REPORT
OF THE COMMITTEE
TO
EXAMINE THE ADEQUACY OF INSTITUTIONAL CREDIT TO THE SSI SECTOR AND RELATED ASPECTS

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RESERVE BANK OF INDIA

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Chapter Index

List of Abbreviations

ADB	Asian Development Bank
ASI	Annual Survey of Industries
BIFR	Board for Industrial and Financial Reconstruction
CCI	Controller of Capital Issues
CRAFICARD	Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development
DC (SSI)	Development Commissioner (Small Scale Industries)
DIC	District Industries Centre
DICGC	Deposit Insurance and Credit Guarantee Corporation
EDI	Entrepreneurship Development Institution of India
FI	Financial Institution
GIC	General Insurance Corporation of India
GOI	Government of India
IBA	Indian Banks Association
IBRD	International Bank for Reconstruction and Development

IDA	International Development Agency
IDBI	Industrial Development Bank of India
IECD	Industrial and Export Credit Department
KVIB	Khadi and Village Industries Board
KVIC	Khadi and Village Industries Commission
LIC	Life Insurance Corporation of India
MLI	Medium and Large Industry
MPBF	Maximum Permissible level of Bank Finance
NABARD	National Bank for Agriculture and Rural Development
NIC (LTO)	National Industrial Credit (Long Term Operations)
NSIC	National Small Industries Corporation Ltd.
NSSO	National Sample Survey Organisation
OTCEI	Over-The-Counter Exchange of India
RBI	Reserve Bank of India
RPCD	Rural Planning and Credit Department
RRB	Regional Rural Bank
SBI	State Bank of India
SEEUY	Self Employment Scheme for Educated Unemployed Youth

SEPUP	Self Employment Programme for Urban Poor
SFC	State Financial Corporation
SICA	Sick Industrial Companies (Miscellaneous Provisions) Act, 1985
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SIDO	Small Industries Development Organisation
SLIIC	State Level Inter-Institutional Committee
SLR	Statutory Liquidity Ratio
SSI	Small Scale Industry
SSIDC	State Small Industries Development Corporation
SUME	Scheme of Urban Micro Enterprises
SWS	Single Window Scheme
TCO	Technical Consultancy Organisation
UT	Union Territory
VCC	Venture Capital Company
VCF	Venture Capital Fund
VI	Village Industries
WCTL	Working Capital Term Loan

CHAPTER - I

INTRODUCTORY

1.1 The Reserve Bank of India constituted on 9 December 1991, a Committee under the Chairmanship of Shri P.R. Nayak, Deputy Governor to examine the difficulties confronting the small scale industries (SSI) in the country in the matter of securing finance. The representatives of the SSI associations had earlier placed before the Governor, Reserve Bank of India, various problems, issues and the difficulties which the SSI sector had been facing. A copy of the RBI Memorandum in this regard is at annexure 1.1 .

1.2 The Committee had a wide range of issues before it relating to institutional credit to the SSI sector. The terms of reference of the Committee were :

(i) to examine the adequacy of institutional credit for the SSI sector, particularly, with reference to the increase in the cost of raw materials and locking up of the available resources due to delay in the realisation of sale proceeds from large companies and Government agencies,

(ii) to examine the adequacy of institutional credit for term finance to the SSI sector, (iii)to examine the need for making any modifications/relaxations in the norms prescribed by the Tandon/ Chore Committee in respect of SSI units,

(iv) to examine whether any revision is required in the present RBI guidelines for the rehabilitation of sick SSI units,

(v) in the light of the above, to suggest :

a) suitable arrangements for ensuring adequate flow of institutional credit for working capital and term finance to the SSI sector including refinance arrangements by SIDBI/NABARD etc.,

b) modifications/relaxations, if any, required in the norms prescribed by the Tandon/Chore Committee in respect of SSI units,

c) methods by which the locking up of resources on account of delay in realisation of bills can be minimised,

d) changes, if any, required in the present guidelines for rehabilitation of sick SSI units, and

(vi) to make recommendations on any other related matter which the Committee may consider germane to the subject.

1.3 <u>Meetings of the Committee</u>

In all, the Committee held 7 meetings. Associations representing small scale industries, Chairmen of some commercial banks and Managing Directors of a few State Financial Corporations (SFC) were invited to attend some of the meetings to enable the Committee to understand their points of view on the various aspects covered by the terms of reference. Chairman, Small Industries Development Bank of India (SIDBI) and Chairman, Indian Banks Association (IBA) participated in some of the meetings of the Committee in which the Governor, RBI also took part. A list of the officials, representatives of the organisations and individuals who met the Committee is at annexure 1.2.

