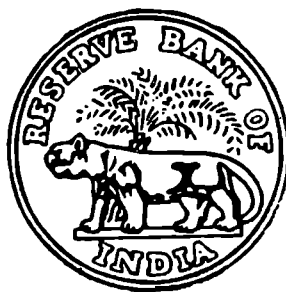




SPECIAL CREDIT SCHEMES OF BANKS GUIDELINES
REPORT OF THE COMMITTEE ON BANKS'
CREDIT SCHEMES WITH REFERENCE
TO **EMPLOYMENT POTENTIAL**

**GUARANTEE SCHEME FOR
SMALL LOANS** TO PRIORITY AND NEGLECTED SECTORS
GUARANTEE SCHEME FOR LOANS TO
SMALL SCALE INDUSTRIES

1972



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**GUARANTEE SCHEME FOR SMALL LOANS TO
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TO SMALL-SCALE INDUSTRIES**

**FINANCING OF AGRICULTURE
BY COMMERCIAL BANKS : GUIDELINES**

Rs. 2.50

**Reserve Bank of India
BOMBAY**

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INTRODUCTION

In recent years, there has been an increasing diversification in the advances portfolio of commercial banks consistent with national objectives. Institutional credit facilities at reasonable rates of interest are being provided to a large number of borrowers of small means, such as, small farmers, small-scale entrepreneurs, retail traders, road transport operators, small businessmen, professionals, self-employed, etc. Various measures have been taken from time to time to help banks in extending credit to these sectors. This booklet brings together material relating to such measures.

A Working Group constituted by the Ad hoc Committee of Bankers soon after the nationalisation of 14 major scheduled commercial banks examined the question of providing a simple but wide-ranging system of guarantees for bank lending to individual small borrowers in hitherto neglected sectors and suggested a scheme of guarantee against lending to these sectors. The Government of India accepted the Group's recommendations with certain modifications and in order to implement them, a new public limited company known as the Credit Guarantee Corporation of India Limited, was set up in January, 1971. The Small Loans Guarantee Scheme formulated by the Corporation comes into force from April 1, 1971.

It may be recalled that a Credit Guarantee Scheme for the guarantee of advances granted by banks and other credit institutions to small-scale industries has been in force since July, 1960. This Scheme will continue to be administered by the Industrial Finance Department of the Reserve Bank of India and provide guarantees for lending to small-scale industries and the new Scheme of guarantees administered by the Credit Guarantee Corporation of India Ltd., will cover borrowers other than small-scale industries, viz, transport operators, dealers in fertilizers and other goods, business enterprises, professionals and self-employed persons and farmers.

The Reserve Bank of India appointed a Committee in October, 1970, consisting of bankers and small-scale industrialists, to examine the special credit schemes framed by banks for extending credit facilities to professional and self-employed categories and to evolve appropriate guidelines in respect of lending to these categories. Based on the recommendations of this Committee, the Reserve Bank has formulated and issued broad guidelines to commercial banks for such lending. The Reserve Bank had also issued earlier a set of guidelines on financing of agriculture by commercial banks.

It is hoped that this booklet would help the public in understanding the various measures taken for increasing the involvement of commercial banks in assisting small borrowers.

**RESERVE BANK OF INDIA,
Credit Planning Cell,
Central Office,
BOMBAY.
March 19, 1971.**

**R. K. HAZARI
Deputy Governor**

Section 1 (i)

**GUIDELINES TO COMMERCIAL BANKS
REGARDING SPECIAL CREDIT SCHEMES
WITH PARTICULAR REFERENCE TO
EMPLOYMENT POTENTIAL**

**GUIDELINES TO COMMERCIAL BANKS REGARDING SPECIAL CREDIT
SCHEMES WITH PARTICULAR REFERENCE
TO EMPLOYMENT POTENTIAL**

**Circular letter dated March 19, 1971 issued
to all Commercial Banks.**

You may be aware that pursuant to a suggestion made by the Union Finance Minister Shri Y. B. Chavan, at a meeting of the Chairman / Custodians of the public sector banks, in July 1970, a Committee was constituted by the Reserve Bank of India under the chairmanship of Shri V. D. Thakkar, to review the working of special credit schemes of commercial banks with particular reference to their employment potential. A copy of the Report of the Committee is enclosed for your information. In the Committee's view, there is considerable scope for rationalisation of the special credit schemes of banks in order to make them more effective and purposeful. We hope that you will initiate appropriate action at your end, bearing in mind the findings of the Committee. In this connection, we indicate below a set of broad guidelines for your consideration.

2. We have earlier circulated to you the details of the new Credit Guarantee Scheme. At the outset, we would like to emphasise that the availability of guarantee cover under the new Scheme of comprehensive credit guarantee which is coming into force on April 1, 1971, should not mean any dilution of standards on the part of banks in appraising loan proposals. Nor should this mean that assistance should be restricted to the classes of borrowers or to the extent of the amounts for which guarantee facilities are available under the Scheme. The assistance that is provided should be essentially need-based, consistent with the economic viability of the proposition being financed.

3. Banks have been dispensing credit to different categories of self-employed on an increasing scale in recent months and a stage has been reached when the portfolio of financial assistance to this sector requires to be handled on a continuing and organised basis. Banks should keep in mind the fact that, in the ulti-

mate analysis, the source of funds for their credit operations of which financing the additional requirements of the different categories of self-employed should be a part, is the deposits mobilised by them. It is only to the extent that their efforts towards deposit mobilisation succeed that banks would be able, not only to meet the genuine requirements of the other sectors of the economy, but also divert a reasonable proportion of deposits to finance schemes intended for small enterprises and other self-employed.

4. Credit schemes to help particular classes of borrowers are basically meant to function only as guidelines for the banks' staff and it is, therefore, important that they should be implemented at the branch level with adequate degree of flexibility as the key-note. This calls for appropriate delegation of authority to branch agents simultaneously with adequate control over the exercise of such discretion by the branch agents.

5. We would like to draw your attention in particular to the simplified Model Application Forms suggested by the Committee for use by prospective small borrowers. In addition, we have also enclosed a model application form for financial assistance to road transport operators, taxi-drivers, etc. Information collected in these forms would also meet the requirements of data for purposes of guarantee cover. These forms should be made available in all local languages and branch officials should render assistance, wherever necessary, in filling up the forms.*

6. Since the branch agents have a key role to play, a rapid training programme will have to be organised urgently to provide the neces-

* Also attached are two forms of application for assistance to small-scale industrial units. One of these relates to Working Capital assistance, appending 'Interview Forms' to be completed by the Branch official on the basis of interviewing the applicant. The other is a combined form of application for Term and Working Capital finance. These forms may also be of guidance to banks.

sary orientation to the branch officials. The branch official, who has so far been accustomed to granting advances mainly on the basis of the tangible security the borrower can provide, has now to be speedily trained to assess credit proposals taking into account considerations, such as, viability of the project, the applicant's skill, experience, integrity and the ability to organise an activity or a business. Periodical discussions should be arranged at the regional/district level to enable the officials to exchange relevant information about the implementation of the various credit schemes formulated for assisting the self-employed. The Training Institutions attached to banks will have to place special emphasis on the various aspects of financing this category of borrowers, particularly in regard to the need for extending personalised service to such constituents.

7. Since the requirements of the self-employed are so vast and complex, it should be the endeavour of banks constantly to watch for new areas of action and formulate schemes tailored to meet the needs of the situation. For the purpose of framing effective schemes, it may be helpful for banks to draw upon the information available in the Lead Bank Survey reports. In fact, each bank should, while organising such surveys, particularly in the comparatively backward districts, lay special emphasis upon identifying areas for action. In this connection, it may be noted that the Industrial Development Bank of India, which has recently conducted techno-economic surveys of some of the backward regions in the Eastern areas, can make available to banks copies of these survey reports for their guidance.

8. Mere introduction of credit schemes by banks is necessary but not a sufficient condition for creating the total environment favourable for generating employment. The facilities offered by banks under the schemes may not add up to much if they are not accompanied by arrangements to enable the borrowers to obtain technical guidance, assistance in regard to securing land and shed, machinery, raw materials and advice on financial, accounting and taxation, labour management, market-

ing and other aspects of business. Banks will, therefore, have to consider as to how best integrated financial and management assistance could be arranged or organised, taking into account the totality of the requirements of the borrowers. Such provision of comprehensive credit services would depend on local conditions and would, therefore, differ from area to area. Banks may have to evolve an appropriate strategy for this purpose and can function effectively in this regard if they act jointly rather than individually. The Report of the Committee has suggested the setting up of Multi Service Agency for this purpose. Setting up of an institution of this type is one way of achieving the purpose and such agencies will be particularly helpful for relatively under-developed areas.

9. The credit schemes should be administered in such a manner that the assistance provided is need-based. The financial assistance provided should be able to take care of total requirements of the borrower and should include provision of assistance for meeting the legitimate expenses of renovation of plant and machinery, acquisition of essential spares and periodical repairs of a major nature, as in the case of transport operators. Assistance should, where justified, provide for acquiring testing equipment and for expenses in regard to other measures of product development such as advertising, contribution towards research activity, marketing surveys, etc. While entertaining proposals of small entrepreneurs, due weightage should be given to promoter's technical qualifications and such other contribution to the business, of a non-financial nature. In deserving cases, it should be possible for the banks to charge on a term loan a lower rate of interest in the initial stages, the rate being raised subsequently, thereby maintaining a commercially viable average rate of interest on the loan for the entire period. However, care should be taken to ensure that the preferential terms of assistance given in the initial stages are not indefinitely continued and normal commercial basis of lending should be established at the earliest.

10. Preferential consideration may have

to be shown in the case of persons commencing business/practice as well as in respect of those who leave well-established jobs to take up self-employment. In such cases, there should be provision for reasonable personal drawings during the initial stages, commensurate with the minimum requirements of the borrower for family maintenance. In deserving cases, such drawings may be considered on a clean basis and at comparatively lower rates of interest. The drawings can be added to the original term loan after the stipulated initial period and subjected to the same terms and conditions as applicable to the term loan.

11. As far as possible, no self-employed/small enterprise applicant should be denied credit merely for want of a third party guarantee, when the quality of the application is otherwise satisfactory.

12. With a view to minimising the time taken for ascertaining the technical and other feasibilities of the proposals received for financial assistance, banks, particularly the bigger ones, should seek to appoint on their staff, at appropriate centres, such technical and other experts as may be needed for appraisal. It is also open to banks to avail of assistance of agencies providing technical and other consultancy services, as also of the expert staff attached to the financial institutions, such as the Industrial Development Bank of India, State Financial Corporations, Small Industries Service Institute, etc.

13. As indicated earlier, there is urgent need for banks to pay greater attention than hitherto to the needs of comparatively backward areas and of smaller borrowers belonging to the weaker sections of society. While lending, special consideration should be shown to such borrowers in respect of security requirements, margins, rates of interest, repayment schedule, etc. Banks should devote particular attention to setting up technical services and providing counselling arrangements either on their own or through other agencies providing such assistance with a view to encouraging new entrepreneurs in backward areas.

14. Adequate follow-up and supervisory arrangements should be organised to keep track of the end-use of funds lent to the small entrepreneurs and other self-employed categories of borrowers, and for effecting recovery of the advances according to schedule. This will help achieve a measure of rotation of funds so that the scarce resources can be made to reach as large a number of people as possible. The borrower should be encouraged to maintain some basic minimum on accounts and should be persuaded to accept financial supervision and discipline. In particular, the borrower units should be encouraged to build up equity by ploughing back a portion of the surplus generated in the business.

15. Instances have been noticed of financiers making entry into the group of self-employed small entrepreneurs by offering financial help to such entrepreneurs and becoming partners in their enterprise. So long as this participation represents genuine promotional effort on the part of financiers, they are welcome. Where such participation merely represents efforts to buy up such enterprise purely for the benefit of the financiers, then they run counter to the social objective of bringing about a wider diffusion of economic power. From this point of view, it may be desirable for the commercial banks to keep in touch with changes or modifications in the proprietorship/constitution of the small enterprise assisted by them.

16. The Committee has given a list of categories of self-employed and has drawn attention to the fact that this list is by no means exhaustive but only illustrative. Banks should on their own initiative formulate special credit schemes for promoting the generation of employment, according to their innovative capacity and exercise a measure of healthy competition with other banks in this regard.

17. These are but very broad indications and we hope that with the more detailed guidelines given in the Report of the Committee, it should be possible for banks to increase their involvement in financing the professional and self-employed categories and help employment generation.

Section I (ii)

**REPORT OF THE COMMITTEE TO REVIEW THE SPECIAL CREDIT SCHEMES OF
BANKS WITH PARTICULAR REFERENCE TO THEIR EMPLOYMENT POTENTIAL**

REPORT OF THE COMMITTEE TO REVIEW THE SPECIAL CREDIT SCHEMES OF BANKS WITH PARTICULAR REFERENCE TO THEIR EMPLOYMENT POTENTIAL

Chapter I

INTRODUCTION

The Union Finance Minister, Shri Y. B. Chavan, while meeting the Chairman/Custodians of the public sector banks on July 22, 1970, indicated that a Committee might be constituted to review the special credit schemes of banks, with particular reference to their employment potential. Pursuant to this, the Reserve Bank of India constituted a committee in October 1970, with the following:

- | | |
|---|-----------------|
| 1. Shri V. D. Thakkar,
Joint General Manager,
Bank of Baroda,
Bombay. | <i>Chairman</i> |
| 2. Shri H. E. Chatelier,
Chief Officer,
Administration,
State Bank of India,
Bombay. | <i>Member</i> |
| 3. Shri C. T. Das,
Deputy General Manager,
United Bank of India,
Calcutta. | <i>Member</i> |
| 4. Shri J. J. Khambatta,
Assistant General Manager,
Central Bank of India,
Bombay. | <i>Member</i> |
| 5. Shri A. N. Mukerjee,
Development Manager,
Punjab National Bank,
New Delhi. | <i>Member</i> |
| 6. Shri M. S. Parthasarathy,
Vice-President,
Federation of Associations of
Small Industries of India.
Mauras. | <i>Member</i> |
| 7. Shri V. P. Luthra,
Managing Director, | <i>Member</i> |

Telestar Television
Industries (P) Ltd.,
New Delhi.

- | | |
|--|---------------|
| 8. Shri A. Raman,
Director,
Credit Planning Cell,
Reserve Bank of India,
Bombay. | <i>Member</i> |
|--|---------------|

2. The Credit Planning Cell of the Reserve Bank of India provided the secretariat for the Committee. Shri P. S. Philip, Assistant Chief Officer of the Cell, assisted the Committee as its Secretary.

Terms of Reference 3. The Terms of Reference for the Committee are :

(i) To review the existing institutional arrangements and the special schemes now in operation in the commercial banks (including in particular the public sector banks) for meeting the credit requirements of various categories of self-employed persons.

(ii) To identify the types of self-employed persons who should be considered for special financing.

(iii) To evolve guidelines in respect of security, rate of interest, period of repayments and other terms and conditions.

4. While constituting the Committee, it was indicated that the Government desired to have The Report of the Committee within a period of about two months.

Meetings of the committee and Discussions with others 5. The Committee met on the following dates in the places indicated :

First Meeting — Bombay — October 26, 1970.
Second Meeting — Bombay — November 27, & 28, 1970.

Third Meeting — New Delhi — December 2, 1970.

Fourth Meeting — Bombay — December 16, 1970.

6. In order to obtain a first hand knowledge

of details relating to certain important self-employed sections of society, the Committee, at its first meeting, felt that it would be useful if a Sub-Committee consisting of Shri V. D. Thakkar, Shri A. Raman and Shri P. S. Philip could meet a number of persons having a good knowledge of the various aspects of the subject. The Sub-Committee had a series of meetings with representatives of self-employed groups, such as, technocrats, transport operators, retailers, tailors, craftsmen, etc. in different parts of the country. Besides, the Sub-Committee held discussions at Trivandrum with officials of the Directorate of Industries of the Kerala Government and office-bearers of a co-operative society of self-employed engineers, who were unemployed until recently, engaged in the manufacture of scooters. The Chairman and some of the members of the Committee visited Calcutta and met a large number of small entrepreneurs, bankers and officials of the State Directorate of Industries and the National Small Industries Corporation. The Committee also had the benefit of views of Shri K. Arunachalam, Vice-Chairman of Khadi and Village Industries Commission, Shri Arvind N. Mafatlal, Shri G. D. Somani, Prof. M. L. Dantwala, senior officials of the Small-Scale Industries Development Corporation, Tamil Nadu, and senior officials of Small Industries Service Institute at Bombay, Madras and Calcutta.

7. Before finalising the Report, the Committee had the benefit of discussions with Shri A. Baksi, Secretary to the Government of India, Ministry of Finance, Department of Banking, Shri T. A. Pai, Chairman, Life Insurance Corporation of India, Dr. R. K. Hazari, Deputy Governor, Reserve Bank of India, Shri M. Narasimham, Secretary, Reserve Bank of India, Shri K.N.R. Ramanujam, Chief Officer, Industrial Finance Department, Reserve Bank of India, and several bankers.

8. Before identifying the categories of self-employed persons who should be considered for special financing, as per one of the Terms of Reference, the Committee thought it fit to decide as to who should

be termed as 'self-employed.' In the view of the Committee, employment potential, including self-employment, exists in the following :

(i) Farmers including dairy and poultry farmers, owners of farm animals, such as bullocks and pigs, and fishermen, etc.

(ii) Small-scale industries.

(iii) Household and cottage industries, such as, khadi-making, processing of cereals, pulses, etc., crushing of oilseeds, cottage match manufacturing, palm gur industry, hand-made paper making, etc.

(iv) Professional groups, such as, doctors, lawyers, teachers, instructors, engineers, architects, interior decorators, designers, chartered accountants, tax consultants; carpenters, blacksmiths, cobblers, tailors, launderers, plumbers, electricians, electric repairers, servicing and repairing of various equipment, building and road construction small contractors, etc.

(v) Small traders including retailers and small wholesalers and distributors of all categories including vegetable, fruits and flower vendors, confectioners, restaurants and other small catering establishments.

(vi) Other small business, such as, transport operators including operators of taxis, auto-rickshaws, carriages drawn by animals, barges, etc.

The above list is by no means exhaustive but only illustrative.

9. Many of the self-employed would not merely be self-employed individuals, but they themselves would be in a position to generate further employment. For example, a doctor appoints a compounder or a nurse, or a small entrepreneur, a few workers who help him.

10. Whilst considering the problem of unemployment, the Committee was guided by the following over-riding considerations. There is a very big backlog of unemployment in the country. There is a sizeable number of educated unemployed, including

**Role of Banks
in stimulating
Employment**

the technically qualified group, who are mainly concentrated in the metropolitan areas and larger cities and towns. A socially significant aspect is that a high proportion of the unemployed is in the age-group of below 25 years. There is also the problem of under-employed in the rural areas. The number of man-hours lost as a result of the rural under-employment is staggering.

11. In accordance with the Directive Principles of State Policy enshrined in the Indian Constitution, opportunities for gainful employment should be provided to all citizens who seek them and within the limits of economic capacity and development of the State, effective provision has to be made for securing the right to work and to public assistance in cases of unemployment. There is unfortunately a vast gulf between this ideal and the employment situation prevailing in the country at present. Generation of employment is part of the process of growth of the economy and is linked with programmes and projects for development. Financial intermediaries like banks, which mobilise the savings of the community and canalise them towards productive investment, are an effective instrument to assist economic growth and have, therefore, an important role to play in stimulating employment. With a growing network of branches (about 11,000 at present) spread far and wide in the country, they could be utilised in an increasing measure to cater to the credit needs of a vast number of professional and self-employed categories. Banks can no doubt play an effective role only if a proper environment conducive to all-round development is created by the Government, particularly at the State level.

12. In the last few years and, particularly since nationalisation, banks have formulated a number of credit schemes to help borrowers, such as, artisans, craftsmen, professionals, retailers, transport operators and the like. These schemes have already made some impact but would require considerable rationalisation in many cases to make them more purposeful. The Committee would not like to ignore in this

context that besides credit, there are a few other factors which are also important to make these schemes a success. Credit is only one of the factors in organising production and generating employment. Procurement of place of work at reasonable cost and of raw materials, getting over the cumbersome administrative formalities, organising the requisite marketing machinery, are some of the equally important problems confronting those who wish to become self-employed. Most of these persons also require assistance and guidance regarding the various factors of production, marketing and finance. Therefore, mere formulation of credit schemes may meet the problem only half way. In building up an appropriate environment for a self-employed enterprise to succeed and flourish, the Government, the big and medium scale industries and business, financial institutions as well as the self-employed himself, have all an important role to play.

13. The Committee felt that on the basis of the abovementioned Directive Principles

<p>Under-employment in rural sector. importance of village crafts, services, etc.</p>	<p>relating to gainful employment, the under-employed in the rural sector would also be entitled to employ themselves in allied agricultural and other activities in order to increase their earnings. Village crafts and services have large employment potential and it should be possible for rural unemployed and under-employed to revive these occupations to a considerable extent. In fact, village crafts and services have ready markets and, in most cases, raw materials are available locally. Considering the potential for self-employment in these areas, efforts should be made to accelerate their transformation from traditional to modern methods of production and to make the thousands of scattered enterprises economically viable. While this is largely a problem of organisation and marketing, credit will play a catalytic role. The Gadgil Committee Report on Organizational Framework for the Implementation of Social Objectives contains very useful studies to focus attention on the nature of credit gaps in these areas.</p>
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Chapter II

AN ASSESSMENT OF THE SPECIAL CREDIT SCHEMES OF BANKS

14. As required by the Terms of Reference, we reviewed the existing institutional arrangements and the special credit schemes in force in banks for meeting the requirements of different categories of self-employed persons. However, from our study, we have omitted the schemes for assistance to farmers because they themselves would call for a separate detailed study. Although the Committee is aware of different institutional agencies in addition to commercial banks, which render financial assistance to self-employed persons, it has mainly confined its enquiry to the arrangements of the banking system only.

15. In this chapter, we have confined ourselves to the various aspects of the working of the special schemes. Our recommendations in this regard are given in Chapter III.

16. The special schemes introduced by banks for rendering financial assistance to different categories of self-employed borrowers, such as, small-scale industries, transport operators, retail trade, small businessmen, professional and other self-employed persons, and by way of educational assistance, were examined by the Committee.

17. The special credit schemes in most cases have been in force only for a comparatively short time and barring a few, these have been introduced in the last one year or so. This factor has, therefore, to be taken into account in making any quantitative assessment of the impact produced. A statement showing the comparative position of the advances granted by banks in the public sector to small-scale industries, transport operators, retail trade and small businessmen, and professional and self-employed persons, as at

Salient features of the schemes

Quantitative progress regarding assistance

the end of June 1969 and August 1970, is given in Annexure I. A bank-wise amplification of the above statement is contained in Annexure II. It will be seen from Annexure I that the total number of accounts in respect of the above categories of borrowers which stood at 1,04,973 as at the end of June 1969, increased to 3,09,766 at the end of August 1970. The amount of outstanding advances increased during the period from Rs. 278 crores to Rs. 481 crores. Of the total number of accounts as at the end of August 1970 at about 3.10 lakhs, borrowal accounts numbering 1.27 lakhs and 1.35 lakhs are in respect of small-scale industries and retail trade (and small businessmen), respectively. The balance of about 48,000 accounts only represented those relating to advances granted to transport operators, and professional and self-employed persons.

18. Lest an impression is created that banks have done adequately in regard to small-scale industries, it may be pointed out, that of about 1.45 lakhs* of registered small industrial units and the unregistered units, information about which is not available, only about 93,000 units are being assisted by commercial banks. A statement showing the advances of the State Bank of India Group, 14 nationalised banks, foreign banks and other scheduled commercial banks in the private sector, to small-scale industries as at the end of June 1968, June 1969 and August 1970, is given in Annexure III. It will be seen therefrom that, as at the end of August 1970, the scheduled commercial banks in the country have financed a total number of 93,188 small-scale industrial units, for an aggregate limit of Rs. 805 crores, under which the outstanding advances amounted to Rs. 421 crores. Of these, the public sector banks have financed 85,133 units for a total outstanding sum of Rs. 377 crores. Of the banks in the private sector, foreign banks have assisted 1,557 units to the extent of Rs. 21 crores, while the other scheduled commercial banks have extended assistance amounting to Rs. 23 crores to 6,498 units. It would thus appear that while banks have made some progress in rendering

* As registration of units is on a voluntary basis and as no information is received of units which have become defunct the figures suffer from certain limitations as regards accuracy.

assistance to the various categories of borrowers falling under the self-employed group, particularly to the small-scale industries, they have not only to continue their efforts for financing a larger number of existing units, but special efforts should be made to extend assistance to new units, particularly the smaller ones, and other new entrants to the self-employed group. The scope for development of the small-scale sector has further improved with the onset of green revolution in agriculture. So far small units have mainly confined themselves to functioning as ancillaries to large and medium industries. There is now considerable scope for development of consumer goods industries and for agro-based units.

19. The Committee examined in depth the basic features of the various special credit schemes of banks with a view to finding out as to how far their performance could be improved, particularly in the context of the vast and complex requirements in this field. In this connection, the Committee fully recognised that mere introduction of schemes without appropriate co-ordination with various relative agencies in the field, such as, Large and Medium industry, Training Institutions, Marketing Agencies, Government Departments and agencies at the State/District/sub-district levels, other financial institutions, etc., would not create the total environment favourable for a successful implementation of the schemes.

20. Viewed in this light, the schemes to help the self-employed leave much to be desired. Most of the schemes appear to have been formulated by various individual banks on an *ad hoc* basis without the kind of co-ordination referred to above. Offer of liberal terms of advances will have to be accompanied by arrangements with outside agencies to enable the borrowers to obtain technical guidance, machinery, land and shed, raw materials and advice on financial, management and marketing aspects. In short, banks should consider pro-

viding integrated financial assistance. The schemes of banks have generally failed to take the totality of requirements into account and to evolve the necessary machinery for these co-ordinating arrangements. Although banks cannot be entirely blamed for this, it is desirable that they take the leadership and initiative to play a promotional role, without which it may be difficult to establish this sort of co-ordination. In evolving this strategy, banks can do much if they move jointly rather than individually.

21. Schemes evolved in banks or other agencies to help unemployed technically qualified persons should seek to accommodate, as far as possible, the aspirations of persons who are intended to be

helped. The schemes should try to give them a sense of job satisfaction. For example, one of the main reasons why the scheme of the Indian Oil Corporation has not so far made much headway, is that it merely provided for the dealership in oil and other products at the petrol pumps for the unemployed technically qualified people as well as unemployed non-technical graduates. While such a scheme may be attractive to unemployed non-technical graduates, this could hardly be satisfying to the technically qualified persons. Perhaps, if the scheme had also provided, in addition, for the setting up of an automobile servicing/repairing unit, or a suitable small manufacturing unit producing some ancillaries required by the automobile industry, by technically qualified people taking up the dealership in a centre, many engineers would have found in the scheme an opportunity for job satisfaction. Similarly, the dealership in fertilizer distribution offered by the Fertilizer Corporation of India could also provide for the setting up of Custom Service Units in agricultural services by agricultural graduates making use of the scheme.

22. Apart from these general inadequacies, the schemes have also revealed several other drawbacks. Some of the more prominent of the drawbacks are listed below.

23. The schemes of some of the banks, particularly for assistance to professional and self-employed groups have been framed without adequate appreciation of the requirements and capacity of the borrower. Persons just starting to establish business/practice are offered equipment finance but no finance whatsoever for acquiring places where they can carry on their business/practice. Without the latter type of finance such new entrants cannot avail themselves of equipment finance. Furthermore, there are cases where borrowers are called upon to provide margins for equipment finance at rates which do not appear to be different from those prescribed in respect of loans to other categories of borrowers. The insistence of such rates of margin constitutes a hardship to the newly entering small entrepreneur.

In the case of persons who leave well-established jobs and take up self-employment, there is no provision in the schemes for release of reasonable amounts periodically towards subsistence until the targeted production and anticipated profitability of their enterprises have been reached.

24. Some of the schemes for assisting technocrats are devised for helping only a single technically qualified borrower. They have not been adapted to come to the assistance of one or more partners or a few persons forming a registered or a co-operative society or a private limited company. Our discussions at Trivandrum with the office-bearers of a Co-operative Society of Engineers manufacturing scooters revealed that banks should view with greater sympathy and understanding the needs of such societies.

25. In the case of schemes meant for technocrats, as well as in regard to other special schemes, the Committee found that there were instances where they were regarded more as 'strait jacket' arrangements which could not be violated and

not as flexible guidelines primarily meant to help the persons covered under the schemes. Many of the schemes formulated for assisting the technocrats provide for a ceiling on assistance, with the result that credit is denied in cases, where the cost of the project even marginally exceeds such ceiling.

26. In the case of advances to self-employed persons, banks have generally insisted upon the personal guarantee of acceptable third parties. It has come to the notice of the Committee that in certain cases self-employed persons and small enterprises could not avail of assistance from banks for want of a third party guarantee.

27. In quite a large number of schemes, there is no provision for extending clean facilities even for short duration where the borrower might require 'bridge-over' assistance for meeting urgent needs of raw materials, etc., without which his business/practice may be considerably dislocated. Such facilities may be made on a 'tied basis' by releasing the amount to the supplier of raw materials, etc. of the borrower. The need for this type of facilities is keenly felt by self-employed entrepreneurs who have to obtain raw materials periodically on the basis of quota releases. The case for extending such facilities is strong in the case of borrowers whose dealings with the bank are satisfactory.

28. In several cases, repayments in respect of loans for purchase of equipment/machinery are required to start without the borrower being allowed a reasonable period of grace for reaching a stage of adequate income generation. Such rigid or unrealistic repayment schedules result in defaults by the borrower which ultimately disqualify him for continued assistance. Repayment instalments including accrued interest may be deferred until repaying capacity of the borrower is adequately developed keeping in view the nature of his business practice. The

period over which the entire loan and interest accrued during the "start-up" period is to be liquidated, should be worked out on the basis of the cash generating capacity of the business.

29. It is observed that practically all schemes for assistance to the self-employed provide for calculation and recovery of interest quarterly on term loans. The Committee feels that although interest may be calculated on quarterly basis, recovery thereof may be effected, monthly, in cases where repayment of loan is required to be made in monthly instalments. This will result in some relief to the borrower who is required, under the present procedure, to pay a large sum by way of interest, quarterly, particularly during the initial period of the loan.

30. Most of the schemes formulated for assisting transport operators do not have any provision for assisting the borrowers to meet the cost of spares, such as, tyres and tools. There is also no provision for enabling the borrowers to meet the cost of periodical repairs of a major nature.

31. The repayment schedules in regard to these schemes have also not taken into consideration the lean period of income during monsoon seasons in the case of operators in areas affected by such seasons when transport business is considerably affected.

32. While examining the schemes for financing transport operators, in particular, for owner-operators of trucks, it was brought to the notice of the Committee that for according recognition to operators for purposes of eligibility of lorry receipts issued by them for negotiation of bills by banks, the Indian Banks Association has prescribed the ownership of a minimum fleet of 12 trucks by the operators as criterion. The minimum prescribed has caused hardship to the smaller operators. The Association should, therefore, consider relaxing the minimum requirements for the above purpose, with suitable safeguards considered necessary.

33. A statement showing the assistance rendered by banks in the public sector by way of loans for educational purposes is given in Annexure IV. The schemes for rendering educational assistance formulated by some of the banks stipulate commencement of repayment soon after the availment of loan and not after completion of education by the beneficiary and a lapse of further brief period for securing a proper job.

Educational assistance Schemes

34. Most of the schemes do not appear to have made provision for assistance to acquire testing equipment and for research, advertising, marketing and product development. Units which have reached the second or the third phase of development generally require support for research activities.

Assistance for testing equipment and research

35. While making a study of the degree of success achieved in regard to the schemes of commercial banks, the Committee had occasion to look into a case study recently made by the Industrial Finance Department of the Reserve Bank of India in respect of the special schemes for provision of credit facilities to technicians and craftsmen introduced by the Gujarat Industrial Investment Corporation (GIIC). Among the financial institutions rendering assistance for the above group of self-employed, the GIIC has made significant progress. The GIIC which introduced the Technicians Scheme in July 1969 has, at the end of October 1970, sanctioned loans to as many as 617 units for an aggregate sum of Rs. 4.37 crores. The progress made by the GIIC appears to be mainly on account of:

(a) The liberal terms and conditions of their advances. The Corporation charges rate of interest at a low $4\frac{1}{2}$ per cent per annum for the first two years, and 9 per cent per annum thereafter.

(b) The repayment of loan commences only from the third year of the date of the sanction

of the facility and runs into 16 half-yearly equal instalments.

(c) The Corporation has an arrangement with the Gujarat Industrial Development Corporation (GIDC) and some of the major commercial banks operating in Gujarat to enable the technician who is assisted by the GIIC, to secure fixed assets in the form of land and factory sheds from the GIDC on long-term payment basis and secure working capital facilities from the commercial banks. Thus the GIIC, while assisting the technicians has made arrangements with outside agencies to enable the borrowers to obtain their other essential requirements.

36. Some of the other relevant characteristics in regard to the scheme of assistance of the GIIC are:

(i) The units covered are mostly engaged in sophisticated lines of activity, such as, manufacturing of heat-treatment shops, dynamos, pharmaceutical preparations, surgical products, etc.

(ii) In a number of cases, the entrepreneurs assisted had fairly long experience in the line, although not all had academic diplomas/degrees.

(iii) In most cases, the disbursal of loan commenced within 3 months of the date of sanction.

(iv) The upper limit of the amount of assistance has been fixed at an adequately high level of Rs. 5 lakhs and the cost of projects financed ranges between Rs. 11,000 and Rs. 4.18 lakhs.

(v) A number of technicians assisted by the Corporation had no financial stake in the business, while a few others contributed only less than 10 per cent of the total estimated fixed costs of the respective projects.

37. Although the scheme has not been working for a sufficiently long period, the results so far produced are encouraging. The experience in regard to payment of interest to the Corporation has also been satisfactory.

38. The above study has led the Committee to the following conclusions which are important from the point of view of the approach of banks in regard to the schemes for financing the technocrats :

(1) The success achieved by the GIIC in one area within such a short period is commendable and the element of interest subsidy and the repayment schedule spread over a long period have no doubt played a role in this. But the most important point to be taken note of is the fact that the entrepreneurship in Gujarat took advantage of the facilities and opportunities provided. The experience of GIIC will become particularly relevant in the context of the need for special help by banks to the relatively under-developed areas of the country.

(2) The special scheme formulated for the technician entrepreneurs has helped the technicians in making good use of their technical knowledge as would be evident from the setting up by them of several new highly sophisticated industrial units in the small-scale sector.

(3) Offer of liberal terms of advances coupled with a package scheme of assistance with regard to acquisition of machinery, land and shed, working capital requirements, etc., as is being done by GIIC has obviously generated good response from prospective technical entrepreneurs.

(4) The facilities under the Technicians Scheme are mostly availed of by craftsmen with previous background and experience in the line of activity. This would serve to emphasise the need for an in-plant training programme for the potential self-employed.

(5) There need be no undue emphasis on the entrepreneur having a financial stake in the business in the shape of owner's contribution to the cost of the project. Due weightage would have to be given to the risk the entrepreneur is undertaking in giving up his previous job and entering a new line of activity or any other similar criteria of a non-financial nature, such as, his investment in technical education.

39. The Committee also reviewed the organisational set-up of banks to handle the special work of administering schemes to assist self-employed persons and to increase employment potential. The existing set-up in most banks reveals a number of deficiencies, as indicated in the following paragraphs :

Review of Organisational Set-up in Banks

40. Although some of the schemes appear to have been formulated with imagination and understanding of the background and most of the needs of the borrower, assistance under these schemes have not been availed of to any appreciable extent for want of adequate publicity for them. Most of these schemes, formulated in the Central Offices of the banks, appear to have been communicated to the branches in a routine fashion in the form of circular letters without specific instructions regarding the manner in which the schemes should be made known to the public. Barring a few, banks have not taken out suitable brochures and other literature, particularly in local languages, for use by prospective borrowers.

Effective Publicising of schemes

41. In most cases, applicants for advances are required to fill up elaborate forms and comply with cumbersome formalities and procedural details which have often discouraged the enterprising youth wanting to establish himself in a new venture. As a result, much valuable time is lost. It is of the utmost importance that timely provision of credit is ensured. When the assistance given is delayed, in many cases, it falls short of the requirements of the borrower as the project cost has meanwhile gone up. The branch agents, because of the heavy load of operational work, generally are not in a position to assist the customers in filling up the application forms or having the forms filled up on the basis of discussions with them.

Time consuming Procedures and Need for prompt assistance

42. There is also scope for streamlining other time-consuming procedures involved in

sanctioning/renewal of loans. The outstanding backlog of work relating to periodical renewal of loans has been found to be one of the factors inhibiting the branches of banks in entertaining new credit proposals of the self-employed on a larger scale. It is observed in many cases, the branches have not been given the necessary discretion to renew existing facilities without changes in the terms, in cases where the borrower unit has been satisfactorily established and its dealings with the bank have not disclosed unhealthy features. In this connection it is observed that in a few of the nationalised banks, branch agents/managers have been authorised to renew facilities on existing terms and conditions upto twice the amount of their discretionary powers for sanctioning fresh advances, provided the relative accounts being renewed have been satisfactorily conducted.

43. It has been brought to the notice of the Committee that one of the factors causing delay in the sanction/disposal by banks of applications for financial assistance has been the delay on the part of the Small Industries Service Institute in certifying about the technical feasibility or otherwise of the applicant's proposal. Considerable time is being consumed by the Institute in identifying missing information in the proposals and calling for the relevant additional information. It is essential that early steps should be taken to avoid such delays. It is also necessary that banks should, over a period, seek to make themselves self-reliant in regard to the examination of the technical and other feasibilities of the proposals received by them, to the extent possible, by appointing on their staff at suitable centres, technical and other experts for the purpose. Where necessary, they can also make use of the expertise available with the proposed Multi Service Agency, in this regard, vide paragraph 61.

44. In many cases, the entrepreneur could not effectively utilise the benefits of the facilities under the schemes for want of technical guidance and expertise on matters, such as, securing necessary certificates, clearances, etc. for establishing new units, management of

Borrower needs technical and other guidance

workers and financial resources, acquisition and utilisation of raw materials, marketing of products and dealing with problems regarding maintenance of accounts and payment of taxes.

45. The branch officials, because of their traditional background and training, seldom adopt a dynamic and promotional attitude in regard to rendering assistance to the potential self-employed. Only in very few banks/branches, there is a system of searching out and identifying persons who have worthwhile schemes to be financed.

46. The banks/branches have not made adequate arrangements for follow-up by way of maintaining close contact with the activities of the borrower and keeping themselves informed about the difficulties, if any, experienced by him and offering suitable guidance, where required. Supervision over utilisation of the credit and personalised services and guidance which are essential in regard to this category of advances, are not available in most of the branches.

47. One of the basic reasons why the credit schemes of commercial banks have not produced satisfactory results has been the absence of an adequate system of reviewing the working of the credit schemes. Even when some of the terms and conditions of the schemes have been found to be obstructive in accommodating the genuine requirements of different categories of borrowers for whose benefit the schemes have been framed, no effective steps have been taken to make suitable modifications. Sometimes branch officials entertaining applications for loans, instead of appreciating the needs and difficulties of the customers, have declined the proposals on technical grounds or under the plea that the proposal is not according to the relevant scheme.

48. It is essential that the working of the schemes should be periodically reviewed in the

light of the experience of the branches in implementing them and more particularly, the circumstances under which applications for assistance had to be rejected. Suitable alterations should be effected to ensure that the schemes are in tune with the changing needs of the prospective clients. Such review should take place at senior executive level at the Central Offices at prescribed intervals and the necessary changes should be effected in the schemes.

49. How successfully a scheme is implemented would largely depend upon the attitude and efficiency of the officials at the branch. In fact, the branch agent constitutes the king-pin of the organisational set-up for implementing the special credit schemes of banks. If he ensures that the schemes are adequately publicised in his area and follows this up by personalised service by him and others working in his branch, then the schemes achieve the objectives for which they are framed. However, branch agents have to devote large part of their working time to various operations and to conventional/traditional borrowal accounts. The branch official who has so far been trained to making advances largely against tangible security offered by a borrower, has now to be speedily oriented to the new situation in which he is called upon to extend credit on the basis of the applicant's skill, experience, integrity and such other qualifications. This means that he has to be trained to assess adequately a proposal for credit from a self-employed person on the basis of the capacity of the applicant to organise a profitable and socially beneficial business/activity within a reasonable period. Thus, the success in regard to this category of advances depends mainly on how soon and how well the branch official is trained to evaluate the competence and dependability of the borrower and the measure of follow-up action he can take by way of close supervision over the proper utilisation of the credit and keeping himself informed about the problems accompanying the growth of the borrower's activity and rendering timely guidance in regard to them. Therefore, to ensure the right type of

organisational set-up at the branch level, it is necessary that the branch manager/agent is not only clothed with sufficient discretionary powers in granting loans, but is also trained to develop the right attitudes and outlook; he should also acquire the necessary skills to exercise his powers with confidence and without fear of unhappy consequences in the event of the advances becoming difficult due to unforeseen adverse circumstances. In this regard it is also the duty of the management to ensure that a branch official, who has acted *bona fide* and to the best of his judgement in granting an advance to a self-employed person, is protected against any penal action if the dues turn out to be difficult of realisation.

Chapter III

GUIDELINES FOR ACTION

A—General

50. The critical appraisal of the various special credit schemes of banks gives one an impression that they have been formulated without specific consideration of employment generation. While considering financial assistance, banks should give due weightage to the aspect of employment generation. This will be helpful in a country where capital is scarce and manpower resources are abundant.

51. Banks and other financial institutions should be required to compile figures of employment generation in small and medium and large industrial units which have been granted term loans. The necessary format for this purpose should be evolved by the Credit Planning Cell of the Reserve Bank of India.

52. No special credit scheme can be expected to meet the requirements of borrowers in the various parts of a vast country like ours. Problems and difficulties of the self-employed tend to vary even in the same line of business/activity not only according to the area or State in which he is functioning, but also according to whe-

ther he has his business/activity in a metropolitan city, urban, semi-urban or a rural area. The schemes are after all mere guidelines and the crucial factor is to implement them at the grass root level with flexibility as keynote, in letter and in spirit. The real solution, therefore, lies in the manner in which the schemes are implemented by the branch officials. Branch agents should, therefore, be given sufficient orientation about the scope and content of these programmes and the objectives that are sought to be achieved. They should, in particular, be impressed upon to suggest improvements and modifications in the schemes that are already in operation, based on their experience and first-hand knowledge of the problems in their areas. To encourage staff involvement, members of the bank staff who come forward with imagination and dynamism for helping the self-employed categories should be suitably recognised. In fact, if all branches are manned by officers who are trained and dedicated, even without any formal credit schemes, they should be able to render financial assistance which should help employment generation. In the view of the Committee, this emphasises the urgent need for a massive and rapid training programme for the branch officials. It is necessary to hold seminars at regional level periodically to exchange information on the implementation of the various credit schemes. The Committee would like to stress that in the programmes of the various training colleges attached to the commercial banks, special emphasis should be placed on the financing of self-employed and the need for personalised service in regard to these categories. The Bankers Training College of the Reserve Bank of India should give a lead in organising periodically courses with this orientation.

53. Small industries and small traders, whom the Committee met, pointed out one major handicap to which they are subjected. They are constrained to give large credit for a long duration to large and medium industries and/or contractors or to Government Departments and Public Sector concerns.

Weightage to
Employment
Potential while
lending

Branch Agents
to be properly
oriented,
trained

Prolonged credit
availability
by large units/
Government
Departments/
Public Sector
concerns

As many of these small-scale enterprises are supplying to medium and large-scale industry, and there being generally a buyer's market, they have to give large credit for long periods to market their products. The delay in the payment of bills by Government Departments and Undertakings has also imposed considerable strain on the finances of small-scale units and entrepreneurs. On the other hand, the small entrepreneurs themselves are required to make their purchases mostly against payment of cash. In fact, of late, this problem has become very serious and is acting as a constraint to the expansion of small-scale enterprises, thereby resulting in a slackening in the growth of the self-employed sector as also its employment potential. When these small industrialists and traders whom we met were informed that in Japan the main industry or the contractor has to pay interest on the outstanding dues for a period exceeding 60 days at a penal rate, which at present is over 14 per cent they suggested that such a statutory provision under conditions existing in our country might not serve their purpose. They would rather prefer liquidity to earnings by way of interest. This position requires early rectification not only from the point of view of providing much-needed relief to small entrepreneurs but also from the point of view of the large issue of bringing the large industry under a greater measure of financial discipline, and minimising a degree of double financing. The Committee feels that an immediate liquidation of the present outstanding debt of the large industry to the small sector would impose a strain on the finances of the large industry. The Committee, therefore, suggests a phased liquidation of such debts as early as possible and, for this purpose, the Reserve Bank of India may work out a suitable programme. Meanwhile, efforts should be made to ensure that there is no accumulation of further sizeable debt as in the past. The Committee hopes that with the introduction of the new Bill Rediscounting Scheme, it should be possible for the banks to persuade the larger and medium industries to accept bills of exchange to be drawn on them in respect of their purchases from the small-scale sector. The Committee would also urge that ways and

means should be devised whereby the government Departments and Undertakings settle the claims of small entrepreneurs promptly. The Reserve Bank may also consider whether the system of charging penal rates of interest on overdue outstandings prevalent in Japan, referred to earlier, can be of some use in bringing about the desired discipline upon the large purchasers from the small-scale sector.

54. The disciplining of the large and medium industry in regard to payment of dues to small entrepreneurs should not result in a shrinkage of purchases from the small-scale sector. On the other hand, every effort should be made to prevail upon the large and medium units to farm out as much of their ancillary requirements as possible to the small-scale sector. In fact, the lending institutions can also use their good offices to bring about an increasing share for the small sector in the supply of ancillary requirements of large units. The Committee would like to refer in this connection to the recent policy of Public Sector undertakings to maximise their orders for components, etc. from the small-scale sector.

55. Depreciation and development rebates which are allowed in the tax system, encourage industrial units to increase their block assets. While block assets are added, entrepreneurs tend to rely more and more on outside borrowings for their working capital needs. A stage is reached when their requirements become too large and the units are not able to obtain adequate outside assistance according to their requirements. This affects their production plans and leads to stresses and strains in the working of the units. This problem is prevalent not only in medium and large industries, but also in small-scale units. While it is true that it is a matter for suitable financial planning by the units themselves, as well as imposition of financial discipline on borrowing units by the lending institutions, it is for consideration whether some suitable tax incentives can also be given to small-scale industries only, to build up working capital of their own. In the Committee's view,

**Tax Incentives
for small en-
trepreneurs**

one such encouragement could be to provide an incentive for additions to reserves out of profits, with suitable stipulations by the tax authorities.

56. In terms of Section 80 J of the Income-Tax Act, at present, a newly established industrial unit is allowed to deduct from its profits upto 6 per cent of the capital employed for a period of five years from the commencement of production. This percentage is calculated on equity plus term loans availed of for a period of 7 years or more. In most cases, banks grant term loans to small-scale industrial units for a period of 3 to 5 years and these units are not, therefore, able to take advantage of the existing tax concessions to the extent intended by the authorities. The Committee, therefore, recommends that the period of term loans availed of by small-scale industries for determining the quantum of benefit under the above tax concessions may be reduced from 7 years to "3 years or more."

One of the conditions stipulated for a newly established industrial undertaking to be eligible for the tax concession provided under Section 80 J of the Income-Tax Act is that the industrial undertaking must employ 10 or more persons if working with the aid of power, or 20 or more persons if working without the aid of power. The Committee feels that the above stipulations may be suitably relaxed in the case of small-scale industrial units registered with the State Director of Industries, to enable them to avail of the tax benefits provided in the Section.

57. It was brought to the notice of the Committee that some of the small-scale industrial units, by virtue of their normal process of growth, ceased to be small units by exceeding the level of investment of Rs. 7½ lakhs in plant and machinery. In such cases, sudden change in the terms and conditions of the loan and withdrawal of certain facilities, such as, raw material allocation allowed to small-scale units, resulted in difficulties. The Committee understands that some of the banks continued the same terms and conditions of the loan for

a period of two years after the units had crossed this level of investment. The Committee feels that it would be helpful if all banks extended such treatment, and also if Government Departments and other agencies concerned extended similar concessions, particularly in the matter of raw material allocation.

58. One of the main handicaps for banks in helping new entrants to the various categories of self-employed, is the inadequacy of arrangements for collection of relevant information, including credit information, on the prospective borrowers to enable the banks to take steps to meet their requirements. While the District Surveys undertaken under the Lead Bank Scheme will give useful information about credit gaps and areas of activities in a general way, they will not furnish information on individual prospective borrowers. For this purpose, it is necessary to have an Agency which would make arrangements for collection of information on the prospective borrower regarding his :

- (a) skills and experience in the profession,
- (b) details of turnover of his business/activity, if any,
- (c) earning capacity as revealed by his past business,
- (d) sources of finance so far resorted to, and
- (e) outstanding obligations to third parties including private money-lenders.

59. Such information will have to be collected not only in the metropolitan areas and larger towns, but also in the district centres. The information will have to be collected in regard to the so far unbanked sectors of the society. Since the collection of such information on a nation-wide basis would involve large-scale efforts, and the building up of a suitable organisational set-up, which would necessarily be a time-consuming process, the Committee is of the opinion that, to start with, the proposed Agency should function in a manner which will produce quick results consistent

with social objectives. For this purpose, it will be useful if the Agency confined itself initially to metropolitan cities and the larger towns, as well as to chosen operational bases in the relatively backward areas in the country.

60. The collection of information by the Agency in these areas will not only be in respect of the educated unemployed, but also relating to other persons possessing skill, enterprise and integrity and capable of engaging themselves in services useful/important to society. Before outlining the functions envisaged for this Agency, the Committee would like to stress that the setting up of the Agency is only to supplement the efforts of individual banks which should continue to expand their activities for assisting the self-employed based on their available organisational set-up to collect such information. The existence of the Agency should on no account prompt banks to refer all prospective borrowers to the Agency as a matter of course and to advise the applicants to approach them through the Agency. This Agency is meant only to *supplement* the efforts of banks and whatever individual banks can do on their own, they should not fail to do.

61. The Committee envisages this Agency as a Multi Service Agency. It will not, however, be a financing agency but will only be a co-ordinating/planning/advisory body. The Committee is of the view that this agency should provide technical assistance to the self-employed persons about the feasibility of their projects/proposals. The Agency will, in particular, help the flow of credit to new entrants into the various categories of self-employed, viz. professionals, retailers and other small business. This Agency should also provide guidance in regard to the availability of raw materials, marketing prospects, management of resources, labour laws, taxation and accounting problems, etc. The Agency will also arrange for an adequate publicity for the credit schemes of the banks, particularly in the local languages, to get the needy sections of the community familiar with the details of the schemes.

**Multi Service
Agency—Its
Functions**

62. There should also be a 'Guidance Cell' in the Agency and such Cell should arrange through banks for the practical training of unemployed engineers and other technically qualified persons registered with the Agency, as the banks are in constant touch with large, medium and small industry, professionals and trading clients. Banks should exercise influence upon their borrowers who are industrial units, to make arrangements for training a suitable number of young men at periodical intervals. Other lending institutions, such as, the Life Insurance Corporation of India, Industrial Credit & Investment Corporation of India, Industrial Finance Corporation, State Financial Corporations, etc. also can exercise similar influence on their borrowers to provide training facilities to the technically qualified persons without practical experience. The Central Government has initiated a training programme for unemployed engineers and some of the industrial houses are arranging training for unemployed technically qualified persons. The 'Guidance Cell' at the Agency could supplement these efforts. The technical staff of the Agency, particularly those attached to it in backward areas, should undertake tours to those areas and assess the potential for action. The Agency should also be in a position to render postal consultation to those needing its assistance.

63. The Secretariat of this Agency should be carefully planned to include the right type of expertise needed to discharge its multifarious responsibilities. The cost of running the Agency will have to be shared by all the participating banks at the centre where it is established. Many of the experts needed for the Agency can work on a part-time basis. The size of the permanent secretariat, drawn mainly from banks, can be kept at the minimum. The responsibilities of organising and administering the Agency at a particular centre may be entrusted to one of the banks operating at the place, which may be designated as the 'Convener bank' for this purpose. Since the Agency will be a joint effort of all banks, it will be desirable if they settle among themselves as to who should be the 'Convener bank' in different centres. The Committee is of the view that it

should be possible to set up such Agencies, at least in a few places to start with, almost immediately with a nucleus of staff. In some of the metropolitan centres it may even be necessary to open more than one Agency. The Committee would also like to stress in this connection that the proposed Agencies functioning in various parts of the country will be self-contained independent units. It is not the intention of the Committee to suggest an All-India Apex Agency with branches functioning at various levels (States/Districts and towns) and exercising control over the branch units. Agencies operating in a centre or in a region will, however, be expected to have functional co-ordination among themselves. The Committee hopes that it will be possible for the banking system to set up similar Agencies at all district centres over a period of time. With the Lead Bank Scheme having made a promising start, it should be possible for banks to forge ahead in this direction.

