, the small unit is required again and again to furnish further details and updated financial statements causing a lot of inconvenience and delay. If the local branch is convinced, an adhoc sanction of interim limit may be given across the table, which can be ratified when full enhancement is sanctioned by higher authorities.	The banks have been advised to delegate powers to their branches to exceed the limits sanctioned by certain percentages in cases of need without prior reference to the Controlling Offices.
	It is suggested that the following norms for level of inventories should be adopted in North-Eastern Region a) Indigenous raw materials : 6 months b) Imported raw materials : 9 months c) Finished product Inventory : 4 months	The physical norms for holding inventory, finished goods, etc., are required to be applied with flexibility and deviations therefrom are permitted wherever justified. The norms suggested for North Eastern Region are on very liberal side and may not be warranted in the case of all industries. In view of the various difficulties encountered by the industrial units set up in the North Eastern Region, the banks are required to take into account the special problems faced by these units in the small scale sector and allowdeviations wherever justified.

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1.	2.	3.
	Maximum rate of margin should be at 10% for raw materials at various stages of manufacture, work-in-process and finished products.	The margins on raw materials, stock-in-process, finished goods, book debts, etc. are prescribed by banks taking into account various factors such as marketability, fluctuation in prices, possibility of damage/deterioration, age/obsolenscence, trend, etc. of the security to be pledged/hypothecated. The margin is taken to ensure that the interest of the bank is adequately protected and that it is also able to recover the dues even if it has to resort to sale of the security. Margins in respect of commodities covered by Selective Credit Control are fixed as per directives issued by Reserve Bank of India from time to time.
	Stipulation of drawing power against book debts/bills of 120 days not discounted with bankers with maximum margin of 10%.	
	Discounting of bills for a period of 120 days without any margin.	

(1)	(2)	(3)
Term loans	As SFCs do not have a wide net work of branches, term loans and working capital required by the small units should be made available by commercial banks ~~are~~ to obviate the problem of delay and double processing. Banks should provide term loans to SSI units at the same rate of interest as charged by SFCs and the repayment period may vary from 5 to 10 years. Loans sanctioned by commercial banks should be refinanced by IDBI ipso facto without further appraisal by IDBI.	Banks are not precluded from providing term loans to SSI units. Reserve Bank of India has issued detailed guidelines to banks on 8 July 1978 and 8 December 1986 regarding joint/simultaneous appraisal of term loans by SFCs and banks, joint inspections, exchange of information, monitoring mechanism for reviewing applications pending beyond the specified period of 8 to 9 weeks, etc. In particular, it has been specified that in the case of project finance, assessment of working capital requirements of the units by banks should be completed well in advance and sanction of the requisite credit facilities should be conveyed to the units at least three to four months before the project is likely to go into operation. Important instructions given under these guidelines have been given in the notes for Agenda Item No. 3. On the basis of these guidelines, IDBI has issued guidelines to SFCs.

(1)	(2)	(3)
Term Loans	Financial institutions grant term loans against land, building, machinery etc. whose value is continuously increasing. Further, margin money at the minimum rate of 30 per cent is secured. When the loans are thus completely secured, there is no need of taking any additional guarantee of partners/directors and shareholders having capital investment of more than 5 per cent in the industry.	It is the experience that personal guarantee of promoters/directors generally instil greater accountability and responsibility on their part and also prompt the managements to conduct the running of the assisted units on sound and healthy lines. Therefore, banks may in their discretion obtain guarantees from directors having significant shareholdings in the company whenever considered necessary.

1.	2.	3.
Joint appraisal of proposals of SSI units by banks and SFCs	In many cases joint appraisals have not taken place. RBI and IDBI should insist on joint appraisals to eliminate delays and resultant sickness.	The Reserve Bank of India has been impressing upon banks regularly about the importance of on-going co-ordination between them and SFCs through joint/simultaneous appraisal of term loans, ~~by doing~~ joint inspections, exchange of information, etc. In view of the importance of the subject, Reserve Bank of India had called a meeting of the Chief Executives of selected SFCs as well as the major commercial banks and IDBI in February 1986 to decide upon the measures for strengthening and ensuring ongoing co-ordination between commercial banks and SFCs. In the light of the various decisons taken in the meeting, comprehensive guidelines were issued to scheduled commercial banks on 8 December 1986. The salient features of these guidelines are given below: (i) The guidelines contained in RBI circular letter dated 8 July 1978 regarding co-ordination between commercial banks and SFCs in the provision of financial assistance to industries which are comprehensive should be scrupulously followed in all cases without fail. In particular, joint appraisal or at least simultaneous appraisal by SFCs and banks should be ensured so that any differences arising on account of divergent views taken by them independently could be sorted out in the initial stage itself. (ii) In the case of units whose working capital requirements are not substantial, if for some reason the bank concerned is not in a position to take up appraisal along with the SFC, the appraisal made by the SFCs should generally be accepted by the bank. (iii) Assessment of working capital requirements of the unit by the banks should be completed well in advance and sanction of the requisite credit facilities should be conveyed to the units, at least three to four months before the project is likely to go into operation.

	2.	3.
		(iv) SFCs should ensure that the basis for estimating the working capital requirements conforms to the norms relating to inventory and receivables, method of lending, etc. as adopted by banks and is acceptable to them. (v) Banks should review the discretionary powers of officials at branch/controlling office levels and enlarge them suitably to facilitate expeditious sanction and ~~xxxx~~ release of working capital limits to small scale units. (vi) All loan applications from small scale units should be ~~dealt with and~~ disposed of within 8 to 9 weeks, as stipulated in the guidelines for advances to priority sector. Banks should institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period.

1.	2.	3.
elf-mployment cheme for nemployed 'outh (SEEUY)	If units set up under SEEUY want more funds, banks insist on repayment of loans under SEEUY first. This has restricted the growth of small units. RBI should direct the banks to provide additional working capital to such units for their growth and expansion. Similarly the Standing Committee should recommend Government to make appropriate changes in the scheme accordingly.	As per the provisions of the scheme, loans upto Rs.35000 for industrial ventures can be given under SEEUY. However, if additional finance is required, it can be given under bank's normal lending programme.
Inadequate financing	Inadequate financing of small units by banks is a perennial problem. Consequently units go sick. RBI should ensure that the banks do not apply cuts on the loan amounts without going into the genuineness of the demand.	In sanctioning of the quantum of credit facilities, there is a tendency to cut down the limits on an adhoc basis on the plea that the unit will require the full credit limits only when it goes into full production. There are often delays subsequently for enhancing limits and the unit's operations suffer. Banks have, therefore, been advised that full working capital should be sanctioned at the outset obviating the necessity for reference to sanctioning authority subsequently. Once the unit goes into operation, temporary additional requirements of finance are often delayed as a result of which operations suffer. If there is any distortion in the operating cycle, e.g. by non-payment of certain bills, etc., the units fail to get prompt assistance. This is often the result of the need to refer such proposals to the controlling authority. In this connection, banks have delegated authority to their branches to exceed the limits sanctioned by a certain percentage in cases of need. Similar procedures are recommended for adoption uniformly by all banks. With a view to facilitating timely sanction of credit facilities, the branch managers are vested with adequate discretionary powers for ensuring that 60 to 80 per cent of the credit decisions are taken at the branch level itself. The intention is that small credit limits upto Rs.25,000 are normally disposed of within a fortnight and those for over Rs.25,000 within 8 to 9 weeks. Banks make a review of the discretionary powers of officials at various levels. It may also be noted in this context that banks periodically review the operations of the small scale units (production, sales, inventory position receivable cash flow, profit/loss etc.) and conduct re-appraisal of working capital limits with a view to assisting borrowing units to finance their increasing level of operations.

(1)	(2)	(3)
Rate of Interest	Since the cost of land, building, plant and machinery, raw materials etc. has increased substantially, small scale units should be charged 2% lower rate of interest than the normal lending rate of interest decided by RBI, irrespective of the credit limit enjoyed by the unit. Limits of SSI units upto Rs.5 lakhs should be uniformly charged 12% interest and the present system of charging different rates for different slabs of limits should be scrapped. Rates of interest to be charged to the ultimate beneficiaries should be the same whether the finance is given from bank's own funds or refinance schemes of NABARD or IDBI. SFCs charge 1% additional interest over and above their usual rate of	The lending rates of scheduled commercial banks are determined taking into account a number of factors such as the growth of the economy and its sub-sectors, plan priorities, the inflation rate, the pace of monetary expansion, reserve requirements, the cost of funds to the banking system and the profitability of banks, etc. A basic tenet of the structure of lending rates is that the extent of concessionality is related to the size of the advance and the priority accorded to a particular sector. As such within the priority sector, small advances carry a lower lending rate than larger advances. Setting a uniform rate of interest irrespective of the size of the advance would be detrimental to the interests of the small borrowers. Reducing all small scale industry lending rates to the lowest of the present slab would not be possible as it would jeopardise the viability of banks. The lending rates are kept under continuous review and suitable changes are made from time to time; however, while prescribing the lending rates for individual sectors it is necessary to take cognisance of the overall framework of lending rates. In the

(1)	(2)	(3)
	interest on term loans and give 1% rebate at the end of the full repayment period if the repayments are made regularly. This results in additional burden on SSI units at the initial stages.	present context it would not be feasible to eliminate the link between the size of the advance and the extent of concessionality.
	The credit facility to the small scale industries corporations should be made available at the reduced rate as is being made available to small scale industries and it should be around 12% instead of 18% as at present.	The small scale industries corporations cannot be charged the lowest lending rate charged to the smallest of the small scale industrial units. The problems of the small scale industries corporation need to be examined from the view point of the nature and volume of their operations, status and the size of operations of the units with whom they are dealing and the present administrative arrangements. Buffer stock operations, large scale imports and trading operations as also manufacturing/processing activities of units set up by the corporations will also have to be kept in view for determining the rates of interest applicable to their entire gamut of business.
	Tiny units having plant and machinery upto Rs.2 lakhs should be charged interest @ 10% for credit limits upto Rs.2 lakhs. Other small units upto the credit limit of Rs.5 lakhs may be charged interest @ 12%.	