1.4 Sub-group for the North-Eastern Region

A sub-group of the Committee from among its own members visited Shillong and Guwahati to discuss the special problems of the small scale industries in the North-Eastern states and other hilly areas. The sub-group met a large number of representatives of the small scale industries and State Governments and officials of other organisations. The observations of the sub-group have been taken into account in this Report.

1.5 Overview of the Report

This Report consists of 7 chapters in all. Chapter II gives an overview of the institutional credit arrangements for the SSI sector. Chapters III to VI deal with the major items of the terms of reference of the Committee viz., adequacy and flow of working capital and term credit for the sector, norms of working capital and methods of computing permissible bank finance and rehabilitation of sick SSI units. Chapter VII deals with certain aspects/ suggestions which are relevant to the terms of reference of the Committee. A summary of the important recommendations has been furnished at the end.

1.6 Acknowledgements

The Committee received valuable information and guidance from the Chairmen of SIDBI, IBA and most of the commercial banks in the examination of the issues covered by the terms of reference and the Committee is grateful to them. The representatives of the Chambers of Commerce, SSI associations and the Chief Executives of some SFCs also gave their views and suggestions which have been of great use to it in writing its Report. The Committee wishes to acknowledge the same.

The Committee wishes to express its thanks to the sub-group of members of the Committee which visited Shillong and Guwahati and discussed the problems of the SSI relating to the terms of reference of the Committee with Government officials, representatives of SSI associations, SFCs etc. The Committee is also grateful to the Rural Planning and

Credit Department of the Reserve Bank of India, Bombay for providing the Secretariat, comprising its member-secretary(Shri R.K.Jalan), Sarvashri S.John and S.Sankar, Joint Chief Officers, Shri K.R.Iyer, Assistant Chief Officer, Shri K.L.A.Iyer, Rural Credit Officer and Shri Cyril D'Souza, Assistant Rural Credit Officer, that assisted the Committee most admirably in organising the work, arranging the meetings and drafting the minutes of various meetings as well as the Report and to Shri V.Bahuguna, Asst. Chief Officer of that Department and his staff who have successfully brought out the Report in record time by making use of computers. Special thanks are due to Shri S.Sankar but for whose untiring efforts, deep knowledge of the subject and competent drafting of the Report, the Committee would have taken longer than it did to conclude its deliberations. The Committee wishes to place on record the valuable assistance received by it from Shri S.N.Razdan,Manager, Shri A.L.Narashimhan, Joint Chief Officer, Rural Planning and Credit Department and his staff of the Reserve Bank of India, Bangalore and Shri D.N.Prasad, Joint Chief Officer, Rural Planning and Credit Department and his staff of the Reserve Bank of India, Guwahati for arranging some of the meetings of the Committee/sub-group at Bangalore and Guwahati and in providing secretarial assistance.

The Committee places on record its deep appreciation of the valuable guidance received from Shri S.Venkitaramanan, Governor, Reserve Bank of India at various stages in fulfilling its task.

Sd/-
P.R.Nayak

Sd/- S.L.Kapur	Sd/- V.Mahadevan	Sd/- A.N.Srinivasa Rao
Sd/- K.J.Reddy	Sd/- R.S.Agrawal	Sd/- V.G.Kalantri
Sd/- Ashim Chatterjee	Sd/- P.Kotaiah	N.Dutta
Sd/- A.W.Bhadkamkar	Sd/- Dr. S.L.Shetty	M.S.Parthasarathy
Sd/- Smt. Sarita J.Das	Sd/- Jagdish Capoor	Chakradhari Agrawal

Sd/-
R.K.Jalan

29 August 1992

CHAPTER II

INSTITUTIONAL CREDIT FACILITIES FOR THE SMALL SCALE INDUSTRIES SECTOR - AN OVERVIEW

2.1 The SSI sector covers the full range of small industrial enterprise. It includes industries using the state-of-the art technology with high capital investment as well as tiny industrial units and also embraces the activities of artisans, village and cottage industries. Among the various sub-sectors of the SSI sector are -

(i) Small scale industrial undertakings which are engaged in the manufacture, processing or preservation of goods in which the investment in plant and machinery does not exceed Rs.60 lakhs (Rs.75 lakhs in the case of ancillary undertakings and export-oriented units)

(ii) Tiny enterprises whose investment in plant and machinery does not exceed Rs.5 lakhs and

(iii)the decentralised sector which, though not defined statutorily, is generally understood to mean traditional industries including artisans, khadi and village industries, handlooms, sericulture, handicrafts, coir etc., which have been categorised as 'Village Industries' (VI) under the Government of India's new SSI policy of August 1991.