64. The task of the Multi Service Agency, as well as of the individual bank, will be made easier if the guilds/associations/representative bodies of various categories of self-employed at the apex, regional and local levels, accept the obligation of keeping in constant touch with the lending institutions and their agencies and assist them in channelling credit to the self-employed, with their first-hand knowledge about the needs of such categories of borrowers. They should, in particular, help their members by advising them about the various procedures concerned with the setting up and operation of enterprises.

65. The Committee is of the view that equipment leasing, a facility made available by banks in some of the advanced countries, may be of some assistance in India. Under this system, the entrepreneur decides on the type of equipment he needs and the bank buys the equipment and leases it to him over fixed terms and negotiated cost. Under the system, practically every kind of capital goods could be leased — from a bulldozer to an office full of typewriters, compu-

ters, construction equipment, electronic equipment, machine tools and any type of processing or production equipment that can be classified as personal property. Such type of business by a bank in India would involve a violation of some of the provisions of the Banking Regulation Act, but this can be overcome by banks financing such schemes indirectly through agencies / units which can own and lease out equipment. Although the scope for this may appear to be limited, it may be worthwhile exploring avenues for this type of facility. Encouragement should also be given to tools/equipment centres which can function for rendering service somewhat on the lines of a custom service unit, to the industries around.

66. Many technocrats are not in a position to take advantage of the Industrial Estates constructed by the Government as the cost is somewhat prohibitive in relation to their capacity. Difficulties relating to acquiring sites for workshops/factories, particularly in the urban and metropolitan areas have become a serious obstacle in the way of establishment of small industrial units by unemployed technocrats. The Committee is aware that the issues relating to Industrial Estates are currently being examined by another committee. It is our view that the Life Insurance Corporation should be encouraged to play a big role in constructing Industrial Estates, particularly those suited to meet the requirements of small entrepreneurs. However, if adequate assistance is not available from the Life Insurance Corporation or other agencies, commercial banks will have to take an effective part in making available necessary assistance. For example, in some of the States, Small Industries Development Corporations are functioning but are short of resources. Commercial banks can channel some resources through such Corporations which are working satisfactorily. Banks, if necessary, can also consider setting up a suitable agency as a joint endeavour (somewhat on the lines of the Agricultural Finance Corporation Ltd.) to finance construction of Industrial Estates with small sheds to assist small entrepreneurs. In

Assistance for
construction
of Industrial
Estates

Arrangements
for equipment
leasing

such cases, construction should be based on pre-booked orders for sheds. The Committee is also of the view that banks can play a useful role in financing co-operative societies formed by tenant-members which seek to establish Industrial Estates suited, in particular, to the needs of engineers of small means.

67. There is considerable scope for financing professional categories of self-employed, such as, doctors, dentists, instructors running commercial and technical classes (in type-writing, motor-driving, etc.), teachers starting schools for small children in middle class and low income areas, tailors, launderers, caterers, confectioners, repairers of equipment, etc. To meet the premises requirements of such professional groups and other self-employed, such as, retailers, it has been ascertained that, in deserving cases, the Life Insurance Corporation would be willing to grant long-term loans to parties for construction of premises for periods extending upto 15 years against bank guarantees, for which the concerned bank can obtain a life insurance policy by way of a collateral. The Committee hopes that, in due course, it should be possible for the L.I.C. to extend assistance without insisting upon bank guarantees.

68. Banks can also give direct loan facilities to the above categories of self-employed for payment of advance rent for hiring premises.

69. With the growing incomes in the rural areas there is vast scope for expansion of retail trade and distribution of consumer articles, agricultural inputs, etc., where there is considerable potential for self-employment. In regard to the financing of construction of market centres to facilitate retail distribution, the Committee is of the view that, apart from the assistance which could be obtained from the Life Insurance Corporation, it should be possible for co-operative marketing societies to be formed, which can be financed by commercial banks either individually or in collaboration with term lend-

ing institutions. In cases where the Life Insurance Corporation finances such construction of market centres, banks may provide guarantees for such loans in addition to extending working capital assistance to individual retailers. Such construction activity, by itself, will also generate employment.

70. The Committee would like to lay a very big emphasis on the development of the household and cottage industries sector. At present, very little finance from commercial banks has gone to this sector. From the long-term point of view, village crafts and services should not be allowed to degenerate, but should be revived, for, that is the effective way of checking the migration of rural population to urban areas.

Our specific recommendations in this regard are as under.

71. Public Sector banks should prepare fairly long term plans for assisting village and cottage industries for modernisation, etc. With the help of the Lead Bank district surveys, banks should evolve schemes to help these industries. The problem being of national magnitude, some centralised planning for the financing of this sector should be organised by banks. The appropriate forum for evolving policy in this regard will be the Co-ordination Committee of Public Sector Banks.

72. Banks will have to work in co-ordination with bodies like Khadi and Village Industries Commission, Handicrafts Board, etc. But since the approach of the banks would be to finance only viable/potentially viable projects/units and to give equipment loans to such units for modernising their activities, they should function independently of these agencies. This would mean that banks should have direct approach to the customers.

73. Some of the commercial banks have done commendable work in financing rural sector under their Village Adoption Schemes/Rural Industries Project Area Schemes. The coverage of these schemes includes not only agriculture proper but other aspects of the

rural economy. The Committee is of the view that if commercial banks could increasingly adopt villages and take up programmes for development of the village economy as a whole, including industries and crafts, it should be possible to absorb a substantial volume of under-employment and prevent migration of labour to urban areas.

74. It is suggested that in the statements obtained from the banks by the Reserve Bank of India about finance to the priority sectors, information may also be obtained about the number of units, limits and amounts of outstanding advances granted to village and cottage industries. The Reserve Bank of India should take necessary steps for this purpose.

75. The Life Insurance Corporation has in operation two 'Own Your House' schemes which has been made applicable in about 460 centres in India. Out of these centres, many would be semi-urban and rural areas where village and cottage industries are located. Banks may encourage small contractors or unemployed civil engineers, either singly or in groups to undertake building works, on behalf of the owners in these areas availing themselves of the L.I.C. Schemes. Banks may give working capital finance to the small contractors against production and lodgement of firm orders, with a small margin, and to unemployed civil engineers, without any margin. The credit should be disbursed to the contractors against lodgement of firm orders for construction of the buildings and a suitable authorisation by the owners of the buildings empowering the bank to receive payment direct from the L.I.C. out of the loans sanctioned to them. Payment to the contractor should be in instalments, as the work of construction progresses, the repayments also being received by the banks under the above authorisation from the L.I.C. in instalments as the loans are disbursed to the owners by the Corporation. It would, therefore, appear that a close co-ordination between the Life Insurance Corporation and the Public Sector banks would be necessary.

76. With a view to making a dent in the

unemployment position, we would suggest that the authorities may lay down some guidelines to banks for financing rural and semi-urban housing schemes in co-ordination with the Life Insurance Corporation. Periodical statements in this regard should be obtained by the Reserve Bank of India from the Public Sector banks.

77. Further, it would appear that there is good scope for absorbing unemployed persons in integrated road-cutting and minor irrigation schemes for rural areas, for which also banks can give finance to small contractors/qualified civil engineers, etc. as in the case of packing credit facilities.

78. Practically all the schemes examined by us had no special built-in features to provide preferential lending to meet the requirements of the relatively under-developed areas of the country and the less privileged sections of the society. A region-wise and amount-wise breakdown of assistance rendered through these schemes would indicate that the assistance has not been diversified over a sufficiently wide area and spread over a larger number of people. This by itself accentuates disparities between regions and between sections of the society. Hence there is need to pay greater attention to backward areas as well as to the smaller borrowers who belong to the weaker sections of the society. While lending, special consideration should be shown to such borrowers in respect of security requirements, margins, rate of interest, repayment schedules, etc. Such schemes can be successful only if greater staff involvement and dedication is secured and, for this purpose, banks should provide appropriate facilities to the Development and other concerned officers working in these areas, such as, provision of furnished accommodation, conveyance, liberal educational facilities for their children, etc. Banks should also devote particular attention to setting up technical services and counselling arrangements either on their own or through the Multi Service Agency, to

encourage new entrepreneurs in backward areas.

79. In stimulating activity and entrepreneurship in relatively backward areas, credit institutions can play an effective role only if complementary measures are also introduced. In particular, tax benefits, licensing policy, raw materials allocation and the like, have an important role to play.

B. Specific Recommendations on the Special Credit Schemes

80. The schemes should not be regarded as rigid directions of policy or as 'strait jacket' formulae. They should be administered in a flexible manner taking into account the special needs of individual entrepreneurs. Where maximum and minimum are prescribed in the schemes in respect of the various requirements, they are to be meant only as broad guidelines and should be relaxed in individual cases based on merits. Sufficient discretionary powers in this regard should be given to the Branch agent. Adequacy of assistance based on needs should be the primary consideration and the ceiling as such should not be rigidly adhered to. When new entrants to the self-employed categories approach the bank for assistance, they should be offered as many concessions as possible to suit their individual background and needs. However, when such borrowers reach a stage when they can stand on their own feet, they should be brought under the normal discipline applicable to other borrowers in respect of margin, repayment schedules, rate of interest, etc.

81. Mere formulation of a scheme to provide finance meets only a part of the problem of several of the categories of small entrepreneurs and self-employed. In the preceding chapter, it has been pointed out that one of the reasons which has made the facilities offered by the Gujarat Industrial Investment Corporation attractive, has been the package scheme of assistance provided to the borrowers. The GIIC has made arrangements

Schemes to be administered flexibly

with outside agencies to enable the borrowers to obtain their other essential requirements. The financial assistance provided should be able to take care of the total requirements of a borrower. For example, in the case of schemes for provision of equipment finance, and finance to transport operators, suitable provision should be made for rendering assistance to meet the total requirements of the borrowers including renovation and repair expenses of a major nature, as also provision for meeting running expenses.

82. The schemes should also provide for assistance to acquire testing equipment and for advertising, research, market survey and other measures for product development.

83. Schemes, particularly those intended for technocrats and other technically qualified people, should seek to meet their basic aspirations. The Committee had earlier discussed the Scheme of the Indian Oil Corporation in this regard and would again like to stress that banks can formulate effective schemes to meet the aspirations of people and give them a sense of job satisfaction only if they formulate the schemes after taking into account the ancillary requirements of large and medium-scale industry and in consultation with guilds/associations of self-employed persons, Government, etc.

84. Care should be taken to ensure adequate publicity for the schemes. Suitable brochures and other literature, particularly in the local languages, should be widely distributed for the benefit of prospective borrowers.

85. The terms and conditions of a loan should be as soft as possible during the gestation period of the borrowing unit. In several categories of small entrepreneurs, the promoter's technical and such other intangible non-financial contribution will have to be given due weightage as security, and assistance should be provided at lower margins

Schemes should be formulated to give job satisfaction

Publicity and other arrangements

Guidelines regarding terms and conditions

or even without margins, where warranted. It should be possible for the bank to charge on a term loan, a lower rate of interest in the initial stage and a higher rate of interest subsequently, and yet maintain a commercially-viable average rate of interest on the loan as a whole for the entire period of loan. To cite again the example of the Technicians Scheme of the GIIC, a rate of interest of $4\frac{1}{2}$ per cent per annum is charged by the Corporation during the first two years and 9 per cent thereafter.

86. The Committee is not making any specific recommendation on the question of concessionary rate of interest, as the Committee on Differential Interest Rates is examining this issue. However, the Committee would like to stress that the benefit given to a small entrepreneur/other small sector borrower, in the form of a lower rate of interest, should not be offset by stipulating stringent terms and conditions in regard to margins, period of repayments, etc.

87. The schedule of repayment should take into account the gestation period and the income generating capacity of the unit. A period of moratorium on repayment of the loan should be considered, where necessary, until the unit has developed an adequate level of income.

88. In respect of persons just starting business/practice, as well as in respect of people who leave well-established jobs and take up self-employment, the schemes should provide for reasonable personal drawings during the first year or two, commensurate with their requirements of family maintenance, etc. Such drawings should be allowed on a clean basis and at concessionary rate of interest, depending on the merits of the case. The drawings could be added to the original term loan after the stipulated initial period and subjected to the same terms and conditions as the loan.

89. No self-employed person/small enterprise should be denied credit merely for want of a third party guarantee.

Bank guarantees are required to be provided for various Government Departments when

quoting against their tenders. It has been brought to the notice of the Committee that this restricts higher participation by smaller units. The Committee is of the view that where bank's report on the party is satisfactory, Government could dispense with the need for such bank guarantees in the case of small industries and other small business units.

90. The Committee had also occasion to review the schemes of banks for rendering assistance to students for education. Some of the schemes stipulate commencement of repayment soon after the availment of loan. The Committee is of the view that it is only reasonable that repayments should start after completion of education by the beneficiary and a lapse of further brief period for securing a suitable job.

91. Application forms for assistance should be simplified to the extent possible. Model forms 'A' and 'B' of application for use by Professionals and by Retailers, etc. are appended to this Report. The Committee feels that these will be of some guidance to banks in evolving their own pro-formae. The Committee would like to emphasise that application forms should be made available in all local languages. Branch officials should render necessary assistance in filling up the forms and, where necessary, have the forms filled up on the basis of discussions with applicants.

92. With a view to minimising the time taken by banks in ascertaining the technical feasibility or otherwise of the proposals for financial assistance received by them, it is essential that early steps are taken by the Small Industries Service Institute to whom the proposals are referred for the purpose, for avoiding delay in identifying missing information in the proposals and calling for the relevant additional information. Over a period of time, banks should also seek to become self-reliant regarding the examination of the technical and other feasibilities of the proposals received by them, by appointing technical and other experts on

**Administrative
set-up for De-
velopment and
regulation**

their staff at appropriate centres. They can also make use of the expertise available with the proposed Multi Service Agency, in this regard.

93. So far banks have handled the dispensation of credit to the small entrepreneurs and other self-employed on the basis of special schemes more or less on *ad hoc* basis. A stage has now been reached when banks are called upon to handle the portfolio of loans to this sector on a continuing basis. From this point of view, the administrative and control arrangements should be streamlined to take this task on a long-term basis. Both at the Regional and at the Central office level, the portfolio of advances to the professional and self-employed categories should be kept under constant review, so that the performance is assessed, both qualitatively and quantitatively, and scope for improvement explored. Suitable machinery should be devised for prompt detection of unhealthy trends.

94. Every effort should be made to ensure that there is no unnecessary delay in sanctioning and dispensation of credit. While adequate powers should be delegated to the branch officials for speedy sanctioning of loans and for exercising flexibility in regard to implementation of schemes, it is essential that care should be taken to ensure that such discretion on the part of these officials does not go out of control. The Committee would, however, like to stress that it is the duty of the management to ensure that the branch official, who has acted *bona fide* and to the best of his judgement in granting an advance to a self-employed person, is protected against penal action, if the dues turn out to be difficult of realisation due to unforeseen adverse circumstances.

95. Banks should organise adequate follow-up and supervision arrangements to keep track of the end-use of funds lent to the small entrepreneur and other self-employed categories of borrowers and for effecting recovery of the advances according to schedule. This will help achieve a measure of rotation of funds so that the scarce resources can be made to reach as

large a number of people as possible. The borrower should be encouraged to maintain some basic minimum of accounts and should be persuaded to accept financial supervision and discipline over a period of time. In particular, units should be encouraged to build up their own equity by ploughing back a portion of the surplus generated in the business.

96. It is brought to the notice of the Committee that, in some cases, money-lenders who have absolutely no claim to belong to the category of self-employed small entrepreneurs, make entry into this field by offering financial help to technically qualified self-employed entrepreneurs or becoming partners in their enterprises. This is somewhat analogous to the take-over bids in the organised corporate sector and thus runs counter to the social objectives of bringing about wider diffusion of economic power. The Committee strongly disapproves of such trends and would like to stress that commercial banks have a special responsibility to ensure that this does not happen. For this purpose, banks should insist on their clearance for any change or modification in the proprietorship/constitution of the small enterprises assisted by them.

97. The various types of special credit schemes to generate employment will have to be evolved by banks themselves. Each bank should formulate and evolve schemes according to its traditions and innovative capacity. The Committee is of the view that banks may be encouraged to exercise healthy competition with one another in formulating special credit schemes for employment generation.

98. It is not the intention of the Committee to suggest specific model schemes for specific types of self-employed or small entrepreneurs, but to indicate only the broad guidelines which should be borne in mind while formulating their individual schemes. Since the requirements of the category of self-employed are so vast and complex, it should be the endeavour of banks to constantly watch for areas of action and formulate schemes tailored to meet the needs of the situation.

99. The banking system has responded well to the new challenge and the Committee has no doubt that it will be able to gear itself to meet the task ahead. With the proposed introduction of a comprehensive scheme of insurance cover for loss against loans to small borrowers including the self-employed and professional categories, it should be possible for banks to increase their lending to the smaller of the self-employed and professional categories. The Committee hopes that the eligibility conditions relating to the ceiling on the size of the loan prescribed in the Scheme, will be operated with a reasonable cushion to provide for any marginal excess in the loan amount.

100. Banks should keep in mind the fact that the real source for financing the requirements of the different categories of self-employed should be the deposits mobilised by them. The genuine requirements of the other sectors of the economy will also have to be met. There should be no tendency to rely on the created money through refinance facilities from the Reserve Bank of India. This would involve a degree of credit planning. With greater efforts towards deposit mobilisation, banks should endeavour to divert a reasonable proportion of deposits that will be additionally accruing to them to finance schemes intended for small enterprises and other self-employed.

101. It should also be possible for banks to operate in this regard through small banks in the country. The Committee would like to endorse the recommendations made in the Gadgil Committee Report that the small regional banks, whose activities are largely confined to specific regions of the country, have some natural advantages in the dispensation of credit to small borrowers, in view of their capacity to maintain closer contact with persons in the rural and semi-urban areas. At the same time, the small banks have the problem of resources constraint. The larger banks can take advantage of the organisational machinery of the small banks by making some of their resources

available to small banks, through suitable participation arrangements.

102. A greater measure of co-ordination than now between commercial banks and the term lending and other development institutions will also be helpful. For this purpose, it is desirable that term lending institutions also consider effecting suitable modifications in their terms of assistance and procedures, in the light of the guidelines indicated by the Committee.

103. In the view of the Committee, it is possible for the banking system to play the role of an effective instrument of development and assist employment generation. It should not be difficult for them to achieve a substantial measure of success in this direction. The Committee would merely like to stress that even on an average, if each branch of a bank can entertain about 50 proposals for assistance from the unemployed in a year, about 3 million jobs can be created by all the commercial banks in the next five years, on the basis of the existing network of branches, besides substantial indirect employment.

V. D. Thakkar	<i>Chairman</i>
H. E. Chatelier	<i>Member</i>
C. T. Das	<i>Member</i>
J. J. Khambatta	<i>Member</i>
A. N. Mukerjee	<i>Member</i>
M. S. Parthasarathy	<i>Member</i>
V. P. Luthra	<i>Member</i>
A. Raman	<i>Member</i>
P. S. Philip	<i>Secretary</i>

BOMBAY,
December 16, 1970.

ANNEXURE I

STATEMENT SHOWING THE COMPARATIVE POSITION OF THE ADVANCES GRANTED BY BANKS IN THE PUBLIC SECTOR TO SMALL-SCALE INDUSTRIES, TRANSPORT OPERATORS, RETAIL TRADE AND SMALL BUSINESS AND PROFESSIONAL AND SELF-EMPLOYED PERSONS AS AT THE END OF JUNE 1969 AND AUGUST 1970

(Amounts in lakhs of rupees)

	NUMBER OF BORROWAL ACCOUNTS AS AT THE END OF		AMOUNT OUTSTANDING AS AT THE END OF	
	June 1969	August 1970	June 1969	August 1970
1. Small-scale Industries	73,987	1,27,025	2,51,45.8	3,76,59.4
2. Transport Operators	2,527	14,913	6,69.0	28,30.3
3. Retail Trade and Small Business	28,037	1,35,083	19,22.2	69,03.2
4. Professional and Self-employed Persons ..	422	32,745	33.1	7,35.9
TOTAL (1 TO 4)	1,04,973	3,09,766	27,770.1	4,81,28.8

ANNEXURE II

STATEMENT SHOWING THE COMPARATIVE POSITION OF THE ADVANCES GRANTED BY THE STATE BANK OF INDIA GROUP AND EACH OF THE 14 NATIONALISED BANKS, TO SMALL-SCALE INDUSTRIES, TRANSPORT OPERATORS, RETAIL TRADE AND SMALL BUSINESS AND PROFESSIONAL AND SELF-EMPLOYED PERSONS AS AT THE END OF JUNE 1969 AND AUGUST 1970.

(Amounts in lakhs of rupees)

Banks	SMALL-SCALE INDUSTRIES				TRANSPORT OPERATORS			
	JUNE 1969		AUGUST 1970		JUNE 1969		AUGUST 1970	
	No. of A/cs.	Balance outstand- ing	No. of A/cs.	Balance outstand- ing	No. of A/cs.	Balance outstand- ing	No. of A/cs.	Balance outstand- ing
A. State Bank of India Group	37,686	103,01.0	65,589	171,20.9	—	—	2,725	555.0
B. 14 NATIONALISED BANKS:								
1. Central Bank of India..	4,529	25,89.0	7,043	31,81.7	32	12.0	801	167.2
2. Bank of India ..	2,478	12,05.3	4,243	19,85.5	98	27.8	390	80.1
3. Punjab National Bank	1,820	910.0	2,631	898.8	—	—	1,138	228.7
4. Bank of Baroda ..	2,793	11,54.0	6,113	22,57.0	41	7.5	1,383	325.8
5. United Commercial Bank	2,084	860.7	3,828	14,64.4	35	6.8	688	155.3
6. Canara Bank ..	5,574	11,49.0	9,772	17,67.9	324	83.4	1,698	316.8
7. United Bank of India..	486	383.9	1,646	689.2	40	11.5	489	81.9
8. Dena Bank ..	2,454	10,54.7	4,369	15,13.8	43	16.8	528	99.0
9. Syndicate Bank	6,012	10,91.1	8,814	15,67.7	1,201	227.9	3,262	493.5
10. Union Bank of India ..	1,101	564.3	3,110	13,42.6	22	6.9	247	53.7
11. Allahabad Bank	707	303.8	897	376.7	2	0.4	263	66.7
12. Indian Bank ..	762	11,48.0	1,535	984.3	299	195.0	516	81.1
13. Bank of Maharashtra..	3,398	13,64.0	4,353	14,61.1	315	66.0	607	102.2
14. Indian Overseas Bank	2,103	10,67.0	3,082	10,47.8	75	7.0	178	23.3
TOTAL of B (1 TO 14)	36,301	148,44.8	61,436	305,38.5	2,527	669.0	12,188	22,75.3
GRAND TOTAL (A+B) ..	73,987	251,45.8	1,27,025	3,76,59.4	2,527	669.0	14,913	28,30.3

N.A. = Not Available.

ANNEXURE II—Contd.

(Amounts in lakhs of rupee)

Banks	RETAIL TRADE AND SMALL BUSINESS				PROFESSIONAL AND SELF-EMPLOYED PERSONS			
	JUNE 1969		AUGUST 1970		JUNE 1969		AUGUST 1970	
	No. of A/cs.	Balance outstanding	No. of A/cs.	Balance outstanding	No. of A/cs.	Balance outstanding	No. of A/cs.	Balance outstanding
A. State Bank of India Group ..	—	—	41,084	23,69.4	—	—	1,611	65.3
B. 14 NATIONALISED BANKS								
1. Central Bank of India ..	N.A.	137.1	3,091	420.4	—	—	946	60.4
2. Bank of India ..	—	—	2,681	218.2	—	—	851	34.7
3. Punjab National Bank	—	—	3,197	170.9	—	—	701	10.4
4. Bank of Baroda	—	—	7,284	344.0	—	—	928	28.0
5. Unitd Commercial Bank	N.A.	245.0	6,806	614.1	—	—	2,015	47.5
6. Canara Bank ..	—	—	9,021	293.9	—	—	2,209	25.3
7. United Bank of India ..	325	82.7	2,967	349.7	—	—	784	24.2
8. Dena Bank ..	1,638	470.1	3,152	514.5	1	0.1	2,153	38.8
9. Syndicate Bank	22,822	611.0	31,788	693.2	—	—	12,731	162.6
10. Union Bank of India ..	—	—	914	51.6	—	—	223	8.0
11. Allahabad Bank	—	—	2,591	160.7	—	—	1,859	74.9
12. Indian Bank ..	104	4.3	10,950	186.19	—	—	2,883	65.9
13. Bank of Maharashtra ..	1,707	223.0	2,226	279.1	421	33.0	1,053	66.9
14. Indian Overseas Bank	1,441	149.0	7,331	236.6	—	—	1,798	23.0
TOTAL OF B (1 TO 14)	28,037	19,22.2	93,999	45,33.8	422	33.1	31,134	670.6
GRAND TOTAL (A+B) ..	28,037	19,22.2	1,35,083	69,03.2	422	33.1	32,745	735.9

N.A.=Not Available.

ANNEXURE III

STATEMENT SHOWING THE ADVANCES OF THE STATE BANK OF INDIA GROUP, 14 NATIONALISED BANKS, FOREIGN BANKS AND OTHER SCHEDULED COMMERCIAL BANKS IN THE PRIVATE SECTOR TO SMALL-SCALE INDUSTRIES AS AT THE END OF JUNE 1968, JUNE 1969 AND AUGUST 1970

(Amounts in crores of rupees)

Bank Groups	LAST FRIDAY OF JUNE 1968			LAST FRIDAY OF JUNE 1969			LAST FRIDAY OF AUGUST 1970		
	No. of units	Limits in force	Balance outstanding	No. of units	Limits in force	Balance outstanding	No. of units	Limits in force	Balance outstanding
1. State Bank of India Group	18,715	124.57	66.74	25,904	212.58	103.01	42,895	299.86	171.21
2. 14 Nationalised Banks ..	15,652	207.03	100.10	24,948	312.53	148.45	42,238*	423.25	205.39
3. Foreign Banks	779	13.98	8.69	1,157	23.38	13.33	1,557	32.37	20.91
4. Other Scheduled Commercial Banks	3,781	29.75	14.24	4,976	44.06	21.21	6,498	49.76	23.29
TOTAL (1 TO 4)	38,927	375.33	189.77	56,985	592.55	286.00	93,188	805.24	420.80

*Provisional.

ANNEXURE IV

STATEMENT SHOWING THE ASSISTANCE RENDERED BY BANKS IN THE PUBLIC SECTOR BY WAY OF LOANS FOR EDUCATIONAL PURPOSES.

(Amounts in lakhs of rupees)

	JUNE 1969		AUGUST 1970	
	No. of Accounts	Balance outstanding	No. of Accounts	Balance outstanding
A. State Bank of India Group	—	—	14	2.9
B. 14 NATIONALISED BANKS:				
1. Central Bank of India	—	—	34	2.4
2. Bank of India	—	—	166	35.7
3. Punjab National Bank	—	—	49	0.9
4. Bank of Baroda	—	—	464	36.8
5. United Commercial Bank	—	—	54	5.8
6. Canara Bank ..	—	—	1,251	14.5
7. United Bank of India	2	0.1	8	0.2
8. Dena Bank	2	0.5	184	15.8
9. Syndicate Bank ..	549	26.2	4 207	98.8
10. Union Bank of India ..	10	7.5	110	4.0
11. Allahabad Bank	—	—	—	—
12. Indian Bank	—	—	154	12.0
13. Bank of Maharashtra	23	11.0	83	27.7
14. Indian Overseas Bank	8	0.3	33	6.2
TOTAL OF ITEM (B) (i.e. 1 TO 14)	594	45.6	6,797	260.8
TOTAL (A+B)	594	45.6	6,811	263.7

MODEL APPLICATION FORMS FOR ASSISTANCE TO—

1. PROFESSIONALS (Form A)
2. RETAILERS, SMALL TRADERS AND SMALL BUSINESS (Form B)
3. ROAD TRANSPORT OPERATORS, TAXI-DRIVERS, ETC. (Form C)
4. SMALL-SCALE INDUSTRIAL UNITS :
 - (a) For Working Capital Loan, with Interview Forms (Form D₁)
 - (b) For Term Loan/Overdraft/Cash Credit, etc. (Form D₂)

MODEL FORM A

APPLICATION FOR FINANCIAL ASSISTANCE TO A PROFESSIONAL

(For Professionals e.g. doctors, architects, carpenters, electricians, tailors, etc.)

The Agent/Manager

.....

.....

Dear Sir,

I hereby apply for a total financial assistance of Rs. from the Bank for the following purpose(s). The period/s for which advance/s is/are required and the weekly/monthly/quarterly/half-yearly/annual instalments I will be able to pay are indicated against each item.

	Total Cost (Rs.)	Amount of advance required (Rs.)	Total period of advance (in months)	Instalment/s	
				Period	Amount (Rs.)
(A) Purchase price of place OR Advance rent/compensation to be paid ..					
(B) Cost of equipment/s to be purchased					
(C) For meeting recurring expenses, purchase of raw- materials				X	X
(D) Any other purpose*					
TOTAL Rs.					

State arrangements made for raising margin money and particulars of collateral security, if any.

Date.....19....

Yours faithfully,

*e.g. repayment of loan from a money lender, personal maintenance expenses for a reasonable period, etc.

A. PARTICULARS OF THE APPLICANT:@

- (i) Name of the applicant
- (ii) Father's/Husband's name ..
- (iii) Residential Address:
- (a) Present
- (b) Permanent
- (iv) Age, marital status, No. of dependants in the family
- (v) Educational qualifications, if any

@In case application relates to Partnership/Private Ltd. Co., details thereof including names of all Partners/Directors and of capital brought in and personal assets outside the partnership/company, to be furnished separately.

In case of partnership, please state whether it is registered as a firm under Partnership Act and/or under Income-tax Act.

B. BUSINESS PARTICULARS:

- (i) Nature of profession
- (ii) Date of commencement/proposed date of commencement
- (iii) Place (with full address) where the profession is carried on or proposed to be carried on and whether the place is rented/to be rented in his own name or owned/to be owned by the applicant.
- (iv) Practical experience of the applicant in the profession
- (v) Particulars of Working

Last 3 years (where applicable)			Projected working (after the advance is availed of)	
19	19	19	19	19
			Income Rs.	
			Less Expenses Rs.	
			Net-earning/ Loss Rs.	

State particulars of income-tax assessments.

- (vi) How many persons are at present directly employed by you? } Full Time :—.....
Part Time :—.....
- (vii) How many more persons will be directly employed by you, if the Bank advance is granted? } Full Time :—.....
Part Time :—.....
- (viii) Please give particulars, if any, of arrangements to obtain technical and professional advice and service.

C. If the advance is required for acquiring a place, furnish the following particulars:—

- (i) Type of place to be taken
- (ii) Area in sq. ft.
- (iii) Location (give complete address)
- If to be purchased, state:—
- Price to be paid Rs.
- From whom to be purchased
- If to be taken on lease/tenancy/or leave & licence, give particulars as under:
- Advance money to be paid Rs.
- Monthly rental/compensation Rs.
- Name of the owner/licensor

D. If the advance is required for purchase of equipments, furnish the following particulars:—

- (a) Type of equipment(s) proposed to be purchased.
- (b) From whom to be purchased
- (c) Purchase price of each equipment/s separately

E. If the advance is required for meeting recurring expenses, state each item of expense separately with the amounts shown thereagainst:—

- 1. Rs.
- 2. Rs.
- 3. Rs.

F. If the advance is required for any other purpose, furnish the necessary particulars.

G. MISCELLANEOUS:

- (i) Has the applicant got any insurance policy? If so, give particulars and present borrowings, if any, against it/them.
- (ii) Name(s) of present Banker(s) and nature of account(s) maintained.
- (iii) Name(s), particulars of other institutions/Central/State Government from/to whom the applicant has borrowed/applied.
- (iv) If you are paying income-tax, show amount and date of tax paid last Rs.
Date
- (v) Give names and addresses of the following:—
(For new entrants references of any two persons would be adequate).
- (a) Professional association, society, guild, etc. of which you are a member
- (b) Two persons in your line of profession/activity who know you well
- (c) Two of your customers
- (d) Two of your suppliers (if any)

DETAILS OF PRESENT ASSETS AND LIABILITIES OF THE APPLICANT:

ASSETS		LIABILITIES	
Property/Assets (details as under) including cash/Bank balance.			
1.	Rs.	Borrowings from friends, relatives, etc.	Rs.
2.	Rs.	Borrowings from Banks	Rs.
3.	Rs.	Borrowings from Money lenders ..	Rs.
4.	Rs.	Other liabilities (if any)	Rs.
5.	Rs.		
6. Cash and Bank balances	Rs.		
Total Rs.		Total Rs.	
		Net worth	
		Rs.	

- (1) The particulars furnished above are to the best of my knowledge, true and correct.
- (2) The advance, if granted, will be utilised for the purpose for which it is granted.
- (3) My banking business will be confined to your bank and I will deposit my earnings in my account with you.
- (4) I will not borrow from any other Bank or any other source during the currency of the advance without your prior consent in writing.

Dated :19....

Yours faithfully,

MODEL FORM B**APPLICATION FOR FINANCIAL ASSISTANCE TO A RETAILER, SMALL TRADER AND SMALL BUSINESS.**

The Agent/Manager

Dear Sir,

I/we hereby apply for a total financial assistance of Rs. from the Bank for the following purpose(s). The period/s for which advance/s is/are required and the weekly/monthly/quarterly/half-yearly/annual instalments I/we will be able to pay are indicated against each item.

	Total Cost (Rs.)	Amount of advance required (Rs.)	Total period of advance (in months)	Instalment/s	
				Period	Amount (Rs.)
(a) Purchase Price of place OR Advance Rent/compensation to be paid					
(b) Cost of equipment/furniture to be purchased					
(c) For financing stocks				X	X
(d) For meeting recurring expenses ..				X	X
(e) For any other purpose*					
Total Rs. ..			—	—	—

State arrangements made for raising margin money and particulars of collateral security, if any.

Date:19....

Yours faithfully,

*e.g. for repayment of loan taken from a money lender, for financing sales on credit, etc.

A. BUSINESS PARTICULARS:

1. Name
2. Constitution
(Names and residential addresses of partners/proprietor/directors)
3. Year of establishment, if already in business ..
4. Business address
5. Dealing in (principal items)
6. Whether the shop/place of business is owned or rented.
If rented, in whose name
7. If income-tax is paid by the Firm and/or Partners personally, show amount/s and date of tax last paid separately for each.
8. Names of other bankers etc. together with full particulars of facilities enjoyed

B. PARTICULARS ABOUT SALES AND EMPLOYMENT:

1. (a) Sales tax Registration Number, if any ..
- (b) Sales Tax assessment completed upto ..
2. Details of licences and other registrations, if any relating to the business
3. Particulars of working

Last 3 years (where applicable)				Projected Working (after the advance is availed of)	
19	19	19		19	19
			Sales .. Rs.		
			Less Purchases/expenses Rs.		
			Net-earning/Loss Rs.		

4. How many persons do you directly employ?
How many more will you employ if the financial assistance is sanctioned?

Present strength	.. .. .	Full Time	Part Time
Future additions	.. .. .	

5. Please give particulars, if any, of arrangements to obtain technical and professional advice and service

C. If the advance is required for acquiring a place, furnish the following particulars:—

- (i) Type of place to be taken ..
 - (ii) Area in sq. ft.
 - (iii) Location (give complete address) ..
- If to be purchased, state:—
- | | | |
|---------------------------|---------|-----|
| Price to be paid | .. .. . | Rs. |
| From whom to be purchased | .. .. . |  |
- If to be taken on lease/tenancy/or leave and licence, give particulars as under:—
- | | |
|----------------------------|---------|
| Advance money to be paid | Rs. |
| Monthly rent/compensation | Rs. |
| Name of the owner/licensor | .. .. . |

D. If the advance is required for purchase of equipments, furnish the following particulars:—

- (a) Type of equipment(s) proposed to be purchased ..
- (b) From whom to be purchased
- (c) Purchase price of each equipment separately ..

E. If the advance is required for meeting recurring expenses, state each item of expense separately with the amounts shown thereagainst:—

1. Rs.
2. Rs.
3. Rs.

F. If the advance is required for any other purpose, furnish the necessary particulars

G. REFERENCES (For new entrants references of any two persons would be adequate) :

1. Give two names and addresses of the following :—

(a) From your own trade who know you well

(1)

(2)

(b) Your suppliers

(1)

(2)

(c) Your customers

(1)

(2)

(d) Present Banker/s (if any) :

2. If member of Association/s (State names and addresses also)

H. ASSETS AND LIABILITIES AS ON

ASSETS		LIABILITIES	
1. Cash on hand and with Bankers	Rs.	6. Trade Credit received	.. Rs.
2. Trade Credit given	.. Rs.	7. Loans from Bank/s	.. Rs.
3. Stocks	.. Rs.	8. Borrowings from others	Rs.
4. Machinery/Fixtures	.. Rs.	9. Other Liabilities (if any)	.. Rs.
5. Other assets, if any	.. Rs.	10. Capital in Business	.. Rs.
Total Rs.		Total Rs.	

1. The particulars furnished above are to the best of my/our knowledge, true and correct.

2. The advance, if granted, will be utilised for the purpose for which it is granted.

3. My/Our banking business will be confined to your Bank and I/We will deposit My/Our earnings in my/our account with you.

4. I/We will not borrow from any other Bank or any other source during the currency of the loan without your prior consent in writing.

Dated : 19....

Yours faithfully,

MODEL FORM—C

APPLICATION FOR FINANCIAL ASSISTANCE TO
ROAD TRANSPORT OPERATORS/TAXI-DRIVERS/
AUTO RICKSHAW-DRIVERS, ETC.

Photograph of the Applicant

The Agent/Manager,

Dear Sir,

I/We hereby apply for a loan of Rs. _____ (Rupees _____) and furnish the following particulars :

1. Name of the borrower ..
2. Address ..
3. Date of establishment ..
4. Constitution ..
5. Name(s) and address(es) of Proprietor/Partners/Directors, etc.
6. Brief history of the borrower giving his experience in the business
7. Names of other Bankers together with full particulars of facilities enjoyed
8. Total original investment in vehicles as per the books (This will exclude vehicles to be purchased)
9. Purpose of the loan and when the loan is expected to be availed of
10. Particulars of vehicle (such as make, H.P., Model, Retail price of vehicle. Please give particulars of retail price, if available)

How is it proposed to finance the vehicle(s) to be acquired (Please indicate amount to be invested by the borrower, and the amount to be borrowed)

In case of Partnership, please state whether it is registered as a firm under Partnership Act and/or under Income tax Act.

11. Seating and/or carrying capacity of individual vehicles

12. Average earnings per month indicating the basis thereof
13. Details of all expenses including depreciation, insurance, registration, etc.
14. Estimated profit before tax (i.e. 12 minus 13) ..
15. Places where the vehicle will be operated (Please indicate area of operations, routes, etc., and whether permission from requisite authorities has been obtained for the proposed operations)
16. Period for which loan is required (this should not exceed 3 years from the date of loan)
17. Terms of repayment proposed ..
18. Nature and value of security to be offered. Please indicate whether the assets are encumbered (Full particulars to be given)
19. Name and address of the guarantor
20. General (any remarks not covered by above items, such as, regarding income tax assessment, annual turnover etc.)

I/We declare that the information supplied above is correct to the best of my/our knowledge and that this proposal will form the basis of the agreement between the Bank and myself/ourselves, if the loan is granted.

If the loan is granted to me/us, I/we hereby agree to produce the vehicle(s) for inspection at your branch every 6 months or at shorter intervals as required by the Bank.

N.B.—Please attach two certified copies of audited balance sheets and profit and loss accounts for the last two years where the transport company is a limited company. A statement of assets and liabilities in the enclosed form (Appendix) should be furnished in the case of partnership and proprietary concerns. A certificate evidencing the size i.e., the original book value of the investment in vehicles is not in excess of Rs. 7.50 lacs, is also to be attached.

Date : ————— 19

Yours faithfully,

APPENDIX

Name and address of the concern -----

Statement of Assets and Liabilities as on-----

LIABILITIES		Rs.	Rs.	ASSETS		Rs.	Rs.
CAPITAL				FIXED ASSETS			
At the beginning of the year	-----	Land & Buildings	.. ..at cost	..	-----
Add further capital introduced during the year		..	-----	Vehicles	.. -do-	..	-----
Add Profits during the year		..	-----	Equipments	.. .. -do-	..	-----
Less Loss for the year		..	-----	Furniture and Fittings	.. -do-	..	-----
Less Drawings during the year	-----	Others (to be specified)	.. -do-	..	-----
				TOTAL		..	-----
LOANS				Less Depreciation written off upto-date	..	..	-----
(a) Secured				CURRENT ASSETS			
(1)			-----	Advances		..	-----
(2)			-----	Deposits		..	-----
(Please indicate borrowings from each source separately together with nature of security offered)		-----	Stores	..	..	-----
(b) Unsecured				Sundry Debtors	..	..	-----
(Please indicate each source separately)		..	-----	Bills Receivable	..	..	-----
				Cash in hand		..	-----
CREDITORS				Cash in Bank	.. ..	..	-----
OTHER LIABILITIES & PROVISIONS			-----	PROPRIETOR'S/PARTNER'S CURRENT ACCOUNT BALANCES IF IN DEBIT			
(to be specified)			-----			..	-----
				OTHERS (to be specified)	..	..	-----
TOTAL	..		-----	TOTAL	..	..	-----

	For the previous Financial Year (From.....to.....)	For the last completed Financial Year (to which this statement relates) (From.....to.....)
SUPPLEMENTARY INFORMATION		
1. Total Receipts	..Rs. _____	Rs. _____
2. Gross Profit	..Rs. _____	Rs. _____
3. Net profit/loss	..Rs. _____	Rs. _____
4. Depreciation charges ..	..Rs. _____	Rs. _____
5. Date and month of annual closing of accounts ..	_____	_____
6. Number of persons employed (including the proprietor or partners)	_____	_____
7. Total mileage covered ..	_____	_____
8. Value of fuel used up .. .. .	..Rs. _____	Rs. _____

(Signature of the borrower)

MODEL FORM—D1**APPLICATION FOR FINANCIAL ASSISTANCE TO A SMALL SCALE INDUSTRIAL UNIT
(FOR WORKING CAPITAL LOAN)****The Agent/Manager**

1. DETAILS OF UNIT

- (a) Name and address
- (b) Date established
- (c) Nature of business

2. WORKING RESULTS AND PAST PERFORMANCE

For the year ended..... For the year ended.....
(past 12 months) (projected)

- (a) Purchase of raw materials
- (b) Raw materials consumed
- (c) Expenses
- (d) Sales
- (e) Gross Profit (before depreciation and taxation)
- (f) Depreciation
- (g) Taxation
- (h) Net profit

3. FINANCIAL POSITION FOR PAST TWO YEARS

Liabilities	As on.... Rs.	As on Rs.	Assets	As on.... Rs.	As on Rs.
(a) Capital			(a) Goodwill, preliminary expenses, etc. if any ..		
(b) Reserves			(b) Fixed assets		
			(i) Land & building		
			(ii) Plant & machinery		
			(iii) Miscellaneous ..		
(c) Loans*			(c) Investments, if any		
(i) Secured					
(ii) Unsecured					
(d) Sundry creditors			(d) Sundry debtors		
			(e) Stocks		
			(i) raw materials ..		
			(ii) goods in process		
			(iii) finished goods ..		
			(f) Loans and advances..		
			(g) Cash balances		
	_____	_____		_____	_____
	_____	_____		_____	_____

*Details on page 44.

*Details of loans availed of:—

	Amount outstanding Rs.	Security (if any)	Rate of interest %	Terms of repayment
1. From the bank to which application is addressed .. (Indicate limits sanctioned already)				
2. From other banks ..				
3. State Government ..				
4. State Financial Corporation				
5. National Small Industries Corporation				
6. Friends and relatives ..				
7. Others (Furnish details)				

4. DETAILS OF LOANS REQUIRED

- (a) Amount Rs.
- (b) Purpose ..
- (c) Security available

I/We certify that my/our investment in plant and machinery (at original cost price) is not in excess of Rs 7½ lacs (Rupees seven and half lacs).

I/We confirm that the particulars furnished herein are correct and I/we undertake to furnish such information as the Bank may require.

I/We are agreeable to your forwarding a copy of this application along with such other data/particulars that the Bank may be in possession of to the Directorate of Industries/Small Industries Service Institute/other consultants in connection with the compilation of technical report on my/our unit.

Place:

(Signature)
Proprietor/Partner(s)/Director(s)

Date:

INTERVIEW FORM

PART I

Name of unit

Additional particulars obtained from:

on

(Reference — application for working capital submitted on)

8. Brief history
2. Office and factory addresses and telephone number(s) if any
3. Particulars of registration with Directorate of Industries/Small Industries Service Institute, etc. (if any) (Number and Date)

4. Constitution
5. Name(s) of proprietor/partners/directors
6. Brief particulars of their background and relationship (if any with each other)
7. Details of their interest in associate and identical firms
8. Investment in the business (capital and deposits to be shown separately)
- **9. Particulars of immovable properties owned by the firm/company
- **10. Particulars of immovable properties owned by the proprietor/partners/directors
11. Particulars of outside liabilities of proprietor/partners/directors

BUSINESS

12. Products manufactured and a short account of the manufacturing/processing activity involved
13. Details of machinery (whether owned/leased/on hire purchase, etc.)
14. Quality of products with standards/specifications
15. Details of marketing arrangements
16. Pending orders
17. Number of workers
18. Arrangements, if any, for technical and managerial guidance/assistance

ACCOUNTS

19. Who writes up unit's accounts and what are his qualifications?
20. Are accounts more or less up to date or are they heavily in arrears?
21. Are the unit's accounts audited? If so, at what intervals?
22. Explanation in respect of any unusual features revealed in financial data furnished in the application

PRODUCTION

23. Current monthly production (estimated sale value)
24. Cost of monthly production
25. Raw material contents of monthly production (value)

PURCHASES

26. Description of raw materials and names of the larger suppliers of materials (Indicate 'Imported' and 'Indigenous', separately)
27. Terms of purchase of raw materials; indicate period for which credit obtained from suppliers
28. Particulars of import licences/quotas held and expected
29. Season, if any, for purchase of raw materials
30. Season, if any, for sale of finished goods

**Following details should be covered by these items:

Place where the land or building is situated along with survey number, name of the street, etc.; in case of land an indication should be given as to whether it is wet, dry or garden, along with acreage, whether the properties are ancestral or self-acquired; if encumbered, the extent of encumbrance and connected particulars; market value of the properties, etc.

MARKETING

31. Extent of sales (other than cash sales) for which bills are drawn, types of bills drawn, period for which bills normally remain outstanding and the anticipated amount of bills likely to remain outstanding at any one time.

FINANCE

32. How was the unit financed in the past?
 33. Reasons for approaching the Bank for accommodation

(Signature of official)

I certify that the information furnished above is correct.

(SIGNATURE OF APPLICANTS)

INTERVIEW FORM**PART II*****Assessment of working capital requirements***

.....	months' raw material requirements	Rs.
.....	weeks' stock-in-process at any one time (average period of processing, value of raw material content in stocks-in-process and manufacturing expenses for the period of processing to be indicated)	Rs.
.....	months' finished goods at cost	Rs.
.....	weeks'/months' receivables representing credit sales	Rs.
One month's manufacturing and administrative expenses		Rs.
Total working capital requirements		Rs.
Less: Credit available on purchases and advance payments received		Rs.
Working capital in business or liquid surplus	Rs.	Rs.
Net working capital requirements		(A)

PERMISSIBLE LIMITS

Raw materials	Rs.	
less margin	Rs.	Rs.
Stock-in-process	Rs.	
less margin	Rs.	Rs.
Finished goods	Rs.	
less margin	Rs.	Rs.
<i>Receivables</i>		
Representing supplies to Government	Rs.	
less margin	Rs.	Rs.
Representing supplies to sundry parties	Rs.	
less margin	Rs.	Rs.
Total limits	Rs.	(B)
Net working capital requirements (A)	Rs.	
Permissible limits (B)	Rs.	
Deficit (if any)	Rs.	
How this is to be met		
	Signature of official making the assessment	
	Designation	
	Date	

Further data including third party enquiries

- (1) Record of verbal enquiries made (indicate sources/dates/information gathered)

Signature of Bank Officer

Analysis of limits required

Cash credit (Special Hypothecation)	OR	Rs.
Cash credit (lock and key)		Rs.
Cash credit (mandy type)		Rs.
Cash credit/overdraft for retirement of inward bills		Rs.
Cash credit/overdraft against bills		Rs.
Documentary demand drafts purchases		Rs.
Clean demand drafts purchase		Rs.
Clean accommodation (indicate purpose and repayment schedule)		Rs.
Limit for letters of credit		Rs.

Limits recommended Limits sanctioned

Total Rs.

46

Margin on raw materials

Margin on finished goods

Margin on bills

Sub-limit for goods in process

Sub-limit for finished goods

Signature Recommending official	Signature Sanctioning Authority
------------------------------------	------------------------------------

*Sanctioned by Agent/Development Officer on.....and control return sent to Regional Office on.....

*Put up to controlling authority on.....and sanctioned on.....*vide* sanction letter No.....
dated the.....

Borrower advised on.....

Account opened on.....

*Delete whichever is inapplicable.

MODEL FORM – D2**APPLICATION FOR FINANCIAL ASSISTANCE TO A SMALL-SCALE INDUSTRIAL UNIT**

Date :

The Agent/Manager,

.....

Dear Sir,

We hereby apply for a Term Loan/Overdraft/Cash Credit/Bills Purchase/Bills Discounting (retain whichever is applicable) facility to the extent of Rs.....(Rupees.....) and furnish the following particulars in two sets :—

1. Name of the applicant :
2. Address (Mention District and State)
 - (a) Office
 - (b) Factory
3. Brief history (Regarding promotion of the unit, indicating experience of the promoters, initial investment, progress made by the unit and its present position, etc.)
4. Type of industry.
5. Nature of products manufactured/proposed to be manufactured.
6. Date of establishment (if reconstituted, state date of last reconstitution).
7. Constitution (Whether public/private limited company, co-operative society, joint family concern, partnership or proprietorship).
8. Name(s) and address(es) of proprietor(s)/partner(s), coparceners and directors.

- | 9. (a) Name (Proprietary or partnership) and address of other industrial concerns, if any— | Name & address | Relationship to industrial concern (Head Office branch, Independent unit, etc.) |
|---|----------------|---|
| | ----- | ----- |
| (i) having the same proprietor/set of partners. | | |
| (ii) having one or two partners different but the management substantially in the hands of the same persons. | | |
| (b) If the industrial concern and any of the units mentioned against item 9(a) are functioning as Head Office and branch(es) or if they have common capital, fixed assets and/or other liabilities and assets, please note that the affidavit regarding size and the statement of liabilities and assets attached to this application should relate to the consolidated position of the Head Office and branch(es). | | |
| (c) If the industrial concern and any of the concern mentioned against item 9 (a) which are deemed as independent units, are engaged in the same line of activity, please state the reason why they are treated as independent concerns. | | |

10(a) Names of other Bankers together with particulars of facilities enjoyed.

Nature of facility	Limit	Purpose	Amount outstanding as on.....	Security	Whether covered under Credit Guarantee Scheme
--------------------	-------	---------	-------------------------------	----------	---

(b) Particulars of borrowings from other sources (including deposits)

<u>Nature of sources (Friends, relatives, others)</u>	<u>Amount Rs.</u>
---	-----------------------

11. Total Investment in plant and machinery, (original cost without depreciation to be shown).

12. (a) Yearly Sales/Turnover during the last three years.

(b) Yearly profit/loss in the last three years.

13. Production capacity of the factory. Is it fully used? If not, to what extent used? When is the capacity expected to be utilised fully?

14. Raw Materials :

(a) Type of raw materials required.

(b) Whether available without difficulty.

(c) Sources of supply.

(d) Value of raw materials required per month. (Import component to be shown separately).