(1)	(2)	(3)
	Concessional rate of interest on bank borrowings may be charged for all types of loans and working capital for tiny and SSI sectors at the rate of 4 per cent and 6 per cent respectively. There should be concessional rate of interest between Rs.2 lakhs to Rs.10 lakhs. These limits also need to be reviewed upwards in the context of enhanced ceiling in investment for plant and machinery for small scale units to Rs.35 lakhs and for ancillary units to Rs.45 lakhs.	The structure of interest rates on advances is prescribed taking an overall view of the economy and it may not be desirable to modify the existing prescriptions in respect of individual sectors in isolation or institute changes other than as part of review of interest rates in general. In keeping with this, the interest rate structure has been revised on 1.4.1987 and the particulars thereof as applicable to SSI sector are given in Annexure IV.

1.	2.	3.
Service Charges	Service charges of banks have been exorbitantly raised. Drafts upto Rs.1 lakh should be issued to SSI unit without any charges because banks earn interest on the amounts during the period of the gap of the issuing date and the realisation of the draft. For the same reason, no collection charges for outstation cheques should be collected from the SSI units	Reserve Bank has neither issued any directive/ guidelines to banks regarding levy of service charges fx nor instructed to grant concessions to any of their clients except in respect of cheques representing grants from Prime Ministers Relief Fund. The public sector banks had not revised the service charges for many years. The recent upward revision was considered necessary by them in view of the significant increase in the cost of service. This was in the context of the declining profitability of banks.
	Service charges for demand drafts, cheque collection, bank guarantee, etc. have been more than doubled. The present system of levying collection charges on percentage of the cheque amount cannot be justified.	The public sector banks have uniformly adopted the schedule of service charges of adopt SBI, with the intention to recover atleast a part of the cost of such services rendered by them. The collection charges on cheques are favourably comparable with the charges recommended by Productivity, Efficiency and Profitability (PEP) Committee in this regard.
	In the case of outstation cheques and demand drafts, bankers earn interest until the amount is credited to the payee's account. Bankers should pay a portion of interest charges to the customer instead of levying collection charges.	As regards payment of interest on outstation cheques and demand drafts, we have instructed the public sector banks to pay interest at the savings bank rate for any period beyond 14 days from the date of lodgment of instruments for collection, if drawn on branches of their own banks and beyond 21 days from the lodgment of instruments for collection, if drawn on branches of other banks.

1.	2.	3.
Service Charges	Service charges for bank drafts, bills collection, etc. which have been enhanced considerably should be brought down. Banks charge Rs.20/- per ledger page which is unjustified.	Banks charge a sum of Rs.20/- per annum per folio (one side of a ledger page containing approximately 50 entries) with the following exemptions:- (a) Average balance upto Rs.1500 - No free folio (b) Average balance over Rs.1500 upto Rs.5000 - 3 folios free (c) Average balance over Rs.5000/- upto Rs.10,000/- - 5 folios free (d) Average balance over Rs.10,000 upto Rs.25,000/- - No folios charges
	Service charges have been increased by banks heavily. New charges have been levied for sanction, renewal of advance and for folio charges. There is no justification for increase in percentage rate of charge on draft, cheque or bill. Banks have been profiteering on postal & telegram charges over and above service charges.	The banks are expected to levy actual postage, telegram charges and other out-of-pocket expenses and these are to be recovered in full from the customers.
Routing of bills through the drawer's bank	The instructions of Indian Banks' Association (IBA) to route the bills through the drawer's bank adds to the delay in bills collection and charges.	The IBA has since withdrawn its earlier circular dated 12 March 1986 and has now advised the banks to revert to the earlier position. The member banks have now been advised to decide, at their level, to have the procedure best suited to individual cases. However, this does not mean that bills directly sent to the drawees' banks should, perforce, be entertained for collection.

(1)	(2)	(3)
Delayed payment of bills of SSI units	Commercial banks should be advised to ensure that no bill of SSI sector is kept pending for more than 90 days by the large scale and public sector units. Medium and large scale entrepreneurs do not submit Form No. 3 indicating the outstandings to small scale industry for more than 90 days. It should be made mandatory and banks should be authorised to issue cheques to all small scale units whose outstanding is lying for more than 90 days. RBI should enforce big organisations which delay payment of bills of SSI units by 5-6 months to make payment within one month. Organisations which do not obey such financial discipline should not be given any further financial assistance from the State or central financial institutions for their term loans.	In September 1986, Reserve Bank had appointed a Working Group under the Chairmanship of Shri N. Vaghul, Chairman, Industrial Credit and Investment Corporation of India to examine the possibilities of enlarging the scope of the money market and to recommend specific measures for evolving the money market instruments. The Working Group has since submitted its report in January 1987. The Working Group had made a number of far-reaching recommendations to facilitate expeditious payment of supply bills. Besides, the Working Group also recommended setting up of factoring organisations to solve the problem. These recommendations are under consideration of Reserve Bank and decisions will be taken soon to resolve the problem of delayed payment of bills of SSI units. In this connection, the Reserve Bank has advised the commercial banks on 31.3.1987 that all parties subject to the Credit Authorisation Scheme would be required to attain a ratio of bill acceptances to credit purchases of 25 per cent by April 1, 1988.

(1)	(2)	(3)
	Suggestion to introduce a supplier bill discounting scheme, whereby small industry would be paid the amount of the bills less discounting charges and interest for the period of the Hundi and the banks would directly recover the money together with any overdue interest from the large units.	The more important recommendations of the Working Group in this regard are summarised below : 1. There is a need to take a number of positive measures to facilitate the emergence of a genuine bill culture. 2. The Government should direct departmental undertakings and public sector organisations that payments for all credit purchases should be in the form of bills which should be strictly honoured on the due dates. Failure to pay a bill on the due date should attract a uniform penal rate of 2 percentage points above the maximum lending rate of banks. A similar procedure should be followed in the case of CAS parties. In the event of three instances of default on payment of bills, the working capital limits should be reduced suitably. 3. The working capital limits of the large parties should be scaled down and the interest rates increased, if bill acceptances are less than a stipulated percentage of credit purchases. 4. It would be necessary to move away from receivable financing to bill financing and accordingly a programme commencing from April 1988 should be stipulated for phasing out

(1)	(2)	(3)

receivable financing. Of the total receivables, the proportion of receivables eligible for financing under the cash credit/overdraft ~~fix~~ facilities should be 75 per cent from April 1, 1988, 50 per cent from April 1, 1989 and 25 per cent from April 1, 1990. The rest of the receivables should be financed only through demand/usance bill limits.

5. Within the CAS discipline, banks should be given the discretion to increase bill limits for temporary periods.

6. The stipulation on unsecured advances should not be made applicable to bill financing.

7. The maximum discount rate on bills should be such that it does not exceed an equivalent effective interest rate of 16.0 per cent. This should be implemented at the end of April 1987 and after a year, an assessment could be made as to whether the maximum discount rate could be freely determined by the banks.

8. As at the end of April 1987, the ceiling on the rediscount rate should be increased from 11.5 per cent to 12.5 per cent.

9. A review as to whether the ceiling on the rediscount rate should be removed could be undertaken in April 1988.

(1)	(2)	(3)
		10. Institutions and other units such as companies, trusts etc. which can satisfactorily demonstrate to the Reserve Bank that they have a resource surplus of a monthly average of at least Rs.5 crores per annum should be allowed to participate in the bill rediscounting market.
		11. Further rediscounting by the institutions should be freely permitted.
		12. The procedures for rediscounting bills should be simplified by the end of April 1987.
		13. The banks and private non-bank financial institutions should be encouraged to provide factoring services. A few Factoring Divisions should be set up by July 1, 1987.