2.2 In the strategies of economic development of the country, the SSI sector has been given a crucial role to play. This sector provides the maximum employment next only to agriculture. As at the end of March 1991, the SSI sector provided employment to around 4.3 crore[1] people of which traditional industries had the highest share of 57%. It accounts for more than 27% of the total exports[2] of the country. The output of the SSI sector during 1990-91 was estimated at Rs.1,78,523 Crores[3]. Shorter gestation periods (as compared to the large industrial units) and low social cost of establishment are the distinguishing characteristics of the majority of the small units. The small scale units are, generally, widely dispersed and hence better suited to building geographically wider industrial base than the capital intensive, large industrial units. They play significant role in the

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1. SIDBI Annual Report, 1991-92.
2. Report on Currency and Finance, 1990-91, RBI.
3. National Accounts Statistics, 1991: Data collected for 2nd All-India Census of SSI units: NSSO 40th Round Data.

programmes of rural upliftment and the removal of poverty. Further, they help to mobilise rural resources. The products of these industries meet a substantial part of the essential requirements of our rural and semi-urban areas. Considering the country's resource endowment and the unemployment problem, the development of small scale industries has been considered very crucial for India.

2.3 The SSI sector suffers from the disadvantage of inadequacies in infrastructure and technology. The weakness of the SSI units in the market place is both the cause and the consequence of their low bargaining strength which very often makes them captive to large industries or middlemen. In finance and organisation they suffer from a weak capital base, little access to the capital market resulting in a large reliance on borrowed private funds and indigenous money lenders and a lack of managerial, organisational and financial skills. Consequently, credit institutions are rather hesitant to cater to the financial needs of the SSI sector. Deliberate efforts are, therefore, required to encourage, support and strengthen the sector.

2.4 Efforts to organise and revive the traditional village and cottage industries were made by the Government even before the attainment of Independence. However, with the planned approach towards economic development, initiated in the successive Five Year Plans, there was growing awareness of the important role played by the modern small scale sub-sector as well as the village industries. Various measures were taken by the Central and State Governments for the growth of this sector. Separate all-India agencies were set up to look after the needs of the various sub-sectors of the SSI sector, such as, the Central Silk Board (1948), All India Handloom Board (1952), All India Handicrafts Board (1952) and Coir Board (1953). The Khadi and Village Industries Commission (KVIC) was set up in 1957 under an Act of Parliament. KVIC has more than 14,000 market outlets spread throughout the country for marketing khadi and village industries' products. Central and State Governments provide financial assistance to the village and cottage industries through specified Boards or agencies out of budgetary allocations. By and large, these funds are intended for a variety of promotional and developmental activities. Such assistance is provided to the modern industrial units through the Small Industries Development Organisation (SIDO) of the Government of India.

2.5 The place of credit in the promotion of development needs no emphasis though, historically, bank lending in India was confined to financing the movement of agricultural produce from the farmer to the trader. As was the case with British banking practice, commercial banks mainly provided short term finance for trading business which, in due course, was extended to cover the short term credit needs of industry also. As the early stages of industrialisation in India were largely promoted by the managing agency houses, the bankers invariably sought the guarantee of the managing agents, as an earnest of good management, in addition to the security of the current assets of the borrowing company. This system of advances backed by security-cum-guarantee favoured borrowers with a strong financial base. The nature of the activity and its relevance to promoting the national welfare were not always important to the banker. This often led to the over-financing of industry in relation to production needs, as also with reference to genuine inventory equirements.

2.6 With the nationalisation of the major commercial banks in 1969 a new direction was given to bank lending on the basis of a study of the totality of the operations of the industrial units rather than on security considerations alone. At present, working capital finance is made available by banks for the acquisition of current assets in the form of inventory comprising raw materials, goods in process and finished goods, stores and spares, bills receivables, book debts, etc. Working capital finance is, therefore, an essential input for the smooth operation of the units to keep their production going. This input is crucial to the small scale units which depend mainly on bank finance for financing their manufacturing activities, being unable to raise resources elsewhere.

2.7 RBI as the Central Bank of the country, has played an important role in building the requisite institutional structure to meet the long-term capital requirements of this sector. Thus, RBI was instrumental in the setting up of SFCs and IDBI. It also set up the National Industrial Credit (Long Term Operations) Fund to which very substantial annual transfers were made from its profits. Annual allocations made out of the Fund were being utilised exclusively to provide resources to IDBI and later to SIDBI as well for refinancing the assistance of SFCs, Commercial banks etc. to small scale industries.