15. Availability of power, fuel, water, labour and technical know-how.

16. Annual production and sales (Present figures and estimates after utilisation of the advance to be separately indicated) —Please indicate quantity and value separately.

17. Market :—

(a) Prospects of sale of products.

(b) Sales arrangements.

(c) Whether Government orders are executed/Supplies made to defence.

(d) Whether exported, and if so, to which countries indicating particulars of actual exports during the last three years.

(e) Whether sales are on credit and if so, for what period.

18. Purpose of the advance and when it is expected to be drawn.

19. Period for which advance is required.

20. Terms of repayment proposed.

21. Nature and value of security to be offered. Also indicate whether the assets are unencumbered.

22. Name(s) and address(es) of guarantor(s), if any, and their worth.

23. General (Any remarks not covered by above items).

Please attach :

(i) Authenticated copies of audited balance sheets and profit and loss accounts for the last three years where the industrial concern is a limited company or an industrial co-operative society. A statement of assets and liabilities in the enclosed form (Appendix I) should be furnished in the case of partnership and proprietary concerns. If the available financial statements are more than 12 months old, proforma statements as on as recent a date as possible should be attached.

(ii) *The industrial concerns applying for term loans should give additional information as in Appendix II.*

(iii) Two certified copies of the affidavit evidencing the size of the unit i.e., the unit's investment in plant and machinery, is not in excess of Rs. 7.50 lakhs.

We declare that the information supplied above is correct to the best of our knowledge and that this proposal will form the basis of the agreement between the Bank and ourselves, if the advance/facility is granted.

If the advance/facility is sanctioned under the Credit Guarantee Scheme for Small-Scale Industries, we authorise you to furnish to the Guarantee Organisation any information or report received from us by you or otherwise in your possession.

Yours faithfully,

Note : Furnish particulars of arrangements, if any, for technical and managerial guidance/assistance.

APPENDIX I

Name and address of the Industrial Concern

Statement of Assets and Liabilities as on

	Rs.	Rs.		Rs.	Rs.
CAPITAL			FIXED ASSETS		
At the beginning of the year			Land & Buildings at cost		
Add further capital introduced during the year			Machinery & Equipment — do—		
Add Profits during the year			Tools, implements etc. — do—		
			Furniture & Fittings — do—		
			Others (to be specified)		
<i>Less</i> Loss for the year			TOTAL		
<i>Less</i> Drawings during the year			<i>Less</i> depreciation written off		
			up-to-date		
LOANS			CURRENT ASSETS		
(a) Secured ..			Advances		
(1) ..			Deposits		
(2) ..			Stores		
(Please indicate borrowings from each source separately together with nature of security offered) ..			Closing Stock (broad break-up to be shown)		
(b) Unsecured ..			Sundry Debtors		
(Please indicate each source separately) ..			Bills Receivable		
CREDITORS			Cash in hand		
For goods supplied			Cash at Bank		
For Expenses			PROPRIETOR'S/PARTNERS' CURRENT ACCOUNT BALANCES, IF IN DEBIT		
Others (to be specified) ..			OTHERS (to be specified)		
OTHER LIABILITIES AND PROVISIONS (to be specified) ..			TOTAL		
TOTAL			TOTAL		

For the Previous Financial Year
(From to)For the last completed Financial Year to which this statement relates
(From to)

SUPPLEMENTARY INFORMATION

(1) Sales	Rs.	Rs.
(2) Gross profit	Rs.	Rs.
(3) Net Profit/loss	Rs.	Rs.
(4) Depreciation charges	Rs.	Rs.
(5) Date and month of annual closing of accounts ..	Rs.	Rs.
(6) Number of persons employed (including the proprietor or partners)	Rs.	Rs.
(7) Value of raw-materials used	Rs.	Rs.

Signature of the applicant)

APPENDIX II

Statement showing the economics and other details of the scheme for establishment/expansion.

Name and address of the industrial unit :

Brief History :

(In the case of a newly established concern or a concern to be established please indicate the qualifications and past experience of the directors/partners/proprietor in the line of manufacture to be undertaken).

1. Salient features of the project which will have a bearing on the successful implementation with particular reference to the following :

- (i) Land and building—location, requirement and availability.
- (ii) Plant and Machinery—available and arrangements made, if any, to acquire them.
- (iii) Raw materials and stores—description, source and availability.
- (iv) Availability of power, water, labour and technical know-how.
- (v) Production capacity (indicating present or estimated capacity and increase in the case of expansion of an existing unit.)
- (vi) Marketability of manufactured goods—demand and Sale prospects.
- (vii) Expected date of completion of the project :

2. Financial aspects of the Project :

(i) Cost of the Project

	Already incurred Rs.	To be incurred Rs.	Total cost on completion Rs.
(a) Fixed Assets			
Land
Building
Plant and Machinery
Others — — —
Erection, preliminary and other pre-operative expenses
TOTAL —

(b) Working Capital

Estimated period between the date of purchase of raw materials and the date of realisation of sale proceeds.

Value of raw materials and goods in process, etc. held during the above period.

Wages and other manufacturing expenses for the above period.

Other expenses, if any.

Rs.....

Rs.....

Rs.....

TOTAL ..

Total cost of the project [(a) + (b)]

Rs.

(ii) Sources of Finance

(to meet the total cost of project as at (i) above) Capital.

(in the case of the expansion of an existing unit, please indicate the amount of fresh capital proposed to be introduced).

Reserves and surplus, if any.

* Long-term borrowings.

* Deferred payments (including hire-purchase).

* Short-term borrowings.

* Others such as deposit, etc.

* (Specify source, period, security, etc.)

TOTAL ..

3. Cost of Production and Profitability :

(As estimated for any one year of normal working after completion of project; in the case of expansion of existing concerns, please indicate separately figures in respect of existing set-up and as estimated after expansion, for one full year).

(i) Cost of Production

Rs.

Raw materials (import component to be shown separately)

Power and Fuel

Repairs and maintenance

Wages

Administrative overheads (viz. offices salaries, insurance, rent, travelling and other expenses, etc.)

Interest

Depreciation

Other expenses, if any.

Total Cost ..

(ii) Total Income

Rs.

Sales

Other income, if any.

Total Income ..

(iii) Operating profits [(ii) - (i)]

Less Taxation

(iv) Net profit

(v) Available surplus—(Net Profit + Depreciation)

4. Technical feasibility of the project :

(A copy of the report of technical expert/Small Industries Service Institute/Director of Industries etc., if obtained, to be enclosed).

Section II

CREDIT GUARANTEE SCHEME FOR

COVERING

SMALL LOANS TO BORROWERS IN THE

PRIORITY AND NEGLECTED SECTORS

CREDIT GUARANTEE SCHEMES FOR COVERING SMALL LOANS TO BORROWERS IN THE PRIORITY AND NEGLECTED SECTORS

In September 1969, the Prime Minister had indicated at her meeting with the Chief Executive Officers of the public sector banks that the Government of India was considering the question of formulating a scheme for a simple but wide-ranging system of guarantees or other comparable facilities for lending by banks to individual borrowers in sectors which had remained relatively neglected so far, such as small-scale industrial concerns, small business, road transport, minor repair industries, retail trade, small farming and also to professional and self-employed persons such as artisans, engineers, architects and doctors. A working group under the Chairmanship of Shri S. S. Shiralkar, then Additional Secretary, Department of Banking, of the Union Finance Ministry (now Deputy Governor, Reserve Bank of India) was subsequently constituted to examine this matter further. This group reported in November 1969.

2. The working group noted the considerable increase in lending to the priority sectors, following social control and the nationalisation of the banks, but was also impressed by the magnitude of this problem and the difficulties of increasing even within the priority sectors, the volume of lending to the small borrowers, as distinguished from other more substantial and creditworthy constituents of the banking system. The group took into consideration the fact that while ideally, the extension of the scope of banks' operations, so as to cover these neglected sectors, may result in an accretion of deposits to the banking system, as and when the money-lenders are displaced and the borrowers' own genuine savings are increased, and while the margin money or the borrowers' own capital to be permanently employed in the business may also become available in due course from out of the genuine savings of the borrowers outside the banking system, the risks of lending, in the interim or transitional stages, could be appreciable. The working group felt that these risks, as affecting particular banks or lending in particular areas including the rela-

tively unbanked States and backward regions, might be uneven. In the interests of the banking system as also in the wider public interest, the working group came to the conclusion that these risks should be pooled and covered under a common and centralised guarantee scheme.

3. The Government of India accepted the group's recommendations with certain minor modifications and decided to set up a separate Company for framing and administering the guarantee schemes. This Company, named the Credit Guarantee Corporation of India Ltd., was promoted by the Reserve Bank of India. It was registered on 14th January 1971 as a public limited company under the Companies Act 1956 with the following main objects, namely:

(i) to frame and implement schemes for guaranteeing loans and advances, deferred payment credits and all other types of financial assistance whatsoever granted by banks, financial institutions and other persons;

(ii) to frame and implement schemes for indemnifying banks, financial institutions and other persons against any loss or damage they may suffer or incur on account of the grant of loans and advances, deferred payment credits, issuing of guarantees and letters of credit and other types of financial assistance;

(iii) to guarantee loans and advances, deferred payment credits and all other types of financial assistance whatsoever granted by banks, financial institutions and other persons and to indemnify banks, financial institutions and other persons against any loss or damage they may suffer or incur on account of the grant of loans and advances, deferred payment credits, issuing of guarantees and letters of credit and all other types of financial assistance, such guarantees or indemnities being in pursuance of any scheme or schemes or otherwise; and

(iv) to generally carry on every type of

guarantee and indemnity business except the business of insurance.

4. Membership of the Corporation is limited to the Reserve Bank of India, the State Bank of India and its subsidiaries, the nationalised banks, the other banking companies and any other banking or financial institutions as may be specified by the Corporation's Board of Directors. The authorised capital of the Corporation is Rs. 10 crores, of which Rs. 2 crores was initially issued, subscribed and fully paid up. The Reserve Bank of India holds 60 per cent of the capital, the remaining 40 per cent being contributed by the State Bank of India and its subsidiaries, the nationalised banks and other scheduled commercial banks. The Corporation is managed by a Board of Directors consisting of six members, of whom the Chairman and one director are nominated by the Reserve Bank of India and the remaining four represent the other members. The Corporation has at present only one office located at Vidyut Bhavan, 3rd Floor, B.E.S.T. Building, Pathakwadi, Bombay-2.

5. The Corporation's business is guaranteeing loans, advances and other types of financial assistance granted by banks and other credit institutions. In pursuance of this objective, the Corporation has so far formulated three guarantee schemes, viz. the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971, the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971 and the Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971 to cover credit risks incurred in financing various categories of small borrowers, viz., transport operators, traders, professional and self-employed persons, owners of business enterprises, farmers and agriculturists and service co-operative societies assisting persons engaged in industrial activity. The schemes were brought into force from 1st April, 1st July and 1st October 1971 respectively. The terms and conditions for the provision of guarantee cover under the first two schemes have been liberalised from 1st January 1972. One of the important liberalisations is

that the ceiling limits prescribed earlier in respect of credit facilities granted to farmers and agriculturists have been dispensed with altogether. As from 1st January 1972, all direct lending to farmers and agriculturists for specified purposes will be covered irrespective of the amount of the credit facilities.

6. The Corporation's guarantee under the schemes is available automatically and in bulk in respect of all eligible credit facilities, without any application having to be made either by the credit institution or by the individual borrowers to the Corporation. The credit institutions joining the schemes are obliged to avail themselves of guarantee cover for all eligible credit facilities. A consolidated statement showing the total outstanding in the guaranteed accounts is obtained from the credit institutions at quarterly intervals and a guarantee fee of one half of one per cent per annum is charged on the actual amounts advanced. If any debt turns out to be irrecoverable, the Corporation will bear 75 per cent of the loss, subject to the ceiling specified in respect of certain categories of borrowers, the remaining 25 per cent being borne by the credit institution concerned. To avoid overlapping of guarantees, the Corporation's schemes contain a provision that credit facilities in respect of which risks are already covered by Government or any general insurer or any bank or institution carrying on the business of insurance, guarantee or indemnity, will not be eligible for the Corporation's guarantee to the extent they are so covered.

7. Texts of these schemes as liberalised and the connected administrative instructions issued to the credit institutions by the Corporation are appended.

Ref. GS-3A-167-71

March 1, 1971

Phalguna 10, 1892 (Saka)

Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971.

Please refer to the correspondence resting

with your letter No. _____ dated _____

197 _____ regarding the proposal to establish a Credit Guarantee Corporation for guaranteeing loans to certain small borrowers in the priority and neglected sectors. The Credit Guarantee Corporation of India Ltd. was registered as a company, with its registered office at Bombay, on 14th January 1971. The Board of Directors of the Corporation has since examined very carefully the details of the proposed guarantee scheme and we now enclose for your information one copy each of (a) an agreement which will have to be executed between your bank and the Credit Guarantee Corporation of India Ltd., (b) the Credit Guarantee Scheme, 1971 and (c) a note explaining the salient features of the Scheme.

2. The Scheme will come into effect from 1st April 1971 and will cover all the eligible credit facilities sanctioned by the credit institutions and availed of on or after that date, as also the credit facilities sanctioned earlier but first availed of since that date. While the Scheme and the accompanying note are self-explanatory, we would like to make the following observations.

Eligible borrowers

3. Paragraph 4 of the Scheme specifies the borrowers who are eligible for guarantee cover under the Scheme, while the credit facilities eligible for being covered are mentioned in clause (1) of each of paragraphs 10 to 15. Paragraph 6 specifies the credit facilities which are ineligible for guarantee cover.

4. In view of these provisions, it will be necessary for the credit institutions to obtain all relevant information and to satisfy themselves that the credit facilities to the borrowers are actually covered by the eligibility requirements. We suggest for this purpose, that in all the application forms which may be obtained in future from your borrowers, the following particulars may be called for :—

- (i) status of the borrower (whether individual or an association of persons or a

society or a company; the number of persons forming the association in case the borrower is an association of persons and whether the association is registered as a firm under the Partnership Act and the Income Tax Act);

- (ii) limits applied for from other branches or offices of your bank or from other banks, including co-operative banks and credit societies, or from statutory corporations and term-lending institutions and amounts borrowed from all these sources and from the Government of India and the State Governments or from their agencies;
- (iii) number of vehicles owned and operated, invoice value of vehicles, cost or invoice price of equipment, particulars of sales tax and income tax assessments and annual turnover, professional or educational qualifications and experience, particulars of tenancy and land or tilling rights;
- (iv) arrangements for raising margin money and the particulars and value of collateral security to be offered;
- (v) arrangements for obtaining technical and professional advice and services;
- (vi) number of persons employed or proposed to be employed, routes to be operated in the case of vehicles;
- (vii) particulars of anticipated turnover and profits.

These details are only illustrative. A standardised application form including these and other particulars based on the recommendations of the Committee to review the special credit schemes of banks, with particular reference to their employment potential (Thakkar Committee) is expected to be circulated shortly for the information and guidance of banks. In the meantime, these particulars may be called for if they are not already on record with you. The application forms will have to be scrutinised carefully for verifying the statements contained therein before the credit facilities are sanctioned.

5. It is necessary to ensure not only that the borrowers are eligible to have the credit facilities granted to them covered under the Scheme, but also that they continue to be so eligible and that where the provisions of paragraph 22 of the Scheme are attracted, either by reasons of the transfer or assignment of the loan or assets covered by the guarantee or in the normal course because of the increase in the size of the business the credit facility is excluded and particulars relating thereto are also omitted from the detailed statements referred to in paragraph 15 below. For this purpose, quarterly statements showing details of (a) credit facilities obtained from any source other than the branch or office which has already sanctioned an eligible credit facility, (b) transfers and assignments, (c) sales tax turnover and sales tax and income tax assessments, (d) turnover of business where particulars of the sales tax turnover are not available, and (e) book value of equipment, machinery and other assets acquired by the business may be obtained by the credit institution, even after the credit facility has been sanctioned. The borrowers' premises or fields may also be inspected by the credit institutions from time to time.

6. The particulars furnished by the borrowers in their applications will enable the credit institutions to judge whether the borrowers are availing themselves of credit facilities from more than one institution. As the Scheme entitles credit institutions to make only one claim in respect of credit facilities to borrowers other than farmers and only two claims in respect of credit facilities to farmers, it will be in the interests of the credit institutions to ensure that a borrower confines his dealings as far as possible to only one credit institution. This will also obviate the chances of a borrower availing himself of credit facilities from more than one institution on the same security.

General provisions in regard to eligible credit facilities

7. The credit facilities guaranteed under the Scheme are intended to be used only for genuine productive purposes. The credit institutions

should, while processing the applications, satisfy themselves about the integrity of the borrower, the genuineness of his requirements, that the project or purpose is socially useful and that it is expected to yield a surplus from which the credit facility can be repaid. Although clean facilities are not ruled out, the credit institution is expected to obtain as a rule a charge on the goods or other assets created out of the loan or other credit facility granted by it and on any other goods or assets, which may be available. The security may, if necessary, take the form of a life insurance policy to be assigned to the credit institution, the guarantee of a third party or even a group guarantee under which small borrowers can stand guarantee for one another. In view of the cover provided by the Corporation, the credit institutions can relax their usual margins, wherever there is a need to do so. Credit facilities unsecured by any charge may be granted, if the borrowers are not in a position to offer any security.

8. The credit institutions should take the necessary follow-up action to ensure that the facilities as and when they are availed of are actually utilised for the purpose for which they are sanctioned. In the case of crop loans it may be necessary to disburse the loan partly in cash and partly in kind (representing inputs such as fertilisers and pesticides) but it should be ensured that the ceiling limits for the cash component are as far as possible restricted to those prescribed in the crop manual as locally applicable to co-operative agricultural credit societies. An effort should in any case be made to ensure that the major part of the loan is utilised for financing actual inputs, the bills being paid as far as possible directly by the credit institution, or through agencies known to or identifiable by it.

9. It is already the practice in some areas to exhibit the name of the financing bank on the vehicle which is hypothecated to it. Credit institutions are advised to consider as far as possible whether a notice or board, indicating in each case that the assets are charged to them under a credit facility granted by them

can be exhibited at the business premises of the borrowers, so as to identify the property and assets

Sale or disposal of charged assets

10. Where in respect of any credit facility guaranteed under the Scheme the credit institution has obtained a charge over any security, the credit institution should ensure that if and when the security is sold or otherwise disposed of, the relative proceeds are credited to the account, as far as possible, in reduction of the liability of the borrower.

Multiple facilities to the same borrower

11. There may be instances where a borrower is engaged in more than one activity as for instance, a farmer running a grocery store. In such cases, there is no objection to a credit institution providing credit facilities to him for each of his activities, but the guarantee cover under the Scheme will be available from the Corporation only in respect of one activity. In all such cases, the credit institution in consultation with the borrower should decide on the activity to be covered under the guarantee scheme and segregate the credit facilities for financing that activity for being reported to the Corporation.

Sub-limits in respect of a covered facility

12. If a credit institution finds it convenient, it may maintain more than one account for a borrower in respect of the credit facilities extended to him for financing any particular activity and it can prefer a claim for the aggregate amount of losses actually arising in all such accounts.

Promotion of savings and the banking habit

13. Paragraph 8(1)(e) of the Scheme requires a credit institution to ensure that an account is opened with it in the name of the borrower into which may be paid the instalments of repayment. It is the intention that as and when

savings are generated, the credit facility should be reduced and in due course (a) the margin money on the basis of normal and adequate margins should be found by the borrower from his own savings and (b) the borrower's further savings should be offered to the bank in the form of deposits.

Segregation of books of account and ledgers

14. Credit institutions are advised to open separate ledgers and registers for the advances and other facilities eligible for a guarantee in each category. If, on account of the small volume of business at any office, it is not considered possible or worthwhile to open separate ledgers and registers for the guaranteed accounts, separate pages may be earmarked for such accounts in the common ledgers and registers. In either case, the accounts should be segregated from the date on which the scheme comes into force, i.e. the 1st April 1971. The ledgers, registers or pages should be neatly and consecutively numbered, erasures and overwritings should be avoided and old books and records should be neatly bound and maintained in good order for being scrutinised locally if necessary.

Quarterly statement of eligible credit facilities

15. The branches and offices of the credit institutions should prepare a quarterly statement of the guaranteed accounts containing the name of the borrower, the debit balance outstanding as on the last Friday of the quarter in each of the guaranteed accounts and the summation of products of the debit balances in all the accounts during the quarter. This statement may be on the lines of the form which may be prescribed by the Reserve Bank of India from time to time under the Uniform Balance Book system. The accounts will be grouped separately for each of the six categories referred to in paragraphs 10 to 15 of the Scheme. Consolidated totals of (a) the outstanding debit balances as on the last Friday of each quarter and (b) the summation of pro-

ducts during the quarter should be recorded at the foot of each of the pages of the detailed statement referred to above and the aggregate amount of such totals under (a) and (b) should be advised to the local or zonal office or direct to the Head Office, whichever arrangement is considered by the credit institution to be more convenient. For convenience of reference, the form in which the said totals are to be advised is enclosed.

16. The office receiving this form will consolidate the debit balances and the product summations Statewise for each sector. In addition to consolidating the figures, the receiving office is also expected to ensure the correctness of the statement by carrying out locally from time to time such checks or scrutiny as may be practicable for it. On the basis of these data, the Head Office will prepare a statement for the institution as a whole, in the form set out indicating the Statewise totals of the debit balances and the summation of products in each sector, and the fees payable and it will submit one copy to the Corporation within 30 days from the close of the quarter to which the statement relates.

Mode of payment of guarantee fee

17. The guarantee fee which will be at the rate of one half of one per cent on the actual outstandings, will be paid to the Corporation by the Head Offices of the credit institutions in four instalments payable every calendar quarter. This fee will be calculated on the total products of the balances in individual accounts during the previous quarter. The credit institutions will be allowed a period of 30 days to pay the guarantee fee. The first payment of the guarantee fee should be made within 30 days from 1st April 1971 and it should be based on an estimate of the eligible credit facilities which will be covered by guarantee during the quarter April-June 1971. At the end of June 1971, the actual amount of fee payable should be calculated and an adjustment should be made for the excess or deficit in the next payment which will have to be made during the month of July 1971. The amount of

fee calculated for April-June 1971 quarter will thus be identical to the amount payable for July-September 1971 quarter. For the October-December 1971 quarter, the fee will be calculated on the products for July-September 1971 quarter, that for January-March 1972 on the products for October-December 1971 quarter and so on.

Errors and omissions

18. In case there is any error in the calculation of the guarantee fee, the shortage or excess in the amount of the guarantee fee will be paid to the Corporation or refunded by the Corporation, as the case may be, along with interest at Bank rate from the date it was originally payable till the date of actual adjustment. Credit institutions are advised, as far as possible, to avoid such errors and omissions.

Late payment of fee

19. In the event of late payment of guarantee fees, interest on the amount of fees due will be charged from the first day of the concerned quarter till the date of payment. It will be charged at Bank rate if the amount is paid late but during the concerned quarter itself, and at 2% over Bank rate if the payment is made after the close of the quarter.

Claims

20. The credit institutions will tender claims in respect of guaranteed advances through their Head Offices in forms prescribed by the Corporation which are being sent to them separately. Claims will be paid after scrutiny of the applications and verifying from the detailed statements maintained at the branches (vide paragraph 15) that the account has been reported in the statements and that the fee for the relevant period has been paid thereon.

21. A claim can be made by a credit institution on the Corporation only if the credit facility is not repaid when it has been recalled and is considered as bad or doubtful of re-

covery. It is necessary either that provision should be made for the amount, which is treated as bad or doubtful or that this amount should be debited by necessary adjusting entries to a protested bills account or some other account bearing a suitable nomenclature. Where a credit institution does not already have a system of accounts providing for this arrangement, the necessary changes in its accounting procedure should be immediately introduced. The Corporation will not pay any amount in respect of which these entries have not been passed. The external auditor's certificate should be obtained at the time of his subsequent audit and furnished to the Corporation. If the auditor does not consider the dues in question as bad or doubtful, the credit institution should immediately refund to the Corporation any amount received by it towards the claim.

Accounting procedure in regard to claims paid by the Corporation

22. It will be seen from paragraph 20 of the Scheme that where the Corporation makes any payment in respect of a claim, it becomes subrogated to the rights of the credit institution and every amount which may be recovered by the credit institution from a borrower subsequently should be shared, after deducting expenses, if any, for such recovery between the Corporation and the credit institution in the ratio of 75:25. For this purpose, we suggest that in cases where the guarantee is invoked and the claim is paid by the Corporation, the credit institution may transfer the concerned amount to a Collection Account to be opened in a separate ledger. The Collection Account will appear as a contra entry in the institution's General Ledger where the debit balance will indicate the amount due from the borrowers and (contra) credit will show the liability to the Corporation which will be subrogated for the credit institution as far as those borrowers are concerned.

23. When recoveries are made from a borrower the amount recovered will be apportioned between the Corporation and the credit institution as stated in the preceding paragraph. The balance due from the concerned borrower

will be reduced in his Collection Account by taking credit for the amount of recovery made and two entries, one recording the payment in favour of the Corporation, representing its 75 per cent share and another in favour of the credit institution representing its 25 per cent share (which will be its income creditable to the profit and loss account) will be passed for reducing the balances in the contra accounts. Within these guidelines, the accounting procedure to be followed by each credit institution may be finalised by it in consultation with its auditors.

24. If the Corporation's share of the amount recovered is not paid to it within one month from the date of recovery, interest will be payable to the Corporation at Bank rate for the period for which the payment remains outstanding, after the expiry of one month. In cases where no recoveries or no further recoveries are possible, the balance in the borrower's account may be written off, after ensuring that the general or special approval of the Corporation has been obtained, as provided for in paragraph 21 of the Scheme.

Scrutiny and inspections

25. While it is primarily for the credit institutions to ensure that the guaranteed advances are well conducted and to improve the quality of such advances wherever necessary, the Corporation proposes to institute a system of verification of the guaranteed advances. In view of the very large number of accounts expected to be guaranteed and their dispersal over a large number of offices, it will not be possible for the Corporation to undertake this task singly. It is therefore proposed that, to begin with, at least 20% of the guaranteed accounts should be verified each year, and that all the guaranteed accounts are covered within a period of five years. The number of accounts to be verified in any year will be distributed among (a) the external auditors including branch auditors, (b) in internal auditors or inspectors of the credit institutions, (c) the Corporation and (d) the Reserve Bank of India. A further communication in regard to the procedure to be followed in this connection will be sent later.

26. We shall be glad if a copy each of the

Scheme and the instructions is made available by you to all your branches and offices immediately so that the officers and employees who are in any way concerned with granting the credit facilities to the new sectors are enabled to become familiar with the various provisions and guidelines contain in the Scheme. The statements to be completed and sent to the Corporation are simple. They have been so designed as to minimise the burden on the credit institutions in compiling them. We, therefore, hope that it will be possible for the credit institutions to send to the Corporation the statements as also the guarantee fee within the prescribed time.

27. We shall also be glad if an agreement on the lines of the draft vide Annexure I read with Annexure II, duly stamped as an agreement according to the Stamp Act as in force in your State and duly executed on behalf of your institution is forwarded to us so as to reach us **not later than 20th March 1971.**

Ref. No. GS-3A-1731-71 19th Nov. 1971.

Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 — Amendments

Please refer to our letter No. GS-3A-167-71 dated the 1st March 1971 forwarding a copy of the above scheme. The Corporation has been considering for some time past the question of liberalising the terms and conditions for the provision of guarantee cover in respect of credit facilities granted to the small borrowers and it has since been decided that the scheme should be amended in the manner which is indicated below. These amendments will be effective **from the 1st January 1972.**

2. The existing provision vide paragraph 5 that only credit facilities sanctioned by the credit institutions and availed

Credit facilities eligible under the Scheme of on or after the 1st April 1971 and those sanctioned before the 1st April 1971

but first availed of on or after that date are eligible for guarantee under the scheme, will be deleted from the 1st January 1972. Credit institutions will, therefore, be able to cover from that date not only the credit facilities granted on or after that date

which are within the liberalised terms (please see paragraphs 3, 4, 6, 7, and 8 below), but also the credit facilities outstanding as at the commencement of business on the 1st January 1972, irrespective of when they were actually sanctioned or were first availed of, provided the borrowers concerned and the credit limits sanctioned to them satisfy the liberalised provisions of the scheme. The following credit facilities outstanding at the commencement of business on the 1st January 1972 will not, however, be eligible for guarantee :

- (i) credit facilities which have been recalled;
- (ii) credit facilities due from borrowers who have suspended their business or activities;
- (iii) credit facilities which have been treated as bad or doubtful of recovery; and
- (iv) credit facilities which have been utilised for adjustment of any debts deemed bad or doubtful of recovery.

The extension of guarantee by the Corporation to the outstanding eligible credit facilities will be subject to the payment of guarantee fee from the 1st January 1972 (vide paragraph 15 below).

3. The ceiling limit in respect of the eligible credit facilities to transport operators vide paragraph 10 has been raised from Rs. 50,000 to Rs. 1,00,000.

Transport Operators

The object in liberalising this limit is to provide for all the requirements of the eligible transport operator from one source. Apart from facilitating the supervision and recovery of the loan, this will ensure that the charge in favour of the lending institution can be recorded without difficulty on the registration certificate.

4. Dealers in mineral oils (viz. petrol, diesel oil, etc.) who were hitherto eligible to be covered under paragraph 11 of the

Traders in Fertilisers & Mineral Oils scheme will hereafter be covered under paragraph 12.

Further, the traders in fertilisers and mineral oils will be eligible under the scheme, if they are either not assessed to sales tax or being assessed do not have an annual

turnover of more than five lakhs of rupees, as against two lakhs of rupees at present. Also, the Corporation's liability in respect of claims has been raised to seventy-five per cent of the amount in default or Rs. 75,000, whichever may be lower, as against the present limit of Rs. 30,000. The object in increasing the limits is to ensure that the benefit of guarantee cover under the scheme will be available to borrowers eligible under the Indian Oil Corporation's scheme for assistance to professionally qualified but unemployed graduates and also to a larger number of retail traders handling and selling fertilisers.

5. Under paragraph 14 of the scheme; credit facilities granted to owners of business enterprises are eligible for guarantee cover, if the original cost price of the equipment used in the business does not exceed Rs. 50,000. It has been decided that the Corporation's liability in respect of claims arising out of credit facilities granted to business enterprises should be restricted to seventy-five per cent of the amount in default or Rs. 37,500, whichever may be lower.

6. The ceiling limits prescribed at present in respect of credit facilities granted to farmers and agriculturists for the purposes specified in clause (1)(a) of paragraph 15 of the scheme will be dispensed with from the 1st January 1972. As from that date, all direct lending by credit institutions to individual farmers and agriculturists for the specified purposes will be covered under the scheme, irrespective of the amounts of the credit facilities. So far as agriculture is concerned, there will thus be a basic change in the scheme, in that all the loans will be covered (without any qualifying limits related to the amounts of the credit facilities as in other cases). The object in introducing this change is to simplify the procedure for the calculation of the guarantee fee and the provision of guarantee cover. The limits up to which claims will be admitted by the Corporation will, however, be as prescribed in the scheme as revised. These limits are intended mainly to benefit the smaller farmers.

Credit facilities for financing tea, coffee or rubber are now excluded from the scheme and will continue to be so excluded.

7. Credit facilities granted to farmers and agriculturists for seasonal agricultural operations which are not repaid in time owing to crop failure as a result of natural calamities and which are converted into term loans, will be covered under the scheme from the 1st January 1972, subject to such terms and conditions as may be laid down by the Corporation. The Corporation will intimate to the credit institutions separately the terms and conditions subject to which such conversions of seasonal loans into term loans under paragraph 15(1)(a)(iii) of the scheme will be permitted.

8. The maximum period of repayment of credit facilities granted for seasonal agricultural operations and eligible for guarantee has been extended to twenty-four months in the case of sugarcane while for all other crops the maximum period will be fifteen months. In the case of term loans for agriculture, including loans for financing pisciculture, sericulture, animal husbandry, poultry farming or dairy farming, the maximum period of repayment has been increased from five years to ten years.

9. Paragraph 18 of the scheme provides that in the case of farmers and agriculturists, a credit institution will be entitled to prefer two claims — one in respect of credit facilities granted for seasonal agricultural operations and the other in respect of credit facilities granted for development or improvement of land. Consequent on the decision to provide guarantee cover for seasonal loans converted into term loans under certain conditions, it has been decided that a credit institution can make a separate claim in respect of such converted loans also. Therefore, in respect of credit facilities granted to farmers and agriculturists engaged in cultivation of land, a credit institution can make in all three separate claims, as indicated below :

One claim —

in respect of credit facilities granted for

seasonal agricultural operations, limited to 75% of the amount of the loss or Rs. 2,500, whichever is lower.

A second claim —

in respect of credit facilities granted for development or improvement of land, limited to 75% of the amount of the loss or Rs. 10,000, whichever is lower.

A third claim —

in respect of conversion of seasonal loans into term loans, limited to 75% of the amount of the loss or Rs. 5,000, whichever is lower.

In respect of credit facilities granted for financing pisciculture, sericulture, animal husbandry, poultry farming or dairy farming, however, only one claim for one such activity (and not one or more such activities or other agricultural activities together) will be admissible. In case any claim in this category is preferred by an eligible institution, it will not be entitled to prefer in respect of the same borrower any other claim whatever on account of any other credit facility. A claim in this category will be limited to 75% of the amount of the loss or the ceiling mentioned below, whichever is lower.

(i) Pisciculture	Rs. 37,500
(ii) Sericulture	Rs. 18,750
(iii) Animal husbandry	Rs. 15,000
(iv) Poultry farming	Rs. 22,500
(v) Dairy farming	Rs. 15,000

10. In terms of clause (3) of paragraph 22 of the scheme, the Corporation's liability in respect of a guaranteed credit facility will be terminated absolutely and unconditionally, on the expiry of a period of eight financial years of the credit institution following the year in which the said credit facility is first availed of by the borrower. This clause will be deleted from the scheme from the 1st January 1972 and credit institutions will, therefore, be able to avail themselves of the benefit of the Corporation's guarantee, without any limitation as to the period for which it will be in force.

Termination of Corporation's liability

11. In terms of clause 12 of the agreement executed by the credit institutions, the statements referred to in clauses 8 to 10 of the agreement are required to be preserved by them for a period of not less than eight years following the year in which a credit facility is first disbursed. With the deletion of clause (3) of paragraph 22 of the scheme, it will be necessary for credit institutions to preserve the statements in question till such time as a claim in respect of a credit facility or credit facilities is made on the Corporation and the necessary verification in respect of such claim has been made by the Corporation. Alternatively, if the relevant records have been destroyed and a claim has been preferred, it will be open to the Corporation to reject the claim, if it cannot be supported by the records.

12. Apart from the liberalisation of the scheme as mentioned above, certain other amendments have also been made to the scheme and these are indicated below.

13. Credit facilities granted to proprietors or publishers of newspapers and periodicals are not eligible for guarantee cover under the scheme. Paragraph 6(4) of the scheme has been amended accordingly.

14. As you are aware, credit facilities granted to cold storage units for setting up or expansion of the cold storage plants are eligible for guarantee under the credit guarantee scheme for small-scale industries, which is being administered by the Reserve Bank of India as such units are treated as small-scale industrial concerns. It is possible that some credit institutions might extend credit facilities to cold storage units for trading, i.e., buying and warehousing commodities for subsequent sale. It is clarified for the information of the credit institutions that credit facilities, if any, extended by them to cold storage units for trading activities will not be eligible for guarantee under the Corporation's scheme.

15. As all the eligible outstanding credit

facilities will be covered from the 1st January 1972, paragraph 16 of the **Guarantee Fee** scheme has been amended to indicate the manner of calculation of the guarantee fee for the quarter January-March 1972. In respect of the subsequent quarters, the fee will be calculated according to the usual method.

16. We enclose a copy each of —

- (i) Credit Guarantee Corporation of India (Small Loans) Guarantee (Amendment) Scheme, 1971 and
- (ii) a chart summarising the revised eligibility conditions and the Corporation's liability for claims in respect of the various categories of borrowers (Annexure).

We shall be glad if copies of the Amendment Scheme and the chart are supplied as early as possible to your branches and offices so that they may acquaint themselves thoroughly with the provisions of the amended scheme. Instructions relating to the implementation of the amended scheme, calculation of guarantee fee, submission of quarterly statements, etc. are issued separately, vide our circular letter No. GS/3A/1732/71 dated the 19th November 1971.

Ref. No. GS/3A/553/71 May 26 1971.

Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971.

There may be instances where a small-scale industrialist may be engaged also in other activities such as trading, professional practice, etc. Credit facilities granted to such borrowers will be eligible for guarantee only under the Credit Guarantee Scheme for small-scale industries or the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 but not under both. The appropriate scheme under which the facilities are to be covered will have

to be decided by the credit institution depending upon the **main activity** of the borrower, i.e., the activity which accounts for the **major** portion of his total business. Thus, if a borrower is mainly a building contractor and he is also running a small-scale industry, the advances granted to him for the purpose of his business as a building contractor should be covered under this Corporations' scheme, if they are within the ceiling limit and satisfy the other requirements applicable to such credit facilities. In that event, any credit facilities granted to him for his small-scale industry will not be eligible for cover under the Credit Guarantee Scheme for small-scale industries so long as the credit facilities granted to him for his business are covered under this Corporation's scheme. If, however, the credit facilities granted to him for his business as contractor are in excess of the ceiling limit prescribed in this Corporation's scheme, the other credit facilities granted to him for his small-scale industry should be covered under the Credit Guarantee Scheme for small-scale industries, notwithstanding the fact that his main activity is that of a building contractor. It may be noted that under whichever scheme the borrower is included, the guarantee will be available only in respect of credit facilities eligible under that particular scheme, although credit facilities not eligible for cover may also be granted to him.

2. It is possible that a borrower who is engaged in more than one activity may seek credit facilities for each activity from a different credit institution. Credit institutions, therefore, before granting facilities to any borrower, should invariably ascertain his main activity and the scheme under which the credit facility or facilities to be granted to him should be covered. The relevant information should also continue to be obtained thereafter in the quarterly statements referred to in paragraph 5 of our circular letter No. GS/3A/167/71 dated 1st March 1971.

CREDIT GUARANTEE CORPORATION OF INDIA
(SMALL LOANS) GUARANTEE SCHEME, 1971

As in force on 1st January 1972

CHAPTER I

INTRODUCTORY

In pursuance of the decision which has been taken by the Credit Guarantee Corporation of India Ltd., to provide guarantees to a substantial extent in respect of small loans to borrowers in the priority and neglected sectors which are hereinafter specified, the Scheme which is set out below has been formulated by the Corporation and is notified for the information of the credit institutions concerned.

- 2.(1) The Scheme shall be known as the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971.
- (2) It shall come into force from the 1st April 1971.
- (3) It shall be binding on the Corporation and the credit institution in respect of credit facilities granted by the credit institution to its borrowers as hereinafter provided.

3. Definitions

For the purposes of this Scheme—

- (i) "amount in default" means the amount on account of any eligible credit facility, including interest and any other charges, which
 - (a) has become due and payable to the credit institution but has not been paid after the expiry of a period of one month from the date on which a notice of demand has been served by the credit institution on the borrower; and
 - (b) has been treated as bad or doubtful of recovery and has been provid-

ed or accounted for as such on the books of the credit institution.

- (ii) "Corporation" means the Credit Guarantee Corporation of India Ltd., a company registered under the Companies Act, 1956 and having its registered office in the State of Maharashtra.
- (iii) "Credit facility" means any financial assistance, including a loan or advance, cash credit, overdraft, bill purchased or discounted, a term or instalment credit, a letter of credit or acceptance credit and any guarantee other than a performance guarantee, granted or issued in India by a credit institution at any of its offices in India.
- (iv) "Credit institution" means the
(here enter the name of the bank)
- (v) "Scheme" means the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971.
- (vi) the expression "seasonal agricultural operations" includes fruit or vegetable or flower gardening.

CHAPTER II

Scope and extent of the Scheme

4. Guarantees by the Corporation

Subject to the other provisions of the Scheme, the Corporation undertakes, in relation to any credit facilities which may be provided from time to time to any borrower, being a transport operator, retail trader, dealer in fertilisers or mineral oils, professional or self-employed person, owner of a business enterprise or farmer, by the credit institution, which has entered into the necessary agreement for this purpose with the Corporation, to provide a guarantee on account of the said credit facilities.

5. *Credit facilities eligible under the Scheme*

The guarantee shall cover automatically and in bulk all the eligible credit facilities without requiring the credit institution to make or submit to the Corporation a prior application for covering any or all of the credit facilities under the guarantee.

6. *Credit facilities not eligible under the Scheme*

The following credit facilities shall not be eligible for being guaranteed under the Scheme.

(1) Any credit facility in respect of which risks are already covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.

(2) Any credit facility which does not conform to, or is in any other way inconsistent with, the provisions of any law, or with any directives issued by the Reserve Bank of India which may, for the time being, be in force.

(3) Any credit facility granted to any person, who has availed himself previously of any other credit facility covered under the Scheme, if the credit institution has invoked the guarantee provided by the Corporation in respect of the said previous facility, but has not repaid any portion of the amount due to the Corporation, by reason of any default on the part of the borrower in respect of that credit facility.

(4) Any credit facility granted to hire purchase financiers or to the proprietors or publishers of newspapers and periodicals.

(5) Any credit facility which has been recalled before the 1st January 1972 or is due from any borrower who has suspended his business or activities as on that date or which, as on the said date, has been treated as bad or doubtful of recovery or has been utilised for the adjustment of any bad or doubtful debt.

7. *Credit facilities granted by the credit institution jointly with another institution*

(1) Any credit facility granted by a credit institution jointly with any other institution or institutions, will be eligible under the Scheme, provided that not less than twenty-five per cent of the total amount or value of the credit facility has been sanctioned by the credit institution.

(2) For the purposes of this paragraph, a credit facility or a portion of it, as the case may be, shall be deemed to have been sanctioned by the credit institution, notwithstanding the fact that it has been or is to be disbursed by another institution or institutions, if any portion of the amount of the credit facility or the loss in respect thereof is recoverable from the credit institution by the other institution or institutions.

(3) Notwithstanding anything contained in clause (1) or clause (2), the Corporation shall, as regards any credit facility sanctioned by the credit institution jointly with any other institution or institutions, deal only with the credit institution and all the duties, liabilities and obligations imposed under the Scheme and all the rights, powers and authorities exercisable under the Scheme by or against the Corporation shall, to the extent possible, attach to and be exercisable against or in favour of, the credit institution, as if it had itself granted the entire credit facility.

CHAPTER III

General provisions in regard to credit facilities

8. *Procedure to be followed by the credit institution*

(1) Where any credit facility is covered under the Scheme, the credit institution entitled to the benefit of a guarantee shall, as far as may be practicable, ensure that —

(a) the facility is actually utilised for the purpose for which it is intended;

- (b) any goods purchased or assets created out of funds provided by or under the credit facility are pledged, hypothecated or mortgaged by the borrower to the credit institution;
- (c) a reasonable margin on the market value of the goods or assets so pledged, hypothecated or mortgaged is maintained at all times until the person availing himself of the facility has discharged all his obligations to the credit institution in respect of the facility;
- (d) provision is made for obtaining a charge in favour of the credit institution if any security other than the goods or assets referred to in sub-clause (b) is available;
- (e) an account is opened with the credit institution, in the name of the person availing himself of the facility, into which may be paid all the instalments of repayment due to the credit institution on account of the facility;
- (f) provision is made in the agreement relating to the facility for a representative of the credit institution to enter the premises, where any goods or other assets charged in favour of the credit institution are stored or located and to inspect the books of account of the person availing himself of the facility, so far as this may be necessary in relation to the credit facility.
- (g) where the premises aforesaid are hired by the person availing himself of the facility, a letter of consent from the landlord is produced and filed with the credit institution, allowing free access to the representative of the credit institution, to enter the premises for the purposes which are hereinbefore mentioned and to possess or recover the goods or assets charged in favour of the credit institution; and
- (h) such other precaution as may be usual

or necessary in connection with the provision of the said facility is also taken.

(2) If at the time that a credit facility is initially sanctioned or utilised the person availing himself of the facility is not in a position to comply with any of the conditions specified in clause (1), the credit institution shall take all such steps as may be necessary to ensure that the said conditions are satisfied as soon as may be practicable thereafter.

(3) For the avoidance of doubt, it is hereby clarified that the provisions of clause (1) and clause (2) of this paragraph and of clause (2) of paragraph 10, clause (2) of paragraph 11, clause (2) of paragraph 12, clause (2) of paragraph 13, clause (2) of paragraph 14 or clause (2) of paragraph 15, are intended only for the guidance of the credit institution, are not mandatory and that if the credit institution considers it necessary so to do, it may relax any of these provisions in any particular case or grant any unsecured loan, advance or other facility, and any guarantee provided by the Corporation shall not be conditional on the observance or enforcement of any of the said provisions.

9. Agreement to be executed by the credit institution.

The credit institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Corporation in such form as may be required by the Corporation for covering by way of a guarantee under the Scheme all the eligible credit facilities granted by the credit institution, for which provision has been made in the Scheme.

CHAPTER IV

Special provisions in relation to credit facilities to borrowers in various sectors

10. Transport operators

- (1) Credit facilities to a transport operator

shall be eligible for being guaranteed under the Scheme if—

- (a) the transport operator is an individual or an association of not more than six individuals owning and normally operating by himself or themselves, as the case may be, a transport vehicle, including a rickshaw, cart, boat barge, steamer or launch for carrying any passengers or goods for hire;
- (b) the said operator does not, as far as can be ascertained, already own or operate one or more such transport vehicles for hire; and
- (c) the amount of the loan, advance or other facility as sanctioned from time to time, including the cost of spares and one tyre in addition to those fitted to the motor vehicle and sales and other taxes, insurance and registration fees payable at the time of the purchase of the vehicle by the borrower, but excluding interest or other charges payable to the credit institution, does not exceed a sum of one lakh of rupees.

(2) The credit institution granting a credit facility which is referred to in clause (1) shall, as far as may be practicable, ensure that—

- (a) in the case of a vehicle registered under the Motor Vehicles Act, 1939, the credit institution's interest as the financier is recorded on the registration certificate and a comprehensive insurance policy covering all risks is taken out by the transport operator, with a clause assigning in favour of the credit institution such rights as do not belong or accrue to third parties under the policy;
- (b) taxes and other dues are paid regularly by the transport operator and the vehicle is serviced regularly and kept in reasonably good repair; and
- (c) the period within which the loan, ad-

vance or other facility is repayable is not in excess of three and a half years provided that the credit institution may, if it considers it necessary so to do in any particular case, extend the said period upto five years.

(3) The credit institution shall segregate the account relating to the credit facility on account of the capital cost of the vehicle as aforesaid together with accrued interest and other usual or normal bank charges, if any, from any other account maintained in the borrower's name for providing working capital or for any other purpose, and any facility granted for any purpose other than the purchase of the vehicle shall not be eligible for being guaranteed under the Scheme.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default.

11. Traders in goods other than fertilisers or mineral oils

(1) Credit facilities to a trader engaged primarily in buying and selling goods other than fertilisers or mineral oils shall be eligible for being guaranteed under this Scheme if—

- (a) the trader is an individual, firm or co-operative society registered under any law relating to co-operative societies, which is for the time being in force, and is engaged wholly or mainly in carrying on trade, but is not engaged wholly or mainly in carrying on trade in fertilisers or mineral oils, and
- (b) the trader is either not assessed to sales tax or being assessed, does not have an

annual turnover of more than one lakh of rupees.

(2) The credit institution granting any credit facility which is referred to in clause (1), shall, as far as may be practicable, ensure that—

- (a) the facility is allowed only against merchandise which is readily saleable or against bills or book debts representing amounts receivable by the borrower on account of the sale of merchandise, and
- (b) statements of stock-in-trade or of the value of stocks are obtained from the borrower and the drawing power regulated according to the margin prescribed in the account.

(3) It shall be permissible for the credit institution to provide any credit facility to the borrower for any purposes other than the carrying on of retail trade in goods other than fertilisers or mineral oils, but in case any such other facility is provided, the account in respect of the facility eligible for being guaranteed under this paragraph shall be segregated and the said other facility or facilities shall not be eligible for being guaranteed under the Scheme.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default or fifteen thousand rupees, whichever may be lower.

12. *Traders in fertilisers or mineral oils:*

(1) Credit facilities to a trader engaged primarily in buying and selling fertilisers or mineral oils shall be eligible for being guaranteed under the Scheme if—

- (a) the trader is an individual, firm or a co-operative society registered under any law relating to co-operative societies, for the time being in force; and
- (b) the trader is either not assessed to sales tax or being assessed does not have an annual turnover of more than five lakhs of rupees.

(2) The credit institution availing of the guarantee offered by the Corporation in respect of any credit facility which is referred to in

clause (1) shall, as far as may be practicable, ensure that —

- (a) the trader has entered into a satisfactory arrangement with either a manufacturer of, or other trader in, fertilisers or mineral oils, whereby he has been appointed as a selling or distributing agent for the fertilisers or mineral oils produced or marketed by the manufacturer or trader within any local area;
- (b) the fertilisers or any mixtures thereof or mineral oils are bagged or packed and labelled in a form in which they can be conveniently handled and stored;
- (c) the fertilisers or mineral oils pledged or hypothecated to the credit institution or bills or accounts receivable against which any credit facility is granted by the credit institution are not covered by any other credit facility availed of from the manufacturer or trader or from any other source;
- (d) the fertilisers or mineral oils pledged or hypothecated by the trader to the credit institutions are replaced and renewed from time to time, so as to prevent any deterioration in quality and are properly stored, so as to prevent losses by theft, dryage, moisture or any other cause;
- (e) proper stock accounts in respect of fertilisers or mineral oils pledged or hypothecated to the credit institution or statements in respect of bills or accounts receivable are filed with the credit institution at regular intervals;
- (f) in case the trader is a person other than a co-operative society, the maximum period within which any credit granted by him to any other person is to be repaid is not in excess of five months and in case the trader is a co-operative society, the maximum period within which such credit is to be repaid is not in excess of six months; and

- (g) the person to whom fertilisers or mineral oils are sold by the trader on credit or otherwise takes adequate steps to obtain technical advice from any agency established in his area regarding the suitability and application of the fertilisers or mineral oils to any land which is cultivated by him.

(3) The provisions of clause (3) of paragraph 11 shall, so far as may be, be applicable to, or in relation to, a trader engaged primarily in buying and selling fertilisers or mineral oils.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default or seventy-five thousand rupees, whichever may be lower.

13. *Professional and self-employed persons:*

(1) Credit facilities to professional and self-employed persons shall be eligible for being guaranteed under the Scheme, if—

- (a) they are granted to a medical practitioner, including a dentist, a chartered accountant, cost accountant, lawyer or solicitor, engineer, architect, surveyor, construction contractor or management consultant or to a person trained in any other art or craft who holds either a degree or diploma from any institution established, aided or recognised by Government or to a person who is considered by the credit institution to be technically qualified or skilled in the field in which he is employed or to a firm all the members of which are individuals severally eligible for credit facilities under this clause; and
- (b) the amount of the credit facility excluding interest and other charges payable to the credit institution does not exceed—
 - (i) one lakh of rupees in the case of any individual or firm being a construction contractor or contractors,

or any individual or firm owning or establishing a medical nursing home or clinic;

- (ii) fifty thousand rupees in the case of any individual or firm being an engineering consultant or architect or such consultants or architects;
- (iii) twenty thousand rupees in any other case.

(2) The credit institution granting a credit facility which is referred to in this paragraph shall, as far as may be practicable, ensure that the facility is actually utilised for purchasing the necessary equipment or for repairing or renovating the existing equipment or acquiring or repairing the business premises for or of the borrower or for purchasing tools or for working capital requirements.

(3) The credit institution shall be entitled to provide to a borrower any credit facility in addition to the facility which is referred to in clause (1) of this paragraph and the provisions of clause (3) of paragraph 11 shall be applicable to or in relation to any such other credit facility.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default.

14. *Business Enterprises :*

(1) Credit facilities to any individual or firm who owns and manages a business enterprise established mainly for the purpose of providing any services, not being professional services referred to in paragraph 13, shall be eligible for being guaranteed under this Scheme, if—

- (a) the business enterprise has been or is established by an individual or firm;
- (b) the original cost price of the equipment used for the purpose of the business does not exceed fifty thousand rupees;

- (c) the loan, advance or other facility is actually utilised for purchasing the equipment or for carrying on the business of the concern; and
 - (d) the facility in question is not eligible under any of the other provisions of the Scheme.
- (2) The credit institution granting a credit facility which is referred to in clause (1) shall, as far as may be practicable, ensure that—
- (a) the income from the provision of services or from any other source is regularly brought to account and recorded on the books of the borrower and that proper books of account are maintained by the borrower;
 - (b) the current assets of the enterprise are reasonable in relation to its current liabilities; and
 - (c) the credit extended to individual parties by the borrower is actually recovered within reasonable periods.