1.	2.	3.
Exports	At present foreign suppliers grant long term credit facility of 6-7 months to our importers at a concessional rate of interest of about 11 to 12%. Our exporters should also be given such credit facility at reduced rate of interest to enable them to make similar facility available to the foreign importers. Indian manufacturers should be given immediate credit facility against production of documentary evidence of export ~~xx~~ orders. Bank charges should also be reduced on credit facilities made available to the SSI units against export commitments.	At present post-shipment credit is available at the rate of 9.5% per annum in respect of cash exports for the period the bill is not overdue, subject to a maximum of 180 days consisting of usance period, normal transit period (indicated by FEDAI in consultation with RBI) and grace period, if applicable and at 8.65% p.a. in respect of exports on deferred payments basis(for a period not exceeding exceeding one year). For the overdue period, the interest chargeble is 15.5 ~~16.5~~% and in respect of exports on cash terms i.e. short-term exports, such overdue period should not exceed 180 days for the exporter to be eligible for concessional rate of interest for the period the bill is not overdue. In the case of cash exports the proceeds of the shipment are to be realised within six months from the date of shipment under the existing Exchange Control Regulations and hence generally credit period should be offered to the foreign importer by the Indian supplier in accordance with the same. In respect of exports on deferred payment basis, available for certain specified producer and capital goods/turnkey projects which are subject to prior approval, credit period generally can be from 3-4 years to upto 11-12 years depending upon the contract value. Thus, credit terms which can be offered by Indian exporters to foreign buyers are better than those offered by the foreign suppliers to Indian importers. It may also be mentioned that import of goods into India is subject to licensing and the basic rule relating to remittances against ~~xx~~ imports under cash licences is that they should be completed not later than six months from the date of shipment.

1.	2.	3.
		As regards waiver of production of letter of credit or firm order for availing of packing credit, it may be mentioned that permission for the same has already been granted in respect of a number of commodities and for commodities exported by units located in Free Trade Zones and units registered as 100% export-oriented units holding Green Cards. In respect of export credit, banks are permitted to levy on the exporters only such of the charges as are permitted by FEDAI. (Foreign Exchange Dealers Association of India).

(1)	(2)	(3)
Upgradation of technology	Proper advice on technology and upgradation should be made available to small units through institutions equipped for this purpose. Such an advice should be accepted by the financial institutions for advancing the required credit facilities without any delay. For upgradation of products, R & D Department should be run by the Central Government and ~~xxx~~ latest development of knowhow should be made available to the SSI Sector without any charge. The problems of small units in getting finance for modernisation and upgradation should be solved. The rate of interest should be concessional.	The Small Industries Development Organisation (SIDO) of the Ministry of Industry, New Delhi provides technical consultancy on the manufacture of technical processes, use of modern machines and equipment, preparation of designs and assistance on all aspects of production. The SIDO provides comprehensive range of extension services through its network of 25 Small Industries Service Institutes (SISIs), 20 Branch Institutes, 41 Extension Centres, 4 Regional Testing Centres, 1 Product and Process Development Centre, 1 Hand Tool Institute, 2 Training Centres, 2 Tool Rooms and 5 Production Centres. Each SISI and Extension Centre has attached workshops, common facility services to undertake training of workers, demonstration of improved machines and processes, etc. The National Small Industries Corporation (NSIC) also provides prototype development and training facilities.

(1)	(2)	(3)
		Technical assistance and guidance in a wide range of industries is provided through specialised institutions and experts available with different development organisations like Central Institute of Tool Design (CITD), Hyderabad, Institute of Design ~~of Design~~ of Electrical Measuring Instruments (IDEMI), Bombay, Proto-type Development and Training Centres (PDTCs) at Okhla, Madras, Rajkot and Howrah, Hand Tool Institute, Jullundur, Central Tool Rooms at Ludhiana and Calcutta, Small Industry Extension Training Institute (SIET), Hyderabad. Under the refinance scheme for modernisation formulated by IDBI, soft loan assistance is made available to the industrial units in small scale sector including ancillary units, tiny sector units and units in the cottage and village industries sector. The primary objective of the scheme is to encourage industrial units to overcome the backlog of modernisation and to adopt improved and updated technology and methods of production and prevent mechanical and technological obsolescence. The modernisation may include replacement or renovation of plant and machinery or acquisition of balancing equipment for fuller and more effective utilisation of installed capacity.

(1)	(2)

The modernisation programme may cover :

a) upgradation of process, technology and product;

b) export-orientation;

c) Import-substitution;

d) energy saving;

e) anti-pollution measures;

f) conservation/substitution of scarce raw-materials and other inputs, including recycling/recovery of wastes and by-products;

g) improvement in capacity utilisation within the existing capacity, through increase in productivity and debottlenecking; and

h) improvements in material handling.

Commercial banks, State Financial Corporations, Small Industries Development Corporations and other state level institutions eligible under the refinance schemes of IDBI can seek refinance assistance in respect of their loans to SSI units for the purpose of modernisation. Loans for amounts not exceeding Rs.5 lakhs for modernisation are covered under automatic refinance scheme. The ultimate borrowers (i.e. SSI units) can avail of financial assistance under the scheme at the rate of interest of 11.5 per cent. It is expected that a minimum contribution from the promoters would be decided on a case to case basis depending upon the ability of the industrial units to generate/raise funds. However, banks/financial institutions have been advised to adopt a liberal approach in this regard.

(1)	(2)	(3)
Assistance for modernisation/ technology upgradation in N.E. Region	The banks in North Eastern Zone of their own have never assisted entrepreneurs to further their capability for social gain and economic generation. Very few units have received financial support or know-how for upgradation of technology. No efforts have been made for increasing production and improvement of quality. IDBI's refinance shcemes for moderniasation and upgradation have not made any dent in financing of SSI sector. Out of a total number of 8700 units assisted by IDBI in the north east zone, only 15 per cent are SSI units. Banks are not aware of IDBI schemes. The IDBI and nationalised banks in Assam have not shown keen interest for development of North Eastern Region. Certain targets should be fixed for banks to provide refinance modernisation finance.	Assistance under the Refinance Scheme for Modernisation, which includes assistance for technology upgradation, has not so far been availed of by institutions/banks in the North Eastern Region. Efforts are being made to popularise the Scheme by holding Seminars at various places in the North Eastern Region and also by assessing the moderaisation needs of certain select industries eg. handicarfts, handlooms etc. It is understood that National Institute of Design, Ahmedabad has undertaken a study of the modernisation neads of handicarft sector at the instance of DC (Handicrafts), Govt. of India. IDBI will follow up the recommendations jointly with DC (Handicrafts) and modernisation programmes based on the recommendations will be considered for financial assistance under IDBI's scheme. Total refinance assistance sanctioned in the North Eastern Region by IDBI was of the order of Rs. 1588.07 lakhs and Rs. 1796.57 lakhs during 1984-85 and 1985-36, respectively.

(1)	(2)	(3)
		As part of its overall strategy for industrialisation of the North Eastern Region, IDBI has opened five new branch offices at Agartala, Aizawl, Dimapur, Imphal and Shillong besides its existing Regional Office at Guwahati. The main task entrusted to these offices is of a promotional nature. IDBI is also giving special attention to the problems and needs of Mizoram mainly in the field of consultancy support to small entrepreneurs covering subsidy for training and project consultancy on liberal terms. Besides, these offices have also been delegated powers to sanction and disburse refinance assistance for applications submitted under Automatic Refinance Scheme (ARS), by primary lending institutions. IDBI has been organising seminars in different parts of the Region to popularise IDBI schemes of assistance and to create an awareness among the prospective entrepreneurial class on industrialisation. Apart from these, under IDBI's subsidy support, entrepreneurship programmes specially designed to meet the needs of the Region/entrepreneurs are also being organised in association with North Eastern Industrial Technical Consultancy Organisation and Entrepreneurship Development Institute, Ahmedabd.

(1)	(2)	(3)
ick Units	In the case of units in difficulties, where operations are not permitted, no additional interest should be added to their outstandings. Interest accruals after freezing the accounts become the biggest burden. Quicker action may be taken before they reach a point of no return. Delay in undertaking rehabilitation programme results in further sickness of sick units. RBI should direct the banks to undertake the nursing programme on a war footing so that corrective steps could be taken up at the right time. Recommendations of SLIICs on nursing programme must be implemented by banks. Banks do not draw rehabilitation schemes with soft loan packages in case of sick units declared by SLIICs. Banks abruptly stop financing units in difficulties. It should be obligatory for the Banks	Detailed guidelines for rehabilitation of sick SSI units have been issued to all Scheduled Commercial Banks in February 1987. These guidelines cover definition of sick SSI unit, timely identification of incipient sickness, viability norms and the concessions and reliefs that the banks can extend on merits of each case.

(1)	(2)	(3)
	to get the approval of SLIIC for stopping the credit facilities or for instituting legal proceedings against any small unit. Representatives of recognized associations of small units should be taken on SLIICs for meaningful deliberations. Banks must implement the relaxations in respect of credit and interest suggested by State Government Committee or the DICs.	