2.8 The introduction of the Credit Guarantee Scheme in July 1960 for guaranteeing the advances granted by banks and other credit institutions to small scale industries could well be considered the first important step in credit support to SSI. The nationalisation of major Indian banks, the stipulation of targets for lending to the priority sector of which small scale industry formed one constituent, the introduction of the Lead Bank Scheme and of the District Credit Plans and the launching of several subsidy-linked self-employment programmes contributed to a steady growth of bank finance to this sector. SSI units have been allowed concessionality in the rate of interest on term loans and in margin and security norms. Banks and financial institutions have also been advised to sanction credit limits upto Rs.25,000/- (since enhanced to Rs.50,000) as composite loans to artisans, village and cottage units.

2.9 A multi-agency approach was initiated by RBI for the growth of the SSI sector. The institutional framework for making available financial assistance to the small scale industrial sector comprises the commercial banks, the cooperative banks, the Regional Rural Banks (RRBs) and SFCs*; the National Small Industries Corporation (NSIC) and the State Small Industries Development Corporations (SSIDCs) also provide direct assistance to this sector. IDBI whose functions in relation to the small scale industry have been vested in SIDBI from April 1990, and the National Bank for Agriculture and Rural Development

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* As of March 1991, there were 18 SFCs. In 9 other States/U.Ts. the State Industrial Development Corporations (SIDCs) performed the functions of SFC also.

(NABARD) provide refinance facilities to the lending agencies. Generally, the SSI sector raises term credit from the SFCs and the banking system mainly provides working capital. However, the banking system also provides term credit, wherever feasible. Non-financial type of assistance, including technical and consultancy services, marketing assistance etc., are available to the SSI sector from the NSIC which is a national level organisation. SSIDCs provide such assistance at the State level.

2.10 RBI has been closely monitoring the flow of credit to the SSI sector and in order to help smoothen the flow of credit, it has issued guidelines from time to time to commercial banks in the matter. The guidelines, inter alia, cover aspects relating to timely and adequate sanction of working capital limits, co-ordination between commercial banks and SFCs, submission of periodical reports to Boards of banks with respect to credit assistance to the SSI sector as also the rehabilitation of sick SSI units. RBI has also constituted a High Level Standing Advisory Committee to review the flow of institutional credit to the SSI sector.

2.11 The role played by some of the important agencies is briefly outlined below.

(i) <u>Commercial banks</u>

Commercial banks, including RRBs, are the most important source of finance for SSI. Though their involvement is mainly by way of working capital advances, their support by way of term loans is also significant. Some of the commercial banks have opened specialised branches to cater to their credit needs. They have also extended sizeable credit under various schemes for the generation of self-employment opportunities launched by the Government of India as well as the State Governments.

(ii) State Financial Corporations (SFCs)

In pursuance of the SFCs Act, 1951, SFCs were set up mainly to finance small and medium scale units. Their area of operation is generally restricted to the concerned states. SFCs also assist small scale units for their modernisation and technical upgradation programmes by providing soft loans, resuscitating the sick small scale units through rehabilitation schemes and through equity type of assistance under SIDBI's seed capital scheme.

(iii) Industrial Development Bank of India (IDBI)

Till April 1990 IDBI, as the principal financial institution for coordinating the activities of institutions engaged in financing, promoting and developing industry, was also assisting the SSI sector. IDBI has taken a number of measures to promote the flow of term finance to small scale units. Its assistance has been indirect, by way of refinance through SFCs and banks; it also provides assistance to SIDCs. Apart from refinancing term loans granted by the lending institutions, IDBI was operating a scheme, for discounting bills arising out of the sale of indigenous machinery on deferred payment basis. Some of the other schemes of IDBI tailored to the needs of SSI were-

a) seed capital assistance,

b) facility under the Bills Rediscounting Scheme for the benefit of SSI units,

c) foreign currency finance through SIDCs to SSI units under IDA/IBRD/ADB lines of credit,

d) scheme for assistance to promotional organisations especially for the village industry sub-sector and

e) 'Single Window Scheme' for providing term loan and working capital by SFCs to the very small units.

IDBI, in association with other all-India financial institutions, has taken the initiative to set up a chain of Technical Consultancy Organisations (TCOs) in various parts of the country. In 1977 IDBI created, out of its profits, Technical Assistance Fund which is utilised, inter-alia, for financing entrepreneurial development programmes, meeting the initial losses of TCOs and financing various studies designed for the benefit of the SSI sector.