(3) The credit institution shall be entitled to provide to a borrower any credit facility in addition to the facility referred to in clause (1) and the provisions of clause (3) of paragraph 11 shall be applicable to or in relation to such other credit facility.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default or thirty-seven thousand five hundred rupees, whichever may be lower.

15. *Farmers and agriculturists :*

(1) Credit facilities granted to any individual who is the owner, tenant or lessee including an oral lessee of any land (not being land on which tea, coffee or rubber is normally grown) and who is engaged wholly or mainly in the cultivation of such land or to any individual who

is engaged wholly or mainly in sericulture, animal husbandry, poultry farming, dairy farming, fruit or vegetable or flower gardening or pisciculture including the catching of fish in inland or marine waters shall be eligible for being guaranteed under the scheme—

- (a) if the facility is granted for any of the following purposes, namely,
 - (i) financing seasonal agricultural operations;
 - (ii) financing the reclamation or improvement of land, the construction or deepening of irrigation wells, the installation of pumpsets for drawing water, the purchase of cattle, machinery or equipment or the acquisition of any other capital assets;
 - (iii) converting the outstanding amount of any credit facility granted for financing seasonal agricultural operations and not repaid within the prescribed period due to drought, famine, flood or other natural calamities, into a term or instalment credit, subject to such terms and conditions as may be specified by the Corporation;
 - (iv) acquiring premises, equipment, accessories, cattle or goods of any description and for meeting the working capital requirements in respect of any of the following activities, namely, pisciculture, sericulture, animal husbandry, poultry farming or dairy farming; and
- (b) If the period within which the loan, advance or other credit facility is to be repaid or adjusted is not in excess of—
 - (i) twenty-four months from the date on which it is first utilised, in case it is sanctioned for financing the cultivation of sugarcane;
 - (ii) fifteen months from the date on which it is first utilised, in case it

is sanctioned for financing any other seasonal agricultural operations; and

- (iii) ten years from the date on which it is first utilised, in case it is sanctioned for any other purpose.

(2) The credit institution granting any credit facility which is referred to in clause (1) shall, as far as may be practicable, ensure that—

- (a) the borrower is able to furnish satisfactory evidence to the credit institution that he is actually engaged in the cultivation of land which bears a specified survey number or is otherwise identifiable, or in any other activity for financing which the credit facility is granted;
- (b) the land, farm, establishment or other business premises of the borrower can be visited or inspected by reason of the fact that it is located in a compact and contiguous area in which other borrowers have also been granted credit facilities or in an area which is accessible to the credit institution and the Corporation;
- (c) in the case of a credit facility for financing seasonal agricultural operations, the facility is utilised mainly for meeting through the credit institution or through sources known to or identifiable by the credit institution, the cost of fertilisers, pesticides, seeds or other agricultural inputs;
- (d) in the case of a credit facility for financing the reclamation and improvement of land, the construction of irrigation wells, the installation of pumpsets for drawing water, the purchase of machinery or equipment or the acquisition of any other capital assets, satisfactory evidence is furnished to the credit institution to the effect that the facility has been actually so utilised;
- (e) the borrower avails himself of technical assistance or other facilities available from any agency established in his area in connection with the utilisation of the facility.

(3) The credit institution shall be entitled to provide to a borrower any other credit facility in addition to the facility referred to in clause (1) and the provisions of clause (3) of paragraph 11 shall be applicable to or in relation to such a facility.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph in the manner specified below:

(a) For a credit facility granted for the purpose specified in sub-clause (a)(i) of clause (1)	Up to seventy-five per cent of the amount in default or Rs. 2,500, whichever may be lower.
(b) For a credit facility granted for the purpose specified in sub-clause (a)(ii) of clause (i)	Upto seventy-five per cent of the amount in default or Rs. 10,000, whichever may be lower.
(c) For a credit facility granted for the purpose specified in sub-clause (a)(iii) of clause (1).	Upto seventy-five per cent of the amount in default or Rs. 5,000 whichever may be lower.
(d) For a credit facility granted for financing—	
(i) pisciculture	Up to seventy-five per cent of the amount in default or Rs. 37,500, whichever may be lower.
(ii) sericulture	Upto seventy five percent of the amount in default or Rs. 18,750, whichever may be lower.
(iii) animal husbandry	Up to seventy-five per cent of the amount in default or Rs. 15,000, whichever may be lower.
(iv) poultry farming	Up to seventy-five per cent of the amount in default or Rs. 22,500, whichever may be lower.
(v) dairy farming	Up to seventy-five percent of the amount in default or Rs. 15,000, whichever may be lower.

CHAPTER V

GUARANTEE FEE

16. *Guarantee Fee :*

(1) A guarantee fee shall be paid to the Corporation by the credit institution availing itself of the guarantee provided under the Scheme at the rate of one half of one per cent per annum on the amounts outstanding on account of the eligible credit facilities provided by the credit institution.

(2) The said fee shall be paid or remitted to the Corporation at the expense of the credit institution in the manner which is hereinafter specified;

- (a) in respect of the calendar quarter commencing on the 1st January 1972, within a period of sixty days from the commencement of that quarter, calculated on the balances outstanding in the individual accounts under the scheme as at the close of business on the 31st December 1971, not being balances on account of—
 - (i) credit facilities which have been recalled;
 - (ii) credit facilities due from borrowers who have suspended their business or activities;
 - (iii) credit facilities which have been treated as bad or doubtful of recovery; and
 - (iv) credit facilities which have been utilised for adjustment of any debts deemed bad or doubtful of recovery.
- (b) in respect of each calendar quarter commencing from the 1st April 1972, within a period of thirty days from the commencement of the quarter for which it is payable, calculated with reference to the balances outstanding in individual

accounts guaranteed under the scheme, as on the last Friday, of the preceding quarter, any fraction in the amount of the fee as so calculated and totalled up for all the eligible accounts being rounded off to the next higher five paise.

(3) In the event of any error or discrepancy being found in the computation of the amounts outstanding on account of the eligible facilities as aforesaid or in the calculation of the guarantee fee, the excess or deficiency shall be recovered from or paid to the Corporation in such manner and with interest at such rate as may be directed by the Corporation.

CHAPTER VI

CLAIMS

17. *Claims in respect of a borrower not to be preferred by two credit institutions:*

The credit institution shall not be entitled to invoke a guarantee under the Scheme in respect of any borrower, if any other credit institution has, in respect of the same borrower, made or submitted any claim to the Corporation, so long as any amount due to the Corporation on account of the settlement of that claim remains unpaid.

18. *Credit institution entitled to invoke the guarantee only in respect of one specified category on account of any one borrower :*

The credit institution shall be entitled to prefer only one claim on account of the credit facility or credit facilities extended to a borrower in any one of the six categories specified in paragraphs 10, 11, 12, 13, 14 and 15 of the Scheme, notwithstanding the fact that other eligible credit facilities might have been provided to such borrower, so however, that in respect of credit facilities to farmers or agriculturists, the credit institution shall be entitled to invoke the guarantee separately in respect of credit facilities granted for the purpose specified in sub-clause (a) (i) or sub-clause

(a)(ii) or sub-clause (a)(iii) of clause (1) of paragraph 15 of the Scheme.

19. Payment of a claim to discharge the Corporation :

On a claim being paid, the Corporation shall be deemed to have been discharged from all its liabilities on account of any guarantee in force in respect of the borrower concerned.

20. Subrogation of rights and recoveries on account of claims paid :

(1) Subject to the provisions of the Indian Contract Act, 1872 and any other law in this behalf, the Corporation shall, to the extent of the amount paid by it on account of any facility to a borrower guaranteed under the Scheme, be subrogated to the rights of the credit institution and every amount which may be recovered by the credit institution from a borrower after a claim has been paid shall, after deducting therefrom the expenses, if any, incurred for recovering the amount, be shared between the Corporation and the credit institution in the ratio of 75 : 25 till their respective dues are paid in full.

(2) Every amount recovered and due to be paid to the Corporation shall be paid without avoidable delay, and if any amount due to the Corporation remains unpaid beyond a period of one month from the date on which it was first recovered, interest shall be payable to the Corporation by the credit institution at the Bank Rate for the period for which the payment remains outstanding after the expiry of the said period of one month.

21. Losses not be written off without the Corporation's approval:

Any amounts due from a borrower in respect of which a claim has been paid shall not be written off on the books of the credit institution without the general or special approval in writing of the Corporation.

CHAPTER VII

MISCELLANEOUS

22. Corporation's liability to be terminated in certain cases :

(1) If the liabilities of a borrower to a credit institution on account of any eligible credit facility guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.

(2) If a borrower becomes ineligible for being granted any credit facilities under this Scheme, by reason of the fact that according to the information available to the credit institution the conditions specified in sub-clause (a), sub-clause (b) and sub-clause (c) of clause (1) of paragraph 10, sub-clause (a) and sub-clause (b) of clause (1) of paragraph 11, sub-clause (a) and sub-clause (b) of clause (1) of paragraph 12, sub-clause (b) of clause (1) of paragraph 13, sub-clause (a) and sub-clause (b) of clause (1) of paragraph 14 or sub-clause (a) and sub-clause (b) of clause (1) of paragraph 15 are no longer satisfied, the guarantee in respect of any credit facility granted to him by a credit institution shall be terminated — (a) in a case in which the conditions specified in sub-clause (b) of clause (1) of paragraph 11 or sub-clause (b) of clause (1) of paragraph 12 are not satisfied, on the expiry of the calendar quarter following a period of one year, during which the turnover as ascertained on the basis of the quarterly or other periodical reports obtained by the credit institution from the borrower has been continuously in excess of the prescribed limits; (b) in any other case, on the expiry of the financial year of the credit institution in which the borrower becomes ineligible.

23. *Returns and Inspection :*

(1) The credit institution shall submit such statements or furnish such information as the Corporation may require in connection with any credit facility under this Scheme.

(2) The credit institution shall also furnish to the Corporation all such documents, receipts, certificates and other writings as the latter may require and shall ensure, as far as possible, that the contents of all such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the credit institution or any officer thereof for anything done in good faith.

(3) The Corporation shall in so far it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the credit institution, and subject to the provisions of sub-clause (f) and sub-clause (g) of clause (1) of paragraph 8, of any borrower from the credit institution. Such inspection may be carried out either through the officers of the Corporation or of the Reserve Bank of India. Every officer or other employee of the credit institution or the borrower, who is in a position to do so, shall make available to the officers of the Corporation or the Reserve Bank, as the case may be, the books of account and other records and information which are in his possession.

(4) The Corporation may, at any time or from time to time, give to the credit institution to which a guarantee has been furnished such directions for facilitating recoveries in the guaranteed account as the Corporation may think fit and the credit institution shall be bound to comply with such directions.

(5) The credit institution shall, in respect of any guaranteed account, continue to exercise

the same diligence in recovering the dues in all the ways open to it as it might have exercised if no guarantee had been furnished by the Corporation.

24. *Conditions imposed under the Scheme to be binding on the credit institution :*

(1) Any guarantee given by the Corporation shall be governed by the provisions of the Scheme as if the same had been written in the document evidencing such guarantee.

(2) The credit institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme.

25. *Modifications and exemptions :*

The Corporation reserves to itself the right to modify, cancel or replace this Scheme, so however that the rights or obligations arising out of, or accruing under, a guarantee issued under the Scheme up to the date of such cancellation, modification or replacement shall not be affected.

26. *Interpretation :*

If any question arises in regard to the interpretation of any of the provisions of the Scheme, the decision of the Corporation shall be final.

27. *Supplementary and general provisions :*

In respect of any matter not specifically provided for in the Scheme, the Corporation may make such supplementary or additional provisions as may be necessary for the purpose of the Scheme.

ANNEXURE

Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971

Purposes for which credit facilities may be granted, ceiling limits for eligibility for the provision of guarantee cover and ceiling limits for claims as from 1st January 1972.

Category of borrowers	Constitution of borrower and nature of business	Eligible purposes	Ceiling limits for			Corporation's liability in respect of claims.
			credit facilities	annual sales-tax turnover	original cost price of equipment	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Rs.	Rs.	Rs.	
1. Transport Operators	Individual or association of not more than six individuals owning and operating a transport vehicle by himself or themselves.	For purchase of one vehicle. Credit facilities for any other purpose, including working capital, are not eligible.	1,00,000	—	—	75% of the amount of the loss.
2. Traders in goods other than fertilisers and mineral oils.	Individual, firm or registered co-operative society trading in goods.	For purchasing the necessary equipment or for repairing or renovating the existing equipment; for acquiring or repairing the business premises for or of the borrower; for purchasing tools; for working capital requirements.	—	1,00,000	—	75% of the amount of the loss or Rs. 15,000 whichever is lower.
3. Traders in fertilisers and mineral oils.	Individual, firm or registered co-operative society trading in fertilisers or mineral oils and appointed as selling or distributing agent by a manufacturer or other trader.	—do—	—	5,00,000	—	75% of the amount of the loss or Rs. 75,000 whichever is lower.
4. Professional and self-employed persons.	Individual or firm of individual partners who or every one of whom is trained in any art or craft and holds either a degree or diploma or is considered to be technically qualified or skilled in his line and is rendering professional services.	For purchasing the necessary equipment or for repairing or renovating the existing equipment; for acquiring or repairing the business premises for or of the borrower; for purchasing tools; for working capital requirements.	Doctors owning and establishing a medical nursing home or clinic and construction contractors	1,00,000	—	75% of the amount of the loss
			Engineering consultants or architects	50,000	—	—do—
			Other professional or self-employed persons	20,000	—	—do—

1	2	3	4	5	6	7
5. Business enterprises	Individual or firm providing any kind of services other than professional services.	—do—	—	—	50,000	75% of the amount of the loss or Rs. 37,500 whichever is lower.
6. Farmers and agriculturists	Individual who has any interest in land (identifiable by a specified survey number or otherwise) not being land on which tea, coffee or rubber is normally grown and is engaged in cultivating that land, or an individual engaged in pisciculture, sericulture, animal husbandry, fruit or flower or vegetable gardening, dairy farming or poultry farming.	(i) For seasonal agricultural operations or growing fruits, flowers or vegetables; + (ii) financing the reclamation or improvement of land, the construction or deepening of irrigation wells, the installation of pumpsets for drawing water, the purchase of cattle, machinery or equipment or the acquisition of any other capital assets; + (iii) Converting the outstanding amount of any credit facility granted for financing seasonal agricultural operations and not repaid within the prescribed period due to drought, famine, flood or other natural calamities into a term or instalment credit, subject to such terms and conditions as may be specified by the Corporation; x+ iv) acquiring premises, equipment, accessories, cattle or goods of any description and for meeting the working capital requirements in respect of any of the following activities namely, pisciculture, sericulture, animal husbandry, poultry farming or dairy farming;	— — — —	— — — —	— — — —	75% of the amount of the loss or Rs. 2,500 whichever is lower. 75% of the amount of the loss or Rs. 10,000 whichever is lower. 75% of the amount of the loss or Rs. 5,000, whichever is lower.

1.	2.	3.	4.	5.	6.	7.
			Rs.	Rs.	Rs.	
		(a) Pisciculture*	—	—	—	75% of the amount of the loss or Rs. 37,500, whichever is lower.
		(b) Sericulture*	—	—	—	75% of the amount of the loss or Rs. 18,750 whichever is lower.
		(c) Animal husbandry*	—	—	—	75% of the amount of the loss or Rs. 15,000 whichever is lower.
		(d) Poultry farming*	—	—	—	75% of the amount of the loss or Rs. 22,500 whichever is lower.
		(e) Dairy farming*	—	—	—	75% of the amount of the loss or Rs. 15,000 whichever is lower.

+ A claim under this category can be preferred along with a claim under one or more categories marked +

* If a claim under any category marked* is preferred, no other claim under any category marked+ or* or under any other category, which is not marked by any sign can be preferred. Subject to the above, only one claim can be preferred on account of a borrower under any of the items 1 to 6.

STATEMENT OF GUARANTEED ACCOUNTS

Bank _____

Quarter ended _____

State	Debit balances in guaranteed accounts						Total	Guarantee fees paid
	Transport operators	Retail traders	Dealers in fertilisers	Professional and self-employed persons	Business enterprises	Farmers and agriculturists		
	Debit balance Rs.	Debit balance Rs.	Debit balance Rs.	Debit balance Rs.	Debit balance Rs.	Debit balance Rs.	Debit balance Rs.	Rs.
1. Andhra Pradesh								
2. Assam								
3. etc.,..								
Union Territories :								
1. Goa, Daman & Diu								
2. Manipur								
3. etc.,..								
Total :								

Note : Debit balances outstanding as on the last Friday of the quarter should be reported.

FORM OF AGREEMENT

(NOTE: The liability to stamp duty will depend upon the place where it is executed and/or acted upon)

(Place)

(Date)

To

The Credit Guarantee Corporation of India Ltd.,
BOMBAY.

Dear Sirs ,

In consideration of the Credit Guarantee Corporation of India Ltd., (hereinafter referred to as "the Corporation" which expression shall, unless repugnant to the context, also include its successors and assigns), agreeing to guarantee under the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971, (a copy whereof is hereto annexed and which is hereinafter referred to as "the Scheme"), certain credit facilities granted by us, we do hereby agree with the Corporation as follows:

1. That the provisions of the Scheme shall be deemed to be incorporated in this Agreement and shall be binding on us, in so far as they relate to the credit facilities granted by us, which have been or are eligible for being guaranteed thereunder.

2. That the provisions of the Scheme and this Agreement shall be applicable to or in relation to all credit facilities eligible for guarantee under the Scheme.

3. That we shall claim the benefit of the guarantee under the Scheme only in respect of the credit facilities specified in the Scheme and to the extent provided therein and that we shall for this purpose obtain and preserve affidavits or other documents from the borrowers concerned, or otherwise satisfy ourselves by a reference to the borrowers' books of account or other records that the borrowers in respect of whom the benefit of the guarantee

has been or is to be provided by the Corporation are eligible for the guarantee under the Scheme.

4. That we undertake that a borrower who ceases to be so eligible will, in accordance with and subject to the provisions of the Scheme, be excluded from the benefit of any guarantee and that for this purpose we shall obtain every quarter or at such other intervals as may be prescribed by the Corporation declarations supported by relevant particulars from the borrowers concerned.

5. That in cases where the borrowers are also engaged in other activities not covered by the Scheme, the credit facilities extended in connection with the eligible activities of the borrowers and those extended in respect of their other activities shall be segregated and that the securities, if any, pledged, hypothecated or mortgaged to us in respect of such facilities shall be kept distinct and the inventories shall be recorded separately.

6. That books of accounts, ledgers and other documents relating to eligible credit facilities covered by the Scheme shall, as far as may be practicable, be segregated and maintained in a proper manner so as to facilitate such scrutiny or inspection as may be undertaken by the Reserve Bank or by the Corporation or by any other person nominated by the Corporation in this behalf.

7. That we undertake to provide to all the officers of the Reserve Bank or of the Corporation or of any agency which may be specified by the Corporation in this behalf all such facilities as may be necessary for such scrutiny and inspection.

8. That we shall furnish to the Corporation a preliminary statement based on our estimate of the eligible credit facilities which may be expected to be covered under the Scheme as at the end of the quarter ending June 1971 and a final statement or statements showing the particulars of the credit facilities actually granted and outstanding as on the last Friday of that quarter.

9. That we shall furnish to the Corporation thereafter quarterly statements in respect of every calendar quarter in form and manner prescribed by the Corporation showing the outstanding balances and other relevant particulars in respect of the eligible credit facilities as at the close of business on the last Friday of the preceding quarter.

10. That without prejudice to the provisions of the two foregoing clauses every branch or office of our institution shall prepare one or more detailed statements showing full particulars in such form as may be prescribed by the Corporation, of credit facilities to individual borrowers eligible for being granted credit facilities under the Scheme and that the totals in the said detailed statement or statements shall be tallied with the consolidated figures appearing in the statement or statements referred to in clause 8 or clause 9 hereof.

11. That no claim shall be made on the Corporation in respect of any credit facility covered under the Scheme unless full particulars in respect of the said credit facility as aforesaid have been included in the detailed statement as on record at the branch or office as aforesaid.

12. That in order to enable the Corporation to ascertain whether any claim made on it is on account of any eligible credit facility which has been so included, we shall preserve in good order the detailed statement or statements referred to in clauses 8, 9 and 10 hereof for a period of not less than eight years following the year in which any amount on account of the said credit facility is disbursed.

13. That notwithstanding anything to the contrary contained in the Scheme, if any loss occurs in respect of an account covered by the Scheme owing to the dishonesty on the part of any of our officials, or owing to decisions taken by such officials being contrary to or in contravention of the instructions issued to by their superiors or by the Corporation, we shall not make or be entitled to make any claim on the Corporation in respect of the said account.

14. That all applications, documents, re-

ceipts, statements and other papers shall be signed on behalf of our institution by the chief executive officer or by other persons in our employment, who shall be deemed to be authorised by us to sign all such applications, documents, receipts, statements and other papers and that any irregularity in the signature, or want of authority of the persons so signing shall not in any way affect or prejudice the rights of the Corporation or affect our liability in respect thereof.

15. That we shall introduce and follow such accounting arrangements as may be necessary or as may be required by the Corporation or take such other steps as may be necessary or expedient for protecting its interests in respect of the outstanding balances on account of credit facilities in regard to which the Corporation's guarantee is invoked by us.

16. That this Agreement should take effect from the first day of April 1971.

17. That the stamp duty payable on this Agreement shall be borne by us.

Yours faithfully,

For and on behalf of

Signature

Designation

Ref. GS/8A/647/71

7th June 1971

Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971.

As you may be aware, the Government of India had decided some time ago on providing a simple but wide-ranging system of guarantees or other comparable facilities with a view to promoting the supply of credit to individual borrowers in sectors which had remained relatively neglected so far, such as small-scale industrial concerns, small business, road transport, minor repair industries, retail trade, small

farming and also to professional and self-employed persons such as artisans, engineers, architects and doctors. With a view to formulating and administering suitable schemes for this purpose, the Reserve Bank of India promoted a new public limited company, known as the Credit Guarantee Corporation of India Ltd. This company was incorporated and registered under the Companies Act, 1956 on 14th January 1971, with an authorised capital of Rs. 10 crores, of which Rs. 2 crores has been initially issued and paid up. The Corporation is being managed by a Board of Directors consisting of six members, of whom two (including the Chairman) are from the Reserve Bank of India and the remaining four are executives of commercial banks.

2. The Corporation formulated the Credit Guarantee Corporation of India (Small Loans) Guarantee Scheme, 1971 and brought it into force with effect from 1st April 1971. This scheme covers eligible credit facilities granted by the scheduled commercial banks to small borrowers in the following six sectors, viz. (a) transport operators, (b) traders in fertilisers, (c) traders in goods other than fertilisers, (d) professional and self-employed persons, (e) business enterprises and (f) farmers and agriculturists. A pamphlet containing the details of this scheme along with our instructions to the banks for implementing it is enclosed for your information.

3. The Corporation has now formulated a similar scheme to cover small loans and other credit facilities granted by State Financial Corporations (including the Tamil Nadu Industrial Investment Corporation Ltd.) to borrowers in the category of (a) transport operators and (b) business enterprises. It may be added that the credit guarantee scheme for small-scale industries being administered by the Industrial Finance Department of the Reserve Bank of India will continue to be administered by that Department so far as small-scale industries eligible under that scheme are concerned. Only borrowers who are ineligible under that scheme will be covered by this Corporation under its scheme, provided the stipulated requirements are satisfied.

4. We enclose for your information one copy each of (a) an agreement which will have to be executed between your Corporation and the Credit Guarantee Corporation of India Ltd., (b) the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971 and (c) a note explaining the salient features of the scheme.

5. The Scheme will come into effect from 1st July 1971 and will cover all the eligible credit facilities sanctioned by the credit institutions and availed of on or after that date, as also the credit facilities sanctioned earlier but first availed of since that date. While the Scheme and the accompanying note are self-explanatory, we would like to make the following observations.

6. Paragraph 4 of the Scheme specifies the borrowers who are eligible for guarantee cover under the Scheme, while the credit facilities eligible for being covered are mentioned in clause (1) of paragraph 10 and clause (1) of paragraph 11. Paragraph 6 specifies the credit facilities which are ineligible for guarantee cover.

7. In view of these provisions, it will be necessary for the credit institutions to obtain all relevant information and to satisfy themselves that the credit facilities to the borrowers are actually covered by the eligibility requirements. We suggest for this purpose, that in all the application forms which may be obtained in future from your borrowers, the following particulars may be called for :—

- (i) status of the borrower (whether individual, firm or an association of persons, the number of persons forming the association in case the borrower is an association of persons and whether the association is registered as a firm under the Partnership Act and the Income Tax Act);
- (ii) limits applied for from banks, including co-operative banks and credit societies, or from statutory corporations and term-

lending institutions and amounts borrowed from all these sources and from the Government of India and the State Governments or from their agencies;

- (iii) number of vehicles owned and operated, invoice value of vehicles and cost or invoice price of equipment;
- (iv) arrangements for raising margin money and the particulars and value of collateral security to be offered;
- (v) arrangements for obtaining technical and professional advice and services;
- (vi) number of persons employed or proposed to be employed, routes to be operated in the case of vehicles;
- (vii) particulars of anticipated turnover and profits.

These details are only illustrative. Model application forms including these and other particulars, based on the recommendations of the Committee appointed to review the special credit schemes of banks, with particular reference to their employment potential (Thakkar Committee) have been published along with the Committee's report, in the supplement to the February 1971 issue of the Reserve Bank of India Bulletin. These forms may be referred to for guidance and the necessary particulars may be called for, if they are not already on record with you. The application forms will have to be scrutinised carefully for verifying the statements contained therein before the credit facilities are sanctioned.

8. It is necessary to ensure not only that the borrowers are eligible to have the credit facilities granted to them covered under the Scheme, but also that they continue to be so eligible and that where the provisions of paragraph 18 of the Scheme are attracted, either by reasons of the transfer or assignment of the loan or assets covered by the guarantee or in the normal course because of the increase in the size of the business, the credit facility is excluded and particulars relating thereto are also omitted from the detailed statements refer-

red to in paragraph 18 below. For this purpose, quarterly statements showing details of (a) credit facilities obtained from any source other than the credit institution itself, (b) transfers and assignments, and (c) book value of equipment, machinery and other assets acquired by the business, may be obtained by the credit institution, even after the credit facility has been sanctioned. The borrowers' vehicles or premises may also be inspected by the credit institutions from time to time.

9. The particulars furnished by the borrowers in their applications will enable the credit institutions to judge whether the borrowers are availing themselves of credit facilities from more than one institution. As the Scheme entitles credit institutions to make only one claim in respect of credit facilities to borrowers, it will be in the interests of the credit institutions to ensure that a borrower confines his dealings as far as possible to only one credit institution or the facilities are extended to him by the credit institutions on a participation basis.

General provisions in regard to eligible credit facilities

10. The credit facilities guaranteed under the Scheme are intended to be used only for genuine productive purposes. The credit institutions should, while processing the applications, satisfy themselves about the integrity of the borrower, the genuineness of his requirements, that the project or purpose is socially useful and that it is expected to yield a surplus from which the credit facility can be repaid. The credit institution is expected to obtain as a rule a charge on the goods or other assets created out of the loan or other credit facility granted by it and on any other goods, or assets, which may be available. In view of the cover provided by the Corporation, the credit institutions can relax their usual margins, wherever there is a need to do so.

11. The credit institutions should take the necessary follow-up action to ensure that the facilities as and when they are availed of are

actually utilised for the purposes for which they are sanctioned. In financing the purchase of transport vehicles or business equipment, it may be necessary, while disbursing the loans, to ensure that the bills are paid, as far as possible, directly to the suppliers by the credit institution, or through agencies known to or identifiable by it.

12. It is already the practice in some areas to exhibit the name of the financing institution on the vehicle which is hypothecated to it. Credit institutions are advised to consider as far as possible whether a notice or board, indicating in each case that the assets are charged to them under a credit facility granted by them can be exhibited at the business premises of the borrowers, so as to identify the property and assets.

Sale or disposal of charged assets

13. Where in respect of any credit facility guaranteed under the Scheme the credit institution has obtained a charge over any security, the credit institution should ensure that if and when the security is sold or otherwise disposed of, the relative proceeds are credited to the account, as far as possible, in reduction of the liability of the borrower.

Multiple facilities to the same borrower

14. There may be instances where a borrower is engaged in both the activities covered by paragraphs 10 and 11 of the Scheme. In such cases, there is no objection to a credit institution providing credit facilities to him for each of his activities, but the guarantee cover under the Scheme will be available from the Corporation only in respect of one activity. In all such cases, the credit institution in consultation with the borrower should decide on the activity to be covered under the guarantee scheme and segregate the credit facilities for financing that activity for being reported to the Corporation.

Multiple accounts in respect of a covered facility

15. If a credit institution finds it convenient, it may maintain more than one account for

a borrower in respect of the credit facilities extended to him for financing any particular activity and it can prefer a claim for the aggregate amount of losses actually arising in all such accounts.

Recovery of instalments due

16. The credit institutions are expected to ensure that suitable provision is made for the recovery of all the instalments due from a borrower.

Segregation of books of account and ledgers

17. Credit institutions are advised to open separate ledgers and registers for the advance and other facilities eligible for a guarantee in each category. If, on account of the small volume of business in any category, it is not considered possible or worthwhile to open separate ledgers and registers for the guaranteed accounts, separate pages may be earmarked for such accounts in the common ledgers and registers. In either case, the accounts should be segregated from the 1st July 1971. The ledgers, registers or pages should be neatly and consecutively numbered, erasures and overwritings should be avoided and old books and records should be neatly bound and maintained in good order for being scrutinised locally if necessary.

Quarterly statement of eligible credit facilities

18. The Head Office of the Corporation and each of its branches and offices at which eligible credit facilities are granted should prepare a quarterly statement of the guaranteed accounts containing the name of the borrower, the debit balance outstanding as on the last Friday of the quarter in each of the guaranteed accounts, the summation of products of the debit balances in all the accounts during the quarter and other particulars. This statement may be on the lines of the enclosed form. The accounts will be grouped separately for each of the two categories referred to in paragraphs 10 and 11 of the Scheme. Consolidated totals of (a) the outstanding debit balances as on the last Friday of each quarter and (b) the summation of products during the quarter should be

recorded at the foot of each of the pages of the detailed statement referred to above and the aggregate amount of such totals under (a) and (b) should be advised by the branches and offices to the Head Office. For convenience of reference, the form in which the said totals are to be advised is enclosed.

19. The Head Office will consolidate the debit balances and the product summations for each sector. In addition to consolidating the figures, the Head Office is also expected to ensure the correctness of the statements prepared by the branches and offices by carrying out locally from time to time such checks or scrutiny as may be practicable for it. On the basis of these data, the Head Office will prepare a statement for the institution as a whole, in the form set out indicating the totals of the debit balances and the summation of products in each sector, and the fees payable and it will submit one copy to this Corporation within 30 days from the close of the quarter to which the statement relates. If the credit institution has its jurisdiction extending to more than one State including a Union territory, the data in respect of the credit facilities covered in each State and Union territory should be shown separately in the statement.

Mode of payment of guarantee fee

20. The guarantee fee which will be at the rate of one half of one per cent per annum on the actual outstandings, will be paid to the Corporation by the Head Offices of the credit institutions in four instalments payable every calendar quarter. This fee will be calculated on the total products of the balances in individual accounts during the previous quarter. The credit institutions will be allowed a period of 30 days to pay the guarantee fee. The first payment of the guarantee fee should be made within 30 days from 1st July 1971 and it should be based on an **estimate** of the eligible credit facilities which will be covered by guarantee during the quarter July-September 1971. At the end of September 1971, the actual amount of fee payable should be calculated and an adjustment should be made for the excess or deficit

in the next payment which will have to be made during the month of October 1971. The amount of fee calculated for July-September 1971 quarter will thus be identical to the amount payable for October-December 1971 quarter. For the January-March 1972 quarter, the fee will be calculated on the products for October-December 1971 quarter, that for April-June 1972 on the products for January-March 1972 quarter and so on.

All payments due to the Corporation should be made by means of crossed cheques/drafts drawn in favour of the "Credit Guarantee Corporation of India Ltd." and made payable at Bombay.

Errors and omissions

21. In case there is any error in the calculation of the guarantee fee, the shortage or excess in the amount of the guarantee fee will be paid to the Corporation or refunded by the Corporation, as the case may be, along with interest at Bank rate from the date it was originally payable till the date of actual adjustment. Credit institutions are advised, as far as possible, to avoid such errors and omissions.

Late payment of fee

22. In the event of late payment of guarantee fees, interest on the amount of fees due will be charged from the first day of the concerned quarter till the date of payment. It will be charged at Bank rate if the amount is paid late but during the concerned quarter itself and at 2% over Bank rate if the payment is made after the close of the quarter.

Claims

23. The credit institutions will tender claims in respect of guaranteed advances through their Head Offices in forms prescribed by the Corporation which will be sent to them separately. Claims will be paid after scrutiny of the applications and verifying from the detailed statements maintained at the offices (vide paragraph 18) that the account has been reported in the

statements and that the fee for the relevant period has been paid thereon.

24. A claim can be made by a credit institution on the Corporation only if the credit facility is not repaid when it has been recalled and is considered as bad or doubtful of recovery. It is necessary either that provision should be made for the amount, which is treated as bad or doubtful or that this amount should be debited by necessary adjusting entries to a protested bills account or some other account bearing a suitable nomenclature. Where a credit institution does not already have a system of accounts providing for this arrangement, the necessary changes in its accounting procedure should be immediately introduced. The Corporation will not pay any amount in respect of which these entries have not been passed. The external auditor's certificate should be obtained at the time of his subsequent audit and furnished to the Corporation. If the auditor does not consider the dues in question as bad or doubtful, the credit institution should immediately refund to the Corporation any amount received by it towards the claim.

Accounting procedure in regard to claims paid by the Corporation

25. It will be seen from paragraph 16 of the Scheme that where the Corporation makes any payment in respect of a claim, it becomes subrogated to the rights of the credit institution and every amount which may be recovered by the credit institution from a borrower subsequently should be shared, after deducting expenses, if any, for such recovery between the Corporation and the credit institution in the ratio of 75: 25. For this purpose, we suggest that in cases where the 'guarantee is invoked and the claim is paid by the Corporation, the credit institution may transfer the concerned amount to a Collection Account to be opened in a separate ledger. The Collection Account will appear as a contra entry in the institution's General Ledger where the debit balance will indicate the amount due from the borrowers and (contra) credit will show the liability to the Corporation which will be subrogated for the

credit institution as far as those borrowers are concerned.

26. When recoveries are made from a borrower the amount recovered will be apportioned between the Corporation and the credit institution as stated in the preceding paragraph. The balance due from the concerned borrower will be reduced in his Collection Account by taking credit for the amount of recovery made and two entries, one recording the payment in favour of the Corporation, representing its 75 per cent share and another in favour of the credit institution representing its 25 per cent share (which will be its income creditable to the profit and loss account) will be passed for reducing the balances in the contra accounts. Within these guidelines, the accounting procedure to be followed by each credit institution may be finalised by it in consultation with its auditors.

27. If the Corporation's share of the amount recovered is not paid to it within one month from the date of recovery, interest will be payable to the Corporation at Bank rate for the period for which the payment remains outstanding, after the expiry of one month. In cases where no recoveries or no further recoveries are possible, the balance in the borrower's account may be written off, after ensuring that the general or special approval of the Corporation has been obtained, as provided for in paragraph 17 of the Scheme.

Scrutiny and inspections

28. While it is primarily for the credit institutions to ensure that the guaranteed advances are well conducted and to improve the quality of such advances wherever necessary the Corporation proposes to institute a system of verification of the guaranteed advances. A further communication in regard to the procedure to be followed in this connection will be sent later.

29. We shall be glad if a copy each of the Scheme and the instructions is made available by you to all your branches and offices immediately so that the officers and employees who

are in any way concerned with granting the credit facilities to the new sectors are enabled to become familiar with the various provisions and guidelines contained in the Scheme. The statements to be completed and sent to the Corporation are simple. They have been so designed as to minimise the burden on the credit institutions in compiling them. We, therefore, hope that it will be possible for the credit institutions to send to the Corporation the statements as also the guarantee fee within the prescribed time.

30. We shall also be glad if an agreement on the lines of the draft vide Annexure I read with Annexure II, duly stamped as an agreement according to the Stamp Act as in force in your State and duly executed on behalf of your institution is forwarded to us so as to reach us **not later than 26th June 1971**. We may add that a copy of the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971 (i.e. Annexure II) is required to be attached to the agreement to be executed by you. We enclose an extra copy of the scheme for the purpose. Please ensure that the name of your institution is inserted in clause 3(iv) of the Scheme and that each page is duly authenticated.

GS/8A/1823/71

3rd December 1971

**Credit Guarantee Corporation of India
Small Loans (Financial Corporations)
Guarantee Scheme, 1971 — Amendments**

Please refer to our letter No. GS/8A-647/71 dated the 7th June 1971 forwarding a copy of the above scheme. The Corporation has been considering for some time past the question of liberalising the terms and conditions for the provision of guarantee cover in respect of credit facilities granted to the small borrowers and it has since been decided that the scheme should be amended in the manner which is indicated below. These amendments will be effective from the 1st January 1972.

2. Credit facilities eligible under the

Scheme: The existing provision vide paragraph 5 that only credit facilities sanctioned by the credit institutions and availed of on or after the 1st July, 1971 and those sanctioned before the 1st July, 1971 but first availed of on or after that date are eligible for guarantee under the scheme, will be deleted from the 1st January 1972. Credit institutions will, therefore, be able to cover from that date not only the credit facilities granted on or after that date which are within the liberalised terms (please see paragraph 3 below), but also the credit facilities outstanding as at the commencement of business on the 1st January 1972, irrespective of when they were actually sanctioned or were first availed of, provided the borrowers concerned are eligible in accordance with, and the credit limits sanctioned to them satisfy the liberalised provisions of the scheme. The following credit facilities outstanding at the commencement of business on the 1st January 1972 will not, however, be eligible for guarantee :

- (i) credit facilities which have been recalled;
- (ii) credit facilities due from borrowers who have suspended their business or activities;
- (iii) credit facilities which have been treated as bad or doubtful of recovery; and
- (iv) credit facilities which have been utilised for adjustment of any debts deemed bad or doubtful of recovery.

The extension of guarantee by the Corporation to the outstanding eligible credit facilities will be subject to the payment of guarantee fee from the 1st January 1972 (vide paragraph 7 below).

3. Transport operators: The ceiling limit in respect of the eligible credit facilities to transport operators vide paragraph 10 has been raised from Rs. 50,000 to Rs. 1,00,000. The object in liberalising this limit is to provide for all the requirements of the eligible transport operator from one source. Apart from facilitating the supervision and recovery of the loan, this will ensure that the charge in favour of the lending institution can be recorded without difficulty on the registration certificate.

4. **Business enterprises:** Under paragraph 11 of the scheme, credit facilities granted to owners of business enterprises are eligible for guarantee cover, if the original cost-price of the equipment used in the business does not exceed Rs. 50,000. It has been decided that the Corporation's liability in respect of claims arising out of credit facilities granted to business enterprises should be restricted to seventy-five per cent of the amount in default or Rs. 37,500, whichever may be lower.

5. **Termination of the Corporation's liability:** In terms of clause (3) of paragraph 18 of the scheme, the Corporation's liability in respect of a guaranteed credit facility will be terminated absolutely and unconditionally, on the expiry of a period of eight financial years of the credit institution following the year in which the said credit facility is first availed of by the borrower. This clause will be deleted from the scheme from 1st January 1972 and credit institutions will, therefore, be able to avail themselves of the benefit of the Corporation's guarantee without any limitation as to the period for which it will be in force.

6. In terms of clause 12 of the agreement executed by the credit institutions, the statements referred to in clause 8 to 10 of the agreement are required to be preserved by them for a period of not less than eight years following the year in which a credit facility is first disbursed. With the deletion

of clause (3) of paragraph 18 of the scheme, it will be necessary for credit institutions to preserve the statements in question till such time as a claim in respect of a credit facility or credit facilities is made on the Corporations and the necessary verification in respect of such claim has been made by the Corporation. Alternatively, if the relevant records have been destroyed and a claim has been preferred, it will be open to the Corporation to reject the claim, if it cannot be supported by the records.

7. **Guarantee fee.** As all the eligible outstanding credit facilities will be covered from the scheme has been amended to indicate the manner of calculation of the guarantee fee for the quarter January-March 1972. In respect of the subsequent quarters, the fee will be calculated according to the usual method.

8. We enclose a copy of the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee (Amendment) Scheme, 1971 and shall be glad if copies of the Amendment Scheme are supplied as early as possible to your branches and offices so that they may acquaint themselves thoroughly with the provisions of the amended scheme. Instructions relating to the implementation of the amended scheme, calculation of guarantee fee, submission of quarterly statements, etc. are issued separately, vide our circular letter No. GS-8A/1824/71 dated the 3rd December 1971.

CREDIT GUARANTEE CORPORATION OF INDIA SMALL LOANS (FINANCIAL CORPORATIONS)

GUARANTEE SCHEME, 1971

As in force on 1st January, 1972

CHAPTER I

INTRODUCTORY

In pursuance of the decision which has been ~~taken~~ by the Credit Guarantee Corporation of India Limited, to provide guarantees to a substantial extent in respect of small loans to borrowers in the priority and neglected sectors which are hereinafter specified, the Scheme which is set out below has been formulated by the Corporation and is notified for the information of the credit institutions concerned.

2. (1) The Scheme shall be known as the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971.

(2) It shall come into effect from the 1st July 1971.

(3) It shall be binding on the Corporation and the credit institution in respect of credit facilities granted by the credit institution to its borrowers as hereinafter provided.

3. Definitions

For the purposes of this Scheme—

(i) "amount in default" means the amount on account of any eligible credit facility, including interest and any other charges, which

(a) has become due and payable to the credit institution but has not been paid after the expiry of a period of one month from the date on which a notice of demand has been served by the credit institution on the borrower; and

(b) has been treated as bad or doubtful of

recovery and has been provided or accounted for as such on the books of the credit institution.

(ii) "Corporation" means the Credit Guarantee Corporation of India Ltd., a company registered under the Companies Act, 1956 and having its registered office in the State of Maharashtra.

(iii) "Credit facility" means any financial assistance, including a loan or advance and any guarantee other than a performance guarantee, granted or issued in India by a credit institution at any of its offices in India.

(iv) "Credit institution" means the
.....(here enter the name of the financial corporation).

(v) "Scheme" means the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971.

CHAPTER II

Scope and extent of the Scheme

4. Guarantees by the Corporation

Subject to the other provisions of the Scheme, the Corporation undertakes, in relation to any credit facilities which may be provided from time to time to any borrower, being a transport operator or owner of a business enterprise, by the credit institution, which has entered into the necessary agreement for this purpose with the Corporation, to provide a guarantee on account of the said credit facilities.

5. Credit facilities eligible under the Scheme

The guarantee shall cover automatically and

in bulk all the eligible credit facilities without requiring the credit institution to make or submit to the Corporation a prior application for covering any or all of the credit facilities under the guarantee.

6. Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme.

(1) Any credit facility in respect of which risks are already covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.

(2) Any credit facility which does not conform to, or is in any other way inconsistent with, the provisions of any law, or with any directives issued by the Reserve Bank of India which may, for the time being, be in force.

(3) Any credit facility granted to any person, who has availed himself previously of any other credit facility covered under the Scheme, if the credit institution has invoked the guarantee provided by the Corporation in respect of the said previous facility, but has not repaid any portion of the amount due to the Corporation by reason of any default on the part of the borrower in respect of that credit facility.

(4) Any credit facility which has been recalled before the 1st January 1972 or is due from any borrower who has suspended his business or activities as on that date or which, as on the said date, has been treated as bad or doubtful of recovery or has been utilised for the adjustment of any bad or doubtful debt.

7. Credit facilities granted by the credit institution jointly with another institution

(1) Any credit facility granted by a credit

institution jointly with any other institution or institutions, will be eligible under the Scheme, provided that not less than twenty-five per cent of the total amount or value of the credit facility has been sanctioned by the credit institution.

(2) For the purposes of this paragraph, a credit facility or a portion of it, as the case may be, shall be deemed to have been sanctioned by the credit institution, notwithstanding the fact that it has been or is to be disbursed by another institution or institutions, if any portion of the amount of the credit facility or the loss in respect thereof is recoverable from the credit institution by the other institution or institutions.

(3) Notwithstanding anything contained in clause (1) or clause (2), the Corporation shall, as regards any credit facility sanctioned by the credit institutions, jointly with any other institution or institutions, deal only with the credit institution and all the duties, liabilities and obligations imposed under the Scheme and all the rights, powers and authorities exercisable under the Scheme by or against the Corporation shall, to the extent possible, attach to and be exercisable against or in favour of, the credit institution, as if it has itself granted the entire credit facility.

CHAPTER III

General provisions in regard to credit facilities

8. Procedure to be followed by the credit institution

(1) Where any credit facility is covered under the Scheme, the credit institution entitled to the benefit of a guarantee shall, as far as may be practicable, ensure that—

(a) the facility is actually utilised for the purpose for which it is intended;

(b) any goods purchased or assets created

out of funds provided by or under the credit facility are pledged, hypothecated or mortgaged by the borrower to the credit institution;

- (c) a reasonable margin on the market value of the goods or assets so pledged, hypothecated or mortgaged is maintained at all times until the person availing himself of the facility has discharged all his obligations to the credit institution in respect of the facility;
- (d) provision is made for obtaining a charge in favour of the credit institution if any security other than the goods or assets referred to in sub-clause (b) is available;
- (e) provision is made in the agreement relating to the facility for a representative of the credit institution to enter the premises, where any goods or other assets charged in favour of the credit institution are stored or located and to inspect the books of account of the person availing himself of the facility, so far as this may be necessary in relation to the credit facility;
- (f) where the premises aforesaid are hired by the person availing himself of the facility, a letter of consent from the landlord is produced and filed with the credit institution, allowing free access to the representatives of the credit institution, to enter the premises for the purposes which are hereinbefore mentioned and to possess or recover the goods or assets charged in favour of the credit institution; and
- (g) such other precaution as may be usual or necessary in connection with the provision of the said facility is also taken.

(2) If at the time that a credit facility is initially sanctioned or utilised the person avail-

ing himself of the facility is not in a position to comply with any of the conditions specified in clause (1), the credit institution shall take all such steps as may be necessary to ensure that the said conditions are satisfied as soon as may be practicable thereafter.

(3) For the avoidance of doubt, it is hereby clarified that the provisions of clause (1) and clause (2) of this paragraph and of clause (2) of paragraph 10 or clause (2) of paragraph 11 are intended only for the guidance of the credit institution, are not mandatory and that if the credit institution considers it necessary so to do, it may relax any of these provisions in any particular case or grant any unsecured loan, advance or other facility, and any guarantee provided by the Corporation shall not be conditional on the observance or enforcement of any of the said provisions.

9. Agreement to be executed by the credit institution :

The credit institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Corporation in such form as may be required by the Corporation for covering by way of guarantee under the Scheme all the eligible credit facilities granted by the credit institution, for which provision has been made in the Scheme.

CHAPTER IV

Special provisions in relation to credit facilities to borrowers in various sectors.

10. Transport Operators

(1) Credit facilities to a transport operator shall be eligible for being guaranteed under the Scheme if—

- (a) the transport operator is an individual or an association of not more than six

individuals owning and normally operating by himself or themselves, as the case may be, a transport vehicle, including a rickshaw, cart, boat, barge, steamer or launch for carrying any passengers or goods for hire;

- (b) the said operator does not, as far as can be ascertained, already own or operate one or more such transport vehicles for hire, and
 - (c) the amount of the loan, advance or other facility as sanctioned from time to time, including the cost of spares and one tyre in addition to those fitted to the motor vehicle and sales and other taxes, insurance and registration fees payable at the time of the purchase of the vehicle by the borrower, but excluding interest or other charges payable to the credit institution, does not exceed a sum of one lakh of rupees.
- (2) The credit institution granting a credit facility which is referred to in clause (1) shall, as far as may be practicable, ensure that —
- (a) in the case of a vehicle registered under the Motor Vehicles Act, 1939, the credit institution's interest as the financier is recorded on the registration certificate and a comprehensive insurance policy covering all risks is taken out by the transport operator, with a clause assigning in favour of the credit institution such rights as do not belong or accrue to third parties under the policy;
 - (b) taxes and other dues are paid regularly by the transport operator and the vehicle is serviced regularly and kept in reasonably good repair; and
 - (c) the period within which the loan, advance or other facility is repayable is not in excess of three and a half years provided that the credit institution may, if it considers it necessary so to do in any particular case, extend the said period upto five years.

(3) The credit institution shall segregate the account relating to the credit facility on account of the capital cost of the vehicle as aforesaid together with accrued interest and other usual or normal bank charges, if any, from any other account maintained in the borrower's name for providing working capital or for any other purpose, and any facility granted for any purpose other than the purchase of the vehicle shall not be eligible for being guaranteed under the Scheme.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default.

11. Business Enterprises

(1) Credit facilities to any individual or firm owning and managing a hotel or engaged mainly in the generation or distribution of electricity or any other form of power, or in the development or management of any contiguous area of land as an industrial estate shall be eligible for being guaranteed under this Scheme, if—

- (a) the business enterprise has been or is established by an individual or firm;
- (b) the original cost price of the equipment used for the purpose of the business does not exceed fifty thousand rupees; and
- (c) the loan, advance or other facility is actually utilised for purchasing the equipment or for carrying on the business of the concern.

(2) The credit institution granting a credit facility which is referred to in clause (1) shall, as far as may be practicable, ensure that—

- (a) the income from the provision of services or from any other source is regularly brought to account and recorded on the books of the borrower and that proper

books of account are maintained by the borrower;

- (b) the current assets of the enterprise are reasonable in relation to its current liabilities; and
- (c) the credit extended to individual parties by the borrower is actually recovered within reasonable periods.

(3) The credit institution shall be entitled to provide to a borrower any credit facility in addition to the facility referred to in clause (1) but in case any such other credit facility is provided, the account in respect of the facility eligible for being guaranteed under this paragraph shall be segregated and the said other facility or facilities shall not be eligible for being guaranteed under the Scheme.

(4) The Corporation shall be liable to the credit institution in respect of a guarantee on account of a credit facility referred to in this paragraph to the extent of seventy-five per cent of the amount in default or thirty-seven thousand five hundred rupees, whichever may be lower.

CHAPTER V

GUARANTEE FEE

12. Guarantee Fee

(1) A guarantee fee shall be paid to the Corporation by the credit institution availing itself of the guarantee provided under the Scheme at the rate of one half of one per cent per annum on the amounts outstanding on account of the eligible credit facilities provided by the credit institution.

(2) The said fee shall be paid or remitted to the Corporation at the expense of the credit

institution in the manner which is hereinafter specified;

- (a) in respect of the calendar quarter commencing on the 1st January 1972, within a period of sixty days from the commencement of that quarter, calculated on the balances outstanding in the individual accounts under the scheme as at the close of business on the 31st December 1971, not being balances on account of—

- (i) credit facilities which have been recalled;

- (ii) credit facilities due from borrowers who have suspended their business or activities;

- (iii) credit facilities which have been treated as bad or doubtful of recovery; and

- (iv) credit facilities which have been utilised for adjustment of any debts deemed bad or doubtful of recovery

- (b) in respect of each calendar quarter commencing from the 1st April 1972, within a period of thirty days from the commencement of the quarter for which it is payable, calculated with reference to the balances outstanding in individual accounts guaranteed under the scheme, as on the last Friday of the preceding quarter, any fraction in the amount of the fee so calculated and totalled up for all the eligible accounts being rounded off to the next higher five paise.

(3) In the event of any error or discrepancy being found in the computation of the amounts outstanding on account of the eligible facilities as aforesaid or in the calculation of the guarantee fee, the excess or deficiency shall be recovered from or paid to the Corporation in such manner and with interest at such rate as may be directed by the Corporation.

CHAPTER VI

CLAIMS

13. Claims in respect of a borrower not to be preferred by two credit institutions

The credit institution shall not be entitled to invoke a guarantee under this Scheme in respect of any borrower, if any other credit institution has, in respect of the same borrower made or submitted any claim to the Corporation, so long as any amount due to the Corporation on account of the settlement of that claim remains unpaid.