Agenda Item 3 (i)

Guidelines on co-ordination between commercial banks and State Financial Corporations(SFCs) in the provision of financial assistance to industries

Pursuant to the recommendations of the Working Group appointed by the Industrial Development Bank of India under the Chairmanship of Shri V. M. Bhide, detailed guidelines were issued to banks by Reserve Bank of India in July 1978 on co-ordination between commercial banks and SFCs in the provision of financial assistance to industries. The guidelines related, inter alia, to joint/simultaneous appraisal of term loans by SFCs and banks, joint inspections, exchange of information and closer consultation in the monitoring and nursing of sick industrial units. When it was brought to the notice of Reserve Bank of India that lack of coordination between banks and SFCs in the above matters continued to persist,it became necessary to reiterate the above instructions to banks in July 1985.

However, a quick assessment made by RBI recently to review the existing state of implementation of the guidelines issued on the subject revealed that there is hardly any improvement in the situation. The continuing lack of co-ordination between banks and SFCs has resulted in delayed and inadequate working capital assistance being extended by banks to the industrial units set up with term loan assistance from the SFCs, particularly to those in the small scale sector.

In view of the importance of the subject, Reserve Bank had called a meeting of the Chief Executives of selected SFCs as well as the major commercial banks and IDBI in February 1986 to ascertain their views at first hand and to decide upon the measures necessary for strengthening and ensuring ongoing co-ordination between commercial banks and SFCs in order to remove the aforesaid lacunae. The participants at the meeting agreed broadly that although the present institutional arrangements for extending term credit, particularly to the small scale sector, are adequate, lack of co-ordination between banks and SFCs has given rise to certain operational problems as disclosed by the study.

In the light of the various decisions taken in the meeting, fresh guidelines were issued to banks in December 1986 advising them to follow the instructions given below:

i) The guidelines contained in RBI circular letter dated 8 July 1978 which are comprehensive should be scrupulously followed in all cases without fail. In particular, joint appraisal or at least simultaneous appraisal by SFCs and banks should be ensured so that any differences arising on account of divergent views taken by them independently could be sorted out in the initial stage itself.

ii) In the case of units whose working capital requirements are not substantial, if for some reason the bank concerned is not in a position to take up appraisal along with the SFCs, the appraisal made by the SFC should generally be accepted by the bank.

iii) Assessment of the working capital requirements of the unit by the banks should be completed well in advance and sanction of the requisite credit facilities should be conveyed to the units at least three to four months before the project is likely to go into operation.

iv) As advised in circular letter issued in December 1985, financial institutions holding first charge over the fixed assets of a unit, would also concede second charge thereon to banks, whenever demanded, in respect of the working capital limits sanctioned by them. It is clarified that the financial institutions mentioned in the circular include SFCs and other State level institutions which extend term loans. Banks are also advised to concede second charge in respect of the floating assets charged to them for working capital limits, whenever so demanded by a term lending institution.

v) SFCs, which appraise projects independently, are expected to ensure that the basis for estimating the working capital requirements conforms to the norms relating to inventory and receivables, method of lending, etc., as adopted by banks and is acceptable to them. Where joint appraisal takes place, this aspect will be automatically taken care of. In other cases, banks should ensure that the above requirements are made known clearly and specifically to the SFCs at a very early stage of appraisal.

vi) The practice evolved by the Maharashtra State Financial Corporation of holding regular weekly meetings with selected banks to discuss individual cases for establishing necessary rapport between the institution and banks is stated to be working satisfactorily. This practice has been commended for adoption by SFCs in other States and banks are advised to associate themselves with such meetings convened by the SFCs.

vii) If the SFC seeks a letter of commitment from the banks for provision of working capital facility to the unit at the appropriate time, the request should be complied with if the bank is satisfied about the bankability of the project. In such cases, release of term loan assistance sanctioned by the SFCs will be withheld by them till the commitment is received. The banks should stand by the commitment unless there are very strong grounds to retract from it, e. g. , subsequent developments or external factors causing the project to become non-viable. Liquidity constraint is not an acceptable ground to withdraw from the commitment given.

viii) Banks should review the discretionary powers of officials at branch/controlling office levels and enlarge them suitably to facilitate expeditious sanction and release of working capital limits to small scale units.

ix) Banks should desist from taking away good proposals from the SFCs and financing both the term loan and working capital requirements of the units themselves.

x) The officials deputed by banks for the joint appraisal and discussions with the SFCs should have the necessary powers to take a firm view on the project viability and to make commitments.

xi) All loan applications from small scale units should be dealt with and disposed of within 8 to 9 weeks, as stipulated in the guidelines for advances to priority sectors. Banks should institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period.

The roles of the SFCs and banks in financing and promoting the growth of industrial units in the small scale and medium scale sectors are complementary and it is imperative that both work with complete mutual trust and in perfect tandem. IDBI was, therefore, requested to issue suitable complementary instructions to the SFCs, SIDCs, etc., to ensure that the systems and procedures are such that they pave the way for better co-ordination between them and banks. The IDBI has since issued circular in January 1987 to SFCs and SIDCs advising them to initiate expeditious steps simultaneously to achieve effective co-ordination with banks and has also issued detailed instructions to them to pay special attention in the areas like joint/simultaneous appraisal, quality of project appraisal, proper assessment of working capital limits for timely sanction by banks, ceding of charge on assets, etc.

Agenda Item 3(ii)

Guidelines to commercial banks for rehabilitation of sick SSI units

In November 1985, Reserve Bank of India (Industrial and Export Credit Department) had advised all Scheduled Commercial Banks, parameters for provision of reliefs/concessions by banks under rehabilitation packages evolved for sick industrial units considered as potentially viable. Subsequently the need for separate guidelines in regard to rehabilitation of sick units in the small scale industries (SSI) sector with specific reference to definition of sick SSI unit, viability norms, incipient sickness as also reliefs and concessions from banks/financial institutions for implementation of rehabilitation packages in the case of potentially viable units was examined. Detailed guidelines in this regard have been issued to all Scheduled Commercial Banks in February 1987. Salient features of the guidelines are indicated below :

Incipient sickness

The banks have been advised to take expeditious steps to ensure that sickness is arrested at the incipient stage itself. For early detection of sickness and prompt remedial action, banks have been requested to fully gear their machinery and make necessary organisational arrangements at branch level for effective monitoring.

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Definition of sick SSI unit.

A unit is considered sick if it has (a) incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50% or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly instalments of interest or two half-yearly instalments of principal on term loans and there are persistent irregularities in the operation of its credit limits with the bank.

Viability of sick SSI unit

A unit may be regarded as potentially viable if it would be in a position after implementing a relief package spread over a period not exceeding 5 years from the commencement of the package from banks and others concerned, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed 7 years from the date of implementation of the package. In the case of tiny/decentralised sector units, the period of reliefs /concessions and repayment period of restructured debts will be 2 years and 3 years, respectively.

RBI approval

Cases of concessions in interest rates beyond those specified in these guidelines are required to be referred to RBI for approval.

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Norms for grant of reliefs and concessions

i) If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding 3 years.

ii) The rate of interest on term loans may be reduced, where considered necessary, by not more than three per cent in the case of tiny/decentralised sector units and by not more than two per cent in other cases, the reduced rates in no case being less than the rate of interest charged under IRDP.

iii) After the unadjusted interest portion of the cash credit account is segregated, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan (WCTL) with a repayment schedule not exceeding 5 years. Interest may be charged on this funded loan at 10% p.a.

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iv) Need-based working capital should be sanctioned to the unit to enable it to carry on its operations with interest at the minimum of the band of the prescribed interest rates during the rehabilitation period.

Besides the above reliefs and concessions, the banks/financial institutions may finance during the rehabilitation programme cash losses, contingency loan assistance, funds for start-up expenses and margin money for working capital, etc., to the sick units.

Banks have also been advised that the reliefs/concessions to the extent indicated in our guidelines are not intended to be given as a matter of course in all cases of rehabilitation of sick SSI units; it is for the banks/financial institutions to decide on the nature and extent of concessions necessary/warranted within these parameters, depending upon the merits of each case.

Agenda Item 3 (iii) 1

Small Industries Development Fund (SIDF) of IDBI

The Smal Industries Development Fund (SIDF) set up by IDBI in May 1986 with a corpus of about Rs. 2500 crores will provide a focal point for co-ordinating financial assistance to the small scale sector at the apex level. The Fund will provide refinance assistance for the development, expansion, modernisation and rehabilitation of small scale industries. The fund has been created with an initial cash contribution of Rs. 100 crores from IDBI's General Fund. Outstanding assistance under refinance, seed capital and bill re-discounting schemes to the Small Scale Sector (including small road transport operators) comprising Rs. 2,400 crores has also been transferred to it.

Role of the Fund

The SIDF will play an important role in assisting the small scale sector in its orderly and efficient growth by providing financial, promotional and extension support. The Fund will pay special attention to the problems of tiny industries.

The SIDF will provide assistance for development, expansion, diversification, modernisation and rehabilitation of SSI units and such assistance will be routed through SFCs, SIDCs, Commercial Banks and other eligible institutions. The Fund will also provide assistance by way of rediscounting of bills and promissory notes arising out of sale or purchase of machinery by small scale units on deferred payment terms.