(iv) Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI), a wholly owned subsidiary of IDBI, has been set up to specially cater to the needs of the SSI sector. It commenced functioning from 2 April 1990 and has assumed the role which was earlier performed by IDBI in relation to the SSI sector. The Small Industries Development Fund and the National Equity Fund, earlier operated by IDBI, now stand transferred to SIDBI. Apart from continuing the different schemes of assistance introduced by IDBI, SIDBI has taken several measures to augment the flow of assistance to the SSI sector the more important of which are given below :

a) enhancement of the ceiling amounts under the 'Single Window Scheme' from Rs.5 lakhs to Rs.10 lakhs and further to Rs.20 lakhs and extending the scheme to the commercial banks,

b) liberalisation of the scope of the National Equity Fund Scheme and the Automatic Refinance Scheme,

c) introduction of a scheme of direct discounting of bills arising out of the sale and purchase of indigenous capital equipment and machinery,

d) infrastructure support by way of direct assistance to SSIDCs, State Infrastructure Development Corporations and other State level agencies for the development of industrial areas,

e) schemes to facilitate marketing support intended to strengthen and expand the marketing infrastructure and expedite the realisation of the sale proceeds of the products of the SSI sector.

f) resource support to SSIDCs and NSIC for extending raw material supply and marketing facilities to SSI units and

g) promotion of, and extending resource support to, factoring companies, jointly with banks.

In addition, SIDBI has also taken up certain programmes for technology upgradation and entrepreneurship development. In line with the role assigned to SIDBI by its statute in the sphere of coordination of the functions of institutions engaged in the promotion, financing and development of small industries, SIDBI has constituted a National Advisory Committee and five Regional Advisory Committees consisting of experts and representatives of institutions and small industries.

(v) National Bank for Agriculture and Rural Development(NABARD)

NABARD was established in 1982 pursuant to the recommendations to this effect made by the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD). The functions relating to the refinance facilities for rural artisans, village and cottage industries which were earlier being provided by RBI directly, were taken over by NABARD. In 1985, NABARD introduced package of schemes for refinance against loans for productive purposes as well as for infrastructural and promotional support to the artisan/ village industries category. It also established in 1984-85, a soft loan assistance fund for margin money which is utilised to provide 100 percent refinance to the financing banks against their margin money advances to eligible borrowers. Such assistance is interest-free. With a view to bringing about coordination among the various developmental agencies, on the one hand and the credit agencies, on the other, in the matter of dispensation of credit for rural activities, NABARD has set up State Level Coordination Committees at their regional offices comprising officials of the State Government Departments, KVIC/KVIB and financing banks. A National Level Advisory Committee comprising eminent specialists has been set up to aid and advise NABARD in the formulation of innovative schemes and to expand thrust areas.

(vi) <u>Other financing agencies</u>

RRBs and Cooperative banks including Urban Cooperative Banks also provide credit support to the SSI sector, more particularly, the village industries and tiny units.

(vii) <u>Other institutions</u>

There are various agencies which assist the growth of small scale industries exclusively. Prominent among them are the National Small Industries Corporation Ltd., (NSIC), at the all India level with offices in various states and the State Small Industries Development Corporations (SSIDCs) at the State Level. The various forms of assistance rendered by the NSIC and SSIDCs to the SSI sector are :

a) supply of machinery on hire-purchase basis,
b) procurement and distribution of raw materials,
c) securing contracts from government/purchasing agencies,
d) provision of technical and consultancy services and
e) marketing assistance

2.12 The shortage of risk capital has been one of the impediments to the rapid growth of small scale industries in the country. Most units in this sector have no access to the capital market and the promoters have to rely heavily on external sources of funds, like friends and relatives, to provide a cushion for their institutional borrowings. This has tended to make the SSI units extremely susceptible to the vagaries of the economic environment. Several commercial banks, therefore, formulated schemes for assisting "technician entrepreneurs" having the requisite skills but lacking financial resources. Such schemes provided finance at concessional rates and low margins. The Seed Capital Scheme of IDBI introduced in December 1976, the Special Capital Scheme of SFCs and SBI's Equity Fund Scheme for SSI were some of the other schemes in this area. More recently, Venture Capital Funds (VCFs)/Venture Capital Companies (VCCs) have come into existence. While the VCCs are set up as public limited companies, VCFs are set up under the Indian Trusts Act, 1882. At present, there are 8 VCCs/VCFs. The progress in providing risk capital has, however, been insignificant.