14. Credit institution entitled to invoke the guarantee only in respect of one specified category on account of any one borrower

The credit institution shall be entitled to prefer only one claim on account of the credit facility or credit facilities extended to a borrower under paragraphs 10 and 11 of this Scheme notwithstanding the fact that other eligible credit facilities might have been provided to such borrower.

15. Payment of a claim to discharge the Corporation

On a claim being paid, the Corporation shall be deemed to have been discharged from all its liabilities on account of any guarantee in force in respect of the borrower concerned.

16. Subrogation of rights and recoveries on account of claims paid

(1) Subject to the provisions of the Indian Contract Act, 1872 and any other law in this behalf, the Corporation shall, to the extent of the amount paid by it on account of any facility to a borrower guaranteed under the Scheme, be subrogated to the rights of the credit institution and every amount which may be recovered by the credit institution from a borrower after

a claim has been paid shall, after deducting therefrom the expenses, if any, incurred for recovering the amount, be shared between the Corporation and the credit institution in the ratio of 75:25 till their respective dues are paid in full.

(2) Every amount recovered and due to be paid to the Corporation shall be paid without avoidable delay and if any amount due to the Corporation remains unpaid beyond a period of one month from the date on which it was first recovered, interest shall be payable to the Corporation by the credit institution at the Bank Rate for the period for which the payment remains outstanding after the expiry of the said period of one month.

17. Losses not to be written off without the Corporation's approval

Any amounts due from a borrower in respect of which a claim has been paid shall not be written off on the books of the credit institution without the general or special approval in writing of the Corporation.

CHAPTER VII

MISCELLANEOUS

18. Corporation's liability to be terminated in certain cases

(1) If the liabilities of a borrower to a credit institution on account of any eligible credit facility guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the facility and any other terms and conditions, if any, subject to which the credit facility can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the credit facility shall be deemed to be terminated as from the date of the said transfer or assignment.

(2) If a borrower becomes ineligible for being granted any credit facilities under this Scheme, by reason of the fact that according to the information available to the credit institution the conditions specified in sub-clause (a), sub-clause (b) and sub-clause (c) of clause (1) of paragraph 10 and sub-clause (a) and sub-clause (b) of clause (1) of paragraph 11 are no longer satisfied, the guarantee in respect of any credit facility granted to him by a credit institution shall be terminated on the expiry of the financial year of the credit institution in which the borrower so becomes ineligible.

19. Returns and Inspection

(1) The credit institution shall submit such statements or furnish such information as the Corporation may require in connection with any credit facility under this Scheme.

(2) The credit institution shall also furnish to the Corporation all such documents, receipts, certificates and other writings as the latter may require and shall ensure, as far as possible, that the contents of all such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the credit institution or any officer thereof for anything done in good faith.

(3) The Corporation shall in so far as it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the credit institution, and subject to the provisions of sub-clause (f) and sub-clause (g) of clause (1) of paragraph 8, of any borrower from the credit institution. Such inspection may be carried out either through the officers of the Corporation or of the Reserve Bank of India. Every officer or other employee of the credit institution or the borrower, who is in a position to do so, shall make available to the officers of the Corporation or the Reserve Bank, as the case may be, the books of account and other records and information which are in his possession.

(4) The Corporation may, at any time or from time to time, give to the credit institution to which a guarantee has been furnished such directions for facilitating recoveries in the guaranteed account as the Corporation may think fit and the credit institution shall be bound to comply with such directions.

(5) The credit institution shall, in respect of any guaranteed account, continue to exercise the same diligence in recovering the dues in all the ways open to it as it might have exercised if no guarantee had been furnished by the Corporation.

20. Conditions imposed under the Scheme to be binding on the credit institution

(1) Any guarantee given by the Corporation shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.

(2) The credit institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme.

21. Modifications and exemptions

The Corporation reserves to itself the right to modify, cancel or replace this Scheme, so however that the rights or obligations arising out of, or accruing under, a guarantee issued under the Scheme upto the date of such cancellation, modification or replacement shall not be affected.

22. Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme, the decision of the Corporation shall be final.

23. Supplementary and general provisions.

In respect of any matter not specifically provided for in the Scheme, the Corporation may make such supplementary or additional provisions as may be necessary for the purpose of the Scheme.

STATEMENT OF GUARANTEED ACCOUNTS

Name of the Credit Institution

Quarter ended

Debit balances in guaranteed accounts			Guarantee fees paid
Transport Operators	Business enterprises	Total	
Debit Balance Rs.	Debit Balance Rs.	Debit Balance Rs.	

Note: 1. Debit balances outstanding as on the last Friday of the quarter should be reported.

2. If the credit institution functions as a Financial Corporation for more than one State, including Union territory, data in respect of the credit facilities covered in each State and Union territory should be shown separately.

Statement of guaranteed accounts for the quarter ended

Name of the credit institution **Name of office**

Serial No.	Name of the borrower	Debit balance as on (last Friday of the quarter)	Credit limit	Type of organisation	Nature of occupation	Purpose of loan	Particulars of security	Rate of interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A. Transport Operators								
1.								
2.								
3.								
etc								
	Total	_____						

B. Business enterprises								
1.								
2.								
3.								
etc.								
	Total	_____						

Place:

Signature of authorised official

Date:

FORM OF AGREEMENT

(NOTE: The liability to stamp duty will depend upon the place where it is executed and/or acted upon.)

.....
(Place)

.....
(Date)

To

The Credit Guarantee Corporation of India Ltd.,
BOMBAY.

Dear Sirs,

In consideration of the Credit Guarantee Corporation of India Ltd. (hereinafter referred to as "the Corporation" which expression shall, unless repugnant to the context, also include its successors and assigns), agreeing to guarantee under the Credit Guarantee Corporation of India Small Loans (Financial Corporations) Guarantee Scheme, 1971, (a copy whereof is hereto annexed and which is hereinafter referred to as "the Scheme"), certain credit facilities granted by us, we do hereby agree with the Corporation as follows:

1. That the provisions of the Scheme shall be deemed to be incorporated in this Agreement and shall be binding on us, in so far as they relate to the credit facilities granted by us, which have been or are eligible for being guaranteed thereunder.

2. That the provisions of the Scheme and this Agreement shall be applicable to or in relation to all credit facilities eligible for guarantee under the Scheme.

3. That we shall claim the benefit of the guarantee under the Scheme only in respect of the credit facilities specified in the Scheme and to the extent provided therein and that we shall for this purpose obtain and preserve affidavits or other documents from the borrowers concerned, or otherwise satisfy ourselves by a reference to the borrowers' books of account or other records that the borrowers in respect of whom the benefits of the guarantee has been or

is to be provided by the Corporation are eligible for the guarantee under the Scheme.

4. That we undertake that a borrower who ceases to be so eligible will, in accordance with and subject to the provisions of the Scheme, be excluded from the benefit of any guarantee and that for this purpose we shall obtain every quarter or at such other intervals as may be prescribed by the Corporation declarations supported by relevant particulars from the borrowers concerned.

5. That in cases where the borrowers are also engaged in other activities not covered by the Scheme, the credit facilities extended in connection with the eligible activities of the borrowers and those extended in respect of their other activities shall be segregated and that the securities, if any, pledged, hypothecated or mortgaged to us in respect of such facilities shall be kept distinct and the inventories shall be recorded separately.

6. That books of accounts, ledgers and other documents relating to eligible credit facilities covered by the Scheme shall, as far as may be practicable, be segregated and maintained in a proper manner so as to facilitate such scrutiny or inspection as may be undertaken by the Reserve Bank or by the Corporation or by any other person nominated by the Corporation in this behalf.

7. That we undertake to provide to all the officers of the Reserve Bank of India or of the Corporation or of any agency which may be specified by the Corporation in this behalf all such facilities as may be necessary for such scrutiny and inspection.

8. That we shall furnish to the Corporation a preliminary statement based on our estimate of the eligible credit facilities which may be expected to be covered under the Scheme as at the end of the quarter ending September 1971 and a final statement or statements showing the particulars of the credit facilities actually granted and outstanding as on the last Friday of that quarter.

9. That we shall furnish to the Corporation thereafter quarterly statements in respect of

every calendar quarter in the form and manner prescribed by the Corporation showing the outstanding balances and other relevant particulars in respect of the eligible credit facilities as at the close of business on the last Friday of the preceding quarter.

10. That without prejudice to the provisions of the two foregoing clauses every branch or office of our institution shall prepare one or more detailed statements showing full particulars, in such form as may be prescribed by the Corporation, of credit facilities to individual borrowers eligible for being granted credit facilities under the Scheme and that the totals in the said detailed statement or statements shall be tallied with the consolidated figures appearing in the statement or statements referred to in clause 8 or clause 9 hereof.

11. That no claim shall be made on the Corporation in respect of any credit facility covered under the Scheme unless full particulars in respect of the said credit facility as aforesaid have been included in the detailed statement as on record at the branch or office as aforesaid.

12. That in order to enable the Corporation to ascertain whether any claim made on it is on account of any eligible credit facility which has been so included, we shall preserve in good order the detailed statement or statements referred to in clauses 8, 9 and 10 hereof for a period of not less than eight years following the years in which any amount on account of the said credit facility is disbursed.

13. That notwithstanding anything to the contrary contained in the Scheme, if any loss occurs in respect of an account covered by the Scheme owing to the dishonesty on the part of any of our officials, or owing to decisions taken by such officials being contrary to or in contravention of the instructions issued to them by their superiors or by the Corporation, we shall not make or be entitled to make any claim on the Corporation in respect of the said account.

14. That all applications, documents, receipts, statements and other papers shall be signed or behalf of our institution by the chief

executive officer or by other persons in our employment, who shall be deemed to be authorised by us to sign all such applications, documents, receipts, statements and other papers and that any irregularity in the signature, or want of authority of the persons so signing shall not in any way affect or prejudice the rights of the Corporation or affect our liability in respect thereof.

15. That we shall introduce and follow such accounting arrangements as may be necessary or as may be required by the Corporation or take such other steps as may be necessary or expedient for protecting its interests in respect of the outstanding balances on account of credit facilities in regard to which the Corporation's guarantee is invoked by us.

16. That this Agreement shall take effect from the first day of July 1971.

17. That the stamp duty payable on this Agreement shall be borne by us.

Yours faithfully,

For and on behalf of

Signature

Designation

GS/11A/1235/71

31st August 1971

Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971

It may be recalled that the Credit Guarantee Corporation of India Ltd. was promoted by the Reserve Bank of India primarily for providing guarantees to banks and other credit institutions with a view to helping them to extend credit to borrowers of small means in the priority and other relatively neglected sectors. In pursuance of this objective, the Corporation has already formulated two guarantee schemes. The first scheme covers eligible credit facilities granted by scheduled commercial banks to small borrowers in the following six sectors, viz. (a) transport operators, (b) traders in fertilisers, (c) traders in goods other than fertilisers, (d) professional and self-employed persons,

(e) owners of business enterprises and (f) farmers and agriculturists. The second scheme covers eligible credit facilities granted by State Financial Corporations (including the Tamil Nadu Industrial Investment Corporation Ltd.) to borrowers in the categories of transport operators and owners of business enterprises. These schemes have been brought into force with effect from 1st April and 1st July 1971 respectively.

2. The Corporation has now formulated a third scheme to cover credit facilities granted to service co-operative societies primarily engaged in providing facilities like supplying raw materials and marketing of finished goods, or any other assistance, to self-employed artisans and workers engaged in any form of industrial activity. The service co-operative societies eligible for the benefit of this scheme will be those societies which do not themselves undertake any manufacturing, processing or other industrial activities, but assist small-scale industrial concerns and self-employed artisans and workers in their industrial activities. The credit facilities granted to industrial co-operative societies which are themselves engaged in manufacturing, processing or any other industrial activities in specified lines and having investment in plant and machinery not exceeding Rs. 7.5 lakhs, will continue to be covered under the credit guarantee scheme for small-scale industries being administered by the Industrial Finance Department of the Reserve Bank of India.

3. The credit institutions eligible to participate in this scheme will be (a) all scheduled commercial banks and (b) State co-operative banks and Central co-operative banks whose deposits are insured by the Deposit Insurance Corporation. At present, the State co-operative banks and Central co-operative banks in Andhra Pradesh, Madhya Pradesh, Maharashtra, Goa, Daman and Diu are included in the latter category. For the time being, therefore, only these co-operative banks will be in a position to have the credit facilities granted by them to eligible service co-operative societies covered under the new scheme.

4. We enclose for your information one copy each of (a) an agreement which will have to be executed between your bank and the Credit Guarantee Corporation of India Ltd., (b) the Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971 and (c) a note explaining the salient features of the scheme.

5. The new scheme will come into effect from 1st October 1971 and will cover all the eligible credit facilities sanctioned by the credit institutions and availed of on or after that date, as also the credit facilities sanctioned earlier but first availed of since that date. While the scheme and the accompanying note are self-explanatory, we would like to make the following observations.

6. The co-operative societies and the credit facilities to them eligible for cover under the scheme are indicated in paragraph 3(v) and 5 respectively. Paragraph 6 specifies the credit facilities which are ineligible for guarantee cover.

7. In view of these provisions, it will be necessary for the credit institutions to obtain all relevant information and to satisfy themselves that the service co-operative societies and the credit facilities to them are actually covered by the eligibility requirements. We suggest for this purpose, that in the application forms which may be obtained in future from service co-operatives the following particulars, among others, may be called for :—

- (i) Whether the society is registered under any law relating to co-operative societies for the time being in force, and the nature of activities undertaken by the society and its members;
- (ii) limits applied for from other credit institutions, including commercial banks, co-operative banks and credit societies, or from statutory corporations and term-lending institutions and other sources and amounts borrowed from all these sources and from the Government

of India and the State Governments or from their agencies;

- (iii) the purpose or purposes for which the credit facilities are to be utilised;
- (iv) arrangements for raising margin money and the particulars and value of collateral security to be offered;
- (v) arrangements for providing technical and professional advice and services to its members;
- (vi) particulars of anticipated turnover and profits.

These details are only illustrative and the credit institutions may devise a suitable comprehensive application form providing for all the necessary particulars. The applications received will have to be scrutinised carefully for verifying the statements contained therein before the credit facilities are sanctioned.

8. It is necessary to ensure not only that the borrowing societies are eligible to have the credit facilities granted to them covered under the scheme, but also that they continue to be so eligible and that where the provisions of paragraph 16 of the scheme are attracted, either by reasons of the transfer or assignment of the loan or assets covered by the guarantee or any other cause, the credit facility is excluded and particulars relating thereto are also omitted from the detailed statements referred to in paragraph 17 below. For this purpose, quarterly statements showing details of (a) credit facilities obtained from any source other than the credit institution itself, (b) transfers and assignments, and (c) any other information required for finding out whether the society continues to be eligible under the scheme, may be obtained by the credit institution, even after the credit facility has been sanctioned.

9. The particulars furnished by the borrowing societies in their applications will enable the credit institutions to judge whether they are availing themselves of credit facilities from more than one institution. As the scheme

entitles credit institutions to make only one claim in respect of credit facilities to a service cooperative society, it will be in the interests of the credit institutions to ensure that a society confines its dealings as far as possible to only one credit institution or the facilities are extended to it by the credit institutions on a participation basis.

General provisions in regard to eligible credit facilities

10. The credit facilities guaranteed under the scheme are intended to be used only for servicing genuine productive activities. The credit institutions should, while processing the applications, satisfy themselves about the creditworthiness of the society, the genuineness of its requirements, that the project or purpose is socially useful and that it is expected to yield a surplus from which the credit facility can be repaid. The credit institution is expected to obtain as a rule a charge on the goods or other assets created out of the loan or other credit facility granted by it and on any other goods or assets, which may be available. In view of the cover provided by the Corporation, the credit institutions can relax their usual margins, wherever there is a need to do so. Credit facilities unsecured by any charge may be granted, if the societies are not in a position to offer any security.

11. The credit institutions should take the necessary follow-up action to ensure that the facilities as and when they are availed of are actually utilised for the purposes for which they are sanctioned. In financing the purchases of raw materials and other assets, it may be necessary, while disbursing the loans, to ensure that the bills are paid, as far as possible, directly to the suppliers by the credit institution, or through agencies known to or identifiable by it. It should also be ensured that the borrowing society has satisfactory arrangements with its members for manufacturing or processing of the goods or articles within a reasonable period depending upon the nature of the articles to be manufactured or processed and for marketing all the products manufactured or processed as also the by-products, if any.

12. Credit institutions are advised to consider as far as possible whether a notice or board, indicating in each case that the assets are charged to them under a credit facility granted by them can be exhibited at the business premises of the society, so as to identify the property and assets.

Sale or disposal of charged assets

13. Where in respect of any credit facility guaranteed under the scheme the credit institution has obtained a charge over any security, the credit institution should ensure that if and when the security is sold or otherwise disposed of, the relative proceeds are credited to the account, as far as possible, in reduction of the liability of the society.

Multiple accounts in respect of a covered facility

14. If a credit institution finds it convenient it may maintain more than one account for a service cooperative society in respect of the credit facilities extended to the society and it can prefer a claim for the aggregate amount of losses actually arising in all such accounts.

Recovery of instalments due

15. The credit institutions are expected to ensure that suitable provision is made for the recovery of all the instalments due from a society.

Segregation of books of account and ledgers

16. Credit institutions are advised to open separate ledgers and registers for the advances and other facilities eligible for guarantee. If, on account of the small volume of business it is not considered possible or worthwhile to open separate ledgers and registers for the guaranteed accounts, separate pages may be earmarked for such accounts in the common ledgers and registers. In either case, the accounts should be segregated from 1st October 1971. The ledgers, registers or pages should be neatly and consecutively numbered, erasures and overwritings should be avoided and old books and

records should be neatly bound and maintained in good order for being scrutinised locally if necessary.

Quarterly statement of eligible credit facilities

17. The Head Office of the credit institution and each of its branches and offices at which eligible credit facilities are granted should prepare a quarterly statement of all the guaranteed accounts containing particulars such as the name of the society, the summation of products of the debit balances in each of the guaranteed accounts during the quarter, the debit balance as on the last Friday of the quarter in the guaranteed accounts outstanding as on that date and other particulars. The summation of products should be given in respect of all guaranteed accounts which were in existence at any time during the quarter and not only those accounts which had outstanding debit balances as on the last Friday of the quarter. The scheduled commercial banks may prepare this statement on the lines of the form prescribed by the Reserve Bank of India under the Uniform Balance Book System. In the case of cooperative banks, the statement may be on the lines of the enclosed form. Consolidated totals of (a) the outstanding debit balances as on the last Friday of each quarter and (b) the summation of products during the quarter should be recorded at the foot of each of the pages of the detailed statement referred to above and the aggregate amount of such totals under (a) and (b) should be advised by the branches and offices to the local or zonal office or direct to the Head Office, whichever arrangement is considered by the credit institution to be more convenient. For convenience of reference, the form in which the said totals are to be advised is enclosed.

18. The Head Office or the office receiving the form will consolidate the debit balances and the product summations Statewise, if the credit institution has offices in more than one State. In addition to consolidating the figures, the Head Office or the receiving office is also expected to ensure the correctness of the statements prepared by the branches and offices by carrying out locally from time to time such

checks or scrutiny as may be practicable for it. On the basis of these data, the Head Office will prepare a statement for the institution as a whole, in the form set out indicating the totals of the debit balances and the summation of products, and the fees payable and it will submit one copy to this Corporation within 30 days from the close of the quarter to which the statement relates.

Mode of payment of guarantee fee

19. The guarantee fee which will be at the rate of one half of one per cent per annum on the actual outstandings, will be paid to the Corporation by the Head Offices of the credit institutions in four instalments payable every calendar quarter. This fee will be calculated on the total products of the balances in individual accounts during the previous quarter. The credit institutions will be allowed a period of 30 days to pay the guarantee fee. The first payment of the guarantee fee should be made within 30 days from 1st October 1971 and it should be based on an estimate of the eligible credit facilities which will be covered by guarantee during the quarter October-December 1971. At the end of December 1971, the actual amount of fee payable should be calculated and an adjustment should be made for the excess or deficit in the next payment which will have to be made during the month of January 1972. The amount of fee calculated for October-December 1971 quarter will thus be identical to the amount payable for January-March 1972 quarter. For the April-June 1972 quarter, the fee will be calculated on the products for January-March 1972 quarter, that for July-September 1972 on the products for April-June 1972 quarter and so on.

All payments due to the Corporation should be made by means of crossed cheques/drafts drawn in favour of the "Credit Guarantee Corporation of India Ltd." and made payable at Bombay. The expenses for making the remittance should be borne by the credit institutions.

Errors and omissions

20. In case there is any error in the calculation of the guarantee fee, the shortage or ex-

cess in the amount of the guarantee fee will be paid to the Corporation or refunded by the Corporation, as the case may be, along with interest at Bank rate from the date it was originally payable till the date of actual adjustment. Credit institutions are advised, as far as possible, to avoid such errors and omissions.

Late payment of fee

21. In the event of late payment of guarantee fees, interest on the amount of fees due will be charged from the first day of the concerned quarter till the date of payment. It will be charged at Bank rate if the amount is paid late but during the concerned quarter itself, and at 2 per cent over Bank rate if the payment is made after the close of the quarter.

Claims

22. The credit institutions will tender claims in respect of guaranteed advances through their Head Offices in forms prescribed by the Corporation which will be sent to them separately. Claims will be paid after scrutiny of the applications and verifying from the detailed statements maintained at the offices (vide paragraph 17) that the account has been reported in the statements and that the fee for the relevant period has been paid thereon.

23. A claim can be made by a credit institution on the Corporation only if the credit facility is not repaid when it has been recalled and is considered as bad or doubtful of recovery. It is necessary either that provision should be made for the amount, which is treated as bad or doubtful or that this amount should be debited by necessary adjusting entries to a protested bills account or some other account bearing a suitable nomenclature. Where a credit institution does not already have a system of accounts providing for this arrangement, the necessary changes in its accounting procedure should be immediately introduced. The Corporation will not pay any amount in respect of which these entries have not been passed. In the case of scheduled commercial banks, the external auditor's certificate should be obtained at the time of his subsequent audit while in

the case of cooperative banks a certificate should be obtained from the departmental auditors at the time of audit and furnished to the Corporation. If the auditor does not consider the dues in question as bad or doubtful, the credit institution should immediately refund to the Corporation any amount received by it towards the claim.

Accounting procedure in regard to claims paid by the Corporation

24. It will be seen from paragraph 14 of the scheme that where the Corporation makes any payment in respect of a claim, it becomes subrogated to the rights of the credit institution and every amount which may be recovered by the credit institution from a borrower subsequently should be shared, after deducting expenses, if any, for such recovery between the Corporation and the credit institution in the ratio of 75 : 25. For this purpose, we suggest that in cases where the guarantee is invoked and the claim is paid by the Corporation, the credit institution may transfer the concerned amount to a Collection Account to be opened in a separate ledger. The Collection Account will appear as a contra entry in the institution's General Ledger where the debit balance will indicate the amount due from the borrowers and (contra) credit will show the liability to the Corporation which will be subrogated for the credit institution as far as those borrowers are concerned.

25. When recoveries are made from a society, the amount recovered will be apportioned between the Corporation and the credit institution as stated in the preceding paragraph. The balance due from the concerned society will be reduced in its Collection Account by taking credit for the amount of recovery made and two entries, one recording the payment in favour of the Corporation, representing its 75 per cent share and another in favour of the credit institution representing its 25 per cent share (which will be its income creditable to the profit and loss account) will be passed for reducing the balances in the contra accounts.

Within these guidelines, the accounting procedure to be followed by each credit institution may be finalised by it, if necessary, in consultation with its auditors.

26. If the Corporation's share of the amount recovered is not paid to it within one month from the date of recovery, interest will be payable to the Corporation at Bank rate for the period for which the payment remains outstanding, after the expiry of one month. In cases where no recoveries or no further recoveries are possible, the balance in the society's account may be written off, after ensuring that the general or special approval of the Corporation has been obtained, as provided for in paragraph 15 of the scheme.

Scrutiny and inspections

27. While it is primarily for the credit institutions to ensure that the guaranteed advances are well conducted and to improve the quality of such advances wherever necessary, the Corporation proposes to institute a system of verification of the guaranteed advances. A further communication in regard to the procedure to be followed in this connection will be sent later.

28. We shall be glad if a copy each of the scheme and the instructions is made available by you to all your branches and offices immediately so that the officers and employees who are in any way concerned with granting the credit facilities are enabled to become familiar with the various provisions and guidelines contained in the scheme. The statements to be completed and sent to the Corporation are simple. They have been so designed as to minimise the burden on the credit institutions in compiling them. We, therefore, hope that it will be possible for the credit institutions to send to the Corporation the statements as also the guarantee fee within the prescribed time.

29. We shall also be glad if an agreement on the lines of the draft, vide Annexure I read

with Annexure II, duly stamped as an agreement according to the Stamp Act as in force in your State and duly executed on behalf of your institution is forwarded to us so as to reach us **not later than 24th September 1971**. In the case of co-operative banks, although they may be exempt from stamp duty under the local stamp law in respect of the instruments executed by them, such exemption cannot be recognised in another State where they have to be retained and acted upon. As the agreements are to be retained and acted upon at the office of the Corporation at Bombay, it will be necessary for the cooperative banks, other than those registered in the State of Maharashtra, to have the agreements stamped with a duty of Rs. 3.00 (Rupees three only).

30. A copy of the Credit Guarantee Corporation of India (Service Cooperative Societies) Guarantee Scheme, 1971 (i.e. Annexure II) is required to be attached to the agreement to be executed by you. We enclose an extra copy of the scheme for the purpose. Please ensure that the name of your institution is inserted in clause 3(iv) of the scheme and that each page is duly authenticated.

ANNEXURE I

FORM OF AGREEMENT

(NOTE: This Agreement is to be executed by the Head Office of the institution and not by the branch office. The liability to stamp duty will depend upon the place where it is executed and/or acted upon.)

(Place)

(Date)

To

The Credit Guarantee Corporation of India Ltd.,
BOMBAY.

Dear Sirs,

In consideration of the Credit Guarantee Corporation of India Ltd. (hereinafter referred

to as "the Corporation" which expression shall, unless repugnant to the context, also include its successors and assigns), agreeing to guarantee under the Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971, (a copy whereof is hereto annexed and which is hereinafter referred to as "the Scheme"), certain credit facilities granted by us, we do hereby agree with the Corporation as follows:

1. That the provisions of the Scheme shall be deemed to be incorporated in this Agreement and shall be binding on us, in so far as they relate to the credit facilities granted by us, which have been or are eligible for being guaranteed thereunder.

2. That the provisions of the Scheme and this Agreement shall be applicable to or in relation to all credit facilities eligible for guarantee under the Scheme.

3. That we shall claim the benefit of the guarantee under the Scheme only in respect of the credit facilities specified in the Scheme and to the extent provided therein and that we shall for this purpose obtain and preserve affidavits or other documents from the borrowers concerned, or otherwise satisfy ourselves by a reference to the borrowers' books of account or other records that the borrowers in respect of whom the benefit of the guarantee has been or is to be provided by the Corporation are eligible for the guarantee under the Scheme. —

4. That we undertake that a borrower who ceases to be so eligible will, in accordance with and subject to the provisions of the Scheme, be excluded from the benefit of any guarantee and that for this purpose we shall obtain every quarter or at such other intervals as may be prescribed by the Corporation declarations supported by relevant particulars from the borrowers concerned.

5. That in cases where the borrowers are also engaged in other activities not covered by

the Scheme, the credit facilities extended in connection with the eligible activities of the borrowers and those extended in respect of their other activities shall be segregated and that the securities, if any, pledged, hypothecated or mortgaged to us in respect of such facilities shall be kept distinct and the inventories shall be recorded separately.

6. That books of accounts, ledgers and other documents relating to eligible credit facilities covered by the Scheme shall, as far as may be practicable, be segregated and maintained in a proper manner so as to facilitate such scrutiny or inspection as may be undertaken by the Reserve Bank of India or by the Corporation or by any other person nominated by the Corporation in this behalf.

7. That we undertake to provide to all the officers of the Reserve Bank of India or of the Corporation or of any agency which may be specified by the Corporation in this behalf all such facilities as may be necessary for such scrutiny and inspection.

8. That we shall furnish to the Corporation a preliminary statement based on our estimate of the eligible credit facilities which may be expected to be covered under the Scheme as at the end of the quarter ending December 1971 and a final statement or statements showing the particulars of the credit facilities actually granted and outstanding as on the last Friday of that quarter.

9. That we shall furnish to the Corporation thereafter quarterly statements in respect of every calendar quarter in the form and manner prescribed by the Corporation showing the outstanding balances and other relevant particulars in respect of the eligible credit facilities as at the close of business on the last Friday of the preceding quarter.

10. That without prejudice to the provisions of the two foregoing clauses every branch or

office of our institution shall prepare one or more detailed statements showing full particulars, in such form as may be prescribed by the Corporation, of credit facilities to individual borrowers eligible for being granted credit facilities under the Scheme and that the totals in the said detailed statement or statements shall be tallied with the consolidated figures appearing in the statements referred to in clause 8 or clause 9 hereof.

11. That no claim shall be made on the Corporation in respect of any credit facility covered under the Scheme unless full particulars in respect of the said credit facility as aforesaid have been included in the detailed statement as on record at the branch or office as aforesaid.

12. That in order to enable the Corporation to ascertain whether any claim made on it is on account of any eligible credit facility which has been so included we shall preserve in good order the detailed statement or statements referred to in clauses 8, 9 and 10 hereof for a period of not less than eight years following the year in which any amount on account of the said credit facility is disbursed.

13. That notwithstanding anything to the contrary contained in the Scheme, if any loss occurs in respect of an account covered by the Scheme owing to the dishonesty on the part of any of our officials, or owing to decisions taken by such officials being contrary to or in contravention of the instructions issued to them by their superiors or by the Corporation, we shall not make or be entitled to make any claim on the Corporation in respect of the said account.

14. That all applications, documents, receipts, statements and other papers shall be signed on behalf of our institution by the chief executive officer or by other persons in our employment, who shall be deemed to be authorised by us to sign all such applications, documents, receipts, statements and other papers and that any irre-

gularity in the signature, or want of authority of the persons so signing shall not in any way affect or prejudice the rights of the Corporation or affect our liability in respect thereof.

15. That we shall introduce and follow such accounting arrangements as may be necessary or as may be required by the Corporation or take such other steps as may be necessary or expedient for protecting its interests in respect of the outstanding balances on account of credit facilities in regard to which the Corporation's guarantee is invoked by us.

16. That this Agreement shall take effect from the first day of October 1971.

17. That the stamp duty payable on this Agreement shall be borne by us.

Yours faithfully,

For and on behalf of.....

Signature.....

Designation.....

ANNEXURE II

CREDIT GUARANTEE CORPORATION OF INDIA (SERVICE CO-OPERATIVE SOCIETIES) GUARANTEE SCHEME, 1971

CHAPTER I

INTRODUCTORY

In pursuance of the decision which has been taken by the Credit Guarantee Corporation of India Limited, to provide guarantees to a substantial extent in respect of credit facilities granted to certain co-operative societies, which may be assisting workers, artisans and other self-employed persons engaged in industrial activity, the Scheme which is set out below has

been formulated by the Corporation and is notified for the information of the credit institutions and the societies concerned.

2. (1) The Scheme shall be known as the Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971.

(2) It shall come into force from the 1st October 1971.

(3) It shall be binding on the Corporation and the credit institution in respect of credit facilities granted by the eligible credit institutions to the eligible co-operative societies as hereinafter provided.

3. Definitions

For the purposes of the Scheme —

(i) "amount in default" means the amount on account of any credit facility, including interest and any other charges, which

(a) has become due and payable to an eligible credit institution but has not been paid after the expiry of a period of one month from the date on which a notice of demand has been served by the credit institution on the borrowing society;

(b) has been treated as bad or doubtful of recovery and has been provided or accounted for as such on the books of the credit institution.

(ii) "Corporation" means the Credit Guarantee Corporation of India Ltd., a company registered under the Companies Act, 1956 and having its registered office in the State of Maharashtra.

(iii) "credit facility" means any financial assistance, including a loan or advance, cash credit, overdraft, bill purchased or discounted, a term or instalment credit, a letter of credit or acceptance credit and guarantee other than a performance guarantee, granted or issued in India by a credit institution at any of its offices in India.

(iv) "credit institution" means the.....
(here enter the name of
 the commercial or co-operative bank, as the case
 may be).

(v) "eligible co-operative society" means a co-operative society which is registered under any law relating to co-operative societies, which is for the time being in force, not being a co-operative bank or a credit society; and which is wholly or mainly engaged in providing to its members facilities like the securing of orders, the purchase of raw materials, the display and marketing of finished goods or any other similar assistance in connection with the manufacture, preservation or processing of goods and the sale or disposal of the goods, which are so manufactured, preserved or processed.

(vi) "eligible credit institution" means a scheduled commercial bank or a co-operative bank as defined in clause (b ii) of Section 2 of the Reserve Bank of India Act, 1934, not being a primary co-operative bank as defined in clause (c iii) of Section 2 of that Act, provided that in the case of any such bank, the deposits in the bank are eligible for being insured by the Deposit Insurance Corporation established under the Deposit Insurance Corporation Act, 1961.

(vii) "Scheme" means the Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971.

CHAPTER II

Scope and extent of the Scheme

4. Guarantees by the Corporation

Subject to the other provisions of the Scheme, the Corporation undertakes, in relation to any credit facilities which may be provided to an eligible co-operative society from time to time by an eligible credit institution, which has entered into the necessary agreement for this purpose with the Corporation, to provide a guarantee on account of the said credit facilities.

5. Credit facilities eligible under the Scheme

The guarantee shall cover automatically and in bulk all the credit facilities.

(a) sanctioned by an eligible credit institution and availed of on or after the 1st October 1971 and

(b) sanctioned before the 1st October 1971 but first availed of on or after that date, without requiring the credit institution to make or submit to the Corporation a prior application for covering any or all of the credit facilities under the guarantee.

6. Credit facilities not eligible under the Scheme

The following credit facilities shall not be eligible for being guaranteed under the Scheme.

(1) Any credit facility in respect of which risks are already covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, or under any other guarantee scheme of this Corporation, to the extent they are so covered.

(2) Any credit facility which does not conform to, or is in any other way inconsistent with the provisions of any law, or with any directives issued by the Reserve Bank of India as issued by

(3) Any credit facility granted to any person, who has availed himself previously of any other credit facility covered under the Scheme, if the credit institution concerned has invoked the guarantee provided by the Corporation in respect of the said previous facility, but has not repaid any portion of the amount due to the Corporation, by reason of any default on the part of the borrower in respect of that credit facility.

7. Credit facilities granted by the credit institution jointly with another institution

(1) Any credit facility granted by an eligible credit institution jointly with any other eligible credit institution or institutions, will be eligible under the Scheme, provided that not less than twentyfive per cent of the total amount or value of the credit facility has been sanctioned by the

credit institution, which has been first mentioned.

(2) For the purposes of this paragraph, a credit facility or a portion of it, as the case may be, shall be deemed to have been sanctioned by a credit institution, notwithstanding the fact that it has been or is to be disbursed by another eligible institution or institutions, if any portion of the amount of the credit facility or the loss in respect thereof is recoverable from the first mentioned credit institution by the other institution or institutions.

(3) Notwithstanding anything contained in clause (1) or clause (2), the Corporation shall, as regards any credit facility sanctioned by an eligible credit institution jointly with any other eligible institution or institutions, deal only with the credit institution and all the duties, liabilities and obligations imposed under the Scheme and all the rights, powers and authorities exercisable under the Scheme by or against the Corporation shall, to the extent possible, attach to and be exercisable against or in favour of the first mentioned credit institution, as if it had itself granted the entire credit facility.

CHAPTER III

General provisions in regard to credit facilities

8. Procedure to be followed by the credit institution

(1) Where any credit facility is covered under the Scheme, a credit institution entitled to the benefit of a guarantee shall, as far as may be practicable, ensure that —

- (a) the facility is actually utilised for the purpose for which it is intended;
- (b) the income from the services rendered by the eligible co-operative society to its members or from any other source is regularly brought to account and recorded on its books and proper books of account are maintained by the society.

- (c) any goods purchased or assets created out of funds provided by or under the credit facility are pledged, hypothecated or mortgaged by the eligible co-operative society to the credit institution;
 - (d) a reasonable margin on the market value of the goods or assets so pledged, hypothecated or mortgaged is maintained at all times until the eligible co-operative society has discharged all its obligations to the credit institution in respect of the facility;
 - (e) provision is made for obtaining a charge in favour of the credit institution if any security other than the goods or assets referred to in sub-clause (c) is available;
 - (f) an account is opened with the credit institution in the name of the eligible co-operative society into which shall be paid all the instalments of repayment due to the credit institution on account of the facility;
 - (g) provision is made in the agreement relating to the facility for a representative of the credit institution to enter the premises, where any goods or other assets charged in favour of the credit institution are stored or located and to inspect the books of account of the eligible co-operative society so far as this may be necessary in relation to the credit facility;
 - (h) where the premises aforesaid are hired by the eligible co-operative society, a letter of consent from the landlord is produced and filed with the credit institution, allowing free access to the representative of the credit institution, to enter the premises for the purposes which are hereinbefore mentioned and to possess or recover the goods or assets charged in favour of the credit institution; and
 - (i) such other precaution as may be usual or necessary in connection with the provision of the said facility is also taken.
- (2) If at the time that a credit facility is initially sanctioned or utilised the eligible co-

operative society is not in a position to comply with any of the conditions specified in clause (1), the credit institution shall take all such steps as may be necessary to ensure that the said conditions are satisfied as soon as may be practicable thereafter.

(3) For the avoidance of doubt, it is hereby clarified that the provisions of clause (1) and clause (2) of this paragraph are intended only for the guidance of the credit institution, and are not mandatory and that if the credit institution considers it necessary so to do, it may relax any of these provisions in any particular case or grant any unsecured loan, advance or other facility, and any guarantee provided by the Corporation shall not be conditional on the observance or enforcement of any of the said provisions.

9. Agreement to be executed by the credit institution

An eligible credit institution shall not be entitled to a guarantee in respect of any eligible credit facility granted by it unless it has entered into an agreement with the Corporation in such form as may be required by the Corporation for covering by way of a guarantee under the Scheme all the credit facilities granted by the credit institution, for which provision has been made in the Scheme.

CHAPTER IV

GUARANTEES

10. Extent of the guarantee

The Corporation shall be liable to an eligible credit institution in respect of a guarantee under the scheme on account of a credit facility granted to an eligible co-operative society, to the extent of seventy-five per cent of the amount in default or thirty-thousand rupees, whichever may be less.

11. Guarantee Fee

(1) A guarantee fee shall be paid to the Corporation by a credit institution availing itself of the guarantee provided under the Scheme at

the rate of one half of one per cent per annum on the amounts outstanding on account of the eligible credit facilities provided by the credit institution.

(2) The said fee shall be paid or remitted to the Corporation at the expense of the credit institution in respect of each calendar quarter commencing from the 1st October 1971 and within a period of thirty days from the commencement of the quarter for which it is payable, in the manner which is hereinafter specified, namely,

- (a) in respect of the calendar quarter beginning on the 1st October 1971, the fee shall be initially determined and paid on the balances which may be estimated by the credit institution to be outstanding during that quarter in the accounts of eligible co-operative societies guaranteed under the Scheme with rests at such intervals as are allowed by the credit institution for calculating interest on the said balances, any fraction in the amount of the fee as so calculated and totalled up for the quarter for all the eligible accounts being rounded off to the next higher five paise, provided that when the exact amount of the fee payable to the Corporation can be ascertained, with reference to the balances actually outstanding during the quarter and in the manner specified in the sub-clause, the excess on account of the fee, payable to or recoverable from the Corporation shall be adjusted in such manner as may be specified by the Corporation;
- (b) in respect of the calendar quarter beginning on the 1st January 1972, the fee shall be calculated and paid on the balances outstanding from time to time during the preceding quarter being calculated in the manner aforesaid.
- (c) in respect of each calendar quarter commencing from the 1st April 1972, the fee shall be calculated and paid on the balances outstanding on the last Friday of the preceding quarter.

(3) In the event of any error or discrepancy being found in the computation of the amounts outstanding on account of the eligible facilities as aforesaid or in the calculation of the guarantee fee, the excess or deficiency shall be recovered from or paid to the Corporation in such manner and with interest at such rate as may be directed by the Corporation.

CHAPTER V

CLAIMS

12. Claims in respect of a borrower not to be preferred by two credit institutions

An eligible credit institution shall not be entitled to invoke a guarantee under the Scheme in respect of any eligible co-operative society, if any other credit institution has, in respect of the same borrower, made or submitted any claim to the Corporation, so long as any amount due to the Corporation on account of the settlement of the claim remains unpaid.

13. Payment of a claim to discharge the Corporation

On a claim being paid, the Corporation shall be deemed to have been discharged from all its liabilities on account of any guarantee in force in respect of the eligible co-operative society concerned.

14. Subrogation of rights and recoveries on account of claims paid

(1) Subject to the provisions of the Indian Contract Act, 1872 and any other law in this behalf, the Corporation shall, to the extent of the amount paid by it on account of any facility to an eligible co-operative society, which is guaranteed under the Scheme, be subrogated to the rights of the credit institution and every amount which may be recovered by the credit institution from a borrower after a claim has been paid shall, after deducting therefrom the expenses, if any, incurred for recovering the amount, be shared between the Corporation and the credit

institution in the ratio of 75:25 till their respective dues are paid in full.

(2) Every amount recovered and due to be paid to the Corporation shall be paid without avoidable delay, and if any amount due to the Corporation remains unpaid beyond a period of one month from the date on which it was first recovered, interest shall be payable to the Corporation by the credit institution at the Bank rate for the period for which the payment remains outstanding after the expiry of the said period of one month.

15. Losses not to be written off without the Corporation's approval

Any amounts due from a borrower in respect of which a claim has been paid shall not be written off on the books of the credit institution without the general or special approval in writing of the Corporation.

CHAPTER VI

MISCELLANEOUS

16. Corporation's liability to be terminated in certain cases

If the liabilities of an eligible co-operative society to a credit institution on account of any credit facility guaranteed under this Scheme are transferred or assigned to any other person or if an eligible co-operative society ceases for any reason to be eligible for the benefit of the guarantee under the Scheme, the said guarantee shall be deemed to be terminated as from the date of the said transfer or assignment or as from the date on which the co-operative society ceased to be so eligible.

17. Returns and Inspection

(1) An eligible credit institution shall submit such statements or furnish such information as the Corporation may require in connection with any credit facility under this Scheme.

(2) The credit institution shall also furnish

to the Corporation all such documents, receipts, certificates and other writings as the latter may require and shall ensure, as far as possible, that the contents of all such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the credit institution or any officer thereof for anything done in good faith.

(3) The Corporation shall in so far as it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records (including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of an eligible credit institution, and subject to the provisions of sub-clause (g) and sub-clause (h) of clause (1) of paragraph 8, of any eligible co-operative society availing itself of any credit facility from an eligible credit institution. Such inspection may be carried out either through the officers of the Corporation or of the Reserve Bank of India. Every officer or other employee of the credit institution or the borrower who is in a position to do so, shall make available to the officers of the Corporation or the Reserve Bank, as the case may be, the books of account and other records and information which are in his possession.

(4) The Corporation may, at any time or from time to time, give to the credit institution to which the guarantee has been furnished such directions for facilitating recoveries in the guaranteed account as the Corporation may think fit and the credit institution shall be bound to comply with such directions.

(5) An eligible credit institution shall, in respect of any guaranteed account, continue to exercise the same diligence in recovering the

dues in all the ways open to it as it might have exercised if no guarantee had been furnished by the Corporation.

18. Conditions imposed under the Scheme to be binding on the credit institution

(1) Any guarantee given by the Corporation shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.

(2) An eligible credit institution shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme.

19. Modifications and exemptions

The Corporation reserves to itself the right to modify, cancel or replace this Scheme, so however that the rights or obligations arising out of, or accruing under, a guarantee issued under the Scheme up to the date of such cancellation, modification or replacement shall not be affected.

20. Interpretation

If any question arises in regard to the interpretation of any of the provisions of the Scheme, the decision of the Corporation shall be final.

21. Supplementary and general provisions

In respect of any matter not specifically provided for in the Scheme, the Corporation may make such supplementary or additional provisions as may be necessary for the purposes of the Scheme.

(For Co-operative banks only)

Statement of guaranted accounts under the Credit Guarantee Corporation of India (Service Co-operative Societies) Guarantee Scheme, 1971 for the quarter ended

Name of the credit institution..... Name of office

Serial No.	Name of the borrowing service co-operative society	Debit balance as on..... (last Friday of the quarter)	Credit limit	Nature of oc- cupation	Purpose of loan	Particulars of security	Rate of interest
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

1.

2.

3.

etc.

Place :
Date :

Total

Signature of authorised official

STATEMENT OF GUARANTEED ACCOUNTS UNDER THE SERVICE CO-OPERATIVE SOCIETIES GUARANTEE SCHEME, 1971

Proforma for State and Central Co-operative banks

Name of Credit Institution

State

Quarter ended

Debit balances in guaranteed accounts

Total Debit Balance Rs.	Guarantee fees paid Rs.
(1)	(2)

Note: Debit balances outstanding as on the last Friday of the quarter should be reported.

STATEMENT OF GUARANTEED ACCOUNTS UNDER THE SERVICE CO-OPERATIVE SOCIETIES GUARANTEE SCHEME, 1971

Proforma for scheduled commercial banks

Name of Credit Institution _____

Quarter ended _____

Debit balances in guaranteed accounts

State/Union Territory	Total Debit Balance Rs.	Guarantee fees paid Rs.
(1)	(2)	(3)

STATES :

1. Andhra Pradesh ..
2. Assam
3. etc. ...

UNION TERRITORIES :

1. Goa, Daman & Diu
2. Manipur ..
3. etc. ...

Note: Debit balances outstanding as on the last Friday of the quarter should be reported.

**Extract from circular dated 10th May 1972
addressed to all eligible credit institutions parti-
cipating in the three guarantee schemes**

Under the schemes formulated by the Corporation, the guarantee fee is to be calculated and paid for each quarter on the basis of the summation of products of the balances outstanding in the guaranteed accounts during the preceding quarter. As credit institutions may not generally be taking out products in respect of certain types of eligible credit facilities, such as bills purchased and discounted, letters of credit, guarantees, instalment credits, etc., they may experience some difficulty in calculating the guarantee fees. It has, therefore, been decided that starting from 1st April 1972, the calculation of the quarterly guarantee fee should be based on the debit balances outstanding in the guaranteed accounts as on a particular day, namely, the last Friday of the preceding quarter.

2. The branches and offices of credit institutions should continue to prepare a detailed quarterly statement as at present containing the particulars relating to all the eligible accounts outstanding at any time during the entire quarter (i.e. upto the last day of the quarter and not only upto the last Friday). Thus, the statement should include not only the eligible accounts showing debit balances as on the last Friday but also other eligible accounts, if any, which may have been closed before the last Friday or were in credit or showed a nil balance as on the last Friday or were opened during the days intervening between the last Friday and

the last day of the quarter. The summation of the products of the daily balances in the guaranteed accounts need not be shown in this statement. This statement will be prepared and should be available at the branch for inspection and for convenience of reference and need not be forwarded to the head offices, local head offices or regional offices, unless this is considered necessary, in the case of any credit institution, for its own internal purposes. Consolidated totals of the outstanding debit balances in the eligible accounts as on the **last Friday** of each quarter for each of the six categories should, however, be taken out and reported to the head office, local head office or regional office, as the case may be, as is being done now. The quarterly statement to be sent to the Credit Guarantee Corporation may be prepared on the basis of these consolidated totals and should be in the usual form, except that the column relating to product summations need not be shown. In other words, the statement should contain the state-wise and category-wise totals of the outstanding debit balances as on the last Friday of the previous quarter.

3.

4. Considering the simplicity and the convenience of the method which is adopted now, we hope the credit institutions will be in a position to adhere to the prescribed time schedule of submitting the quarterly statement of guaranteed accounts within the period of 30 days from the close of the quarter.

5.

Section III

CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES

CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES

The Government of India introduced, in consultation with the Reserve Bank of India, the Credit Guarantee Scheme for small-scale industries in July 1960 in order to enlarge the flow of institutional credit to small-scale industries. The Bank, designated as "Guarantee Organisation," has been administering the scheme, as an agent of the Central Government, in terms of Section 17(11A) of the Reserve Bank of India Act. The scheme extends a high degree of protection to the lending institutions against possible losses on credit facilities granted by them to small-scale industrial units. There is also an element of refinancing in the scheme, viz. through settlement of claims before the enforcement of security or resort to legal remedies by credit institutions against the borrowers for recovery of dues. Since its inception, the working of the scheme has been reviewed by the Bank from time to time and its provisions have been liberalised, wherever possible and necessary, with the approval of the Government. With the substantial increase witnessed in recent years in institutional lending to small-scale industries, the work devolving on the Guarantee Organisation was tending to be heavier and the situation emphasised the need for suitable streamlining of the scheme so that guarantee facilities could be readily available to the credit institutions. A Working Group which was set up by the Reserve Bank in April 1969 to examine these aspects recommended a major change in procedure for the issue of guarantee with certain necessary built-in safeguards. The Report of the Working Group is printed elsewhere in the booklet. With the approval of the Government of India, the scheme was amended on the lines recommended by the Group and the modified scheme came into effect from February 1, 1970. As a result, the system of submission of individual applications for guarantee for each eligible limit which had been in vogue prior to the modification was dispensed with and guarantee cover is now available on all eligible loans and credit facilities extended by

approved credit institutions after they execute an agreement in this regard as specified by the Guarantee Organisation; all loans and other credit facilities in consonance with the provisions of this agreement are deemed to be covered under the scheme based on principles of insurance entailing diversification of risk and large coverage. A copy of the amended scheme is furnished in Annexure I.

2. The facilities under the guarantee scheme are available to credit institutions which have been specified for the purpose under clause 2(c) thereof. Such approved institutions now number 559 (vide Appendix to Annexure I). For joining the scheme, an approved credit institution is required to execute an agreement prescribed by the Guarantee Organisation under clause 5(1) of the scheme. The form of the agreement is furnished in Annexure II. Up to the end of February 1972, the number of credit institutions which have executed the agreement totalled 159. The institutions include the State Bank of India and its subsidiaries, scheduled commercial banks (including all the 14 nationalised banks), all State Financial Corporations and a few State and Central co-operative banks (vide Appendix to Annexure I). Credit institutions which have not been specified under the scheme could also avail of guarantee facilities by entering into a suitable participation arrangement with any of the specified credit institutions as provided for in clause 3(ii) of the scheme.

3. The scheme covers all types of credit facilities granted to small-scale industrial units e.g. working capital advances, term loans, instalment credits, letters of credit, acceptance credit, deferred payment and loan guarantees. The following facilities, however, are not eligible for cover:

(i) performance guarantees issued on behalf of constituents (e.g. guarantees given to Govern-

ment departments, port trusts, etc. for fulfilment of certain obligations);

(ii) advances covered by the Export Credit and Guarantee Corporation Ltd.;

(iii) credit facilities covered by the guarantee of any State Government or Central Government or any other scheme operated by them;

(iv) credit facilities which do not strictly conform to the credit control directives of the Reserve Bank of India or which would have the effect of defeating such directives; and

(v) advances for payment of prior debts (unless specifically permitted).

Advances already granted but not brought under cover by the credit institutions at the time of joining the modified scheme are allowed cover subject to the following conditions:—

(i) the advances have not already been recalled; (ii) the relevant borrowing concerns have not suspended their business; (iii) the debts owed by the industrial units have not been treated as bad or doubtful of recovery; and (iv) the loan amounts have not been utilised for adjustment of any debts deemed bad or doubtful of recovery. Further, term loans and instalment credits sanctioned before specified dates are treated as ineligible.

4. The scheme covers credit facilities granted to small-scale industrial units, viz., those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery does not exceed Rs. 7.5 lakhs. For computing a unit's investment in plant and machinery, the following items are to be taken into account:

(a) original cost of plant and machinery (i.e. original price paid by the owner irrespective of whether the plant and machinery are new or second hand);

(b) cost/original price of plant and machinery taken on a lease or rental basis;

(c) original cost of all productive equipment e.g. tools, jigs, dies, moulds, patterns and designs (excluding drawings) and electric installations which aid industrial activity of the unit;

(d) import duty on machinery, if any, and shipping charges to the extent paid by the owners, customs clearance charges and sales tax; and

(e) original cost of fishing trawlers and insulated fish vans in the case of units engaged in processing of fish, insulation of cold storage plants, processing tables and storage racks in the case of cold storage units and cylinders used for distribution of gas for units engaged in the manufacture of gas.