Besides, SIDF will assist institutions engaged in the promotion, financing and provision of extension services to the small scale sector.

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Equity Support

IDBI's Special Capital Scheme and Seed Capital Scheme will be operated by the Fund in relation to the SSI Sector. SIDF will modify and deepen the above schemes suitably and for wider coverage, it will extend assistance through State Bank of India and other public sector banks.

Term Loan and Other Assistance

Financial assistance for long term capital needs will continue to be extended on appropriate terms to small scale units through SFCs, SIDCs, commercial banks, cooperative banks, RRBs, etc. In the case of very small units whose total requirements (term loan and working capital) do not exceed Rs. 1 lakh, full working capital requirements will also be covered. The Fund will devise new schemes to cater to the special needs of small scale sector. Assistance will also be extended under the IDBI Bills Rediscounting Scheme for small scale units. The Fund will also support NSIC, which supplies machinery on hire-purchase basis to SSI units. Assistance will also be provided for setting up of industrial estates for small scale units.

Rehabilitation

Hitherto IDBI was extending assistance only to SFCs for rehabilitation of sick SSI units. With the setting up of SIDF, IDBI has ~~xx~~ extended rehabilitation assistance to sick SSI units financed by the commercial banks as well. SIDF is expected to make rapid progress in devising mechanisms for working out rehabilitation packages for the small scale sector on a country-wise basis.

Promotional and Extension Services

SIDF will be used to finance activities for identifying new industrial opportunities in the small scale sector and assistance to new entrepreneurs. Special studies will be carried out to review existing schemes and policies, identify problems and take timely measures to resolve emerging problems. An important area to pay continuous attention to would be

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co-ordination among banks, SFCs and other agencies in the matter of timely and adequate provision of working capital and in prevention of sickness among small scale units.

Extension services to the small scale sector through SIDF will be in the areas of technology, purchase of raw materials, marketing, financial tie-up, training and for evolving appropriate legal framework for smooth operation and protection of the interests of small scale sector.

For this purpose, SIDF will work closely with State Level agencies engaged in providing services to the small scale sector, TCOs set up by IDBI in participation with other institutions, Training Institutes, professional as well as promotional bodies and voluntary agencies.

Organisational framework

Given the wide dispersal of small scale units throughout the country and their magnitude, IDBI would have to achieve the objective of the Fund mainly through the intermediary agencies viz., banks, SFCs and other supportive organisations for the small scale sector. Branch and Regional Offices of IDBI would shoulder greater responsibility not only in directing credit flow to small scale sector but also in providing promotional and extension services.

Advisory Board

IDBI has constituted an Advisory Board comprising experts in the field of small scale sector to have benefit of their views on various issues regarding assistance to this sector.

New Initiatives taken by IDBI under SIDF

It is envisaged that IDBI's assistance to the SSI Sector would increase two-fold from Rs.4075 crores in the five year period (1981-82 to 1985-86) to Rs.8150 crores during the next five years.

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The new initiatives taken by IDBI for increasing the share of assistance to SSI sector under the auspices of SIDF are as under :

i) The maximum limit of loan under Composite Loan Scheme to artisans, village/cottage and tiny industries was raised from Rs. 25,000/- to Rs. 50,000/- per borrower effective August 1, 1986. The ceiling on population of village/small towns for eligibility under the scheme was also raised to 5,00,000 from 50,000 with effect from the same date.

ii) With a view to providing a single window facility to take care of the term loan as well as working capital requirements of very small industrial units, IDBI introduced a scheme for providing refinance against integrated term loans upto Rs.1 lakh per unit granted by State Financial Corporations (SFCs) as also these State Industrial Development Corporations (SIDCs) which perform the functions of SFCs in their respective areas of operation.

iii) To increase the flow of funds to SSI sector from commercial banks, IDBI has increased with effect from August 1, 1986 the extent of refinance in respect of bank loans to SSI sector from 60% to 75%.

iv) The limit of loans covered under IDBI's Automatic Refinance Scheme was increased from Rs. 5 lakhs to Rs. 7.50 lakhs per borrower with effect from August 1, 1986.

v) The maximum amount of assistance in the form of seed capital from SFC's Special Capital Fund has been raised from Rs. 2 lakhs to Rs. 4 lakhs, per SSI borrower. For this purpose IDBI has agreed to augment the Special Capital Fund of SFC on matching basis with concerned State Government.

vi) IDBI has introduced a new scheme of assistance to State Small Industries Development Corporations for resources support in respect of their activities mainly in the field of raw material supply, marketing support to SSI units. So far, assistance aggregating Rs. 23.15 crores has been sanctioned to 18 SIDCs.

vii) IDBI's Rehabilitation Refinance Scheme, which was earlier available in respect of units assisted by SFCs/SIDCs or self-financed units only, has been extended to cover sick SSI units exclusively assisted by commercial banks.

viii) To meet the technology needs of SSI sector, IDBI has formulated a scheme for setting up Model Quality Control Centres in different parts of the country.

ix) To take care of the individual needs of SSI units, a Scheme for concessional refinance assistance with 'NIL' promoters' contribution has been introduced with effect from August 1986 to enable SSI units to acquire and instal quality control and testing equipment.

x) A special concessional ~~xxxxx~~ scheme to meet the term loan requirements of SSI units promoted exclusively by women entrepreneurs has been introduced since August 1986. The Scheme also provides for training and escort services to women entrepreneurs by institutions selected by IDBI with an assistance of Rs. 10,000 per beneficiary in the form of subsidy from IDBI.

xi) IDBI is considering in consultation with Government of India, a Soft Seed Capital Scheme to provide equity assistance to ex-servicemen in collaboration with the Director General (Rehabilitation), Ministry of Defence, Government of India.

xii) A scheme for providing equity assistance out of the 'National Equity Fund' to tiny units through public sector banks is under formulation by IDBI in consultation with Ministry of Finance. The Scheme will become operational after Government of India's approval is received.

xiii) In regard to human resources development, IDBI has been assisting Entrepreneurial Development Programmes through Technical Consultancy Organisations and other accredited agencies. So far IDBI has sanctioned assistance aggregating Rs. 2.30 crores for conducting 706 EDPs for the benefit of over 17,000 entrepreneurs.

Agenda Item 3(iv)

Position of credit flow to SSI sector from commercial banks

Over the period 1973-74 to 1985-86, the number of SSI units increased from 4.16 lakhs to 13.53 lakhs, production at current prices from Rs.7,200 crores to Rs.61,100 crores, exports from Rs.393 crores to Rs.2,630 crores and estimated employment from 39.70 lakh persons to 95.85 lakh persons (Annexure V).

Credit assistance provided by commercial banks to small scale industrial sector is treated as part of credit to the priority sector, in which banks are expected to deploy 40 per cent of their total credit. Bank credit to small scale industrial sector rose from Rs.347 crores as at the end of December 1969 to Rs.8,613 crores as at the end of December 1986 and formed 15.8 per cent of total net bank credit (Rs.54,642 crores) as at the end of December 1986 vide Annexure III. Further, urban co-operative banks are also required to lend 60 per cent of their total credit to priority sector including small scale industries sector. Credit data pertaining to sick SSI units financed by commercial banks is given in Annexure VI. The total number of sick SSI units rose from 25,342 as at the end of December 1981 to 1,17,783 as at the end of December 1985, and the outstandings of the sick units rose from Rs.359 crores to Rs.1,071 crores during the period. Out of 1,17,783 sick SSI units as on the last Friday of December 1985, 7,839 units with outstandings of Rs.245 crores were considered by banks as potentially viable and 98,187 units with outstandings of Rs.695 crores as non-viable. Banks are yet to decide about

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the viability of the remaining 11,757 units with outstanding credit of Rs.131 crores. 2189 units with outstandings amounting to Rs.176 crores were reported to be put under nursing programme by the financing banks as at the end of December 1985.

The Reserve Bank has issued in February 1987 guidelines in regard to rehabilitation of sick SSI units with particular reference to

a) definition of sick SSI units
b) arresting incipient sickness
c) criteria for viability and
d) parameters for reliefs and concessions for rehabilitation of potentially viable sick SSI units.

Agenda Item 4

Financing of SSI sector in the North-Eastern Region

Introduction

1.1 The North-Eastern Region comprises seven States viz. Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunachal Pradesh and Mizoram and accounts for 7.7 per cent of total land area of the country and 7 per cent of the all-India population. An outline map of the North-Eastern States is given in Annexure I. Names, capitals and population of the North-Eastern States are furnished in Annexure II. The economy of the region is basically agrarian. Apart from rice, maize, wheat and pulses, it produces cash crops like jute and mesta, plantation crops like tea, coffee and rubber as also groundnut, sugarcane and potato. Among the major fruits grown in the area, mention may be made of pineapple, orange, lemon, guava and banana. The region has vast forests covering sal, teak and bamboos. The region is also rich in mineral resources comprising mainly crude oil and natural gas.

Industrial Development

1.2 Among the few medium and large industries in the North-Eastern Region mention may be made of plywood and wood products manufacturing, chemical industries including petro-chemicals, sugar mills, paper mills, jute mills etc. The maximum concentration of these medium and large industries is found in Assam.