2.13 There has been a steady growth in the flow of institutional finance to the SSI sector during the last more than two decades and, more particularly, since 1969 after the nationalisation of the major Indian commercial banks. Data regarding the flow of assistance from the various institutions are given in the annexures 2.1 to 2.5. Total advances to the SSI sector by scheduled commercial banks increased from Rs.347 crores as at the end of December 1969 to Rs.17,513 crores as at the end of March 1991. During the same period the share of advances to SSI in total bank credit increased from 9.6% to around 16%. Outstanding advances to the SSI sector from all scheduled commercial banks by way of working capital almost doubled from Rs.6,256 crores as at the end of December 1985 to Rs.12,399 crores as at the end of March 1990. Working capital finance formed high proportion of the total advances of scheduled commercial banks to the SSI sector (78% as at the end of March 1990).

2.14 Financial assistance extended by SFCs to the SSI sector also increased steadily. As against Rs.370 crores disbursed by SFCs to the SSI sector during 1984-85, the amount disbursed during 1990-91 was Rs.924 crores. More than 70% of the assistance extended by SFCs during 1990-91 went to the SSI sector. The investment in the SSI sector increased from Rs.2,296 crores in 4.16 lakh units in 1973-74 to Rs.18,196 crores in 18.27 lakh units in 1989-90, showing an incremental investment of Rs.15,900 crores during the period and an annual compound growth of around

13%. The growth of the SSI sector during the period from 1980-81 to 1990-91, in terms of number of units, investment, employment and exports is furnished in annexure 2.6.

2.15 Though there has been considerable growth in the flow of institutional finance to the SSI sector over the years, some of the important objectives set for the SSI sector are yet to be achieved fully. The more important aspects are dealt with briefly below :

i) The dispersal of SSI units away from the metropolitan areas and large cities has not taken place to any appreciable extent. More than 50 per cent of the SSI units were concentrated in as few as 85 out of the 442 districts at the end of March 1988. Even within the developed states, there has been a concentration of units in a few areas which are either metropolitan towns or large cities.

ii) Inspite of the increased flow of credit, the share of the tiny sector and village industries has been dismally low.

iii) Forward and backward linkages to ensure the success of enterprises, particularly, in the tiny and village industries sector, has not kept pace with the increase in the flow of credit. It is being increasingly realised that credit is only one of the essential inputs for industrialisation and that only if other supporting facilities, including adequate and timely availability of raw materials, skilled labour, marketing support etc. are provided on an assured basis, will entrepreneurs be able to prepare viable proposals and obtain institutional finance. This is, particularly, true of single artisans or units in the decentralised sector. The financing institutions find it difficult to assess the viability of such units, since neither the supply of raw materials nor the marketing of finished goods can be organised in an assured fashion by the large number of such units which are widely dispersed. The cooperative structure under which such efforts were proposed to be organised for a cluster of entrepreneurs, has not produced the desired results for a veriety of reasons, except in the case of certain activities like handlooms.

iv) The system of providing term credit and working capital by two different kinds of institutions has given rise to a host of problems of coordination between them, not only in providing finance initially, but also in the follow-up of loans, grant of further assistance for expansion/diversification and nursing in the event of sickness.

2.16 The Village Industries receive substantially lower credit support from the institutional agencies, as compared to tiny enterprises and the larger SSI units. While the flow of institutional credit to the small and marginal farmers within the agricultural sector has shown substantial improvement over the years, village industries continue to suffer from a lack of access to instituitional credit. Advances by commercial banks to artisans, village and cottage industries within the SSI sector rose from Rs.350 crores as at the end of December 1985 to Rs.712 crores as at the end of March 1990. Though these figures reflect a growth of more than 100% during the period, the share of bank credit to this sub-sector, at 4.5% of the total credit to the SSI sector as at the end of March 1990, was very insignificant. Advances by RRBs to village industries formed around 8% of their total advances. It will, therefore, be safe to presume that the financial needs of the village industries segment of the SSI sector are met from private sources, including indigenous money lenders. Many of such activities also depend on a system of master craftsmen/ master weavers who essentially perform the role of middle men-traders and command better access to institutional credit on account of their superior creditworthiness in the eyes of the credit institutions.

Absence or unsatisfactory linkages relating to raw material availability and assured marketing support to the individual village industry units compound their difficulties and they are often forced to take the services offered by the master craftmen/master weavers, although the terms usually weigh heavily against the small units. The agencies under the KVIC umbrella have not been able to satisfactorily cover the entire village industries sector. Efforts to update their technology have also not been of a high order.