The following items need not be included in the cost of plant and machinery:

(a) cost of spare parts and consumable stores;

(b) cost of installation of plant and machinery and charges paid for technical know-how for such erection;

(c) in the case of imported machinery, miscellaneous expenses like transport charges from port to the site of the factory, demurrage paid at the port and premium* if any, paid for obtaining import entitlements;

(d) bank charges and service charges paid to the National Small Industries Corporation Ltd. (where they are not capitalised); and

(e) the cost of deep-freeze equipment at retail points in case of units engaged in manufacture of ice-creams.

The investment under the head 'plant and machinery' should include the original cost

* The price paid for acquiring import licences issued under the National Defence Remittance Scheme (October 1965 June 1966).

of every productive item acquired by the industrial unit irrespective of the manner in which its cost has been presented in its books. Once a unit acquires plant and machinery of the total original cost exceeding Rs. 7.5 lakhs, it cannot qualify as a small-scale unit even if the cost is subsequently reduced through either disposal of a part of the plant or scrapping or keeping some machinery idle due to the closure of a particular line of manufacture. However, if an industrial unit, as part of its programme of modernisation or replacement, acquires a new plant or machinery or other productive equipment and in the process either disposes of any of its existing items of plant and machinery, etc., or writes off their value as they have become unserviceable or obsolete, the unit will be eligible for guarantee facilities so long as the aggregate value of its plant and machinery, both before and after modernisation, does not exceed Rs. 7.5 lakhs.

A credit institution assisting small-scale industrial units is required to obtain and keep on record an affidavit or other documentary evidence from the borrowing unit regarding its size and also satisfy itself by other means regarding the eligibility of the unit. As soon as a unit ceases to be in the small-scale sector, with the value of its plant and machinery through additions exceeding Rs 7.5 lakhs, the credit institution should notify this to the Guarantee Organisation; it could continue the credit facilities to the unit without the guarantee cover. If, however, it is unable to dispense with the guarantee cover, it could get cover for the outstanding balance before the unit ceased to be in the small-scale sector; in that case it should not grant any further assistance to the unit either in the existing accounts or in any new account.

5. Credit facilities granted to small-scale industrial concerns, which are engaged in the following activities alone, are eligible for guarantee under the scheme, viz. (i) manufacture, (ii) processing, or (iii) preservation of goods, (iv) mining and quarrying, (v) servicing and

repairing of certain types of machinery (automobiles, tractors, pump-sets, tube-wells, boilers, electric motors, air-conditioning and refrigeration equipment, road rollers and other road repair equipment, radio receivers, electric sound systems, different kinds of electrical equipment, marine diesel engines, cine projectors, photographic equipment, oil engines and machinery of any type used for production), (vi) 'custom service' units i.e. hiring out and servicing and repairing of agricultural machinery such as crawler and wheeled tractors, threshers, combine harvesters etc., and also (vii) 'Agro Service units' i.e units engaged in hiring out and servicing and repairing of agricultural equipments etc., sale of such equipments, spare parts inputs and offering of technical services such as soil-testing. Credit facilities granted to medical practitioners for the purchase of X-ray/Electrocardiogram equipment, microscopes and electroencephalograph, advances to photo studios for their processing activity and advances for manufacture of tea by small tea estates having their own factories (including bought-leaf factories) are also eligible for cover. Approved activities also include traditional ones such as those of oil mills, rice, dall and flour mills, and cotton ginning and pressing factories.

6. However, credit facilities to the units engaged in certain activities such as (i) transport of passengers or goods by road or water (ii) hotel industry (iii) setting up of industrial estates (iv) generation and distribution of electric power (v) manufacture of potable alcohol (vi) publication of (or units having a declared objective of publishing) newspapers or periodicals are not eligible under the scheme. Also, credit facilities granted to industrial co-operative societies, associations, corporate or non-corporate bodies, individuals, master weavers, etc., who do not themselves undertake any industrial activities in their own factories/premises but get their products manufactured/processed, etc., in a decentralised manner with the help of individual members/artisans at the latter's premises making use of their own

Types of activities not eligible for cover

Types of industrial activities eligible for cover

equipments are not eligible for guarantee cover. As regards cold storage units, loans granted to them for setting up or expansion of the cold storage plants are eligible for guarantee but advances to such units for trading *i.e.*, buying and warehousing commodities for subsequent sale, are not eligible for cover. Where a unit is engaged in non-industrial activities along with industrial activities (*e.g.* agriculture or trade) credit facilities extended to it in connection with such non-industrial activities are not eligible for guarantee. Separate limits for their industrial activities should be sanctioned and brought under cover of the scheme.

7. All eligible credit facilities granted to small-scale industries by the credit institutions which have joined the scheme are deemed as guaranteed from the date of first disbursement of the advance/the date of the letter of credit or acceptance (of acceptance credit/guarantee). These facilities are required to be reported to the Guarantee Organisation by each office of the approved credit institution in the prescribed quarterly statements in duplicate. In the statements as on the last Friday of March and September, full particulars of the eligible credit facilities including the name and address of the borrowing unit, type of organisation, type of facility, purpose of advance and security are required to be reported. In the statements for the remaining quarters viz. June and December, only limited information is required to be furnished. Proformae of the relative statements are given in Annexures III & IV. The statements should be furnished within one month from the close of the quarter. All advances in respect of which guarantee certificates had been issued under the scheme before its modification and which are in force are required to be furnished under Part 'A' of the statement with the particulars of the guarantee certificates in the 'Remarks' column. The accounts covered under the modified scheme should be shown under Part 'B'. Credit facilities granted since the date of previous quarterly statement are to be furnished under Part 'C', while the accounts reported in

Procedure for availing of guarantee

the previous statement but closed/adjusted since then are to be shown under Part 'D'. On the expiry of old guarantee certificates or where the units concerned have been granted additional credit facilities eligible under the scheme, all its accounts would be deemed to be covered under the modified scheme.

Every branch of an approved credit institution is under an obligation to cover all its eligible credit facilities to small-scale industries and should include them in the appropriate section of every quarterly statement to be sent to the Guarantee Organisation not only so long as a balance is due from the borrowing concern but also so long as the limit sanctioned is not cancelled. This procedure is essential if it is to seek invocation of the guarantee in respect of any of its guaranteed accounts. It is the quarterly statement which brings to the notice of the Guarantee Organisation the loans to be covered and the acknowledgement letter in response thereto sent by the Guarantee Organisation completes the contract of guarantee. The concerned branch should keep a watch on the receipt of the acknowledgement and in case it is not received within a reasonable time, the branch should take up the matter with the Guarantee Organisation.

When a credit institution is in doubt about the eligibility of individual units for the facilities under the scheme, it would always be advisable to seek clarification from the Regional Office of the Guarantee Organisation promptly. The inclusion of an ineligible advance in the quarterly statement and payment of fee thereon would not ensure its coverage under the scheme.

8. Guarantee fee is recovered at one-tenth of 1% per annum on a quarterly basis in the case of working capital advances (*e.g.* cash credit, overdraft, purchase and discount of bills) on the limit sanctioned/outstanding balance in the account whichever is higher and in respect of term loans on the outstanding balance in the account as on the last Friday of

the previous quarter. If the term loans have been secured by demand promissory notes or other similar documents from the borrowers conferring on the lending institutions the right to recall the loans on demand, guarantee fee will be charged as though they represent working capital advances. The aggregate amount of fee payable is required to be furnished in the quarterly statements. As a measure of assistance to small-scale industry, a number of credit institutions have agreed to bear the guarantee fee themselves and not to pass on the burden to the borrowing units.

9. The scheme provides for a payment of 75% of the amount in default or the amount guaranteed (i.e. the amount on which guarantee fee has been paid as per the last quarterly statement), whichever is lower. The maximum amount recoverable from the Guarantee Organisation in respect of guaranteed accounts is, however, limited per borrower to Rs. 7.5 lakhs in respect of working capital advances and a further Rs. 2.5 lakhs in respect of term loans.

The scheme envisages that a credit institution should have a stake in each loan at a level not lower than 25%. It is in this context that it has been laid down that credit facilities covered by guarantees of Export Credit & Guarantee Corporation Ltd. and Central or State Governments are not considered eligible for cover under the Guarantee Scheme. The credit institutions should ensure that they strictly adhere to the above basic requirement and avoid in particular securing guarantee from another institution for accepting a margin significantly lower than the usual. Because of the facilities available under the scheme, credit institutions might like to adopt a need-based approach in the financing of small-scale industrial units and assume in the process a certain measure of calculated risk. Where necessary, it should be their endeavour to liberalise the terms of lending, particularly in respect of margin. Soft loans or those on a clean basis whenever deserving might be extended by credit

institutions, especially in respect of schemes promoted by qualified technicians/entrepreneurs. The Guarantee Organisation covers such soft or clean advances. These are aspects that credit institutions might like to bear in mind while framing their policies on advances to small-scale industries. At the same time, they should also ensure that the branches adhere to the normal canons of lending as instructed by their management. All in all, the Guarantee Organisation relies solely on the judgement of credit institutions in all aspects of lending to small-scale industries.

10. In view of the unsettled conditions that prevailed in some areas adjoining our borders with Pakistan following the commencement of hostilities in early December 1971 it was found that the small-scale industrial units located in these areas were experiencing difficulties in carrying on their normal activities. In order to mitigate the difficulties of such units and to encourage the credit institutions to grant them liberal credit facilities, some of the provisions of the Scheme were temporarily liberalised by the Government of India on the advice of the Reserve Bank, with effect from 16 December 1971. In terms of the liberalised provisions, the credit institutions enjoy guarantee cover in respect of their advances, etc. in the specified areas at 90% of the amount in default or the amount guaranteed, whichever is less. They can also recover from the Guarantee Organisation by way of claims Rs. 10 lakhs and Rs. 4 lakhs in respect of working capital advances and term loans respectively, as against the usual ceilings of Rs. 7½ lakhs and Rs. 2½ lakhs. The liberalised provisions which were initially in force upto 31 March 1972 have subsequently been extended by Government upto 30 June 1972. All credit facilities granted to the units in the specified areas during the period when the liberalised provisions are in force as also the existing eligible facilities enjoyed by them would be covered under the liberalised provisions. The higher cover would be available in respect of accounts recalled during the period when the

relaxations are in force and also during the subsequent six months. All other facilities as also those granted from the date of withdrawal of the liberalised provisions would stand covered under the usual provisions of the scheme. A list of areas specified for the purpose of the liberalised provisions is set out in Annexure V.

11. The credit requirements of the small-scale industrial units are not generally large and the nature of their activity is such as would not normally call for financial assistance from more than one bank. On the other hand, there would be a definite advantage in the units seeking the assistance required by them from a State Financial Corporation and one of the banks so that their needs both for block and working capital purposes would be better appreciated and their genuine requirements promptly met. Avoidance of multiple financing could also enable banks to enjoy the full 75% cover for their advances particularly in the

Multiple Financing light of the ceilings prescribed under the Scheme on the amounts recoverable from the Guarantee Organisation by way of claims, and thus go a long way in safeguarding the position of the lending institutions. Where a unit is found to be enjoying multiple financial facilities, the Guarantee Organisation makes a suggestion to the banks concerned to examine the need for more than one bank assisting the unit as well as the possibility of one of the banks and an SFC meeting the entire requirements. While the matter is being explored, it is not the intention that the existing facilities to a small-scale unit should be suddenly withdrawn. The Guarantee Organisation allows sufficient time to the banks concerned to come to a voluntary arrangement under which the unit's entire requirements could be available from one of them and an SFC and, in such cases, necessary clearance is granted by the Guarantee Organisation for the switch over of accounts from one bank to another.

12. The term 'default' occurring in clause 6(1)(i) of the scheme refers to the failure of

the borrower in discharging the obligations to repay the dues when called upon to do so. In respect of loans repayable in instalments, the default can be deemed to have occurred when an instalment has not been paid on the due date or when any terms and conditions governing the grant of the loan have not been complied with and the credit institution in pursuance of such terms and conditions recalls the loan. In other cases where the amounts due are not paid on demand, a default would be deemed to have occurred. An oral demand is sufficient where the loan agreement so provides. It is not the objective of the scheme that temporary defaults in a guaranteed account should be reported to the Guarantee Organisation if the credit institution is satisfied that they are of a casual nature and it has no intention, merely on the basis of such default, either to discontinue the facility or to recall the advance. If the credit institution's efforts to get the account regularised fail or the unsatisfactory conduct of the account persists and the account is finally recalled, the fact of such recall should be intimated to the Guarantee Organisation promptly. On receipt of such advice, the Guarantee Organisation, with a view to safeguarding the interests of all approved credit institutions which have financed the defaulting unit, would bring to their notice the default by the unit and advise them to stop further operations in the accounts of the unit. The lending institutions concerned are required to settle among themselves the question of rehabilitating the unit or recovery of the existing dues in an orderly manner with the assistance of the Guarantee Organisation, where necessary. In view of the wide repercussions involved, it is essential that the credit institution exercises considerable restraint in the matter of calling up of advances and resorts to such course only where it is considered unavoidable.

As under the modified scheme guarantee cover is available from the date of first disbursement of the advance until the adjustment of

the account, there is no specific time limit within which the occurrence of default in an account is required to be notified to the Guarantee Organisation. However, it is incumbent on the credit institution to take the earliest opportunity to report the matter. Besides, the credit institutions are also required to submit along with their quarterly statements, the particulars of accounts recalled/under default and covered under the scheme in a statement (in duplicate) as in Annexure VI. The Guarantee Organisation as a matter of procedure inspects the accounts under default in order to have a first-hand knowledge of the problems faced by the units and the difficulties experienced by the credit institutions in continuing to assist them. During the inspections, the Guarantee Organisation might explore the possibilities of rehabilitating the units with the co-operation of the lending agencies.

The scheme does not stipulate any time limit for the invocation of guarantee; it is, however, incumbent on the credit institutions to take early steps for recovery of the dues and, when the chances of recovery are remote or are time-consuming, to prefer a claim with the Guarantee Organisation, thus availing of the refinancing facility provided for under the scheme. The lending institutions shall have to appreciate in this context the futility of continuing to debit an account with interest after the advance has proved doubtful of recovery.

13. Applications invoking the guarantee should be submitted to the Guarantee Organisation by the Head Offices of the credit institutions. In terms of clause 6(2) of the scheme, claims are required to be settled within 30 days of their receipt by the Guarantee Organisation provided all necessary particulars are invariably stated therein. In order to facilitate their expeditious settlement, the credit institutions should furnish full particulars of the account in respect of which guarantee is invoked, including the circumstances under which it is invoked, the steps taken by it to safeguard its own interests as well as

those of the Guarantee Organisation, the particulars of security, if any, available and steps taken or proposed to be taken for its disposal. A copy each of the demand notice issued to the borrower/guarantor and of the ledger account up to the date of invocation of the guarantee and a certificate in terms of clause 6(1)(iii) of the scheme should invariably accompany the claim application. Where the unit in respect of whose accounts guarantee is invoked enjoys credit facilities from more than one credit institution, the Guarantee Organisation would advise all such credit institutions to prefer a claim in respect of the balances due to them as on a common date. If the aggregate balance due to all the credit institutions attracts the ceiling referred to in clause 4 of the scheme, the maximum amount prescribed will be distributed among them in the ratio of amounts due to each of them. The agreements executed by the credit institutions provide that if a default occurs in an account of a small-scale industrial unit due to dishonesty on the part of the credit institution's officials or due to decisions taken by them contrary to instructions issued by the credit institution's management or the Guarantee Organisation, the credit institution shall not be entitled to make any claim on the Guarantee Organisation in respect of such an account.

14. After payment of a claim the Guarantee Organisation is discharged of all its obligations under a guarantee. The unit in respect of whose account the claim has been paid will not be eligible for the guarantee facilities so long as the claim amount or expenses incurred by the Guarantee Organisation remain unrecovered. The credit institutions are required to exercise the same diligence for recovery of the advance as if no guarantee had been furnished by the Guarantee Organisation. The progress made in the recovery has to be reported to the Guarantee Organisation at quarterly intervals; and the recoveries effected are required to be shared with the Guarantee Organisation within one month from the date of recovery in

Obligations of credit institutions after receipt of claim amounts.

the proportion in which the loss has been borne by the Guarantee Organisation and the credit institutions. After their losses have been completely reimbursed, further recoveries, if any, representing interest should be shared between the two in the proportion in which the losses were actually borne. For writing off the balance in a claim paid account, prior consent of the Guarantee Organisation is necessary which would be granted only in cases where there is absolutely no scope for any further recovery. Requests for writing off should be accompanied by a memorandum containing the decision of the competent authority or auditor's report classifying the debt as bad.

15. The main objective of the scheme, as set out earlier, is to eliminate through Government participation, a large proportion of the risk in lending to small-scale industries. Credit institutions are, thus, enabled to take a liberal view of the credit and capital needs of small-scale industries and follow, in considering their applications, a need-based approach especially, vis-a-vis, very small units promoted by technically competent persons. Expeditious disposal of applications, timely sanctions, relaxation in terms of margin and grant of soft or clean loans in deserving cases, are some of the aspects to which credit institutions might pay prompt attention. At the same time, they should endeavour to safeguard in all possible ways, the interests of the Guarantee Organisation which bears a high level of contingent liability. The main aspects which should be borne in mind by the credit institutions for prompt compliance would include the following :

(i) Adhering to the provisions of the scheme, the agreement excuted thereunder and the instructions issued by the Guarantee Organisation from time to time.

(ii) Satisfying themselves regarding the eligibility under the scheme of industrial units and the credit facilities granted to them.

(iii) Submission to the Guarantee Organi-

sation of quarterly statements giving particulars of all the eligible accounts within the prescribed time together with the guarantee fee.

(iv) Adherence to the rules and regulations laid down by the lending institution's management for sanctioning and regulating the various credit facilities granted to small-scale industries.

(v) Carefully scrutinising the antecedents of applicant units, assessing their genuine needs particularly in the light of the facilities they may be enjoying from other banks, etc., and ensuring that assistance is not provided for switch-over of accounts from one bank to another or to a unit which has already proved to be a defaulter to another bank or in respect of which claims paid or expenses incurred by the Guarantee Organisation remain unrecovered (For this purpose, the credit institutions have been advised to come to a voluntary arrangement for mutual exchange of credit information on all small-scale industrial units at their respective centres).

(vi) Notifying the Guarantee Organisation promptly of any adverse developments relating to assisted industrial units in regard to the conduct of guaranteed accounts, occurrence of defaults in payment of dues, closure of factory, etc.

(vii) Securing for the Guarantee Organisation the right to inspect the units or to call for their financial statements, etc. when considered necessary.

(viii) Ensuring that the documents taken in respect of their advances do not become time-barred so that the debt will be alive for the benefit of the Guarantee Organisation.

16. The Guarantee Organisation has instituted a programme of test checks of quarterly statements submitted by the branches of banks, etc. at selected centres by deputing its officers. Apart from looking into such

aspects as the accuracy of the particulars furnished in the statements, prompt coverage of advances, their eligibility under the scheme, the general method of operation of the branch in scrutiny, sanction, disbursal, supervision and recovery of advances to small industries, etc., the inspecting officers offer on-the-spot clarifications to the officials of branches on the provisions of the scheme, the instructions issued by the Guarantee Organisation from time to time and particularly the manner of compilation of

the quarterly statements.

17. The Central Office of the Guarantee Organisation is functioning at Bombay. It has four regional offices one each at Bombay, New Delhi, Calcutta and Madras to which the quarterly statements and other communications are required to be sent by the branches of banks etc. functioning in the respective regions (vide Annexure VII)

**Administrative
Set-up**

ANNEXURE I

CREDIT GUARANTEE SCHEME

FOR

SMALL-SCALE INDUSTRIES

The Central Government having sponsored and formulated a scheme for the grant of a degree of protection to banks and certain other institutions against possible losses in respect of advances granted by them to small-scale industries in India and having decided for this purpose to entrust the administration of the scheme to the Reserve Bank of India it is hereby notified for the information of the banks and credit institutions concerned that the following terms shall constitute the basis on which applications may be made, or guarantees furnished under this scheme.

2. Definitions—For the purposes of this scheme:

(a) "advance" means any loan repayable on demand or on the expiry of a fixed period and includes a cash credit or an overdraft or purchase or discount of bills or other credit facilities;

(b) "amount in default" means any amount in respect of a guaranteed advance remaining unpaid on the date on which the guarantee is invoked, including overdue interest and other charges recoverable in accordance with normal banking practice;

(c) "credit institution" means any banking or other institution which the guarantee organisation, with the previous approval of the Central Government, may specify for the purposes of this scheme;

(d) "guarantee organisation" means the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934;

(e) "small-scale industrial unit" means any industrial undertaking in respect of which an affidavit has been furnished by the owners or other parties entitled to act for that undertaking or a certificate has been furnished by

the credit institution seeking guarantee to the effect that the investment in plant and machinery is not in excess of seven and a half lakhs of rupees.

3. Circumstances in which guarantees may be given—

The conditions for eligibility for a guarantee by the guarantee organisation are:

(i) that the advance shall be sanctioned or shall have been sanctioned to a small-scale industrial unit on or after the first day of July 1960 for the purpose of enabling that unit to acquire fixed assets or equipment or for providing working capital, provided that if an advance has been sanctioned before the said date, any normal or *bona fide* renewal or enhancement of that advance after that date shall, if the record of the advance is good, be deemed to be an advance eligible for a guarantee under this scheme;

(ii) that the advance shall be sanctioned or shall have been sanctioned wholly by a credit institution, or jointly by that institution and any other institution or institutions, provided that where the advance is or has been sanctioned jointly by a credit institution and one or more other institutions, the portion of the advance as sanctioned by, and drawn from, the credit institution seeking a guarantee under the scheme shall not be less than twenty-five per cent of the total amount of the advance as sanctioned by and drawn from, all the institutions together;

Explanation: For the purposes of this sub-clause, an advance or a portion of it, as the case may be, shall be deemed to have been sanctioned by or drawn from a credit institution if it has been disbursed by any other institution under such circumstances that the amount of the advance or a portion of it as the case

may be or the loss in respect thereof is recoverable from the credit institution by such other institution.

(iii) that at the time of the application for a guarantee under the scheme, no claims paid or expenditure incurred by the guarantee organisation under any earlier guarantee in respect of that unit shall remain or shall have remained unrecovered.

4. Extent of guarantee:

A credit institution shall be entitled to recover from the guarantee organisation towards the amount in default in respect of advance/s which has/have been guaranteed by that organisation, 75 per cent of the amount in default or the amount guaranteed, whichever is less;

Provided that the maximum amount which may be recoverable from the guarantee organisation under this scheme by credit institution/s in respect of any one industrial unit shall not exceed — (a) rupees seven and a half lakhs, where no part of the advance granted to the borrower is in the form of a loan payable on the expiry of a fixed period/s exceeding two years; (b) where a part of the advances granted to the industrial unit is in the form of a loan/s repayable on the expiry of a fixed period/s exceeding two years — (1) rupees two and a half lakhs in respect of such loan/s; and (2) rupees seven and a half lakhs in respect of other advances.

5. Furnishing of guarantees:

(1) Where a credit institution has decided to seek guarantee under this scheme in respect of all its eligible advances, the guarantee organisation may agree subject to certain conditions to be specified in an agreement to be entered into between the credit institution and the guarantee organisation to guarantee all the eligible advances made by the credit institution from the date of disbursal of the advance/the date of the letter of credit or acceptance or the date of the agreement whichever is later, without a prior application for guarantee for each

credit limit and without specifying a period for guarantee.

(2) If a credit institution has sanctioned or proposes to sanction an advance to a small-scale industrial unit, it may, whether before or after sanctioning that advance, apply to the guarantee organisation for a guarantee under this scheme in respect of that advance.

(3) The application for a guarantee shall be —

(i) in the case of an advance in the form of a loan for a fixed period exceeding one year, one or more years or the period of the loan, at the option of the credit institution applying for the guarantee, subject to a maximum period of ten years from the date on which the loan is or has been first availed of; and

(ii) in the case of an advance in any other form, one or two years at the option of the credit institution applying for the guarantee.

(4) Subject to the conditions set out in this scheme and such other conditions, if any, as it may think fit to impose, the guarantee organisation may accept the application and furnish a guarantee to the credit institution;

Provided that where an advance has been sanctioned by a credit institution jointly with any other institution, the guarantee shall be furnished only to the credit institution nominated under sub-clause (1) of clause 12.

(5) A guarantee under the scheme shall not be claimed as of right and the guarantee organisation shall be entitled to reject any application without assigning any reason for doing so.

6. Procedure for invoking of guarantees:

(1) The credit institution may invoke the guarantee in respect of any amount in default on account of advance covered under its terms if—

(i) the guarantee is in force at the time of the default;

(ii) the guarantee organisation has been informed of the said default as soon as possible and in any case not later than fifteen days from the date of expiry of the guarantee; and

(iii) the credit institution has furnished a certificate to the guarantee organisation to the effect that the borrowing unit and the sureties or guarantors, if any, have been called upon to the full extent of their liability and that the amount in default cannot be realised without enforcing the other securities or resorting to legal remedies.

(2) The guarantee organisation, if it is satisfied in regard to the conditions pertaining to the guarantee shall, within thirty days of the receipt by it of a claim from the credit institution accompanied by the certificate referred to in sub-clause (1) of this clause, pay to the credit institution to which it has furnished the guarantee such sums as may be due under the guarantee, either to that institution or to that institution jointly with any other institution.

(3) Upon a payment being made as provided for in sub-clause (2) the guarantee organisation shall be deemed to have been discharged from all its liabilities under the guarantee.

7. Advances guaranteed under the scheme not to be diverted for any other purposes:

(1) A credit institution to which a guarantee has been furnished under this scheme shall obtain such periodical or other reports as may be necessary for satisfying itself that an advance guaranteed under this scheme has not been diverted for a purpose other than that for which it was granted.

(2) If at any time it appears to a credit institution mentioned in sub-clause (1) that an advance guaranteed under this scheme is not being utilised for the purpose for which it was made, the facts relating to the advance shall immediately be brought to the notice of the guarantee organisation.

(3) The guarantee organisation may in any such case take such action as it may think fit,

and may, if it considers it necessary so to do, revoke the guarantee insofar as it relates to any further payments under the advance by the credit institution and in the case of joint advance in terms of clause 3 (ii), by the credit institutions or by the credit institution and any other institution.

8. Fees

(1) Every credit institution shall pay to the guarantee organisation for the guarantee by that organisation in respect of every advance, a charge calculated at the rate of one quarter of one per cent per annum on the maximum amount of the advance as sanctioned, so however that the charge payable shall be rounded off to the next higher multiple of five paise;

Provided that if, in respect of an advance in the form of a loan for a fixed period exceeding one year, a guarantee has been furnished (i) in respect of the amount outstanding at the time of the application for guarantee or (ii) initially in respect of the maximum limit of the advance as sanctioned or, as the case may be, the amount outstanding at the time of the application for the guarantee, and subsequently in respect of the amount outstanding at the commencement of each successive year of the period of the guarantee, the charge shall be calculated on such outstanding amount or, as the case may be, the maximum limit of the advance as sanctioned.

Provided further that if at any time during the currency of the guarantee, the amount for which the guarantee is issued is enhanced, the charge on the enhanced amount shall, subject to the foregoing proviso, be payable for the remaining period of the guarantee calculated for a minimum period of 3 months or the next higher multiple thereof.

Provided further that where a credit institution has decided to seek guarantee in respect of all its eligible advances sanctioned or renewed on or after October 1, 1968 and furnishes the guarantee organisation with a certificate to that effect, the charge shall be calculated at

one-tenth of one per cent per annum instead of at one-quarter of one per cent per annum.

Provided further that where a credit institution has entered into an agreement with the guarantee organisation in terms of clause 5(1), the charge for the guarantee in respect of loans and advances and other credit facilities covered by the agreement shall be calculated at one-tenth of one per cent per annum on the following basis:

(i) in the case of loans repayable after a fixed period exceeding one year, on the basis of the balance outstanding in the account as on the last Friday of the previous quarter;

(ii) in the case of other credit facilities, on the basis of the limit sanctioned and in force or the balance outstanding, whichever is higher, as on the last Friday of the previous quarter.

(2) If in respect of an advance in the form of a loan for a fixed period exceeding one year, a guarantee has been furnished for any period exceeding one year, upto ten years, the charge may be paid at the option of the credit institution, either in one lump sum or in annual instalments.

Provided that the charge for the full period for which the guarantee has been furnished shall be payable whether or not the guarantee in respect of the loan has been invoked.

(3) Where a charge is payable in one lump sum in consideration of a guarantee, the failure to pay the charge will render the guarantee ineffective and where a charge is payable in instalments under sub-clause (2) the omission to pay an instalment on the date on which it is due shall, unless the delay is condoned by the guarantee organisation, result in the guarantee standing revoked as from the due date.

(4) The guarantee organisation shall be entitled to deduct from the sums payable by it under sub-clause (2) of clause 6 such charges, if any, as may be due to it under this clause.

9. Rights of guarantee organisation

(1) An advance in respect of which a payment has been made under clause 6 will not be written off on the books of the credit institution without the consent in writing of the guarantee organisation.

(2) The credit institution shall, in respect of any such advance, continue to exercise the same diligence in recovering the amount in all the ways open to it as it might have exercised, if no guarantee has been furnished by the guarantee organisation.

(3) Without prejudice to the provisions contained in sub-clause (2), the guarantee organisation may at any time or from time to time, give to a credit institution to which a guarantee has been furnished such directions for facilitating recoveries as the guarantee organisation may think fit and the said credit institution shall be bound to comply with such directions.

(4) Every amount which is or has been recovered by the credit institution to which a guarantee has been furnished towards an advance in respect of which there has been a default leading to the guarantee being invoked under this scheme, shall be apportioned, as between the guarantee organisation and the credit institution in the manner set out below, namely,

(a) in a case in which only the guarantee organisation has borne the loss on account of the advance, the recovery will be credited to the guarantee organisation; and

(b) in a case in which the guarantee organisation and the credit institution have both borne the loss on account of the advance, the ratios in which the loss has actually been borne shall first be ascertained after deducting from the losses sustained by the guarantee organisation the extent of its initial or full guarantee, and the recoveries shall thereupon be shared, as between the guarantee organisation and the credit institution, in the ratios aforesaid till the

credit institution has been completely reimbursed in respect of its loss, and the balance, if any, of the amount recovered on account of the advance shall be credited to the guarantee organisation.

(5) Every amount recovered and due to be paid to the guarantee organisation shall be paid to that organisation without avoidable delay, and if any amount due to the guarantee organisation remains unpaid beyond a period of one month from the date on which it was first recovered, interest shall be payable at the Bank Rate to the guarantee organisation by the credit institution for the period for which the payment has remained outstanding after the expiry of the said period of one month.

10. Modifications and exemptions

The guarantee organisation may, after obtaining the specific approval of the Central Government, modify or relax any of the provisions of this scheme in relation to any advance.

11. Conditions imposed under this scheme to be binding on the credit institution

(1) Any guarantee given by the guarantee organisation shall be governed by the provisions of this scheme as if the same had been written in the documents evidencing such guarantee.

(2) Every credit institution shall as far as possible ensure that the conditions of any contract relating to an advance guaranteed under this scheme are not in conflict with the provisions of this scheme but notwithstanding any provision in any other document or contract, the credit institution shall, in relation to the guarantee organisation, be bound by the conditions imposed under this scheme.

12. Miscellaneous

(1) The guarantee organisation shall, as regards any advance sanctioned jointly by two or more credit institutions or by a credit institution and any other institution or institutions, deal only with such a credit institution as may

be nominated for this purpose by all the institutions concerned. In such cases, all duties, liabilities and obligations imposed under this scheme upon, and all rights, powers and authorities exercisable under this scheme by the guarantee organisation against or in respect of, a credit institution sanctioning an advance, shall, to the extent possible, attach to and be exercisable against or in respect of, the credit institution nominated as if it had made the advance.

(2) Where a guarantee under this scheme has been furnished by the guarantee organisation in respect of advance sanctioned jointly by two or more institutions, no action shall lie against the guarantee organisation in respect of anything done or omitted to be done by the credit institution which has been nominated under sub-clause (1).

(3) If any question arises in regard to the interpretation of any of the provisions of the scheme, the decision of the guarantee organisation shall be final.

(4) In respect of any matter not specifically provided for in this scheme, the guarantee organisation may make such supplementary or additional provisions as may be necessary for the purposes of the scheme.

13. Returns and information

(1) Every credit institution shall submit such returns, or furnish such information, as the guarantee organisation may require in connection with any advance guaranteed under this scheme.

(2) Every credit institution shall also furnish to the guarantee organisation all such documents, receipts, certificates and other writings as the latter may require and shall be deemed to have affirmed that the contents of all such documents, receipts, certificates and other writings are true.

14. The Government of India reserves to itself the right to modify, cancel or replace this scheme, so however that the rights or obliga-

tions, arising out of, or accruing under, the scheme upto the date of such cancellation, modification or replacement shall not be affected.

APPENDIX TO Annexure I

LIST OF CREDIT INSTITUTIONS SPECIFIED UNDER CLAUSE 2(c) OF THE CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES

A—BANKS

(i) *State Bank of India and its subsidiaries:*

- *1. State Bank of India
- *2. State Bank of Bikaner and Jaipur
- *3. State Bank of Hyderabad
- *4. State Bank of Indore
- *5. State Bank of Mysore
- *6. State Bank of Patiala
- *7. State Bank of Saurashtra
- *8. State Bank of Travancore

(ii) *Nationalised Scheduled Banks:*

- *1. Allahabad Bank
- *2. Bank of Baroda
- *3. Bank of India
- *4. Bank of Maharashtra
- *5. Canara Bank
- *6. Central Bank of India
- *7. Dena Bank
- *8. Indian Bank
- *9. Indian Overseas Bank
- *10. Punjab National Bank
- *11. Syndicate Bank
- *12. Union Bank of India
- *13. United Bank of India
- *14. United Commercial Bank

(iii) *Other Scheduled Banks:*

- *1. American Express International Banking Corporation
- *2. Andhra Bank Ltd.
- *3. Bank of America, National Trust and Savings Association
- *4. Bank of Karad Ltd.
- *5. Bank of Madura Ltd.
- *6. Bank of Rajasthan Ltd.
- *7. Bank of Tokyo Ltd.
- *8. Banque Nationale de Paris
- *9. Bareilly Corporation (Bank) Ltd.
- *10. Belgaum Bank Ltd.
- *11. Benares State Bank Ltd.
- *12. British Bank of the Middle East
- *13. Canara Banking Corporation Ltd.
- *14. Catholic Syrian Bank Ltd.
- *15. Chartered Bank
- *16. Federal Bank Ltd.
- *17. First National City Bank
- *18. General Bank of Netherlands
- *19. Hindustan Commercial Bank Ltd.
- *20. Hindustan Mercantile Bank Ltd.
- *21. Hongkong and Shanghai Banking Corporation.
- *22. Karnataka Bank Ltd.

- *23. Karur Vysya Bank Ltd.
- *24. Krishnaram Baldeo Bank Ltd.
- *25. Kumbakonam City Union Bank Ltd.
- *26. Lakshmi Commercial Bank Ltd.
- *27. Laxmi Vilas Bank Ltd.
- *28. Lord Krishna Bank Ltd.
- *29. Mercantile Bank Ltd.
- *30. Miraj State Bank Ltd.
- *31. Mitsui Bank Ltd. £
- *32. National and Grindlays Bank Ltd.
- *33. Nedungadi Bank Ltd.
- *34. New Bank of India Ltd.
- *35. Oriental Bank of Commerce Ltd.
- *36. Punjab and Sind Bank Ltd.
- *37. Punjab Co-operative Bank Ltd.
- *38. Ratnakar Bank Ltd.
- *39. Sangli Bank Ltd.
- *40. South India Bank Ltd. (Tinnevely)
- *41. South Indian Bank Ltd.
- *42. Tamilnad Mercantile Bank Ltd.
- *43. Tanjore Permanent Bank Ltd.
- *44. United Industrial Bank Ltd.
- *45. United Western Bank Ltd.
- *46. Vijaya Bank Ltd.
- *47. Vysya Bank Ltd.

(iv) *Non-scheduled Banks:*

- *1. Bank of Cochin Ltd.
- *2. Bari Doab-Bank Ltd.
- *3. Dhanalakshmi Bank Ltd.
- *4. Ganesh Bank of Kurundwad Ltd.
- *5. Jammu & Kashmir Bank Ltd.
- *6. Naini Tal Bank Ltd.
- *7. Parur Central Bank Ltd.

(v) *State Co-operative Banks:*

- *1. Andhra Pradesh State Co-operative Bank Ltd.
- *2. Assam Co-operative Apex Bank Ltd.
- *3. Bihar State Co-operative Bank Ltd.
- *4. Gujarat State Co-operative Bank Ltd.
- *5. Haryana State Co-operative Bank Ltd.
- *6. Himachal Pradesh State Co-operative Bank Ltd.
- *7. Jammu & Kashmir State Co-operative Bank Ltd.
- *8. Kerala State Co-operative Bank Ltd.
- *9. Madhya Pradesh Rajya Sahakari Bank Maryadit
- *10. Maharashtra State Co-operative Bank Ltd.
- *11. Mysore State Co-operative Apex Bank Ltd.
- *12. Nagaland State Co-operative Bank Ltd.
- *13. Orissa State Co-operative Bank Ltd.
- *14. Punjab State Co-operative Bank Ltd.
- *15. Rajasthan State Co-operative Bank Ltd.
- *16. The Tamil Nadu State Co-operative Bank Ltd.
- *17. Tripura State Co-operative Bank Ltd.
- *18. Uttar Pradesh Co-operative Bank Ltd.
- *19. West Bengal State Co-operative Bank Ltd.
- *20. Andaman & Nicobar State Co-operative Bank Ltd.
- *21. Chandigarh State Co-operative Bank Ltd.
- *22. Delhi State Co-operative Bank Ltd.
- *23. Goa State Co-operative Bank Ltd.
- *24. Manipur State Co-operative Bank Ltd.
- *25. The Pondicherry State Co-operative Bank Ltd.

(vi) *Central Co-operative Banks:***ANDHRA PRADESH**

- *1. Adilabad Jilla & Kendra Sahakari Bank Ltd.
- *2. Anantapur District Co-operative Central Bank Ltd.
- *3. Bhongir Co-operative Central Bank Ltd.
- *4. Chittoor District Co-operative Central Bank Ltd.
5. Co-operative Central Bank Ltd. (Eluru)
6. Co-operative Central Bank Ltd. (Nellore)
- *7. Co-operative Central Bank Ltd. (Rajahmundry)
8. Co-operative Central Bank Ltd. (Vizianagaram)
9. Cuddapah District Co-operative Central Bank Ltd.
- *10. Guntur District Co-operative Central Bank Ltd.
- *11. Hyderabad District Co-operative Central Bank Ltd.
- *12. Kakinada Co-operative Central Bank Ltd.
- *13. Karimnagar District Co-operative Central Bank Ltd.
14. Khammam District Co-operative Central Bank Ltd.
15. Krishna Co-operative Central Bank Ltd.
16. Kurnool District Co-operative Central Bank Ltd.
- *17. Mahboobnagar District Co-operative Bank Ltd.
- *18. Medak District Co-operative Central Bank Ltd.
19. Nalgonda Co-operative Central Bank Ltd.
20. Nizamabad District Co-operative Central Bank Ltd.
21. Ramachandrapuram Co-operative Central Bank Ltd.
22. Sreekonaseema Co-operative Central Bank Ltd.
23. Srikakulam Co-operative Central Bank Ltd.
24. Vijayawada Co-operative Central Bank Ltd.
- *25. Warangal District Co-operative Central Bank Ltd.

ASSAM :

1. Cachar Central Co-operative Bank Ltd.
2. Dibrugarh Central Co-operative Bank Ltd.
3. Goalpara District Central Co-operative Bank Ltd.
4. Nowgong Central Co-operative Bank Ltd.
5. Sibsagar District Central Co-operative Bank Ltd.
6. Tezpur Central Co-operative Bank Ltd.
7. Kamrup District Central Co-operative Bank Ltd.

BIHAR :

1. Arrah-Buxar Central Co-operative Bank Ltd.
2. Begusarai Central Co-operative Bank Ltd.

3. Bhagalpur Central Co-operative Bank Ltd.
4. Bihar-Barh-Fatwa Central Co-operative Bank Ltd.
5. Daltonganj Central Co-operative Bank Ltd.
6. Deoghar-Jamtara Central Co-operative Bank Ltd.
- *7. Dhanbad Central Co-operative Bank Ltd.
8. Dinapore-Masaurhi Central Co-operative Bank Ltd.
9. Dumka-Godda-Rajmahal Central Co-operative Bank Ltd.
10. Giridih Central Co-operative Bank Ltd.
11. Gopalganj Central Co-operative Bank Ltd.
12. Gumla-Simdega Central Co-operative Bank Ltd.
- *13. Hazaribagh Central Co-operative Bank Ltd.
14. Laheriasarai-Samastipur-Daulatpur Central Co-operative Bank Ltd.
15. Madhipura-Supaul Central Co-operative Bank Ltd.
16. Magadh Central Co-operative Bank Ltd.
17. Monghyr-Jamui Central Co-operative Bank Ltd.
18. Motihari Central Co-operative Bank Ltd.
19. Muzaffarpur-Hajipur Central Co-operative Bank Ltd.
20. National Central Co-operative Bank Ltd. (Bettiah).
21. Nawadah Central Co-operative Bank Ltd.
22. Purnea District Central Co-operative Bank Ltd.
23. Ranchi-Khunti Central Co-operative Bank Ltd.
- *24. Rohika Central Co-operative Bank Ltd.
25. Sasaram-Bhabua Central Co-operative Bank Ltd.
26. Singhbhum District Central Co-operative Bank Ltd.
27. Sitamarhi Central Co-operative Bank Ltd.
28. Siwan-Chapra Central Co-operative Bank Ltd.

GUJARAT :

1. Ahmedabad District Co-operative Bank Ltd.
2. Amreli Jilla Madhyastha Sahakari Bank Ltd.
3. Banaskantha District Central Co-operative Bank Ltd.
4. Baroda Central Co-operative Bank Ltd.
5. Bhavnagar District Co-operative Bank Ltd.
6. Broach District Co-operative Bank Ltd.
- *7. Gujarat Industrial Co-operative Bank Ltd. Ahmedabad.
8. Jamnagar District Co-operative Bank Ltd.
9. Junagadh District Central Co-operative Bank Ltd.
10. Kaira District Central Co-operative Bank Ltd.
11. Kodinar Taluka Co-operative Banking Union Ltd.
12. Kutch District Central Co-operative Bank Ltd.
13. Majoor Sahakari Bank Ltd.

14. Mehsana District Central Co-operative Bank Ltd.
15. Panchmahals District Co-operative Bank Ltd.
- *16. Rajkot District Co-operative Bank Ltd.
17. Sabarkantha District Central Co-operative Bank Ltd.
18. Surat District Co-operative Bank Ltd.
19. Surendranagar District Co-operative Bank Ltd.
20. Valsad Jilla Sahakari Bank Ltd.

HARYANA :

1. Ambala Central Co-operative Bank Ltd.
- *2. Brayne Central Co-operative Bank Ltd.
- *3. Gurgaon Central Co-operative Bank Ltd.
- *4. Hissar District Central Co-operative Bank Ltd.
- *5. Jind Central Co-operative Bank Ltd.
- *6. Karnal Central Co-operative Bank Ltd.
- *7. Mahendragarh Central Co-operative Bank Ltd.
- *8. Rohtak Central Co-operative Bank Ltd.
- *9. Sirsa Central Co-operative Bank Ltd.

HIMACHAL PRADESH :

1. Jogindra Central Co-operative Bank Ltd.
- *2. Kangra Central Co-operative Bank Ltd.

JAMMU & KASHMIR :

- *1. Anantnag Central Co-operative Bank Ltd.
- *2. Baramulla Central Co-operative Bank Ltd.
- *3. Jammu Central Co-operative Bank Ltd.

KERALA :

1. Alleppey District Co-operative Bank Ltd.
2. Cannanore District Co-operative Central Bank Ltd.
3. Ernakulam District Co-operative Bank Ltd.
4. Kottayam District Co-operative Bank Ltd.
5. Malabar Co-operative Central Bank Ltd.
6. Mallapuram District Co-operative Bank Ltd.
7. Palghat Co-operative Central Bank Ltd.
8. Quilon District Co-operative Bank Ltd.
9. Trichur District Co-operative Bank Ltd.
10. Trivandrum District Co-operative Bank Ltd.

MADHYA PRADESH :

1. Barwani Co-operative Central Bank Ltd.
2. Bastar Co-operative Central and Land Mortgage Bank Ltd.
3. Betul Co-operative Central Bank Ltd.
- *4. Bhind Central Co-operative Bank Ltd.
- *5. Bhopal Co-operative Central Bank Ltd.
6. Bilaspur Co-operative Central Bank Ltd.
- *7. Bishnuddatta Co-operative Central Bank Ltd.
8. Central Co-operative Bank Ltd. Balaghat
9. Central Co-operative Bank Ltd., Raisen.
10. Chhatarpur District Central Co-operative Bank Ltd.
11. Chhindwara Co-operative Central Bank Ltd.

12. Co-operative Central Bank Ltd. Narsinghpur.
13. Damoh Co-operative Central Bank Ltd.
14. Datia Central Co-operative Bank Ltd.
15. Dewas Central Co-operative Bank Ltd.
16. Dhar Central Co-operative Bank, Ltd.
17. District Central Co-operative Bank Ltd. Panna.
18. District Central Co-operative Bank Ltd. Sidhi.
19. District Central Co-operative Bank Ltd., Tikamgarh.
20. Guna Central Co-operative Bank Ltd.
21. Gwalior District Co-operative Central Bank Ltd.
22. Harda Co-operative Central Bank Ltd.
23. Indore Premier Co-operative Bank Ltd.
24. Jhabua Co-operative Central Bank Ltd.
25. Kendriya Sahkari Bank Ltd., Durg.
26. Mandla District Co-operative Central Bank Ltd.
27. Morena Central Co-operative Bank Ltd.
28. Neemuch Central Co-operative Bank Ltd.
29. Nimar District Co-operative Central Bank Ltd.
30. Raigarh Co-operative Central Bank Ltd.
31. Raipur Co-operative Central Bank Ltd.
32. Rajgarh Central Co-operative Bank Ltd.
33. Ratlam Central Co-operative Bank Ltd.
34. Sagar Co-operative Central Bank Ltd.
35. Satna District Central Co-operative Bank Ltd.
36. Seoni Jilla Sahakari Kendriya Adhikosh Maryadit.
37. Shahdol Central Co-operative Bank Ltd.
38. Shivpuri Kendriya Sahakari Bank Maryadit.
39. Shujalpur Central Co-operative Bank Ltd.
40. Surguja Co-operative Central and Land Mortgage Bank Ltd.
- *41. Ujjain District Co-operative Bank Ltd.
42. Vidisha Central Co-operative Bank Ltd.
43. Vindhya Co-operative Central Bank Ltd.

MAHARASHTRA :

1. Ahmednagar District Central Co-operative Bank Ltd.
2. Akola Co-operative Central Bank Ltd.
3. Amravati District Central Co-operative Bank Ltd.
- *4. Aurangabad District Central Co-operative Bank Ltd.
- *5. Bhandara District Central Co-operative Bank Ltd.
6. Bhir District Central Co-operative Bank Ltd.
- *7. Buldana District Central Co-operative Bank Ltd.
8. Chanda District Central Co-operative Bank Ltd.
9. Dhulia District Central Co-operative Bank Ltd.
10. Jalgaon District Central Co-operative Bank Ltd.
11. Kolaba District Central Co-operative Bank Ltd.
12. Kolhapur District Central Co-operative Bank Ltd.
- *13. Nagar District Urban Central Co-operative Bank Ltd.
- *14. Nagpur District Central Co-operative Bank Ltd.

15. Nanded District Central Co-operative Bank Ltd.
16. Nasik District Central Co-operative Bank Ltd.
17. Osmanabad District Central Co-operative Bank Ltd.
18. Parbhani District Central Co-operative Bank Ltd.
19. Poona District Central Co-operative Bank Ltd.
20. Ratnagiri District Central Co-operative Bank Ltd.
21. Sangli District Central Co-operative Bank Ltd.
- *22. Satara District Central Co-operative Bank Ltd.
23. Sholapur District Central Co-operative Bank Ltd.
- *24. Sholapur District Industrial Co-operative Bank Ltd.
25. Thana District Central Co-operative Bank Ltd.
26. Wardha District Central Co-operative Bank Ltd.
27. Yeotmal District Central Co-operative Bank Ltd.

MYSORE :

1. Bangalore District Co-operative Central Bank Ltd.
2. Belgaum District Central Co-operative Bank Ltd.
- *3. Belgaum District Industrial Co-operative Bank Ltd.
4. Bellary District Co-operative Central Bank Ltd.
5. Bijapur District Central Co-operative Bank Ltd.
- *6. Bijapur District Industrial Co-operative Bank Ltd.
7. Chikmagalur District Co-operative Central Bank Ltd.
8. Chitaldurg District Co-operative Central Bank Ltd.
9. Coorg District Co-operative Central Bank Ltd.
10. Dharwar District Industrial Co-operative Bank Ltd.
11. District Co-operative Central Bank Ltd. (Bidar)
12. Gulbarga District Co-operative Central Bank Ltd.
13. Hassan District Co-operative Central Bank Ltd.
- *14. Kanara District Co-operative Central Bank Ltd.
15. Karnatak Central Co-operative Bank Ltd. (Dharwar).
16. Kolar District Co-operative Central Bank Ltd.
17. Mandya District Co-operative Central Bank Ltd.
18. Mysore District Co-operative Central Bank Ltd.
19. Raichur District Co-operative Central Bank Ltd.
20. Shimoga District Co-operative Central Bank Ltd.
21. South Canara Central Co-operative Bank Ltd.
22. Tumkur District Co-operative Central Bank Ltd.

ORISSA :

1. Angul United Central Co-operative Bank Ltd.
2. Aska Co-operative Central Bank Ltd.
3. Balangir District Central Co-operative Bank Ltd.
4. Balasore District Co-operative Central Bank Ltd.
5. Banki Central Co-operative Bank Ltd.
6. Baudh Co-operative Central Bank Ltd.
7. Berhampore Co-operative Central Bank Ltd.
8. Bhawanipatna Central Co-operative Bank Ltd.
9. Cuttack United Central Co-operative Bank Ltd.
10. Keonjhar Central Co-operative Bank Ltd.
11. Khurda Central Co-operative Bank Ltd.
12. Koraput Central Co-operative Bank Ltd.
13. Mayurbhanj Central Co-operative Bank Ltd.
14. Nayagarh Co-operative Central Bank Ltd.
15. Sambalpur District Co-operative Central Bank Ltd.
16. Sundargarh Central Co-operative Bank Ltd.
17. United Puri-Nimapara Central Co-operative Bank Ltd.

PUNJAB :

1. Amritsar Central Co-operative Bank Ltd.
2. Batala Central Co-operative Bank Ltd.
3. Bhatinda Central Co-operative Bank Ltd.
4. Faridkot Central Co-operative Bank Ltd.
5. Fazilka Central Co-operative Bank Ltd.
6. Ferozepur Central Co-operative Bank Ltd.
7. Gurdaspur Central Co-operative Bank Ltd.
8. Hoshiarpur Central Co-operative Bank Ltd.
9. Jullundur Central Co-operative Bank Ltd.
10. Kapurthala Central Co-operative Bank Ltd.
11. Ludhiana Central Co-operative Bank Ltd.
12. Moga Central Co-operative Bank Ltd.
13. Nawanshahr Central Co-operative Bank Ltd.
14. Patiala Central Co-operative Bank Ltd.
15. Rupar Central Co-operative Bank Ltd.
16. Sangrur Central Co-operative Bank Ltd.
17. Tarn Taran Central Co-operative Bank Ltd.

RAJASTHAN :

1. Ajmer Central Co-operative Bank Ltd.
2. Alwar Central Co-operative Bank Ltd.
3. Banswara Central Co-operative Bank Ltd.
4. Barmer Central Co-operative Bank Ltd.
5. Bharatpur Central Co-operative Bank Ltd.
6. Bundi Central Co-operative Bank Ltd.
7. Central Co-operative Bank Ltd. (Bhilwara).
8. Central Co-operative Bank Ltd. (Bikaner)
9. Central Co-operative Bank Ltd. (Tonk).
10. Chittorgarh Kendriya Sahakari Bank Ltd.
11. Churu Central Co-operative Bank Ltd.
12. Doongarpur Kendriya Sahakari Bank Ltd.