1.3 An advisory body, namely, the North-Eastern Council has been set up by an Act of Parliament in 1971 with the sole objective of developing the entire region. Its main function is to remove the bottlenecks in the development of the region and concentrate mainly on building up infrastructural facilities like power, transport and skilled manpower.

1.4 For development of handloom weaving and handicraft industries, the North-Eastern Handloom and Handicraft Development Corporation (NEHHDC) has been set up.

1.5 The North-Eastern Industrial and Technical Consultancy Organisation (NEITCO) renders technical assistance (e.g. formulation of project profiles, market surveys, feasibility/viability studies, working out project costs and working capital requirements, rehabilitation packages, etc.) to individual units in the SSI and medium scale industrial sector.

1.6 As on December 31, 1985, there were about 13,000 SSI units in the North-Eastern region which constituted 1.54% of the total number of such units in the country. SSI units which have developed in the North-Eastern region are mainly based on local raw materials and/or which cater to local demand.

1.7 The most widespread industrial activity in the region is handloom weaving though the activity has not been commercialised on a large scale. The traditional looms have to be modernised and the traditional designs for wider commercial application have to be studied, to carry out necessary changes in design to suit market demands. An agency like National Institute of Design, Ahmedabad may be of help in suggesting improvements in designs.

1.8 Like handlooms, handicrafts are also an integral part of the life of the people of the region. The important items of handicrafts are bamboo works, wood works, ivory works, dolls, embroidery, etc. The Region has also got an exclusive tradition in bell metal and brassware handicrafts.

1.9 Sericulture is a traditional activity and comprises all the four varieties of silk. Sericultural activity at the pre-cocoon and post-cocoon stage has not been commercialised and labour productivity is low. Besides, exploitation by the middlemen remains to be the basic problem afflicting this sector.

Problem areas in the development of SSI sector

1.10 The region is deficit in power generation which poses a major problem to the industries. Inadequate and poor transport and communication facilities continue to be the most important bottleneck inhibiting industrial advancement in the North-Eastern Region. Road transport remains the only reliable means despite the high cost vis-a-vis the rail transport. Floods in flood-prone areas often disrupt road communication.

1.11 Both entrepreneurial talent and awareness are mostly lacking in the region. Due to socio-economic background and lack of exposure to industrial climate, the local youth is averse to risk taking. Non-availability of sufficient skilled manpower is a major hurdle in the development of industries. There is lack of co-ordinated approach for marketing of products of SSI units. While the SSI units cannot compete with the outside products, the home market is inadequate and thinly spread over a large area without proper communication links. Basic raw materials are not available locally. If available, they are in short supply and prices are high. The raw materials are, therefore, required to be bought from neighbouring States of West Bengal, Bihar, etc. Although forest resources and other natural resources are abundantly available, no efforts are made by Government to transfer appropriate technology to people involved in such areas nor are there full-fledged institutions involved in research and development.

1.12 General observations regarding working capital finance for SSI units

It is reported that there is general shortage of staff in banks. Lack of expertise for appraisal of credit proposals is also underscored. At bigger branches, though Advances Cells are functioning, a small number of officers are required to handle comparatively large number of credit proposals for processing and follow-up. The adequacy of bank finance is assessed after taking into consideration, the availability of raw materials locally or through procurement from distant places in West Bengal and Bihar. Though the inventory norms are broadly observed, these are relaxed on practical considerations wherever necessary. Special factors like non-availability of raw materials and consequent transportation from distant places in other States (mostly Eastern and Southern) by road in hilly tarrain are taken into account. It is reported that in some cases, land and site development costs, inability of the entrepreneurs to provide margin money and meet pre-operative expenses had not been taken into account while appraising project-loan proposals of SSI units.

Problems of cottage and village industries

1.13 Cottage and village industries have an important place in the economy of the region and provide employment to a predominantly large section of the people. Silk-weaving, soaps, chemicals, handlooms and handicraft industries are prominent. These industries are not well organised and there is lack of co-ordinated approach for marketing and research as also modernisation and upgradation of technology. The problems faced by these units can be briefly enumerated as follows:

(i) Non-availability of raw material locally.

(ii) Escalating costs in transport due to long distance and terrain.

(iii) Lack of planning and strategies for marketing.

(iv) In the case of silk weaving industry, raw materials are required to be bought from Karnataka which is far off.

(v) Recovery of loans is very poor and

(vi) Absence of modernisation and upgradation of technology.

1.14 The total bank credit to SSI sector in the North-Eastern Region, has increased from Rs.22.74 crores as at the end of December 1980 to Rs.77.88 crores at the end of December 1985; the corresponding number of accounts rose from 17,716 to 41,529 (vide Annexure IX).

Framework of the paper

1.15 The roles of IDBI, NABARD, Urban Cooperative Banks and DICGC in the development of SSI sector in the North-Eastern Region are discussed in detail in the following paragraphs. In the subsequent paragraphs dealing with each State separately, the performance of commercial banks and other primary credit institutions as also DICs and related State Government agencies have been dealt with. In the end, a summary of the findings and suggestions/action points for the development of SSI sector, made by the Reserve Bank Study Group on Banking Development in North-Eastern Region are presented. These will form the backdrop for the deliberations of this Committee.

1.16 Detailed data relating to District Industries Centres, bank branches, bank credit to SSI sector as also credit to sick SSI units (State-wise in the North-Eastern Region and All-India position) are given in the Annexures VII to X.

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2.Role of IDBI

Financial assistance to SSI units including norms regarding margin money, security, collaterals, etc.

2.1 Term loans granted to SSI units by eligible institutions viz. SFCs/SIDCs/Commercial Banks/RRBs/SCBs are refinanced by IDBI. The extent of refinance granted to SFCs/SIDCs/RRBs/SCBs in respect of their loans to SSI units in the North Eastern Region is 90% as applicable to industrial units in the small and medium scale sector in 'A' Category backward districts/regions. The extent of refinance to commercial banks is 75% of their term loans to SSI units irrespective of location of projects.

2.2 Applications for refinance from eligible financial institutions are considered under the Automatic Refinance Scheme (ARS) of IDBI in respect of term loans upto Rs.7.5 lakhs. Beyond this limit, applications are considered under the Normal Refinance Scheme (NRS). Under ARS, applications relating to a number of units can be submitted in one statement for refinance and as there is no second scrutiny of ARS proposals; applications are normally sanctioned within a period of one week. A simplified procedure is also followed for disbursements. Applications under the Normal Refinance Scheme (i.e. for loans exceeding Rs.7.5 lakhs) are subjected to detailed scrutiny. But even here, arrangements are made to dispose of such applications within a period of 2 weeks. A close monitoring of refinance applications pending beyond 2 weeks is made by the Head Office of IDBI and there have been no instances of delay in disposal of refinance applications from the North Eastern Region.

2.3 IDBI follows certain norms under the Refinance Scheme in respect of promoters' contribution, debt-equity ratio, rate of interest and commitment charge, etc.involved in a project. Reasonable relaxations are permitted in the case of SSI units from the North-Eastern Region.

(....47)

Assistance for modernisation/ technology upgradation etc.

2.4 Assistance under the Refinance Scheme for Modernisation, which includes assistance for technology upgradation, has not so far been availed of by institutions/banks in the North Eastern Region. Efforts are being made to popularise the Scheme by holding seminars at various places in the North-Eastern Region and also by assessing the modernisation needs of certain select industries e.g. handicrafts. It is understood that National Institute of Design, Ahmedabad has undertaken a study of the modernisation needs of handicrafts sector at the instance of Development Commissioner (Handicrafts), Government of India. IDBI will follow up the recommendations jointly with Development Commissioner (Handicrafts) and modernisation programmes based on the recommendations will be considered for financial assistance under IDBI's scheme.

Refinance assistance

2.5 Total refinance assistance sanctioned in the North Eastern Region by IDBI was of the order of Rs.1588.07 lakhs and Rs.1796.57 lakhs during 1984-85 and 1985-86, respectively. This worked out to 1.19% and 1.16% respectively of total refinance sanctioned at the all-India level during these two years. Statements giving information on IDBI assistance to North-Eastern Region with State-wise, scheme-wise and institution-wise break up are given in Tables I to III.

Other information

2.6 As part of its overall strategy for industrialisation of the North Eastern Region, IDBI has opened five new branch offices at Agartala (Tripura), Aizawl (Mizoram), Dimapur (Nagaland), Imphal (Manipur) and Shillong (Meghalaya) besides its existing Regional Office at Guwahati (Assam). The main task entrusted to these offices is of a promotional nature. IDBI is also giving special attention to the problems and needs of Mizoram mainly in the field of consultancy support to small entrepreneurs covering subsidy for training and project consultancy on liberal terms. Besides, these offices have also been delegated powers to sanction and disburse refinance assistance for applications submitted under ARS, by primary lending institutions. IDBI has been organising seminars in different parts of the Region to popularise IDBI schemes of assistance and to create an awareness among the prospective entrepreneurial class on industrialisation. After the setting up of Small Industries Development Fund (SIDF), 16 seminars were conducted in the Region by the end of December, 1986. Apart from these, under IDBI's subsidy support, entrepreneurship programmes specially designed to meet the needs of the Region/ entrepreneurs are also being organised in association with North-Eastern Industrial Technical Consultancy Organisation and Entrepreneurship Development Institute, Ahmedabad. 12 such programmes have so far been held under subsidy support amounting to Rs.9.50 lakhs; 263 trainees have participated in these programmes. Five more programmes were slated to be held before the end of December 1986.