CHAPTER III

ADEQUACY AND FLOW OF INSTITUTIONAL CREDIT FOR WORKING CAPITAL

3.1 There has been a continuous increase over the years in the quantum of credit provided to the SSI sector by the commercial banks. Outstanding advances of about Rs 350 crores in 1969 grew to nearly Rs 16,000 crores in March 1990 of which working capital finance formed the lion's share of Rs.12,400 crores[1]. The state term-financing institutions, supported by SIDBI, have taken the leading role in providing term loans to the SSI while the banks have taken care of the working capital needs.

RBI guidelines for working capital

3.2 Complaints were being voiced from time to time regarding the difficulties experienced by the small scale units in securing bank finance, particularly, for working capital purposes and these related not only to the quantum but also to the delays involved in the rules and procedures followed by bank branches in sanctioning or enhancing the quantum. The question of adequacy was gone into by the Tandon Committee and the Chore Committee in 1975 and 1979, respectively. The norms recommended by them as reasonable

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1. Annexure 2.1

requirements and the methods of providing bank finance were accepted and made applicable. RBI issued a set of comprehensive instructions/guidelines to commercial banks in 1988 in the matter of financing the working capital requirements of SSI units.

These instructions envisage, inter alia, the following:

(a) Banks should not sanction reduced working capital levels on the plea that the new unit will require full credit limits only when it begins operating at its full capacity.

(b) Full working capital limits, determined on the basis of "need" related to the rated capacity of the unit, should be sanctioned at the commencement itself, adding a contingency provision of about 10 per cent to take care of unforeseen circumstances due to operational bottlenecks.

(c) The bank branches should be flexible and realistic in permitting operations on the limits sanctioned. As drawals on working capital limits are ordinarily related to drawing power based on value of stocks/receivables, it should be possible for the branches to regulate the operations in the account consistent with the actual requirements and the contingencies which may arise. Within the limits sanctioned, drawals should be allowed automatically to match the increasing levels of operations, if the conduct of the account is satisfactory.

(d) The bank's decision regarding credit assistance should be communicated to the applicant within 8-9 weeks from the date of receipt of application.

(e) Requests for increase in limits should be considered expeditiously and decisions taken promptly and, in any case, within 6 weeks.

(f) To ensure that limits are rejected or reduced (from the level applied for) after due consideration, the following procedure should be adhered to:-

(i) Applications for fresh limits/enhancement of existing limits should not be rejected without the approval of the next higher authority.

(ii) Sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation.

3.3 The Committee has heard the representatives of the SSI and of banks and has noted with satisfaction the striking unanimity that exists on all sides that the guidelines are wholesome. The SSI would like nothing more than faithful adherence by the banks to the guidelines but there was a widespread belief among the industry that the banks do not always follow them and that was at the root of the travails of the SSI. The SSI associations allege that the practice exists, in particular, of sanctioning inadequate working capital and/or releasing such working capital to the SSI units in driblets.

3.4 A sample study covering 81 bank branches in 25 States and 7 U.Ts carried out by RBI, covering the period from July to December 1989, revealed the following position in regard to compliance with the aforesaid instructions.

(i) 54 out of 81 bank branches (66.67%) covered by the study sanctioned full working capital requirements determined on the basis of the need related to the rated capacity of the SSI units at the time of the commencement of their operations.

(ii) The inclusion of a contingency provision of 10 per cent of the credit limit sanctioned, to take care of unforeseen circumstances like operational bottlenecks, was allowed by only 18 branches (22.2%). Six branches allowed excess drawings in the form of temporary overdrafts up to 10 per cent of the sanctioned limits whenever the contingency arose. Many bank branches were not aware of the RBI guidelines in this regard.

(iii) Out of 1413 fresh credit proposals (which did not include proposals for temporary/permanent enhancement of existing credit limits) received by the bank branches, 987 proposals (69.9%) were disposed of within the stipulated time of 8 to 9 weeks. Out of the 81 branches, 15 branches had disposed of all fresh credit proposals received from the SSI units within the stipulated time schedule.

(iv) Out of a total of 2297 credit proposals (including proposals for temporary/permanent enhancements of existing credit limits) received by the branches, 1487 proposals (64.74%) were sanctioned by the branches, 336 proposals 14.63% referred to controlling offices and 240 proposals 10.45% rejected. Out of the 336 proposals referred to the controlling offices, 205 were sanctioned, 13 rejected and 118 were pending at the controlling offices. The number of cases pending with the branches was 234. The approval of the next higher authority was taken for the rejection of applications for fresh facilities/ enhancement of existing limits by 46 branches, whereas 11 branches did not obtain such approval and there was no case of rejection at 24 branches.