13. Ganganagar Kendriya Sahakari Bank Ltd.
14. Jaipur Central Co-operative Bank Ltd.
15. Jalore Central Co-operative Bank Ltd.
16. Jhalawar Kendriya Sahakari Bank Ltd.
17. Jhunjhunu Kendriya Sahakari Bank Ltd.
18. Jodhpur Central Co-operative Bank Ltd.
19. Kota Central Co-operative Bank Ltd.
- *20. Nagaur Central Co-operative Bank Ltd.
21. Pali Central Co-operative Bank Ltd.
22. Sawai Madhopur Kendriya Sahakari Bank Ltd.
23. Sikar Kendriya Sahakari Bank Ltd.
24. Sirohi Central Co-operative Bank Ltd.
25. Udaipur Central Co-operative Bank Ltd.

TAMIL NADU :

1. The Coimbatore District Co-operative Central Bank Ltd.
2. The Co-operative Central Bank Ltd. (Big Kancheepuram).
3. The Co-operative Central Bank Ltd. (Kumbakonam).
4. The Co-operative Central Bank Ltd. (Tanjore)
5. The Co-operative Central Bank Ltd. (Vellore).
6. The Dharmapuri Central Co-operative Bank Ltd.
7. The Kanyakumari District Co-operative Central Bank Ltd.
8. The Madras Central Co-operative Bank Ltd.
9. The Mathurai District Central Co-operative Bank Ltd.
10. The Nilgiris Co-operative Central Bank Ltd.
11. The Pudukkottai Co-operative Central Bank Ltd.
12. The Ramanathapuram District Co-operative Central Bank Ltd.
- *13. The Salem Co-operative Central Bank Ltd.
14. The South Arcot Co-operative Central Bank Ltd.
15. The Tinnevely District Co-operative Central Bank Ltd.
16. The Tiruchirappalli District Co-operative Central Bank Ltd.

UTTAR PRADESH :

1. Agra District Co-operative Bank Ltd.
2. Aligarh Zila Sahakari Bank Ltd.
3. Allahabad District Co-operative Bank Ltd.
4. Almora District Co-operative Bank Ltd.
5. Bahraich District Co-operative Bank Ltd.
6. Balrampur Central Co-operative Bank Ltd.
7. Banda District Co-operative Bank Ltd.
8. Bijnor District Co-operative Bank Ltd.
9. Budaun Zila Sahakari Bank Ltd.
10. Central Co-operative Bank Ltd. (Biswan)
11. Central Co-operative Bank Ltd. (Lucknow).
12. Chamoli District Co-operative Bank Ltd.
13. District Co-operative Bank Ltd. (Barabanki)
14. District Co-operative Bank Ltd. (Bulandshahr).
15. District Co-operative Bank Ltd. (Dehradun)

16. Deoria Kasia District Co-operative Bank Ltd.
17. District Co-operative Bank Ltd. (Gorakhpur).
18. District Co-operative Bank Ltd. (Lakhimpur Kheri).
19. District Co-operative Bank Ltd. (Pratapgarh).
20. District Co-operative Bank Ltd. (Saharanpur).
21. District Co-operative Bank Ltd. (Shahjahanpur).
22. District Co-operative Bank Ltd. (Varanasi).
23. Etah District Co-operative Bank Ltd.
24. Etawah District Co-operative Bank Ltd.
25. Faizabad Co-operative District Bank Ltd.
26. Farrukhabad District Co-operative Bank Ltd.
27. Fatehpur District Co-operative Bank Ltd.
28. Hamirpur District Co-operative Bank Ltd.
29. Hardoi District Co-operative Bank Ltd.
30. Jalaun District Co-operative Bank Ltd.
31. Jhansi District Co-operative Bank Ltd.
32. Mainpuri District Co-operative Bank Ltd.
33. Mathura Zila Sahakari Bank Ltd.
34. Meerut District Co-operative Bank Ltd.
35. Muzaffarnagar District Co-operative Bank Ltd.
36. Nainital District Co-operative Bank Ltd.
37. Pilibhit District Co-operative Bank Ltd.
38. Pithoragarh District Co-operative Bank Ltd.
39. Radhasoami Central Co-operative Bank Ltd.
40. Rae Bareilly District Co-operative Bank Ltd.
41. Rampur Zila Sahakari Bank Ltd.
42. Roorkee Co-operative Bank Ltd.
43. Sultanpur District Co-operative Bank Ltd.
44. Tehri Garhwal Zila Sahakari Bank Ltd.
45. Uttarkashi Zila Sahakari Bank Ltd.
46. Zila Sahkari Bank Ltd. (Azamgarh)
47. Zila Sahkari Bank Ltd. (Ballia)
48. Zila Sahkari Bank Ltd. (Bareilly)
49. Zila Sahkari Banking Union Ltd. (Basti)
50. Zila Sahakari Bank Ltd. (Garhwal)
51. Zila Sahakari Bank Ltd. (Ghaziपुर)
52. Zila Sahkari Bank Ltd. (Jaunpur)
53. Zila Sahkari Bank Ltd. (Kanpur)
54. Zila Sahakari Bank Ltd. (Mirzapur)
55. Zila Sahkari Bank Ltd. (Moradabad)
56. Zila Sahkari Bank Ltd. (Unnao)

WEST BENGAL :

1. Balageria Central Co-operative Bank Ltd.
2. Balurghat Central Co-operative Bank Ltd.
3. Bankura District Central Co-operative Bank Ltd.
- *4. Birbhum District Central Co-operative Bank Ltd.
- *5. Burdwan Central Co-operative Bank Ltd.
6. Cooch Behar Central Co-operative Bank Ltd.
7. Darjeeling District Central Co-operative Bank Ltd.
8. Hooghly District Central Co-operative Bank Ltd.
9. Howrah District Central Co-operative Bank Ltd.

10. Jalpaiguri Central Co-operative Bank Ltd.
11. Kalna-Katwa Central Co-operative Bank Ltd.
12. Malda District Central Co-operative Bank Ltd.
13. Midnapore-Khelar-Balarampore Beliaberah Central Co-operative Bank Ltd.
14. Mugberia Central Co-operative Bank Ltd.
15. Murshidabad District Central Co-operative Bank Ltd.
16. Nadia District Central Co-operative Bank Ltd.
17. Purulia Central Co-operative Bank Ltd.
18. Raiganj Central Co-operative Bank Ltd.
19. Tamluk Ghatal Central Co-operative Bank Ltd.
20. 24 Parganas Northern Central Co-operative Bank Ltd.
21. 24 Parganas Southern Central Co-operative Bank Ltd.

(vii) *Primary Urban Co-operative Banks:*

1. Baroda Mercantile Co-operative Bank Ltd.
2. Baroda Traders' Co-operative Bank Ltd.
3. Bombay Labour Co-operative Bank Ltd.
4. Dadar Janata Sahakari Bank Ltd., Bombay 28.
5. Delhi Nagrik Sahakari Bank Ltd., Delhi 7.
6. Ghatkopar Janata Sahakari Bank Ltd., Bombay 86.
- *7. Imphal Urban Co-operative Bank Ltd.
8. Janata Sahakari Bank Ltd. (Gondia).
9. Kopargaon Taluka Merchants Co-operative Bank Ltd.
10. Mehkar Urban Co-operative Bank Ltd.
11. Mumbai Kamgar Nagarik Sahakari Bank Ltd.
12. Nagrik Sahakari Bank Ltd., Indore.
13. Prabhadevi Janata Sahakari Bank Ltd. Bombay-25.
- *14. Rajaji Nagar Co-operative Bank Ltd., Bangalore-10.
- *15. Sholapur Merchants Co-operative Bank Ltd.
16. Shree Suvarna Sahakari Bank Ltd. Poona-4.
- *17. Shri Sihor Nagrik Sahakari Bank Ltd.
18. Vasant Sahakari Bank Ltd., Bombay-13.
19. Vinkar Sahakari Bank Ltd., Bombay-16.
20. Yeshwant Sahakari Bank Ltd., Bombay-14.

(viii) *Unlicensed Primary (Urban) Co-operative Banks:*

1. **ANDHRA PRADESH :**

- 1) Tirupathi Co-operative Town Bank Ltd., Tirupathi.

2. **ASSAM :**

- 1) Industrial Co-operative Bank Ltd., Gauhati-1.

3. **GUJARAT :**

- *1) Ahmedabad Mercantile Co-operative Bank Ltd., Ahmedabad.
- 2) Ahmedabad Peoples' Co-operative Bank Ltd., Ahmedabad.

- 3) Ankleshwar Nagrik Sahakari Bank Ltd., Ankleshwar.

- 4) Anyonya Sahaykari Mandli Co-operative Bank Ltd., Baroda.

- 5) Baroda Peoples' Co-operative Bank Ltd., Baroda.

- 6) Dohad Mercantile Co-operative Bank Ltd., Dohad.

- 7) Dohad Urban Co-operative Bank Ltd., Dohad.

- 8) Godhra City Co-operative Bank Ltd., Godhra.

- 9) Jambusar Peoples' Co-operative Bank Ltd., Jambusar.

- *10) Jhalod Urban Co-operative Bank Ltd., Jhalod.

- 11) Kalol Urban Co-operative Bank Ltd., Kalol.

- 12) Rajkot Nagrik Sahakari Bank Ltd., Rajkot.

- *13) Sardar Bhiladwala Pardi Peoples Co-operative Bank Ltd., Pardi.

- *14) Patan Nagrik Sahakari Bank Ltd., Patan.

- *15) Surat Peoples' Co-operative Bank Ltd., Surat.

- 16) Umreth Urban Co-operative Bank Ltd., Umreth.

- 17) Unjha Nagrik Sahakari Bank Ltd., Unjha.

- 18) Vaso Co-operative Bank Ltd., Vaso.

- 19) Veraval Peoples' Co-operative Bank Ltd., Veraval.

- *20) Visnagar Nagrik Sahakari Bank Ltd., Visnagar.

- *21) Co-operative Bank of Ahmedabad Ltd., Ahmedabad.

- 22) Karamsad Urban Co-operative Bank Ltd., Karamsad.

- 23) Madhavpura Mercantile Co-operative Bank Ltd., Ahmedabad-1.

- 24) Rajpipla Nagrik Sahakari Bank Ltd., Rajpipla.

4. KERALA

- 1) Kottayam Co-operative Bank Ltd., Kottayam-1.
- *2) Palghat Co-operative Urban Bank Ltd., Palghat-1.

5. MAHARASHTRA, GOA, DAMAN AND DIU.

- 1) Aarey Milk Colony Co-operative Bank Ltd., Bombay-65.
- 2) Amalner Co-operative Urban Bank Ltd., Amalner.
- 3) Bassein Catholic Co-operative Bank Ltd., Bassein.
- 4) Bombay Mercantile Co-operative Bank Ltd., Bombay-3.
- 5) Daxini Brahman Co-operative Bank Ltd., Bombay-4.
- 6) Jai Hind Co-operative Bank Ltd., Bombay-1.
- 7) Janata Sahakari Bank Ltd., Poona-2.
- 8) Janata Sahakari Bank Ltd., Sangli.
- 9) Karad Urban Co-operative Bank Ltd., Karad.
- 10) Kolhapur Maratha Co-operative Bank Ltd., Kolhapur.
- 11) Kopergaon Peoples' Co-operative Bank Ltd., Kopergaon.
- 12) Laxmi Co-operative Bank Ltd., Sholapur.
- 13) Mapusa Urban Co-operative Bank Ltd., Mapusa Bardez.
- 14) Maratha Market People's Co-operative Bank Ltd., Bombay-1.
- 15) Memon Co-operative Bank Ltd., Bombay-3.
- 16) Muslim National Co-operative Bank Ltd., Poona-2.
- 17) North Kanara Goud Saraswat Brahmin Co-operative Bank Ltd., Bombay-4.
- 18) Peoples' Co-operative Bank Ltd., Ichalkaranji.
- 19) Poona Urban Co-operative Bank Ltd., Poona-2.
- 20) Safe Co-operative Bank Ltd., Bombay-3.
- 21) Sangli Urban Co-operative Bank Ltd., Sangli.

- *22) Saraswat Co-operative Bank Ltd., Bombay-4.

- 23) Sholapur Nagri Audyogik Sahakari Bank Niyamit, Sholapur-1.
- 24) Shri Mahalaxmi Co-operative Bank Ltd., Kolhapur.
- 25) Shri Balbhim Co-operative Bank Ltd., Kolhapur.
- 26) Shri Veerashaiv Co-operative Bank Ltd., Kolhapur-2.
- 27) Zoroastrian Co-operative Credit Bank Ltd., Bombay-1.

6. MYSORE

- 1) Bangalore Central Co-operative Bangalore-18.
- 2) Belgaum Pioneer Urban Co-operative Credit Bank Ltd., Belgaum.
- 3) Bijapur Shri Siddeswar Urban Co-operative Bank Ltd., Bijapur.
- 4) City Co-operative Bank Ltd., Mysore-1.
- 5) Davangere Urban Co-operative Bank Ltd., Davangere-2.
- 6) Grain Merchants' Co-operative Bank Ltd., Bangalore-18.
- 7) Honavar Urban Co-operative Bank Ltd., Honavar.
- 8) Gokak Urban Co-operative Credit Bank Ltd., Gokak.
- *9) Jamkhandi Urban Co-operative Bank Ltd., Jamkhandi.
- 10) Malleswaram Co-operative Bank Ltd., Bangalore-3.

7. TAMIL NADU AND PONDICHERY

- 1) Coonoor Co-operative Urban Bank Ltd., Coonoor-2.
- 2) Gobichettipalayam Co-operative Urban Bank Ltd., Gobichettipalayam.
- 3) Pollachi Co-operative Urban Bank Ltd., Pollachi.
- 4) Salem Urban Co-operative Bank Ltd., Salem-1.
- 5) Sri Kamalambika Co-operative Urban Bank Ltd., Tiruvarur.
- 6) Tiruchirapalli City Co-operative Bank Ltd., Puthur.
- 7) Tiruvannamalai Co-operative Bank Ltd., Tiruvannamalai.

B. (i) *State Financial Corporations:*

- *1. Andhra Pradesh State Financial Corporation.
- *2. Assam Financial Corporation
- *3. Bihar State Financial Corporation
- *4. Delhi Financial Corporation
- *5. Gujarat State Financial Corporation
- *6. Haryana Financial Corporation
- *7. Himachal Pradesh Financial Corporation
- *8. Jammu & Kashmir State Financial Corporation
- *9. Kerala Financial Corporation
- *10. Madhya Pradesh Financial Corporation
- *11. Maharashtra State Financial Corporation
- *12. Mysore State Financial Corporation

- *13. Orissa State Financial Corporation
- *14. Punjab Financial Corporation
- *15. Rajasthan Financial Corporation
- *16. Uttar Pradesh Financial Corporation
- *17. West Bengal Financial Corporation

(ii) *Other Institutions:*

- *1. Tamilnadu Industrial Investment Corporation Ltd.

* Institutions which have joined the scheme by executing the prescribed agreement under Clause 5(1) of the scheme.

£Joined the scheme on March 1, 1971.

ANNEXURE II

Form of agreement to be obtained from a credit institution for guarantee under the Credit Guarantee Scheme for small-scale industries

(Note : The liability to stamp duty will depend upon the place where it is executed and/or acted upon)

(Place)

(Date)

To

Reserve Bank of India

Dear Sir,

In consideration of the Reserve Bank of India (hereinafter called the 'Guarantee Organisation' which expression shall, unless repugnant to the context, also include its successors and assigns), acting as agent for the Central Government in the administration of the Credit Guarantee Scheme for small-scale industries (hereinafter referred to as 'the Scheme'), agreeing to guarantee under the Scheme, with effect from 1 February 1970 the loans and advances made or agreed to be made to, contingent liabilities on account of letters of credit opened and to be opened on behalf of and acceptances and similar obligations undertaken or agreed to be undertaken on account of small-scale industrial units as defined in clause 2(e) of the Scheme by _____ (hereinafter called the 'credit institution,' which expression shall, unless repugnant to the context also include its successors and assigns), the credit institution hereby agrees as follows : (1) The provisions of this agreement shall be in addition to, and not in derogation of, the provisions of the Scheme and the instructions issued by the Guarantee Organisation from time to time.

(2) (a) All loans and advances made to, all letters of credit (inland as well as foreign) opened on behalf of and all acceptances and endorsements effected on account of small-scale industrial units, made, opened or effected before

the date of this agreement shall be covered by this agreement except—

(i) loans and advances and constituents' liabilities for acceptances, endorsements and other obligations which have been recalled on or before the date of this agreement;

(ii) loans and advances to and liabilities for acceptances, endorsements and other obligations of concerns which have suspended their business on or before the date of this agreement;

(iii) loans and advances and other obligations which have been treated as bad or doubtful of recovery or utilised for adjusting such debts due by any other person;

(iv) term loans and instalment credits sanctioned before*— _____

(b) All loans and advances that may be made to, all letters of credit (inland as well as foreign) that may be opened on behalf of and all acceptances and endorsements that may be effected on account of a small-scale industrial unit made, opened or effected on or after 1 February 1970 shall be covered by this agreement except loans and advances or other credit facilities which are extended for the purpose of adjustment of debts or other obligations of any person which have proved or prove to be irrecoverable or doubtful of recovery.

(3) The credit institution shall be entitled to claim the benefit of guarantee under the Scheme only in respect of transactions between it and a small-scale industrial unit as defined in clause 2(e) of the Scheme; for this purpose the credit institution shall obtain and keep on record an affidavit or other documentary evidence from the industrial unit and otherwise satisfy itself by a reference to the industrial unit's books of account or other records that it is eligible for the facilities under the Scheme.

*The date on which the credit institution took a policy decision to cover all its eligible advances under the Scheme.

(4) Where a small-scale industrial unit is also engaged in other activity, such as agriculture or trade, other than sale of its own products, the loans and advances granted or other facilities extended to it for financing the other activities shall not be covered under this agreement. The credit limits extended in connection with the industrial activity of the unit and those extended in respect of its other activities shall be segregated and the securities, if any, for the different facilities shall be kept distinct and the inventories recorded separately.

@@(5) The loans and advances made, the letters of credit opened and acceptances effected, and the various facilities granted shall be regulated in accordance with rules and regulations and other instructions in this behalf laid down from time to time by the credit institution's management.

(6) A statement with reference to each quarter shall be furnished to the Guarantee Organisation in the prescribed form and manner by the office of the credit institution at which the loan or advance is made or other credit facility is extended, showing the limits sanctioned and the outstanding balances and other relevant particulars in respect of each account of a small-scale industrial unit as at the close of business on the last Friday of that quarter, or, if the last Friday is a public holiday under the Negotiable Instruments Act, 1881, at the place where the office of the credit institution furnishing the statement is located, at the close of business on the preceding working day. For the purpose of this paragraph 'quarter' means the period of three months ending on the last day of March, June, September or December.

(7) The Guarantee Organisation shall be entitled to recover by debit to the credit institution's account with the Reserve Bank or other-

@@ In the case of co-operative banks, the clause will read as under:—

"The loans and advances made, the letters of credit opened and acceptances effected, and the various facilities granted shall be regulated by the credit institution's management in accordance with rules and regulations and other instructions as indicated in the Appendix."

wise as may be agreed upon in this behalf (such agreement being without prejudice to the right of the Guarantee Organisation to recover directly from the credit institution), a charge at rates prescribed in the Scheme for every quarter for the guarantee in respect of the loans and advances and other credit facilities extended by the credit institution and reported by it to the Guarantee Organisation in the quarterly return referred to in paragraph 6 above.

(8) The Guarantee Organisation shall have the right to inspect or call for copies of the books of account and other records (including book of instructions, manual or circulars covering general instructions for conduct of advances) of the credit institution, and every officer or other employee of the credit institution who is in a position to do so, shall make available to the officer or the officers of the Guarantee Organisation the books of account and other records and information which are in his possession.

(9) A credit institution shall secure for the Guarantee Organisation the right to inspect the business and factory premises and books of account of the borrowing concern if and when considered necessary by the Guarantee Organisation.

(10) If a guarantee in respect of an advance to a small-scale industrial unit has to be invoked, the head office of the credit institution shall submit to the Guarantee Organisation an application in the prescribed form.

(11) If a default occurs in an account of a small-scale industrial unit due to dishonesty on the part of the credit institution's officials or due to decisions taken by them contrary to instructions issued by the credit institution's management or the Guarantee Organisation, the credit institution shall not be entitled to make any claim on the Guarantee Organisation in respect of such an account.

(12) Any guarantees issued to the credit institution before 1 February, 1970 shall continue to be governed by the terms and conditions by

which it was governed on the date of the relative guarantee certificate. The advances so covered shall automatically be brought under this agreement.

(i) in respect of guarantees issued for a period exceeding two years, on the expiry of the existing guarantee or, at the option of the credit institution, at the time when payment of the next instalment of the fee in respect of the guarantee falls due; and

(ii) In respect of other guarantees, on the expiry of the guarantee.

(13) All applications, documents, receipts, etc., signed on behalf of the credit institution shall be deemed to have been signed by persons duly authorised by the credit institution to bind it and any irregularity in the signature or authority or want of authority of the person signing shall not, in any way, affect or

prejudice the rights of the Guarantee Organisation or affect the liability of the credit institution.

(14) This agreement shall take effect from 1 February 1970.

(15) The stamp duty payable on this agreement shall be borne by the credit institution.

Yours faithfully,

Signature

Designation

Acting in the premises
for and on behalf of the

(Name of the credit institution)

APPENDIX TO ANNEXURE II

(Vide clause (5) of the agreement applicable to co-operative banks)

Loans and advances to small-scale industries including industrial co-operatives, (other than the service type) should be made in the context of the following terms and conditions:

Security

The goods taken as security should have a ready market; it should be possible to ascertain easily their market value and conditions should exist for easy handling and storing of goods. The goods should be periodically valued and agewise classification of the goods maintained.

Standards for fixing credit limits

In the case of corporate bodies the difference between the current assets and current liabilities i.e. the net working capital brought into business by the owner should be the basis for fixing the size of the credit limit. As for co-operative societies the difference between the total owned resources and the total commitments i.e. net disposable resources should be the basis for fixing the credit limit.

The margins in respect of hypothecation and pledge limits covered under the scheme should not be less than 20 per cent and 10 per cent respectively. Since the margins would have to be found from disposable owned resources, the hypothecation and pledge limits would have to be limited to 4 times and 9 times, the net disposable owned resources in the case of hypothecation and pledge limits respectively.

Operational procedures and safeguards to be followed

The bank should satisfy itself that the cash credit is utilised for purposes for which it is intended i.e. the drawals are utilised for making payments for the process of production or goods which can be shown as security for borrowings, and the proceeds of goods sold are credited to the account, that the outstanding in the cash credit account is fully covered at all times by the specified items subject to the prescribed margins. To ensure this, it should obtain financial and stock statements periodically from the parties concerned and scrutinise them. It should also ensure that the stocks are properly stored and adequately insured against the risk of fire, theft and burglary and that they are of good quality, of current season and of easy saleability.

The Reserve Bank of India has prescribed specifically guidelines for regulating the advances of state and central co-operative banks to the handloom weavers' co-operative societies, other industrial co-operative societies and the marketing, processing and consumers' store societies. The management of the banks should ensure that these guidelines are being strictly followed in respect of their advances to co-operative institutions. The management should also ensure that such further guidelines and directives, if any, issued by the Reserve Bank of India in future in respect of the eligible small-scale industrial units that could be covered under the scheme would likewise be followed till such time as the agreement is in force.

ANNEXURE III

FORM OF QUARTERLY STATEMENT FOR THE PERIOD ENDED ...MARCH/SEPTEMBER

Name of the credit institution.....

Sl. No.	Name and address of the borrower	Organisation (Type)	Code No. of industry	Type of account (Cash Credit, Over-draft, etc.)	Rate of interest	Credit limit	Purpose	Security	Amount out-standing		Guarantee fees	Remarks
									Credit	Debit		
						Rs.			Rs.	Rs.	Rs.	
1	2	3	4	5	6	7	8	9	10	11	12	13

Part A. Limits in respect of advances already covered under the scheme upto 30 January 1970 and remaining in force.

Part B. Credit facilities covered under the modified scheme and reported in the previous statement.

Part C. Credit facilities granted since the date of the previous statement.

Part D. Credit facilities included in Part A, B or C of previous statement since adjusted.

We certify (1) that this is complete list of all credit facilities granted at this office which are eligible for guarantee under the Credit Guarantee Scheme for small-scale industries; and

(2) that the list is furnished in pursuance of the agreement dated entered into between our bank/corporation and the guarantee organisation.

For and on behalf of bank/corporation.

(Name of office) Place

Date

Note: 1. Instructions for filling up of this statement are given in the Appendix

(Designation)

2. In case of certain banks, column No. 12 has been bifurcated to indicate the amount on which guarantee fee is payable, amount of fee and the broken period for which guarantee fee is calculated (in respect of accounts shifted from Part A to Part B).
3. The credit facilities reported herein should relate to their position as on the last Friday of the quarter.

APPENDIX I TO ANNEXURE III

Instructions for filling up the quarterly statement

If an office of a credit institution has no advance to report, it should furnish a 'nil' statement, which may be in the form of a letter.

The scope of the columns of the statement is as follows:

Column 3 — Organisation (Type)

The constitution of the borrower is to be indicated in this column i.e. individual, proprietary or partnership concern, industrial co-operative, company, Joint Hindu Family, trust etc.

Column 4 — Code No. of industry

Code No. of industry as set out in Appendix II is to be inserted against each borrower.

Column 5 — Type of account

Please state here whether the facility is extended in the form of (1) Cash Credit, (2) Overdraft, (3) Demand Loan, (4) Term Loan (including instalment credit), (5) Purchase of Bills, (6) Discount of Bills, (7) Letters of Credit, (8) Acceptance Credit, (9) Loan guarantee or (10) Deferred Payment guarantee.

Column 6 — Rate of interest

In the case of purchase and discount of bills, the rate of exchange/commission and discount respectively may be stated; in respect of letters of credit and acceptance credit the rate of commission may be shown.

Column 7 — Credit limits

(1) For term loans and instalment credits the balance outstanding in the account may be shown as the credit limit.

(2) where no regular limit has been sanctioned but temporary credit facilities have been granted under the agent's/manager's discretionary powers, a suitable remark, say, "allowed under agent's/manager's discretionary powers" or "Limit not yet sanctioned" should be given in this column.

Column 8 — Purpose

Indicate in this column whether the credit limit is for acquisition of fixed asset or for working capital

Column 9—Security

A brief description of security (such as land and building, plant and machinery, iron and steel billets, angles or engineering goods, raw cotton, oil seeds, etc.) may be stated.

Columns 10 & 11—Amount outstanding

Balance in the account on the last Friday of the quarter to which the statement relates should be stated here. Balance due to the borrower should be shown in column 10 and the balance due from the borrower should be shown in column 11. Care should be taken to see that the columns are not interchanged.

Column 12—Fees

Fees to be recovered for the quarter may be stated here (at 1/40 of 1% for each quarter on the limit sanctioned as shown in column 7 or the balance outstanding in column 11 whichever is higher. The amounts are to be rounded off to the next higher five paise in respect of each account).

Column 13—Remarks

(1) In this column, please state such developments as "Advance recalled," "Notice of default sent to guarantee organisation," "Being nursed," etc.

(2) For term loans, please state whether the amount shown in column 7 is the limit sanctioned or the balance outstanding in the account.

(3) The certificate number and expiry date of the guarantee certificate relating to the advances in Part A of the statement should be shown in this column.

(4) Where there is no outstanding balance in the account but the limit has been availed of, a suitable remark, say, "limit already availed of" may be given in this column.

APPENDIX II TO ANNEXURE III

Code numbers for classifying industries eligible for the facilities under the Credit Guarantee Scheme for Small-Scale Industries.

Code Number of the Sub-Group (1)	Description of Industry (2)
	<u>Food Manufacturing Industries except Beverage Industries.</u>
11.11	Dairy products, canning and preservation of fruit, vegetables and fish.
11.12	Grain mill products.
11.13	Bakery products.
11.14	Hand pounded & chakki products.
11.15	Sugar factories & refineries.
11.16	Honey and honey products.
11.17	Malt extracts.
11.18	Ghani oil (edible).
11.19	Processed tea, coffee and cashew-nuts.
11.20	Other miscellaneous food preparations.
11.21	Manufacture of Ice.
	<u>Beverage Industries (excluding concerns engaged mainly in the manufacture of potable alcohol).</u>
12.11	Beverage industries other than soft drinks and carbonated water industries.
12.12	Soft drinks and carbonated water industries.
	<u>Tobacco Manufacture.</u>
13.11	Tobacco Manufacture.
	<u>Manufacture of Textiles.</u>
14.11	Machine spun/reeled yarn.
14.12	Handspun yarn.
14.13	Khadi cloth.
14.14	Handloom cloth (ordinary).
14.15	Artistically woven handloom cloth.
14.16	Powerloom cloth.
14.17	Narrow fabrics, lace manufacture and embroidery.
14.18	Textile dyeing, bleaching, finishing & processing including printing, mercerising, calendering, glazing, proofing, etc.
14.19	Carpet manufacture.
14.20	Knitting except hosiery.
14.21	Hosiery.
14.22	Thread manufacture.
14.23	Coir cordage, rope and twine industries and coir manufacture.
14.24	Cordage, rope and twine out of other fibres.
14.25	Gas mantles.
14.26	Tarpaulines, tents, sails, etc.
14.27	Zari and zari goods.
14.28	Textiles not elsewhere classified.
	<u>Manufacture of Footwear, Other Wearing Apparel and Made-up Textile Goods.</u>
15.11	Leather footwear (embroidered)
15.12	Leather footwear (other than embroidered).
15.13	Umbrella manufacture.
15.14	Wearing apparel (other than footwear) and other made-up textile goods.

Manufacture of Wood and Cork except Manufacture of Furniture.

16.11	Wooden and cane containers and cane small ware (artware).
16.12	Other wood, cane and cork products.

Manufacture of Furniture and Fixtures

17.11	Decorative furniture.
17.12	Furniture (ordinary) — wooden.
17.13	Metal furniture.

Manufacture of Paper and Paper Products.

18.11	Handmade paper and paper products.
18.12	Paper (other than handmade).
18.13	Papier mache articles.
18.14	Other paper products.

Printing, Publishing and Allied Industries (other than concerns having a declared objective of publishing a newspaper, magazine or other periodical).

19.11	Letter press and lithographic printing and book binding.
19.12	Fine art and colour printing.

Manufacture of Leather & Fur Products except Footwear and Other Wearing Apparel.

20.11	Tanneries & leather finishing plants
20.12	Artistic leather products and fur products except footwear and other wearing apparel.
20.13	Leather and leather products (other than artistic) except footwear and other wearing apparel.

Manufacture of Rubber Products.

21.11	Tyres and tubes (including tyre retreading).
21.12	Rubber sports goods etc.
21.13	Rubber footwear.
21.14	Rubber products not elsewhere classified.

Manufacture of Chemicals and Chemical Products.

22.11	Basic industrial chemicals, paints, varnishes, lacquers etc.
22.12	Matches and fire works.
22.13	Non-edible (ghani) oil & soap.
22.14	Other chemicals & chemical products.

Manufacture of Non-metallic Mineral Products except Products of Petroleum and Coal.

23.11	Manufacture of structural clay products.
23.12	Manufacture of glass and glass products other than bangles.
23.13	Manufacture of pottery, china and other earthenware (ceramics).
23.14	Bangles and beads & artware made of stone, marble, conchshell, plaster of paris.
23.15	Manufacture of non-metallic mineral products not elsewhere classified.

<u>Basic Metal Industries</u>		27.16	Servicing of electrical machinery, apparatus, appliances and supplies.
24.11	Iron & steel foundry castings and forging.		<u>Manufacture of Transport Equipment and Parts.</u>
24.12	Other basic metal industries.		
<u>Manufacture of Metal Products except Machinery and Transport Equipments.</u>		28.11	Parts of motor vehicles and motor cycles.
25.11	Metal containers like steel trunks, buckets and drums.	28.12	Bicycles, tricycles and parts.
25.12	Cutlery, locks, hinges, latches etc.	28.13	Hand-drawn, animal drawn transport equipment.
25.13	Bolts, nuts, nails, screws, rods, springs, chains etc.	28.14	Transport equipment not elsewhere classified.
25.14	Hand tools and small tools.	28.15	Servicing of transport equipment and parts.
25.15	Art metalware.		
25.16	Other metalware and utensils.	<u>Miscellaneous Manufacturing Industries.</u>	
25.17	Pipes and fittings & structural engineering goods.	29.11	Professional & scientific measuring and controlling instruments.
25.18	Miscellaneous metal products except machinery and transport equipment.	29.12	Photographic and optical goods.
<u>Manufacture of Machinery except Electrical Machinery.</u>		29.13	Clocks and timepieces.
26.11	Internal combustion engines and parts.	29.14	Jewellery.
26.12	Textile machinery (such as spinning frames, carding machines, powerlooms etc. including textile accessories).	29.15	Musical instruments.
26.13	Other major items of power operated equipments used in specific industries.	29.16	Games and sports goods.
26.14	Major items of manually operated specialised equipments used in specific industries.	29.17	Bone, ivory and horn products.
26.15	Machine tools.	29.18	Fountain pen manufacture.
26.16	Agricultural machinery and implements.	29.19	Stationery articles not elsewhere classified.
26.17	Sewing and knitting machines.	29.20	Arts and crafts, colour boxes and artist's material.
26.18	Other items of machinery except electrical machinery.	29.21	Plastic goods.
26.19	Servicing of machinery except electrical machinery.	29.22	Toy manufacturing.
<u>Manufacture of Electrical Machinery, Apparatus, Appliances and Supplies.</u>		29.23	Miscellaneous manufacturing industries not classified elsewhere.
27.11	Equipment for generation, transmission and distribution of electricity including transformers and switchgear and accessories.	29.24	Other servicing units which are not covered under above sub-groups and servicing & repairing of marine diesel engines.
27.12	Electrical motors, grinders, sirens, starters, switches etc.		<u>Custom Service</u>
27.13	Electric fans.	30.11	Custom Service
27.14	Cables and Wires.		<u>Mining & Quarrying</u>
27.15	Miscellaneous electrical machinery, apparatus, appliances and supplies.	31.11	Mining & Quarrying
			<u>Cold Storage</u>
		32.11	Cold Storage.
		34.11	Photo studios engaged in taking photos on job works.
		35.11	Advances to doctors/medical practitioners for purchase of electro-cardiogram, microscope equipments, x-ray units etc.

ANNEXURE IV
FORM OF QUARTERLY STATEMENT FOR THE PERIOD ENDED JUNE/DECEMBER
Name of the credit institution

	Total No. of accounts	Aggregate amount guaranteed*	Aggregate amount of guarantee fee payable (3) Rs.	Remarks
	(1)	(2) Rs.	(3) Rs.	(4)

Part A

Part B

Part C

[Please furnish under Column (1) of Part C the name and address of each borrowing unit and the total number of accounts.]

Part D

[Please furnish only the serial numbers of accounts, as reported in the previous quarterly statement, since closed/adjusted].

* The aggregate amount guaranteed should be arrived at by taking into account

i) in the case of working capital advances, individual limits sanctioned or the balance outstanding in the accounts, whichever is higher, and

ii) in the case of term loans, the balance outstanding in individual accounts.

We certify (1) that for the purpose of the statement we have taken into account all the credit facilities extended to small-scale industrial units eligible under the scheme, and

(2) that the statement is furnished in pursuance of the agreement dated _____ entered into between our bank/corporation and the Guarantee Organisation read with the instructions contained in Guarantee Organisation circular No. IFD. No. GD. 1/1 dated 1, July 1971.

(Name of the Office) Place _____

For and on behalf of bank/corporation

Date _____

Designation.

ANNEXURE V

Relaxed provisions of the Scheme applicable to units located in the border districts mentioned below

<u>WEST</u>	<u>EAST</u>
<u>PUNJAB</u>	<u>WEST BENGAL</u>
1. AMRITSAR	1. 24 — PARGANAS
2. JULLUNDUR	2. NADIA
3. KAPURTHALA	3. MURSHIDABAD
4. GURDASPUR	4. MALDA
5. LUDHIANA	5. WEST DINAJPUR
6. FEROZEPUR	6. DARJEELING
	7. JALPAIGURI
	8. COOCH BEHAR
<u>RAJASTHAN</u>	<u>ASSAM</u>
1. JAISALMER	1. GOALPARA
2. JODHPUR	2. KARIMGANJ
3. BARMER	3. CACHAR
4. JALORE	
5. GANGANAGAR	<u>MEGHALAYA</u>
6. BIKANER	1. GARO HILLS
<u>GUJARAT</u>	2. UNITED KHASI & JAINTIA HILLS
1. JAMNAGAR	
2. KUTCH	<u>TRIPURA</u>
<u>JAMMU AND KASHMIR</u>	WHOLE TERRITORY
<u>WHOLE TERRITORY</u>	<u>MIZORAM</u>
	WHOLE TERRITORY

ANNEXURE VIForm of quarterly statement of accounts recalled/under default

Name of the credit institution _____

Quarterly statement as on _____

Sr. No.	Name & address of borrower	Organisation (type)	Code No. of industry	Type of account (C/C, O/D, Term Loan, etc.)	Credit limit	Security (including collateral, if any)	Drawing power	Amount outstanding	Remarks
					Rs.	Brief particulars	Rs.	Rs.	Rs.

Note: Please furnish in the 'Remarks' column the number and date of Guarantee Certificate where an account is covered under the old Scheme and also indicate steps taken/proposed to be taken to recover the amount.

We certify that (1) this is an exhaustive list of all the guaranteed accounts recalled/under default as on the date of this statement, and

(2) the accounts reported here have been included/taken into account in the quarterly statement as on date.

(Name of Office) Place:

For and on behalf of bank/Corporation

Date:

Designation.

ANNEXURE VII

Name of Regional Office	Address (Letters and statements to be addressed to)	Geographical coverage
1. Bombay	The Deputy Chief Officer, Industrial Finance Department, Reserve Bank of India, Guarantee Organisation, Bombay Regional Office, New India Centre, 17, Cooperage Road, Post Box No. 10027, BOMBAY-1. BR	States of Maharashtra, Gujarat and Madhya Pradesh and the Union Territories of Goa, Daman, Diu, Dadra and Nagar Haveli.
2. Calcutta	The Deputy Chief Officer, Industrial Finance Department, Reserve Bank of India, 15, Netaji Subhas Road, Post Bag No. 80, CALCUTTA-1.	States of West Bengal, Assam, Bihar, Meghalaya, Orissa, Nagaland, Tripura, Manipur and Arunachal, Union Territories of Mizoram and Andaman and Nicobar Islands.
3. Madras	The Deputy Chief Officer, Industrial Finance Department, Reserve Bank of India, Kuralagam Building, Esplanade, MADRAS-1.	States of Tamil Nadu, Andhra Pradesh, Kerala, Mysore and the Union Territories of Pondicherry, and Laccadive, Minicoy and Amin- divi Islands.
4. New Delhi ...	The Deputy Chief Officer, Industrial Finance Department, Reserve Bank of India, 6, Parliament Street, P. B. No. 696, NEW DELHI-1.	States of Punjab, Himachal Pradesh, Haryana, Jammu and Kashmir, Rajasthan and Uttar Pradesh and the Union Territories of Delhi and Chandigarh.
CENTRAL OFFICE ^a	The Chief Officer, Industrial Finance Department, Reserve Bank of India, New India Centre, 17, Cooperage Road, Post Bag No. 10030, BOMBAY-1 BR.	

^a Where clarifications on matters of policy concerning the scheme are required, the Head/Regional Offices of the credit institutions may address their communications to the Central Office.

REPORT OF THE WORKING GROUP APPOINTED BY THE GOVERNOR FOR SUGGESTING MODIFICATIONS TO THE CREDIT GUARANTEE SCHEME FOR SMALL-SCALE INDUSTRIES.

The Governor of the Reserve Bank appointed our Working Group in April 1969 to examine whether and to what extent the system of prior scrutiny of each application for guarantee under the Credit Guarantee Scheme can be dispensed with and whether it could be replaced by a wider spread of the risk on principles of insurance. The membership of the Group is as under:-

1. Shri K.N.R. Ramanujam,
Chairman
Reserve Bank of India
2. Shri L. N. Renu, Member
Central Government, Ministry of Industrial Development
3. Shri D. N. Ghosh, Member
Central Government, Finance Ministry
4. Shri G. V. Jannah, Member
Life Insurance Corporation of India
5. Shri H. E. Chatelier, Member
State Bank of India
6. Shri S. Nagarajan, Member
Bank of India
7. Shri K. S. Karant,* Member
First National City Bank

*(Shri P. Malhotra represented the bank at the last meeting in Delhi on 11 October 1969)

The Group had its first meeting in Bombay on 13 June 1969. In the light of the views expressed by the members, draft amendments to

some of the clauses of the existing Scheme, a revised set of forms under the Scheme and instructions to credit institutions were prepared. These were discussed at length at the second meeting of the Working Group held at New Delhi on 10 September 1969. On the basis of the discussion a draft report was prepared and circulated to the members on 5 October 1969 and subsequently approved by them at a final meeting on 11 October 1969 held at New Delhi. Our final report is given in the following paragraphs.

2. At the outset, we would like to give briefly the general background which led to the appointment of the Group. The Credit Guarantee Scheme for small-scale industries was formulated by the Government of India with a view to providing an incentive to banks and other credit institutions to enlarge their credit to the small-scale industrial sector. It was introduced in July 1960 in 22 selected districts as an experimental measure and extended gradually to other districts. In January 1963 it was placed on a permanent basis and made applicable to the whole country. The Reserve Bank of India has been administering the Scheme from its inception as the agent of the Government of India.

3. The Scheme made rapid progress from year to year; the number and amount of guarantees issued increased from Initial progress 3340 and Rs. 13.31 crores in 1963 of the Scheme to 5182 and Rs. 22.27 crores in 1964 and further to 10,325 and Rs. 41.93 crores in 1965. However, apart from the State Bank of India and its subsidiaries, which have been operating a liberalised scheme of credit for other than traditional industries even before the introduction of Credit Guarantee Scheme and which, therefore, took a policy decision to cover under the scheme all their eligible advances, the other credit institutions, did not avail themselves

of the facilities of the guarantee scheme to a significant degree as it was left to their option to seek guarantee for their advances. The State Bank of India could justify its policy decision on the ground that the awareness of the availability of guarantee enables its operating officials to adopt a flexible and progressive attitude in rendering on an increasing scale financial assistance to a large number of small industries. This was borne out by the fact that while the total small industry advances of the State Bank of India and its subsidiaries increased from Rs. 11.14 crores at the end of 1963 to Rs. 31.36 crores at the end of 1965, the credit extended by the other scheduled commercial banks in relation to their credit volume increased by a much smaller amount. This indicated a failure on their part to avail themselves of the facilities under the scheme in extending assistance to small-scale industries.

4. In order to make the guarantee scheme, therefore, more attractive for the credit institutions several measures were taken, the more important among them being (a) a liberalisation of the guarantee cover under the Scheme in July 1966 by raising the minimum cover from 52½—60% to 64% and the maximum amount recoverable per account against a guarantee from Rs. 1 lakh to Rs. 2 lakhs;

(b) the offer, since early 1968, by the Reserve Bank, of refinance facilities at a concessional rate of 4½% per annum to the extent of the incremental rise over a specified base period in the advances to small-scale industries guaranteed under the Credit Guarantee Scheme, which was later on extended to cover the total outstandings of guaranteed short-term advances;

(c) The extension by the Industrial Development Bank of India, from early 1968, of refinance facilities at a concessional rate of 4½% per annum in respect of term loans guaranteed under the Credit Guarantee Scheme, provided the lending rate to the small industries does not exceed 8%; and

(d) the reduction, since October 1968, of

the guarantee fee from ¼ of one per cent per annum to 1/10 of one per cent per annum, applicable to credit institutions which agree to seek guarantee under the Scheme for all their eligible advances. The Reserve Bank of India streamlined and rationalised the procedures under the Scheme in 1967 and 1968 through (a) a relaxation of its procedure for scrutiny of applications, particularly for small amounts and for renewal of existing guarantees, (b) the introduction, in consultation with some of the leading banks, of a simplified application form and (c) the opening of three regional offices of the Industrial Finance Department to deal expeditiously with the applications from branches of credit institutions situated in the region.

5. As a result of these measures the volume of guarantee business increased substantially. Thus the number and amount of guarantees issued rose from 14,210 and Rs. 52.74 crores at the end of 1966 to 20,059 and Rs. 86.50 crores at the end of 1967 and further to 25,316 and Rs. 125.31 crores at the end of 1968.

As on 1 September 1969 besides the State Bank of India and its seven subsidiaries, 22 scheduled commercial banks, 17 State Financial Corporations and 2 co-operative banks decided to seek guarantee for all their eligible advances to the small-scale industrial sector in order to take advantage of the reduction of the guarantee fee.

Further, the banks have also been under an obligation to increase their lending to this sector in accordance with the priorities laid down by the National Credit Council. As a cumulative impact of these developments, the work in connection with the guarantee scheme increased very heavily and is expected to rise further. In fact, for the half-year ended 30 June 1969, 21,395 guarantees were issued as against 10,118 guarantees issued during the corresponding period of 1968 indicating a rise of over 100%.

6. As on June 30, 1969, the outstanding guarantees amounted to about Rs. 241 crores, as against the estimated sanctioned credit limits in favour of small industries of all scheduled commercial banks of Rs. 600 crores;

thus guarantees issued accounted for about 40 per cent of their total credit limits for small industries. Between June and August 1969, the percentage of cover of guarantees issued in relation to the credit limits of all scheduled commercial banks might have risen only slightly. If the guarantee organisation is to cover the bulk of the credit limits of all scheduled commercial banks in the next twelve months, the volume of work to be handled by it, in relation to the level at the end of August 1969 will have to increase by more than 125 per cent. We understand that it is the intention of the Government of India to extend the scope of the Scheme, after appropriate amendments to the relevant statutes, to other priority and neglected sectors such as retail trade, small business (other than retail trade and small undertaking), self-employed professional persons and certain other categories of small borrowers and that an expert committee has been appointed under Shri Shiralkar to examine and formulate suitable schemes for the purpose. If this work were also to be handled by the Guarantee Organisation the increase in its work load will be considerable.

7. The Guarantee Organisation has been issuing guarantees after a prior scrutiny of each application. This system is apparently not conducive to promptness of disposal of the guarantee applications and without the necessary promptness it became evident that the Scheme would prove to be a drag rather than an incentive to banks which it was intended to be. Further, it was clear that the fast growing volume of applications could not be tackled with the necessary promptness unless the present system of prior scrutiny of each application form was dispensed with. It was to tackle this and other allied problems that the Working Group was appointed with the terms of reference referred to in paragraph 1.

8. A major question relevant to the issues referred to us was the extent to which the scheme could be operated on principles governing fidelity guarantee issued by an insurance company. A fidelity guarantee covers the acts of fraud, dishonesty, defalcation, embezzlement, etc., of an individual

employee or a group of employees in the service of an institution to which the guarantee is furnished. Acts of negligence of employees, however, are normally outside the purview of a fidelity guarantee. A basic feature of the fidelity guarantee is that a ceiling limit is prescribed on the cover for each employee when a collective policy is issued; under a floater policy, apart from a ceiling limit for the employer, an inner limit per employee is also set. On the other hand, the objective underlying the credit guarantee scheme is to cover the risk of loss to a credit institution arising from its loans to small industries. The risk of loss on loans to small industries can arise from factors partly internal and partly external to the operations of the units. A major coverage of the risk of loss arising from the operations of a unit forms undoubtedly an essential feature of the Government's guarantee scheme for small industries. At the same time, over and above these factors, in a few instances the risk of loss on a loan to a small industrial unit can arise from acts of omission and commission (fraud, dishonesty, negligence, etc.) of one or more employees of the credit institution. Sometimes, it may be difficult to determine whether the loss incurred by a small industrial unit arose on account of factors of the former or the latter category. It is pertinent to note in this connection that fidelity guarantees do not normally cover acts of negligence and where a loss is caused on account of actionable claims, the employer may be constrained to lodge a complaint with the police. Considering the promotional objectives of the Credit Guarantee Scheme, a straight application to it of principles governing fidelity guarantee may not, however, be practicable. For example, on the analogy, of what obtains under a fidelity guarantee, it may become necessary to prescribe also a ceiling limit on the loan transactions of each branch or the aggregate transactions of a credit institution and to prescribe onerous conditions like inspection and lodgement of complaint with police to be fulfilled before settlement of every claim. Such restrictions would definitely be against the spirit of the guarantee scheme designed to accelerate the flow of funds to the small-scale sector. As many of the credit institutions approved under the Scheme have a

Scope for dispensing with prior scrutiny of guarantee applications

well-defined system of procedures and safeguards in the sanction and management of small industry loans we recommend the adoption of the blanket system of guarantee cover. The success of such a system would, however, depend in part on the coverage of all small industry loans by the approved credit institutions. The present system of an application for guarantee for each limit sanctioned to a borrower will be replaced by a suitable agreement between the guarantee organisation on the one hand and each credit institution on the other. The credit institution will agree to report periodically to the guarantee organisation all its eligible advances which will be deemed as covered under the Scheme from the date of the agreement or the date of disbursal of the advance, whichever is later. The guarantee organisation can undertake a test-check of the returns received by it through local inspections with reference to the records maintained by the credit institution as well as visits to the borrowing units. In view of this proposal, the credit institutions which agree to cover all their eligible advances under the Scheme will not be required to send applications for guarantee. In return the credit institutions will have to ensure that the advances eligible for cover under the Guarantee Scheme are made according to the specific guidelines and instructions laid down/or to be laid down by them.

9. A further difference between a fidelity guarantee and our credit guarantee is that in the former there is no risk of an employee of an insured concern, who is covered by a guarantee issued by an insurance company, being covered by the same company under another guarantee at the same time. Under the Credit Guarantee Scheme, the ultimate beneficiary is the small-scale borrower; the same borrower may, however, avail himself of credit facilities from more than one bank or from more than one office of the same bank and thereby get cover under the Guarantee Scheme through several offices of the same bank or several banks, as the case may be. Accordingly the existing ceiling on the amount payable under a guarantee per limit will have to be replaced by one of a ceiling per borrower. It will be the responsibility of each

credit institution, by obtaining if necessary, suitable affidavits from the borrower or by making enquiries or otherwise, to find out the particulars of the credit facilities availed of by individual borrowers from other credit institutions.

10. We understand that the experience of the guarantee organisation is that within a short period of the liberalisation made by it in the scrutiny of applications (vide paragraph 4 above), there has been an increase in the incidence of defaults in guaranteed accounts and claims, as may be seen from the following table:

Period	Advances in default as at the end of the period No. Amount in lakhs of rupees	**	Claims paid during the period No. Amount (in lakhs of rupees	
1967				
January-June	128	29.76	6	0.56
July-December	181	42.80	10	1.66
1968				
January-June	226	46.75	10	0.56
July-December	265	69.74	24	2.38
1969				
January-June	289	78.35*	14	3.52
	* Provisional			

** The Scheme envisages two stages in the matter of realisation of advances which have become sticky. At the first instance, the credit institution calls upon the borrower and the third party guarantors, if any, to repay the debt. On their failure to do so, the advance is treated as in default. The credit institutions do not invoke the guarantee immediately on the occurrence of a default (though they are required to intimate the guarantee organisation about it). A claim is preferred generally after exhausting remedies for rehabilitating the unit and/or for recovering the dues in a gradual negotiated manner. Thus, with a time lag, the advances in default are a potential source of claim.

While it is probable that a total abolition of the scrutiny might result in a rise in defaults and claims, it is expected that the switch-over from the present system under which application forms are filled for each guarantee to one of periodical reporting subject to the agreement proposed will induce all the credit institutions which have not so far taken a decision to cover all their eligible advances under the Scheme to take such a decision. If this expectation does not materialise, the Reserve Bank will have to be requested to issue a directive to all commercial banks, by resort to the provisions under Section 21 or 35A of the Banking Regulation Act, 1949, whichever is appropriate, or through persuasion make all approved credit institutions to seek guarantee cover under the Scheme for all their eligible advances. In any case, in order to bring about the desired coverage, we recommend that for those approved credit institutions which do not take this policy decision there will be no fresh issue or renewal of guarantees after 1 January 1970. Any credit institution which is approved under the Scheme after 1 November 1969 should ipso facto be governed by the modified Scheme. This will ensure a wider coverage and bring about, over a period of time, a wider diversification of the risk inherent in the Scheme.