(...Tables I, II & III ...... 4.12)

Table I

State-wise and Scheme-wise assistance sanctioned by IDBI to Small Scale Sector (including Small Road Transport Operators) in the North Eastern Region during the years ended June 30, 1985 and 1986

(Rs.in lakhs)

Sr no	Name of State	Refinance of Industrial Loans 1985	(Year July-June) 1986	Bills Rediscounting 1985	(Year July-June) 1986	Total 1985	(Year July-June) 1986
1	Assam	929.16	668.01	1.11	115.12	930.27	783.13
2	Manipur	6.57	69.18	-	-	6.57	69.18
3	Meghalaya	223.33	295.11	-	-	223.33	295.11
4	Nagaland	79.79	167.38	-	-	79.79	167.38
5	Tripura	50.26	133.68	-	-	50.26	133.68
6	Arunachal Pradesh	104.91	91.28	-	-	104.91	91.28
7	Mizoram	194.05	371.93	-	-	194.05	371.93
		1588.07	1796.57	1.11	115.12	1589.18	1911.69

Table II

State-wise and Category-wise refinance assistance sanctioned by IDBI to Small Scale Sector in the North Eastern Region during July 1984 to June 1985

(Rs.in lakhs)

Sr no	Name of State/	Small Road Transport Operators		SSI		Composite Loan		Total	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Assam	522	578.85	115	349.09	11	1.22	648	929.16
2	Manipur	5	6.29	1	0.28	-	-	6	6.57
3	Meghalaya	180	205.78	10	17.55	-	-	190	223.33
4	Nagaland	34	38.69	10	41.10	-	-	44	79.79
5	Tripura	27	24.88	13	17.80	70	7.58	110	50.26
6	Arunachal Pradesh	101	97.24	6	7.42	2	0.25	109	104.91
7	Mizoram	126	97.10	42	89.27	86	7.68*	254	194.05
		995	1048.83	197	522.51	169	16.73	1361	1588.07

* Include Rs.2.73 lakhs loans to SC/ST.

Table III

State-wise and Category-wise sanction of refinance assistance by IDBI to the Small Scale Sector in the North Eastern Region during July 1985 to June 1986

(Rs. in lakhs)

Sr no	Name of State	Small Road Transport Operators		SSI		Composite Loan		Total	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	Assam	469	417.80	128	244.64	34	5.57£	631	668.01
2	Manipur	55	61.49	5	4.48	19	3.21	79	69.18
3	Meghalaya	212	231.96	27	63.01	1	0.14	240	295.11
4	M Nagaland	146	106.38	9	60.25	3	0.75	158	167.38
5.	Tripura	55	42.45	13	65.74	246	25.49	314	133.68
6	Arunachal Pradesh	92	85.39	6	5.27	5	0.62	103	91.28
7	Mizoram	128	87.79	54	212.95	671	71.19*	853	371.93
		1157	1033.26	242	656.34	979	106.97	2378	1796.57

£ Include Rs.0.25 lakhs loans to SC/ST

* " Rs.4.51 " " "

3. Assistance from NABARD

3.1 NABARD has formulated a number of refinance schemes to assist commercial banks/Regional Rural Banks/Cooperative banks for financing artisans, village and cottage industries and tiny sector units. Special emphasis is laid for development of handlooms, handicrafts, sericulture, industrial co-operatives, biogas plants, etc. The refinance schemes cover both working capital credit and investment credit (e.g., production/processing and marketing activities, construction of worksheds, acquisition/modernisation of machinery and equipment, opening/renovation of sales emporia, etc.). The salient features of the refinance facilities of NABARD are as follows :

i) Refinance will be provided at 90 per cent in respect of financing of beneficiaries for industries, services and business (ISB) as also under SC/ST Action Plan both under IRDP and outside IRDP. The credit assistance will be in the nature of composite loans upto Rs.30,000/- for individual artisans, village and cottage units. For biogas schemes sanctioned in Eastern and North-Eastern States and under programmes covered by special agencies like Girijan Development Corporation, refinance is also available upto 90%.

ii) Loan assistance to individuals, group of individuals, proprietary/partnership concerns is available upto Rs.5 lakhs in the case of commercial banks and cooperatives.

iii) Registered institutions and industrial cooperatives having investment in plant and machinery upto Rs.35 lakhs are eligible for higher refinance on merits.

iv) The definition of "group of individuals" has been assigned an extended meaning to include a formal or informal body or an association represented by Cooperative Society, registered institution, voluntary organisation, promotional agency, partemership concern, trust, charitable institution, public and private Ltd. company (individual members not exceeding 25).

v) Deserving registered institutions outside the KVIC - fold are also eligible for assistance.

vi) Besides the activities covered by the already approved 22 broad groups of cottage and small scale industries, all activities under small scale industry approved by the Development Commissioner (SSI) are also eligible for assistance.

vii) Overdue norms have been delinked from the eligibility criteria against both short term and long term advances for the period June 1986 - June 1988.

viii) In order to expedite sanction and disbursement of refinance assistance, Automatic Refinance Facility (ARF) has been extended to financing banks in respect of schemes for composite loans to individuals artisans, term loans/ composite loans to tiny industries and term loan assistance for infrastructural and promotional support activities to individuals.

ix) NABARD has set up Soft Loan Assistance Fund for providing margin money (equity-type assistance) to artisans, cottage and village industrial units as also tiny sector units. The assistance will be given to prospective entrepreneurs and the quantum of assistance will be determined on the basis of the gap between the normal level of promoters' contribution to the projects and the actual amount the promoters can bring in from their own resources together with subsidy, if any. The refinance assistance will be provided to the full extent (100 per cent) of margin money advances to eligible borrowers. The ultimate beneficiary will be charged a nominal service charge upto 1 per cent per annum on the amount of the margin money loan. The margin money loan will be recovered in suitable annual instalments not exceeding 10 years, depending upon the repaying capacity and cash flows of the units financed.

Special Facilities for North Eastern Region

3.2 Apart from the above facilities, the following refinance facilities are made available by NABARD exclusively for North-Eastern Region.

3.3 Provision of financial assistance by way of composite loans to individual artisans, group of individuals, Tribal Development Corporations (TDCs) and Promotional Agencies upto a limit of Rs.5,000/-, Rs.30,000/- and Rs.5 lakhs respectively. The salient features of this scheme are (i) there is no requirement of margin money for individuals and group of individuals whereas a nominal margin of 5-10% has been prescribed for TDCs/promotional agencies; (ii) loans are available at concessional rate of interest of 9% to individuals and group of individuals and 10% to TDCs/promotional agencies. The assistance to individual artisan/group of individuals is available through commercial banks and RRBs, whereas the assistance to TDCs/promotional agencies is available through commercial banks.

Margin money, security etc.

3.4 In respect of individual artisans and groups of individuals, NABARD has not stipulated any margin but in case of loans made to TDCs/promotional agencies 5-10% margin has been stipulated. As regards security, NABARD has advised banks that it shall be in the form of hypothecation of assets created out of the loan and/or as may be prescribed by the financing bank in terms of the guidelines issued by the RBI from time to time. NABARD has formulated two schemes for providing financial assistance to voluntary/promotional agencies for upgradation of technology and for conducting Entrepreneurship Development Programmes for rural entrepreneurs.

3.5 Agency-wise disbursement of refinance assistance by NABARD to non-farm sector in North Eastern Region upto 30 June 1986 is furnished below :

(Rs. in lakhs)

Sr. No.	State	Commercial Banks	Regional Rural Banks
1.	Assam	350.918	159.865
2.	Manipur	3.650	0.136
3.	Meghalaya	-	-
4.	Mizoram	-	-
5.	Nagaland	-	-
6.	Tripura	43.441	41.693
7.	Arunachal Pradesh	0.119	-
	Total :	398.128	201.694

4. Position of urban co-op. banks in the North-Eastern Region

4.1 As on 31 March 1986, there were 1331 urban cooperative banks in the country, which included 102 salary earners type of banks. Of these banks, 11 banks in the States of North-Eastern Region constituted only 0.8 per cent of total urban cooperative banks in the country. The state-wise break up of these banks and their deposits and advances as on 30 June 1985 are as under:

(Rs. in crores)

Name of the State		No. of urban cooperative banks	Total deposits	Total advances
1.	Assam	3	9.78	11.86
2.	Manipur	5	3.60	3.37
3.	Meghalaya	2	0.25	0.31
4.	Tripura	1	0.16	0.12
5.	Nagaland	-	-	-
6.	Mizoram	-	-	-
7.	Arunachal Pradesh	-	-	-
		11	13.79	15.66

It may be seen that the resources of the banks are meagre. Many banks in this region are mostly providing credit facilities for consumption purposes and not for productive ventures. Although no precise data are available (due to non-submission of returns) the involvement of these banks in financing artisans, cottage and small scale industries is negligible.