11. The scrutiny of the applications so far made by the guarantee organisation facilitated it to ensure that the basic conditions of eligibility for guarantee under the Scheme are complied with and that the advance for which guarantee is sought is not a bad risk right from its inception. It also helps to reduce the risk in advances through opportunity given to the guarantee organisation at the time of issue as well as of renewal to point out adverse features which might have escaped the notice of the officials of the lending institution. Some of the common deficiencies as reflected in the guarantee applications, are stated to be stagnancy of stocks of finished goods with the borrowing concerns, large withdrawals of funds from the business by partners, inadequate proprietors' stake, declining sales, increasing trade debts and large-scale dishonour of the bills drawn by the borrower. We understand from the

Guarantee Organisation that as a result of its pointing out the features to the credit institutions, the latter were able to take prompt remedial measures. The scrutiny can, therefore, be dispensed with only on the unequivocal assumption that the credit institutions will make the advances and manage them according to specific guidelines or instructions prescribed by the respective managements. The responsibility for keeping faith with the guarantee organisation as well as for the examination of each loan proposal for a fresh issue of guarantee, its enhancement and renewal from the point of view of credit worthiness, viability, etc. will entirely be that of each credit institution.

12. According to the existing Scheme, if a small-scale industrial concern has several credit limits, each limit can be separately covered under the Scheme. At present the maximum amount recoverable

**Ceiling on cover
to an individual
borrower**

from the Guarantee Organisation in respect of each such limit is Rs. 2 lakhs. This provision leads to a comparatively high risk for the Guarantee Organisation, particularly where a number of limits for large amounts are granted to a borrower by one or more credit institutions. This we understand has been the recent experience of the Guarantee Organisation. We consider it necessary to change this provision for more than one reason: firstly the emphasis in the cover is to be shifted from *each account to each borrower* inasmuch as the assumption of very high risks by the Guarantee Organisation on behalf of some borrowers is inconsistent with the concept of small-scale status of the industrial unit for whose benefit the Scheme is operated; secondly, the tendency on the part of operating officials of some banks to split up limits into a number of accounts, to take advantage of a higher coverage is to be eliminated. Accordingly, the maximum amount recoverable from the Guarantee Organisation may be fixed at Rs 7½ lakhs per borrower in respect of short-term advances and Rs. 2½ lakhs per borrower in respect of long-term advances (i.e.) loans repayable on the expiry of a fixed period/s exceeding two years. Such separate ceilings for term loans and other advances are

necessary so that term lending institutions (State Financial Corporations) may not be at a disadvantage and also to ensure that the ceiling does not operate as a hindrance for further advances to existing industrial units for implementing programmes for expansion and/or diversification. The prescription of the ceiling limit is in accordance with the inner limit prescribed under a floater policy governing fidelity guarantee.

13. At present the guarantee cover [comprising (1) a full guarantee cover in two slabs and (2) a partial guarantee cover of the residual] extends from a minimum of 64% to 100% in certain circumstances subject to a ceiling of Rs. 2 lakhs per account guaranteed. In the light of the new role envisaged for the credit institutions and in view of the requirement for a considerable simplification of the present scheme, it seems an essential point that each bank carries at all times a specific stake in each loan transaction. Accordingly, a proposal which we examined in detail related to the replacement of the existing guarantee cover on a variable scheme (consisting partly of a component of 100% cover based on the limit sanctioned or its maximum utilisation whichever is lower, and partly 60% cover of the residual of ultimate balance defaulted by the borrower) by a system of fixed cover at 75% of the amount in default or guaranteed whichever is less.

There was a strong opinion held by some members of the Group that the prescription of a fixed proportionate cover does not contain any built-in mechanism to make it worthwhile for banks to prefer the small borrowers in the small-industry sector inasmuch as the cover is uniform irrespective of the size of the amount. In the light of the progress so far made by the major commercial banks in rendering financial assistance to small-scale industries, it was emphasised that the greater potential for them in future lies mainly in the sphere of very small and small borrowers located in semi-urban and rural areas. If this objective is to be achieved, it was suggested that cover should be on a graduated scale held in favour of small borro-

wers, say at 90% for amounts up to Rs. 10,000 (in default or guaranteed, whichever is less) per borrower, at 80% for amounts between Rs. 10,001 and Rs. 20,000 and at 70% for amounts above Rs. 20,000. A differential scheme of this nature would impart the requisite degree of assurance to the branch agents in the rural areas to seek on an increasing scale small borrowers because of the relatively higher cover provided for in the first two categories. Besides, the expenses of credit administration which are usually high for small industries and more so in the supervision of a large number of small loans in the rural areas could at the same time be minimised in the context of the higher cover through relaxations in procedures and controls. For these reasons, some members of the Group were very keen that the scheme of cover should be revised on the lines indicated at the beginning of this paragraph.

However, the other members of the Group could not support this suggestion for reasons summarised below. The introduction of a system of automatic guarantee governed by principles of insurance based on a high turnover and a diversification of risk makes it necessary that the stake of each credit institution in each loan should be at a reasonable level, if the scheme is to be worked on a viable and successful basis. Taking into account the differences in the size of credit institutions and the diversity of their operations and procedures, it is considered prudent to keep the stake of the credit institution in each loan at a level not lower than 25% for the present. Further, under the scheme of insurance, it is felt by the former members of the Group, that the magnitude of cover remains uniform for the same category of insured units; this could be raised later on in stages if the results of the working of the modified Scheme are satisfactory, as was done by the Deposit Insurance Corporation in raising its cover on deposits from Rs. 1500 to Rs. 5,000 per account. The members advocating the slab system, however, took the view that a stake of 10 and 20 per cent respectively on the two slabs would be adequate. It may be relevant to stress in this connection that this calls for an actuarial assessment for which we have at present no

relevant data and it is prudent always to start with a relatively low measure of benefit and raise it later rather than fix it at a level which may prove unworkable. Secondly, the arrangements now proposed, viz. uniform cover at 75% subject to a ceiling level per borrower (of Rs. 7½ lakhs for working capital and Rs. 2½ lakhs for term loans) as against Rs. 2 lakhs per account at present would confer on the banks, in the aggregate, compensation at a level higher than what prevails at present or are proposed in the previous paragraph. Consequently, the claims on the guarantee organisation under the proposed arrangement would be larger than what can materialise under the present Scheme. Further the elimination of the existing system of the preparation and submission by credit institutions of individual application forms for sanction, enhancement and renewal would result in a considerable saving of their establishment, stationery and other items of expenditure. Thus, from the purely financial angle, the credit institutions are likely to have a greater cushion than at present in implementing any programme of assistance to small industries; within this higher level of cushion, it is left to their discretion to prescribe suitable norms and not rely on the Guarantee Organisation to bear a higher proportion of risk. This is on the analogy of an insurance company when it seeks reinsurance itself providing for the minimum safeguards but not relying entirely on reinsurance. The credit institutions can also provide suitable incentives to their operating personnel in semi-urban and rural areas to ensure larger flow of assistance to relatively small borrowers. Fourthly, a differential scheme of compensation is likely to induce the credit institutions to lower their procedures of control and supervision below the standard applicable to the other small industry loans, which is against the principles of insurance based on averages. Fifthly, in the sphere of small industries, the likelihood of borrowers remaining in the two slabs of Rs. 10,000 and Rs. 20,000 are restricted as, with the rise in the prices of capital equipment, raw materials etc. their credit requirements would be larger than the ceiling set by these two figures and their movement to the third slab would be occurring constantly.

Apart from these policy considerations there are also certain operational and other difficulties in adhering to a differential scheme of cover. If claims are presented in respect of borrowers with a default of below Rs. 10,000 and Rs. 20,000 it becomes obligatory on the part of respective credit institutions and especially the Guarantee Organisation to ensure that the units concerned have not borrowed from more than one credit institution. The verification whether small borrowers are to be placed in the first, second or third categories would involve maintenance of a much larger volume of information by the Guarantee Organisation which in turn would mean the credit institutions furnishing individual application forms, which is proposed to be eliminated under the new proposal. The members advocating the graduated scale feel that the problem could be overcome by the Guarantee Organisation calling for the affidavits from the credit institutions at the time of payment of claims to them to show the indebtedness of the borrower to all the approved credit institutions. They further feel that if, in spite of the affidavits wrong payments are made, the Government should not hold the Guarantee Organisation liable for over payments made on the basis of affidavits and should, in view of the promotional role involved, indemnify the Guarantee Organisation. The other members felt that Government could not offer an indemnity of this kind. However, considering the various problems of policy and procedure to be faced if the differential cover is adopted, it was finally agreed that, for the present, a fixed proportionate cover be adopted, the ceiling being fixed at 75% of the amount in default or guaranteed, whichever is lower. Nevertheless, it was urged by some of the members of the Group that the problem of preference in favour of small borrowers should be tackled effectively and urgently; the question how best this could be solved, whether through appropriate amendments to the Guarantee Scheme or independently, may be reviewed by the Expert Committee under Shri Shiralkar for considering schemes of insurance for credit to small borrowers.

14. As regards the ceiling on the cover for

an individual borrower, an important question which we discussed at length was the manner in which it should be applied when more than one credit institution extends loans and is in possession of the Guarantee Certificates or obtains guarantee cover : whether it should be on a pro-rata basis or on the principle of 'first come first served'. The latter would have some justification under a policy of selective guarantee. When the lending institutions agree to cover all their eligible small industry advances and the intention is to furnish the cover without a prior scrutiny of applications the sharing of the maximum amount, where it is attracted, in the proportion of the amounts due to each credit institution in respect of guaranteed advances seems more equitable. This no doubt implies that when one credit institution notifies a default by a borrower, he should be deemed to have defaulted in the payment of his debts to the other credit institutions too. In order to obviate such a situation, every credit institution should, as far as possible, avoid lending to a party who is known to be a customer of another bank; if, however, it cannot avoid accommodating him, it may do so with the knowledge and consent of the other institutions. A constructive suggestion which the Group offers in this connection is that if arrangements could be made by the credit institutions in each Centre for exchange of credit information on small industries which is recorded at a central place, on behalf of the Guarantee Organisation, it would be conducive for the successful working of the Guarantee Scheme. We also understand that if information is exchanged between banks to safeguard their mutual interests, it will not be deemed as disclosure of information on constituents by banks in violation of the normal banking practice. The ultimate goal should be that each small industrial unit should, as far as possible, be assisted by one bank. In the present context, it is likely that some borrowers may not disclose the facilities availed of by them from other institutions and there may be some double or multiple financing of the same activity or purpose. An affidavit from the borrowers should be obtained, if necessary, on whether they have

borrowed from other credit institutions and if so to indicate their names and the amounts so borrowed. Recourse to penal action if the information furnished is wrong can also be a deterrent to this practice. Our general consensus on this point is that while the Guarantee Organisation cannot obviously take the responsibility for apprising each credit institution of the limits allowed to a borrower by other credit institutions, it may endeavour to advise the credit institutions concerned suitably where the total guarantees in respect of advances made by more than one credit institution to any one industrial unit exceed Rs. 5 lakhs. For facilitating this work, the Guarantee Organisation may maintain an appropriate index card for each borrowing concern. It may issue detailed instructions regarding the procedure to be followed when one of the credit institutions which has financed a concern notifies a default and for sharing of the amounts in default on a pro rata basis.

15. The Group's assignment was to make recommendations for simplifying the procedure in the issue, enhancement and renewal of guarantees. Apart from making suggestions covering these aspects of the Scheme, we have also made recommendations for changing the basis of cover. We are of the view that our overall recommendations for changes in the operations and cover provisions in the Scheme are such that in their total impact the Scheme is to provide a much greater incentive and stimulus to credit institutions than it has been hitherto in extending credit to the small sector.

16. The credit institutions which already cover all their eligible advances or which are now willing to cover all their eligible advances are no longer required to file individual applications for guarantee. Every advance granted to a small-scale industrial unit may be deemed as automatically covered under the Scheme from the date of execution of an agreement (vide Annexure I) between the Guarantee Organisation and the credit institution or the date of disbursal of the advance, whichever is later, on the assumption that the credit institution has examined each

A statement of guaranteed advances to replace individual application forms

case from the point of view of credit worthiness, viability, etc. and it has observed/will observe the normal procedures in the conduct and operations of the account.

17. According to the existing provisions, in respect of an advance in the form of a loan for a fixed period exceeding one year, a guarantee may be issued for one or more years or for the period of the loan at the option of the credit institution, subject to a maximum period of ten years from the date of first disbursement of the loan; in the case of an advance in any other form (i.e., a cash credit, overdraft, demand loan or purchase or discount of bills) one or two years at the option of the credit institution. As the guarantee will now be available as long as the limits are in force or the guarantee is invoked, there is no longer any need for specifying the period of the guarantee. For facilitating the recovery of fees by the Guarantee Organisation and for enabling it to prepare and maintain borrower-wise index cards, a quarterly statement in the form of return based on a uniform balance book may be prescribed. Some credit institutions may perhaps entertain a doubt that, at a future date, the Government might withdraw or cancel the Scheme and that the proposals made in this report for an automatic guarantee of all eligible advances without specifying a period might result in a loss of guarantee cover for at least some advances at a time when such a cover might be considered most essential. In order to reassure such credit institutions, it seems necessary to draw a reference to clause 14 of the Scheme in terms of which the Government of India has the right to modify, cancel or replace the Scheme so however that the rights or obligations arising out of, or accruing under the Scheme up to the date of such cancellation, modification or replacement shall not be affected. As a result of our proposal for extending guarantee for all eligible advances without specifying the period of the guarantee a few term loans for periods longer than 10 years might now get the benefit of the guarantee cover for a longer period than under the existing provisions. Further, for advances or temporary enhancement of facilities for very short periods,

guarantee fees will be payable only if, and so long as, they are outstanding on the dates of the quarterly statements. This will be a relief in comparison with the existing provision for recovery of fees for a minimum period of one year in the case of fresh advances and for the unexpired period of the guarantee in the case of enhancement of credit limits.

18. The abolition of applications for guarantee is apt to make some banks bring under guarantee cover some of their old advances which, for one reason or the other, have become difficult of realisation or even adjust some debts due from other persons, which have become doubtful of recovery, by debit to an account of a small-scale industrial unit with which they are directly or indirectly connected. It is necessary, therefore, to place restraint on such possibilities by prescribing suitable conditions for eligibility of the old advances which have not already been guaranteed under the Credit Guarantee Scheme. This may be taken care of through a suitable provision in the proposed agreement to the effect that the following categories of advances will not be eligible for guarantees:

- (i) advances which have been recalled before the date on which the now liberalised Scheme is brought into force;
- (ii) advances to concerns which have suspended their business before the date;
- (iii) advances which have been treated as bad or doubtful of recovery or utilised for adjusting such debts due by other persons.

19. As indicated earlier, credit institutions do not have to apply for guarantee but they will submit a quarterly statement showing the outstanding balance in respect of all their advances eligible for guarantee under the Scheme. The statement may have to be submitted to the Guarantee Organisation not later than 15 days from the last Friday of the quarter to which it relates:

Sl. No.	Name and address of the borrower	Organisation (type)	Code No. of industry	Type of account (cash credit, overdraft, etc.)	Amt. outstanding	
(1)	(2)	(3)	(4)	(5)	Credit	Debit
Rate of interest	Credit limit	Purpose	Security	Fees received	Remarks	
(8)	(9)	(10)	(11)	(12)	(13)	

Part—A — Advances already covered under the old Scheme.

Part—B — (1) *For the first quarterly statement*: Other eligible advances outstanding on the date of the first quarterly statement.

(2) *For the second and subsequent statements*: Other eligible advances already reported in the previous statement.

Part—C -- Fresh sanctions

[Note: Explanatory notes on the columns and the Sections are given in Annexure II]

The return is based on the monthly return prescribed for scheduled banks under the system of uniform balance books (vide the report of the working group on banking statistics). In order to avoid additional work to the banks, it is necessary that statements and returns under the scheme should be kept at a minimum. It should, therefore, be the aim to merge the quarterly statement required for the purpose of the guarantee scheme in the monthly 'U.B.B.' return. However, a large number of guarantees have already been/would be issued having a currency extending up to and, in a few cases, even beyond, December 1970. The guarantee organisation has already recovered the fees on these guarantees. Accordingly, these accounts will have to be kept out of the scope of the quarterly statements for some time as otherwise the guarantee organisation might inadvertently recover fees on these accounts for a second time for the same period.

Accordingly, until August or September 1970, when the returns under the scheme could be secured in accordance with the U.B.B. scheme, separate statements will have to be received by the guarantee organisation. Meanwhile it is desirable that our recommendations in the report are implemented as early as possible. The Guarantee Organisation may make arrangements to bring the Scheme into force effective from 1 November 1969 if approval of the Government could be secured by then. If this recommendation is implemented, the effect will be that for the credit institutions which take a policy decision to cover all their advances (all State Financial Corporations, Scheduled Commercial Banks in the nationalised sector, State Bank of India and its subsidiaries) all loans sanctioned by them from 1 November 1969 and those outstanding on that date which are eligible for guarantee will be automatically covered under the Scheme. The banks will have to send to the Guarantee Organisation as on the last Friday of October 1969 a return in the form prescribed in respect of loans sanctioned and outstanding on that day on the basis of which guarantee fee will be charged for the quarter November 1969 — January 1970. The next return on similar lines will be furnished as on the last Friday of January 1970.

20. According to the existing Scheme, only advances in the form of a Cash Credit, Overdraft, Purchase and Discount of Bills and

Demand and Term Loans are eligible for guarantee cover. **Types of facilities to be covered**

The scope of the Scheme does not extend to facilities such as letters of credit, acceptance credit and deferred payments and performance guarantees, where the liability of the credit institution is of a contingent nature. Section 17(11A) of the Reserve Bank of India Act, 1934, in terms of which the Bank has been

administering the Scheme, empowered it, till recently, to guarantee only 'loans and advances'. This has since been amended to include within its scope 'other credit facilities' also. While letters of credit and acceptance credit are clearly covered by this term, performance guarantees are distinctly outside its scope. As regards deferred payments guarantees, we are advised that they are not credit facilities extended by the credit institution furnishing the guarantee. It will be consistent with the objective of the Scheme as also to ensure a wider coverage, if its scope is extended to letters of credit and acceptance credit. This can be effected by suitably amending Sub-clause (a) of clause 2 of the Scheme. A related question that has been raised is whether a guarantee under this Scheme should be provided for advances which are also guaranteed by the Central or a State Government or the Export Credit & Guarantee Corporation under any other Scheme. It is felt that such a multiple coverage is not necessary. Accordingly advances covered under any other credit guarantee scheme of the Central or a State Government or a public sector undertaking may be kept outside the scope of this Scheme unless the credit institutions wish to bring them under this Scheme.

21. As stated in paragraph 4, the rate of guarantee fee was reduced, in October 1968, to 1/10 of one per cent per annum and made applicable to credit institutions which agree to seek guarantee in respect of all their eligible advances to the small-scale industrial sector. No change in this rate, which is levied on the limit sanctioned, is called for at present.

22. We understand that the income by way of fees under the Scheme is at present transferred by the Guarantee Organisation to the Central Government and that the Guarantee Organisation reimburses itself for the claims paid by it under the Scheme by debiting the Government's account. Over a period of about 9 years since inception of the Scheme a

net sum of about Rs. 1 crore is stated to have been transferred to the Government. The administrative expenses on account of the Scheme, which are currently estimated at about Rs. 30 lakhs per annum, are borne by the Reserve Bank as its contribution to the promotional measure designed for the development of small-scale industries. The present arrangement may not, for obvious reasons, continue for an indefinite period. Sooner or later, for the successful working of the Scheme, it will have to be made self-supporting; thus even the cost of administration of the scheme may have to be covered. In order to achieve this end, an appropriate sum of say Rs. one crore may be transferred from the Central Government's budget to a fund which may be invested in interest yielding securities. For building up adequate resources in the fund and a wider spread of the risk, compulsion by law, providing for all the loans and advances of all the lending institutions to be covered by the guarantee scheme may be necessary. Further in the operation of such a scheme issues such as (a) the application of the provisions of the Insurance Act, 1938, (b) adequacy of the provision to be made from the current premium income for meeting unexpired risks and (c) tax liability in respect of the balance of the premium income and the investment income will have to be examined and provided for suitably. It is relevant to add that if the schemes of guarantee for the various priority and neglected sectors are to be administered in addition to the present scheme for small-scale industries, it is preferable to have them administered by an Organisation, located within, or closely affiliated, to the Reserve Bank for which purpose an amendment of the existing statutes will in any event be necessary. Instead of establishing a new organisation, the more appropriate course seems to be to make the Deposit Insurance Corporation, the operation of which possesses the several advantages necessary in this regard, undertake the overall function of coverage of all types of credit after appropriate amendments are incorporated in the relevant Act. It is presumed that these questions will be looked into by the expert committee a reference to which has been made in paragraph 6 ante.

23. Though the objective of the Scheme has been to induce the banks and other credit institutions to relax the terms of the advances and liberalise their lendings to the small-scale industrial sector, we understand that concessions by way of significant reduction in margins prescribed have not been made. The proposals made in this report for a fixed stake to be borne by the credit institutions is not likely to lead to a change of heart on their part in so far as margins are concerned. Accordingly an element of compulsion seems to be called for but the banks themselves are not in favour of such a restriction by the Guarantee Organisation. The consensus is that where necessary, suitable directive may be issued by the Reserve Bank under Section 21 or 35A of the Banking Regulations Act, 1949, whichever is deemed appropriate.

24. A question has been raised as to whether the Guarantee Organisation should, in view of the abolition of the scrutiny of guarantee application, revise the procedures for settlement of claims e.g., by calling for more details about the guaranteed advances and the manner in which the operations on the relative accounts were conducted and controlled by the credit institutions. On the analogy of the fidelity guarantee by insurance companies, the settlement of a claim should normally be preceded by an examination of the circumstances which led to the loss. However, we understand that the Guarantee Organisation now depends entirely on the faith kept by the credit institution for the grant and conduct of an advance and making payment of claims on the basis of the statement furnished by it without verifying its books of account. It is felt that there is no need for deviating from the existing practice. The Guarantee Organisation may continue to settle claims on the basis of information furnished to it in the existing form of claim application and such other information as may be available on its records or as it may specifically call for, where necessary. It is possible that in

a few cases the loss may be caused through causes extraneous to the operations and management of the borrowing unit, such as fraud on the part of an employee of the lending institution. In view of the considerable case in securing the guarantee and its renewal and the liberal bias in its terms of coverage conferred on credit institutions by our recommendations, we feel that as a reciprocal obligation the credit institutions will adopt appropriate procedures and safeguards which will minimise the chances of losses. Needless to say, that the success of the Scheme depends on the co-operation extended by the credit institutions to the Guarantee Organisation in this regard.

25. Draft amendments to the Credit Guarantee Scheme for small-scale industries embodying the suggestions made in the foregoing paragraphs are given in Annexure III. These may be issued to the credit institutions after the amendments suggested above are brought into effect.

26. We wish to place on record our appreciation of the valuable services rendered by Sarvashri U. M. Banerjee, V. Venkataramani, P. R. Rajaratnam (Industrial Finance Department, Reserve Bank of India, Bombay) and R. M. Halasyam (Legal Department) who have greatly assisted in the deliberations of the Group and the drafting of the report. We also acknowledge the assistance given by the various officers and other staff of the Industrial Finance Department and Legal Department of the Reserve Bank at all stages of our work.

1. (Shri K. N. R. Ramanujam)
2. (Shri L. N. Renu)
3. (Shri D. N. Ghosh)
4. (Shri G. V. Jannah)
5. (Shri H. E. Chatelier)
6. (Shri S. Nagarajan)
7. (Shri K. S. Karant)

Dated the 14th October 1969.

ANNEXURE—1

Form of agreement to be obtained from a credit institution for guarantee under the Credit Guarantee Scheme for small-scale industries

(Note: The liability to stamp duty will depend upon the place where it is executed and/or acted upon)

(Place)

(Date)

To

Reserve Bank of India

Dear Sir,

In consideration of the Reserve Bank of India (hereinafter called the 'Guarantee Organisation' which expression shall, unless repugnant to the context, also include its successors and assigns), acting as agent for the Central Government in the administration of the Credit Guarantee Scheme for small-scale industries (hereinafter referred to as 'the Scheme'), agreeing to guarantee under the Scheme the loans and advances made or agreed to be made to, contingent liabilities on account of letters of credit opened and to be opened on behalf of and acceptances and similar obligations undertaken or agreed to be undertaken on account of small-scale industrial units as defined in clause 2(e) of the Scheme by _____ (hereinafter called the 'credit institution', which expression shall, unless repugnant to the context also include its successors and assigns), the credit institution hereby agrees as follows:

(1) The provisions of this agreement shall be in addition to, and not in derogation of, the provisions of the Scheme and the instructions issued by the Guarantee Organisation from time to time.

(2) a) All loans and advances made to, all letters of credit (inland as well as foreign) opened on behalf of and all acceptances and endorsements effected on account of, small-scale

industrial units, made, opened or effected before the date of this agreement shall be covered by this agreement except —

- (i) loans and advances and constituents' liabilities for acceptances, endorsements and other obligations which have been recalled on or before the date of this agreement;
- (ii) loans and advances to and liabilities for acceptances, endorsements and other obligations of concerns which have suspended their business on or before the date of this agreement;
- (iii) loans and advances and other obligations which have been treated as bad or doubtful of recovery or utilised for adjusting such debts due by any other person;
- (iv) term loans and instalment credits sanctioned on or before *

b) All loans and advances that may be made to, all letters of credit (inland as well as foreign) that may be opened on behalf of and all acceptances and endorsements that may be effected on account of a small-scale industrial unit made, opened or effected on or after the date of this agreement shall be covered by this agreement except loans and advances or other credit facilities which are extended for the purpose of adjustment of debts or other obligations of any person which have proved or prove to be irrecoverable or doubtful of recovery.

(3) The credit institution shall be entitled to claim the benefit of guarantee under the Scheme only in respect of transactions between it and a small-scale industrial unit as defined in clause 2(e) of the Scheme; for this purpose the credit institution shall obtain and keep on record an affidavit and other documentary evid-

* The date on which the credit institution took a policy decision to cover all its eligible advances under the Scheme.

ence from the industrial unit and otherwise satisfy itself by a reference to the industrial unit's books of account or other records that it is eligible for the facilities under the Scheme.

(4) Where a small-scale industrial unit is also engaged in other activity, such as agriculture or trade, other than sale of its own products, the loans and advances granted or other facilities extended to it for financing the other activities shall not be covered under this agreement. The credit limits extended in connection with the industrial activity of the unit and those extended in respect of its other activities shall be segregated and the securities, if any, for the different facilities shall be kept distinct and the inventories recorded separately.

(5) The loans and advances made, the letters of credit opened and acceptances effected, and the various facilities granted shall be regulated in accordance with rules and regulations and other instructions in this behalf laid down from time to time by the credit institution's management.

(6) A statement with reference to each quarter shall be furnished to the Guarantee Organisation in the prescribed form and manner by the office of the credit institution at which the loan or advance is made or other credit facility is extended, showing the limits sanctioned and the outstanding balances and other relevant particulars in respect of each account of a small-scale industrial unit as at the close of business on the last Friday of that quarter, or, if the last Friday is a public holiday under the Negotiable Instruments Act, 1881, at the place where the office of the credit institution furnishing the statement is located, at the close of business on the preceding working day. For the purpose of this paragraph 'quarter' means the period of three months ending on the last day of January, April, July or October.

(7) The Guarantee Organisation shall be entitled to recover by debit to the credit institution's account with the Reserve Bank or otherwise as may be agreed upon in this behalf (such agreement being without prejudice to the right

of the Guarantee Organisation to recover directly from the credit institution), a charge at rates prescribed in the Scheme for every quarter for the guarantee in respect of the loans and advances and other credit facilities extended by the credit institution and reported by it to the Guarantee Organisation in the quarterly return referred to in paragraph 6 above.

(8) The Guarantee Organisation shall have the right to inspect or call for copies of the books of account and other records (including book of instructions, manual or circulars covering general instructions for conduct of advances) of the credit institution, and every officer or other employee of the credit institution who is in a position to do so, shall make available to the officer or the officers of the Guarantee Organisation the books of account and other records and information which are in his possession.

(9) A credit institution shall secure for the Guarantee Organisation the right to inspect the business and factory premises and books of account of the borrowing concern if and when considered necessary by the Guarantee Organisation.

(10) If a guarantee in respect of an advance to a small-scale industrial unit has to be invoked, the head office of the credit institution shall submit to the Guarantee Organisation an application in the prescribed form.

(11) If a default occurs in an account of a small-scale industrial unit due to dishonesty on the part of the credit institution's officials or due to decisions taken by them contrary to instructions issued by the credit institution's management or the Guarantee Organisation, the credit institution shall not be entitled to make any claim on the Guarantee Organisation in respect of such an account.

(12) Any guarantee issued to the credit institution before the date on which this agreement comes into force shall continue to be governed by the terms and conditions by which it was governed on the date of the relative

guarantee certificate. The advances so covered shall automatically be brought under this agreement —

- (i) in respect of guarantees issued for a period exceeding two years, on the expiry of the existing guarantee or, at the option of the credit institution, at the time when payment of the next instalment of the fee in respect of the guarantee falls due; and

- (ii) in respect of other guarantees, on the expiry of the guarantee.

(13) All applications, documents, receipts, etc. signed on behalf of the credit institution shall be deemed to have been signed by persons duly authorised by the credit institution to bind it and any irregularity in the signature or authority or want of authority of the person signing

shall not, in any way, affect or prejudice the rights of the Guarantee Organisation or affect the liability of the credit institution.

(14) This agreement shall come into force forthwith.

(15) The stamp duty payable on this agreement shall be borne by the credit institution.

Yours faithfully,

(Signature)

(Designation)

Acting in the premises
for and on behalf of the
(Name of the credit
institution)

ANNEXURE II

Explanatory note on the proposed quarterly return

The statement may be divided into three parts:-

Part A: For advances covered under the provisions of the Credit Guarantee Scheme as they stood before 1 November 1969. Fee is payable on these advances only on the expiry of the existing guarantee or, in the case of term loans, when the next instalment becomes payable.

Part B: Advances covered under the Credit Guarantee Scheme after 1 November 1969 and reported in the previous quarterly return should be reported in this section.

Part C: Advances sought to be covered for the first time during the quarter to which the return relates may be reported in this part.

Column 3 — Organisation (Type)

The constitution of the borrower is to be indicated in this column i.e. individual, proprietary or partnership concern, industrial co-operative, company, Joint Hindu Family, trust, etc.

Column 4 — Code No. of industry

Code No. of industry as given in the attached list is to be inserted against each borrower.

Column 5 — Type of account

Please state here whether the facility is extended in the form of 1) Cash Credit, 2) Overdraft, 3) Demand Loan, 4) Term Loan (including instalment credit), 5) Purchase of Bills, 6) Discounting of Bills, 7) Letters of Credit or 8) Acceptance Credit.

Columns 6 & 7 — Amount outstanding

Balance in the account on the last Friday of the quarter to which the statement relates should be stated here. Balance due to the borrower should be shown in column 6 and the balance

due from the borrower should be shown in column 7. Care should be taken to see that the columns are not interchanged.

Column 8 — Rate of interest

In the case of purchase and discount of bills the rate of exchange/commission and discount respectively may be stated; in respect of letters of credit and acceptance credit the rate of commission may be shown.

Column 9 —

For term loans and instalment credits the balance outstanding in the account may be shown as the credit limit.

Column 10 — Purpose

Indicate in this column whether the credit limit is for acquisition of fixed assets or for working capital.

Column 11 — Security

A brief description of security (such as land and building, plant and machinery, iron and steel billets, angles or engineering goods, raw cotton, oil seeds, etc.) may be stated.

Column 12 — Fees

Fees to be recovered during the quarter may be stated here (at 1/40 of 1% for each quarter on the limit sanctioned as shown in column 9).

Column 13 — Remarks

- (1) In this column, please state such developments as "Advance recalled", "Notice of default sent to guarantee organisation", "Being nursed" etc.
- (2) For term loans, please state whether the amount shown in column 9 is the limit sanctioned or the balance outstanding in the account.
- (3) The certificate number and expiry date of the guarantee certificate relating to the advances in Part A of the return

should be shown in the "Remarks" column.

The following certificate should be appended to the list:-

We certify (1) that this is a complete list of all advances made at this office

which are eligible for guarantee under the Credit Guarantee Scheme for small-scale industries; and

(2) that the list is furnished in pursuance of the agreement dated — entered into between our bank/Corporation and the guarantee organisation.

Annexure III

Amendments to the Scheme

Existing Provision Clause No.

Changes proposed

2(a)

Add the following words "or other credit facilities" at the end of the existing clause 2(a)

2(e)

This clause may be deleted.

2(f)

The existing clause (f) may be changed as clause (e).

4

The existing clause may be replaced by the following:

"4. Extent of guarantee:

A credit institution shall be entitled to recover from the guarantee organisation towards the amount in default in respect of the advance/s which has/have been guaranteed by that Organisation, 75% of the amount in default or the amount guaranteed, whichever is less.

Provided that the maximum amount which may be recoverable from the guarantee organisation under this Scheme by credit institution/s in respect of any one industrial unit shall not exceed- (a) rupees seven and a half lakhs, where no part of the advances granted to the borrower is in the form of a loan payable on the expiry of a fixed period/s exceeding two years; (b) where a part of the advances granted to the industrial unit is in the form of a loan/s repayable on the expiry of a fixed period/s exceeding two years — (1) rupees two and a half lakhs in respect of such loan/s; and (2) rupees seven and a half lakhs in respect of other advances".

5(1)

Insert a new sub-clause (1) and renumber the existing sub-clauses 1), (2), (3) and (4) as (2), (3), (4), and (5) respectively.

(1) where a credit institution has decided to seek guarantee under this Scheme in respect of all its eligible advances, the guarantee organisation may agree subject to certain conditions to be specified in an agreement to be entered into between the credit institution and

**Existing Provision
Clause No.**

Changes proposed

the Guarantee Organisation to guarantee all the eligible advances made by the credit institution from the date of disbursal of the advance/the date of the letter of credit or acceptance or the date of the agreement whichever is later, without a prior application for guarantee for each credit limit and without specifying a period for guarantee.

Substitute the words "any other" in place of "a" occurring between "if" and "credit institutions" in sub-clause (1).

8(1)

Add a further proviso to clause 8(1) as follows :

Provided further that where a credit institution has entered into an agreement with the Guarantee Organisation in terms of Clause 5(1), the charge for the guarantee in respect of loans and advances and other credit facilities covered by the agreement shall be calculated at 1/10 of 1% per annum on the following basis.

(i) in the case of loans repayable after a fixed period exceeding one year, on the basis of the balance outstanding in the account as on the last Friday of the previous quarter;

(ii) in the case of other credit facilities, on the basis of the limit sanctioned and in force or the balance outstanding, whichever is higher, as on the last Friday of the previous quarter.

Section IV

GUIDELINES FOR FINANCING

OF

AGRICULTURE BY COMMERCIAL BANKS

GUIDELINES FOR FINANCING OF AGRICULTURE BY COMMERCIAL BANKS

**Circular letter dated December 16, 1970
issued to all commercial banks.**

These guidelines have been prepared on the basis of a study made by the Credit Planning Cell into the methodology of operations, policy and procedure adopted by some of the nationalised and other commercial banks involved in agricultural financing. While making a study every effort was made to see what organisational pattern was available for not only evaluation and scrutiny of proposals but also keeping an effective watch over disbursement, utilisation and timely recovery. These studies indicated that there were in many cases perceptible and avoidable gaps in communication within the banks in this matter. In several cases, the field level staff were not conversant with their proper role in the field of agricultural financing, and in several others, the procedures relating to appraisal, post credit supervision and recovery called for improvement. The Reserve Bank, therefore, felt that it may be useful if a set of guidelines were issued so that at all levels the rationale, policies and procedures for making agricultural loans were made clear. In its very nature, the set of guidelines cannot be considered exhaustive though every effort has been made to make them as comprehensive as possible. The broad indications given in the guidelines may please be observed while making loans for agricultural development, both for crop raising and for durable capital investment. While making these loans, as has been indicated in the guidelines, the agro-economic and the agro-climatic situations, where the branches are operating, would have to be kept in mind and the scales to be adopted by the branches may have to be on the basis of local requirements and local needs. While meeting the requirements the efforts of the bank should always be (a) to improve the quality of loaning, (b) to help the borrowers to move on to a higher technological plane, and (c) to funnel back into the banking system

surpluses accruing to the borrowers or from others residing in the area.

2. Emphasis has been laid on the banks moving into agriculturally less developed areas, moving away from security oriented lending to purposive, productive and incremental income oriented lending and financing small and potentially viable farmers.

The text of the guidelines is reproduced below :

1. General—Objectives and approach

1.1. The main objective of commercial banks lending to agriculture is to assist cultivators in the adopting of an improved package of practices and thus move them to a higher technological plane of activity. Credit for agriculture would have to be purposive and should be provided not only to already viable cultivators for further increasing their surpluses but, more importantly, to marginal and potentially viable cultivators.

1.2. The efforts of banks in the field of agricultural credit should be directed primarily towards lending for discernibly productive purposes viz., for new investments that would result in a better input-output co-efficient and consequently higher incremental income. Lending for purposes in the nature of ways and means accommodation, for the maintenance and replacement of existing assets, should be given lower priority.

1.3. However, the financing of agriculture at the traditional or existing plane cannot be altogether avoided. Indeed, it may, at times, be worthwhile to undertake such lending in order to bring cultivators within the ambit of commercial banking. The effort should thereafter be to improve upon the package of practices with a view to increasing the output of the cultivator and consequently the incremental income accruing to him.

1.4 In agricultural, lending, even more than in lending to other sectors, the availability of funds at the right time and in adequate quantity are of vital significance. When the requisite finance is not forthcoming from banks, the cultivator has to borrow from elsewhere and it is the provider of this crucial instalment of credit who comes to be considered a benefactor. The basis for a proper enduring relationship between the bank and borrower is hence affected.

1.5 Close and constant touch with the borrower will have to be maintained, not only for the purpose of loan recovery but with the wider objective of educating the cultivator and getting him into the habit of regular repayment.

1.6. Every effort should be made to inculcate the banking habit in the cultivators. Borrower should be encouraged to open a savings account. The loan amount may be credited to the deposit account of the borrower and, in some cases, even the value of the 'kind component' of a loan may be so credited ensuring that the suppliers of inputs are paid by cheques on the account. All efforts should be made to get some deposits after the sale of the produce. Some linking of deposits to the credit provided and collecting such deposits at the time of repayment of the loan may advantageously be considered.

1.7. Hitherto, banks have tended to concentrate their activities in high potential, easy areas and have also leaned heavily on intermediaries. For the future, they would have to move into more difficult areas and also consolidate the position in regard to the recovery of old loans.

2. Area of operations and staff

2.1. Recent experience has shown that better results are achieved when banks adopt an "area approach" in agricultural lending. In the context of an overall shortage of resources, it is of the utmost importance to avoid the possibility of overlapping of efforts

and resources in the same area by two or more commercial banks. Consistent with the availability of staff, each bank branch should decide on the "command area" it would serve. In general, a branch with one field officer/assistant attached to the Agent could serve an area within a radius of 10 miles.* For this area, a norm of one supervisor for 450-500 borrowers could be adopted. However, in areas where a multiple cropping pattern prevails or seasons tend to overlap two sets of staff may be considered; one for evaluating and scrutinising proposals and the other for effecting recoveries.

2.2. The discretionary powers allowed to the Branch Agent should be such that at least 80% of the proposals can be cleared by him, without reference to the Central Office. Since the scale of finance would vary considerably between areas, there should be suitable adjustments in the discretionary powers allowed to agents according to the prevalent conditions and no attempt should be made towards uniformity in this regard.

2.3. The Branch Agent should collect and have available for ready reference the basic agricultural data relating to the area under his jurisdiction e.g. land use and cropping patterns, seasonality of operations, extent and types of irrigation facilities, tenurial structure etc. For medium term loans more detailed technical information would have to

* The limit has been indicated by us only as a guideline and the intention is that banks should not make advances to parties with farms too scattered and too far away from the lending office, rendering processing and supervision of the loans difficult and ineffective. Thus, banks may extend the command area of each of its branch taking various considerations into account such as the topography of the place, the means of communication available as also its staffing pattern to effectively supervise disbursement utilisation and timely recovery of loans. There is no hard and fast rule about this restriction of 10 miles and if a particular bank branch feels it could supervise a few loan proposals beyond this jurisdiction there is nothing preventing the branch from doing so. As a matter of fact in cases where a reasonable number of applications are forthcoming from a compact area it may be easier to process and supervise such loans even if they are beyond the 10 miles radius than scattered cases even if they are within the ten miles radius (vide circular DBOD No. Nat. 1715/C. 453-71 dated 14 October 1971).

be collected e.g. sub-soil water table, recharge potential, minimum distance between wells etc.

3. Credit norms and scales of finance

3.1. Based on all the relevant data pertaining to the area, the Branch Agent would have to work out (with the help of the District Agricultural Officer and progressive cultivators) a rational scale of finance for the various crops grown locally. The Head of the Agricultural Finance Department of the bank should look into the scales suggested by various agents, particularly with a view to checking on discrepancies between contiguous or similar areas.

3.2. The scales should be worked out considering all the inputs required as well as the off-farm income or resources available to cultivators.

3.3. While working out the scales of finance, banks may check with the scales fixed by the Co-operatives in their annual Field Workers' Conference. These scales would broadly indicate an optimum, and may require some alteration for adoption by commercial banks, in case the scales of the Co-operatives were inadequate due mainly to constraints of resources with the Co-operatives.

3.4 Short-term loans for crop raising should generally be divided into a cash and kind component. It should be ensured that the kind component is, in actuality, lifted in kind, and necessary payments could be made directly by the bank. A list of approved dealers, common to all banks, could be maintained for this purpose. As cultivators grow more responsive to the use of fertilizer and other inputs, the kind component may in course of time be provided in cash. Before doing this the bank should be sure of effective post credit supervision.

3.5. A tendency has been in evidence to exaggerate the cash component of a scale.

This should be worked out realistically, taking into account both the conditions of cultivation in the area as well as the circumstances of a particular borrower (e.g. the number of labourers employed by him, the consumption requirements of himself and his family, etc.). In general, the cash component may be around 30 per cent of the value of the inputs.

3.6. In regard to medium-term loans, the norm should relate to the income-generating potential of the proposed investment rather than to the size of the holding, e.g., a certain acreage may be able to support a composite well-sinking or pump-set loan in a particular area because of the cropping pattern, agro-economic and agro-climatic situation while the same may not be true in an equivalent land-holding in another area.

4. Margins and Security

4.1. Some banks have been asking for a 25% margin. Despite this, however, the scales of loans were more liberal than those adopted by the co-operatives in the area. This followed from the initial enthusiasm of banks to build up custom. Where scales are worked out realistically and the supervisory machinery is adequate, there is actually no need for any margin. The only precautionary measure in this regard should be that in working out the requirements of big cultivators, the amount of owned funds that could be brought in by them for their operations should be correctly estimated and taken into account in determining the size of the loan.

4.2. The question of security is mainly of relevance to medium-term loans although some banks have been insisting on mortgage security even for short-term loans. This is unjustified in the case of crop loans to small and medium cultivators and in such cases, provided rational scales have been fixed by the bank, a mere charge or hypothecation of crop would be sufficient.

4.3 Since banks should attempt to dissuade cultivators from approaching various agencies for *ad hoc* loans and meet the entire financial needs of farm requirements (short as well as medium-term), it would be advisable to persuade the cultivator to mortgage his entire holding, even if, for a specified initial purpose, the mortgage of a part of the holding may be sufficient.

4.4 Some cultivators might prefer to provide two guarantors and accept margins in the case of pump-set loans, etc. The sanction of a loan against hypothecation of the asset could be considered in such cases. However, it would be in the interests of the borrower himself, in view of the overall requirements of his advancement to a higher technological plane, to provide a mortgage of land for which purpose, some special facilities are offered in some States.

5. Seasonality and Timing

5.1 Banks should canvass and elicit customs well in advance of the commencement of operations. (Say by mid-May for Kharif and end-September for Rabi). This would ensure that preliminaries would be completed and the funds kept ready for disbursal at the right time.

5.2. Some banks have been insisting on disbursal of loans in instalments (2 to 3). In the present conditions and for the majority of cultivators, it would be most advantageous to make the loan available in one lump, simultaneously with the disbursal of the kind component.

5.3. The appropriate time for the disbursal of medium-term loans would be the off-season, when the cultivator is not busy with his crops (March-May and September-October).

6. Repayments and Recovery Performance

6.1. For both short and medium-term loans, the repayment schedule of loans should

coincide with the time when the cultivator has sold his produce and is *fluid**. The Branch Agent should hence study the trend in market arrivals and peak sales of all the major crops in his area. The due date of loans should be fixed on the basis of this information. Care should be taken to allow sufficient manoeuvrability to the cultivator to hold the produce and get a good price.

6.2. Efforts at recovery should commence in advance of the due date. It has been seen that banks which are systematic in sending reminders and notices one or two weeks before the due date and whose field staff have been active around this time have been far more successful at recovery than banks that have merely waited for the repayments to flow in. The Branch Agent should keep the recovery procedures *fair but firm*.

6.3. Where multiple-cropping prevails or one of the two seasonal crops is pronouncedly more important than the other—one being the main crop and the other a subsistence crop—the due date should be related to the time of sale of the main crop. It is extremely important that the habit of regular repay-

* There is at present no uniformity in the manner of charging interest on the various types of agricultural advances by banks. Although interest is compounded at monthly, quarterly or half yearly rests on advances, such a system of compounding in the case of agricultural advances may not be suitable. The agriculturists do not have any regular source of income other than the sale proceeds of their crops. They will not, therefore, be in a position to pay interest at usual fixed intervals. Having regard to the special characteristics of agricultural finance, banks are advised to bear in mind the following principles in the matter of application of interest on such advances. (i) Repayment period of agricultural advances, whether short-term or medium term, should be so fixed as to coincide with the period when the farmer is fluid i.e., after harvesting and marketing of his crops. Payment of interest should also be insisted upon only at the time of repayment of loan instalment so fixed; (ii) Interest on current dues should not be compounded; (iii) When crop loans or instalments under medium-term loans become overdue, banks can add interest outstanding to the principal and compound the interest keeping in view what has been stated above. Subject to the observance of the above principles, banks may adopt suitable accounting procedures in the matter of charging interest on agricultural loans. (vide Circular DBOD No. Nat. 389/C. 453(A)-72 dated March 14, 1972).

ment should be inculcated in the cultivators; if this is not done, a psychosis of default would develop rapidly.

6.4. The cultivator's repayment capacity would depend on the yields expected from the improved practices adopted. In working this out, care should be taken not to exaggerate the gross output. Generally, 50 per cent of the gross value of the produce could be taken as available for meeting all loan commitments with two-thirds of the 50 per cent set apart for short-term crop loans and the balance for instalments of medium-term developmental loans.

6.5. The close inter-relationship between short and medium-term credit requirements is best illustrated from the angle of recovery. The repayment of developmental loans, as also crop loans, comes from out of the crop raised. If the lender bank does not take care of the requirements for crop raising under an improved package of practices, the chances of the recovery of the instalments of the developmental loan would be jeopardised. This has been the experience of many banks which have advanced term loans, ignoring crop raising requirements.

6.6. Recovery programmes should at all times be sufficiently flexible as to allow easy and appropriate rephrasing in case of natural calamities or adverse seasonal factors.

6.7. It is of the utmost importance that the recovery performance, in each area and for each season, should be under constant and close review. In this connection, recovery performance should be related, not so much to total outstandings as to the demand raised on account of the loans. Each bank branch should hence maintain a demand, collection and balance register and a due date register.

7. Financing of small farmers and potentially viable farmers.

7.1 Small Farmers Development Agencies have already been registered in certain

districts as directed by the Planning Commission for identifying small farmers and working out economically viable schemes of agricultural development/mixed farming, which would have to be serviced by both commercial banks and the co-operatives.

7.2. Generally, in areas where small farmers development agencies have been organised, the co-operative credit structure may perhaps not be very strong and, therefore, to service the programme, the commercial banks' branches would have to be very much more active and properly staffed, with Field Officers and/or Field Assistants.

7.3. Small farmers may first have to be identified and generally it has been indicated that farmers holding land between 2.5 to 5 acres could be considered as small farmers. This norm would vary, as has been stated earlier in the guidelines, depending upon the fertility of the soil, cropping pattern, crop yields and so on. Having identified the small farmers, the banks may have to group them into various categories for credit support so as to enable them to become viable cultivators. The categories may be as follows:

(a) Land holding of the small farmer may be situated in a place where sub-soil water table was high and with a well the cultivator could convert his dry holding into wet. Coupled with a pump set loan he may change the cropping pattern into double or even multiple cropping activity and thus be in a position to pay back the loan in 5 years or so.

(b) Some cultivators situated as they may be near urban centres and with some irrigation facilities available from canals, wells, tanks etc. may with additional crop loans go in for vegetable cultivation, coupled with poultry schemes or one or two milch cattle.

(c) Third category would be which might need combination of all these schemes viz. agriculture, poultry, dairy as well as digging of a well, a pump set and so on.

7.4. In the financing of these small farmers, supervision would assume crucial significance and therefore, the branches to be opened in the small farmers development agency areas or in areas where there is a preponderance of small farmers may have to be on a slightly more liberal pattern than elsewhere.

7.5. It should, however, be borne in mind by the bankers that once small farmers are identified, the effort should be to make them viable farmers by proper technological advice. But if the incremental income indicates that the borrower may not be able to pay back the loan within the maximum currency permissible, as per the rules in force with the banks, he may be advised to approach a long-term financing agency.

7.6. The currency for the durable capital loans, such as loans for well digging, purchase of pump sets, milch cattle, poultry, etc. may perhaps have to be longer in these cases than in other cases.

7.7. Commercial banks would do well to commence operations in small farmers development agency areas where the agency has been doing some good work in the last one year or so e. g. Purnea in Bihar and use this expertise elsewhere while making loans in other small farmers development agency areas or in areas where there may be a preponderance of small farmers.

8. Supervision.

8.1. The most crucial part of production credit is supervision. Without close and constant supervision, it would be difficult to arrive at realistic scales of credit or effect smooth recovery. As recovery would depend upon the yields estimated on the basis of package of practices indicated in the proposals, the banks would have to build up an effective machinery for post credit supervision. An efficient supervisory machinery should be built up at the Head Office, with a view to both judging the actual implementation of their

policies, understanding the problems and lacunae in the field and ensuring genuine timely recoveries.

8.2. Reporting systems should be strengthened to provide information in the Regional Offices and/or the Head Office, on such matters as the types of advances made, recovery performance and the impact of agricultural lending on deposit mobilisation.

9. Inter-Institutional Relationship

9.1 At various stages of lending to agriculture, banks would have to turn to the concerned governmental extension and developmental agencies for guidance and help. While this is absolutely necessary at this stage of commercial banking experience in agriculture, banks should not lean too heavily on Government staff or depend on them entirely for technical and financial supervision. At no time should banks lose direct contact with their clients. Also, while the required data, etc. may be sought from the Government, the final decision in all cases of loan sanctions would have to be that of the banker and the banker alone.

9.2. At the initial stages of commercial banks entry into the agricultural sector, a certain extent of duplication of effort was perhaps unavoidable. Thus, it has been noticed that occasionally more than one commercial bank as well as co-operative banks might have financed the same borrower for the same purpose and against the same security. It is common banking practice for lending institutions to consult each other in the process of appraising loan proposals. Such consultation is of special significance in agriculture where the base for repayment is relatively narrow. It is hence essential that all branch agents in a centre/area should be in touch with each other as well as with their counterparts in the co-operatives and attempt to work out informal methods of exchanging information. This collaboration should not merely stop with avoiding duplication of

financing—which is of course crucial—but should be extended to such matters as working out common norms and scales of finance.

9.3. It is also necessary for banks to obtain full information on the programmes of the Agricultural Refinance Corporation in their various areas. Commercial banks financing of developmental programmes in areas where ARC schemes are in operation might result

not only in the bank loan becoming infructuous but might have more far-reaching consequences by adversely affecting the water table and thus the economic viability of the loans financed by the ARC scheme.

9.4. In the ARC scheme areas the commercial banks should see that full benefit accrues to the borrowers of durable capital loans by providing crop loans, where the co-operative credit structure is weak.