R.B.I. Refinance facilities

4.2 The Reserve Bank provides refinance facilities at a concessional rate of interest at 2½ per cent below the Bank Rate to State Cooperative Banks (SCBs) on behalf of urban cooperative banks under section 17(2)(bb) read with Section 17(4) (c) of the Reserve Bank of India Act, 1934 for financing the working capital requirements of SSI units covered under 22 broad groups of approved cottage and small scale industries. This concessional credit is mainly intended as an incentive to urban cooperative banks for financing industrial activities and to supplement their resources. The urban cooperative banks from the North-Eastern Region have not so far availed of any refinance facility from the Reserve Bank of India.

IDBI- Refinance facilities

4.3 The Industrial Development Bank of India has not extended the facilities under its Refinance Scheme to Central and Primary (Urban) Cooperative Banks functioning in the North-Eastern States. The scheme has been extended to the SCBs functioning in only 10 States of the country to enable the urban cooperative banks to finance block capital requirements of SSI. The IDBI has not extended the facilities to state co-operative banks in the North-Eastern States viz. Assam, Manipur, Meghalaya and Tripura mainly due to the unsatisfactory financial position of state cooperative banks.

(..4.18)

Margin requirements

4.4 In terms of RBI circular No.ACD. Plan.(IFS)3702/H. G.4-79/80 dated 2 June 1980, the Urban Banks Department of Reserve Bank of India have issued the following guidelines regarding margin requirements:

i) There should be no insistence on margin for advances upto Rs. 25,000/- sanctioned to artisans, village and cottage industries as a composite term loan for equipment finance or working capital or both.

ii) In respect of advances granted to cottage and small scale industries other than those at (i) above upto Rs. 2.00 lakhs covered under the credit guarantee scheme for SSI, a uniform margin of 10% for pledge and hypothecation advances should be maintained.

(...4.19)

iii) Margin requirement of 10% and 20% should be stipulated for pledge and hypothecation advances, respectively, in respect of advances exceeding Rs.2.00 lakhs granted to any cottage and small scale industry covered under the Credit Guarantee Scheme for SSI.

RBI Directives on interest rates

4.5 In terms of Reserve Bank's Directive (Urban Banks Department), the following interest rates on advances to small scale industrial units by Urban Banks are effective from 1 April 1987:

Small Scale Industry

i) Composite loans upto Rs.25,000/-	
(a) Backward areas	Not exceeding 11.00%
(b) Other areas	Fixed rate 12.00%
ii) Short-term advances	
(a) Limit upto and inclusive of Rs.2.00 lakhs	Not exceeding 14%
(b) Limits over Rs.2.00 lakhs and upto Rs.25.00 lakhs	Not exceeding 15.50%
(c) Limits above Rs.25 lakhs	16.50% fixed.

Term loans

1. Small Scale industry units as in the new definition of SSI	
(a) Backward areas	Not exceeding 13.50%
(b) Other areas	Fixed rate 13.50%

Data on advances of urban cooperative banks to Small Scale Industries

4.6 The Urban Banks Department of Reserve Bank of India has prescribed half-yearly returns for submission by urban banks in respect of advances to priority sectors (including those to SSI sector). While the Urban Banks Department and RBI monitor the progress made by banks with working capital of Rs. 5 crores and above, the responsibility of monitoring has been entrusted to the federation/s in respect of these banks with working capital below Rs. 5 crores. The data in respect of advances made to SSI units by the banks in North-Eastern Region are not available as the banks have not submitted the returns so far.

(contd.... 4.21)

5. Small Loans (SSI) Guarantee Schemes, 1981 of DICGC North-Eastern Region

5.1 Credit guarantee scheme for small scale industries sponsored and formulated by the Central Government and administered by Credit Guarantee Organisation (i.e. Reserve Bank of India) had been in operation since long. With a view to facilitating effective co-ordination and operational flexibility, it was decided that all the credit guarantee schemes should be integrated under one Organisation i.e. Deposit Insurance and Credit Guarantee ~~(DICGC)~~ Corporation (DICGC) and accordingly, the Government cancelled their credit guarantee scheme for small scale industries with effect from the close of business on 31 March 1981. At present the Corporation is discharging the obligations of the Government arising out of or accruing under the cancelled scheme as its agent. The Corporation has introduced, with effect from 1 April 1981, a credit guarantee scheme of its own viz. Small Loans (SSI) Guarantee Scheme, 1981 for covering advances to SSI. The participation in the scheme is voluntary and open to all commercial banks, Regional Rural Banks, State Financial Corporations, and Co-operative Banks.

5.2 As on 30 June 1986 apart from all the commercial banks, 10 Regional Rural Banks and 2 Co-operative Banks from the North Eastern Region of India are participating in the Scheme. Advances granted by these credit institutions to the small scale industrial units are covered under the scheme on automatic and bulk coverage basis. The scheme is applicable to whole of India. The Corporation has been guaranteeing the advances in respect of the backward region at a special claim rate and the extent of the guarantee claim payable in these regions is 60 per cent of the amount in default or ten lakhs of rupees whichever may be lower in respect of all SSI advances. The normal cover in other areas is at 50 per cent for borrowers with aggregate credit facilities exceeding Rs. 2 lakhs. The rate of guarantee fee charged is uniform at 1/2 per cent per annum for credit facilities upto Rs. 25,000/- and at 3/4 per cent per annum for higher credit facilities. The guarantee fees payable to DICGC on advances sanctioned to weaker sections including artisans, village and cottage industries where individual credit requirements do not exceed Rs.25,000/- are required to be borne by banks and should not be recovered from the borrowers. The North-Eastern Region falls under the area of operation of the Calcutta Office of DICGC covering Bihar, Orissa, West Bengal and the North Eastern States.

(....4.23)

6. Assam

Institutional set up in Assam for development of SSI sector

6.1 The institutional set up for the development of industries in Assam consists of Assam Small Industries Development Corporation, Assam Financial Corporation (AFC), Assam Electronics Development Corporation, Assam Tea Corporation, Khadi and Village Industries Board, Assam Hills SIDC, SISI and National Institute of Small Industry Extension Training. Besides, the State Government operates various schemes, like Entrepreneurial Motivation Training Programme, supply of scarce imported raw materials, margin money scheme, Central Investment Subsidy Scheme, Transport Subsidy Schemes, etc.

District Industries Centres (DICs)

6.2 There were 10 DICs in the erstwhile 10 districts of Assam prior to 15 August 1986. After reorganisation of some districts, there are now 18 districts. On 15 August 1986 in six of the eight new districts, DICs have been established. DIC at Kamrup caters to three districts viz. Kamrup, Nalbari and Pragjyotipur. Credit Managers have been posted by the State Government in DICs of seven erstwhile districts. The remaining posts are unfilled. District Advisory Committees have been constituted in 16 districts out of eighteen districts. However, the meetings of these Advisory Committee are held very irregularly although they are required to meet at least once in a year.

6.3 The total bank credit to SSI sector in Assam has risen from Rs.19.43 crores as at the end of December 1980 to Rs.61.02 crores at the end of December 1985; the number of borrowal accounts have correspondingly increased from 13,203 to 29,512 (vide Annexure IX).

(....)

Performance of Assam Financial Corporation

6.4 The Assam Financial Corporation (AFC) is a joint financial corporation for Assam, Tripura, Manipur and Meghalaya. During the year 1985-86 the SSIs accounted for 95.7 per cent of the total number of units assisted (111 out of 116) while in terms of amount these formed 60.2% (Rs.186.21 lakhs). Sanctions and disbursements to SSIs during 1984-85 and 1985-86 were as under :

(Rs. lakhs)

	1984-85		1985-86	
	No.of Units	Amt.	No.of Units	Amt.
Sanctions	88	188.46	111	186.21
Disbursement	90	142.88	79	153.02

The Corporation has started processing, sanctioning and disbursing loans at the branch level. This practice is expected to help small entrepreneurs. Besides, the sanctioning powers of the Regional Managers and Branch Managers have been enhanced from Rs.0.50 lakh to Rs.2.00 lakhs and from Rs.0.25 lakh to Rs.0.50 lakh respectively. The branch net-work has been expanded and the branches are activised by giving them individual targets. The procedure for loan appraisal and documentation has been streamlined.

In view of the low level of recoveries (around 35% for the year ended 30 June 1985), the AFC has reconstituted the Monitoring Cell which meets at regular intervals to study and suggest measures for rehabilitation or legal action and branch recovery targets are reviewed on a quarterly basis.

Performance of IDBI

6.5 In Assam, from September 1976 to June 1985, the IDBI has sanctioned refinance to 654 SSI units (16% of the total units including small and medium) for Rs.12.84 crores accounting for