(v) Sanction of credit limits for reduced amounts (as compared to those applied for) was being reported with full details to the next higher authority for review/ confirmation by 38 bank branches. In 6 branches this procedure was not being followed while there was no case of reduction in the limits applied for by SSI units in 37 branches.

3.5 It will be seen from the study that even one year after the issue of instructions by RBI, the compliance at the field level did reveal deficiencies in certain respects. Banks were advised to take steps to rectify the deficiencies observed during the study. Though sanction of full working capital according to instructions was observed in two-thirds of the branches covered by the study, the Committee feels that non-compliance with the instructions in one-third of the branches surveyed is too large a percentage to be overlooked as insignificant.

3.6 It is of the utmost importance that the banks take immediate steps to ensure full adherence to the guidelines by all the branches. We have recommended later in this chapter computerised information and monitoring system which keeps the banks abreast of the developments in the SSI units and also state and district level monitoring and overseeing forums. The systems will help monitoring, by exception, those units which are experiencing difficulties and will also facilitate the banks in complying with the guidelines issued by RBI. Pending the introduction of the computerised information system, banks should be advised to introduce a 'unit register' of SSI borrowers at the branch level. The register should contain up-to-date information on all important aspects of each SSI unit financed, such as, credit limit sanctioned, enhancements/ reductions thereof, major irregularities, if any, observed in the operation of the borrowal accounts and steps taken to rectify them, and brief analysis of the annual financial statements. This will help the branch manager to get a complete background of the unit within a short time.

3.7 RBI should periodically monitor the banks' compliance with its guidelines. While bank branches are subjected to different types of inspections, it is unrealistic to expect that such inspections will be able to cover this aspect of their functioning in a comprehensive manner. The Committee recommends that RBI as well as the banks themselves should carry out special studies periodically, on as large a sample of branches as possible, specifically to ascertain the position regarding the implementation of its guidelines. Non-compliance with the guidelines by the banks should be viewed seriously by RBI.

<u>Profile of working capital adequacy.</u>

3.8 As the SSI associations are strongly of the view that the support the SSI sector gets from the banking system is meagre, the Committee found it necessary to examine, with reference to the data available, the profile of bank finance for working capital. A close look at the available data on bank finance, value added, gross output etc., in respect of the SSI sector may be appropriate at this stage. It is possible to estimate the gross output of the registered* SSI sub-sector in 1989-90 at Rs.49,871 Crores by applying to the value added of Rs.45,173 Crores (of the registered manufacturing sector) the ratio of 4.6 between output and value added obtained from the data appearing in the National Accounts Statistics and fixing the share of the SSI output in total output at 24%, as available in the Annual Survey of Industries (ASI) 1986-87. As of end March 1990, SSI borrowal accounts of commercial banks with credit limits of over Rs.1 lakh numbered 1.16 lakhs which, being larger units, may be assumed to be registered units almost entirely and the total amount outstanding thereagainst was Rs.9,711 crores. It could be inferred that the registered manufacturing units within the SSI sector enjoyed bank finance approximating 19.5% of the gross output. The same would constitute roughly 23.5% of the total input costs.

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* A 'registered' unit as per ASI is one that is registered under section 2(m) (i) or 2(m) (ii) of the Factories Act, 1948 which, respectively, refer to factories employing 10 or more workers and using power and those employing 20 or more workers but not using power on any day of the preceding 12 months. The term 'registered' used in this Report does not, therefore, denote registration with the Department of Industries, unless otherswise indicated.

The SSI sector is also financed by the urban co-operative banks whose total outstanding advances to this sector as at the end of June 1990 stood at around Rs.900 crores[1] which were mostly to the non-tiny SSI. On the other hand, the outstandings of commercial banks against "sick" SSI units, estimated at Rs.2,427 crores[2] as of March 1990, may be generating little or no output at all. The Committee felt that, in the absence of any firm data, about half of the outstandings could be taken to be contributing to production, especially, because advances of about Rs.591 crores out of that total were reported to be outstanding against "potentially viable" units. In the result, the effective ratio of working capital to gross output would stand reduced to 18.8%.

3.9 The same conclusions can be reached from the results of the Second All-India Census of small scale industrial units (1988) conducted by the Office of the Development Commissioner (SSI), Government of India. This census covered all SSI units registered by the State Governments, numbering 10.55 lakhs of which 5.82 lakhs were working, with a total production of Rs.43,219 crores in 1987-88. It appears that the production is higher than the ASI estimate of Rs.34,839 crores during 1987-88, as it also accounts for the production of units not registered under the Factories

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1. Urban Banks' Department, RBI.

2. RBI, IECD

Act. According to the survey, 5.2 lakh units out of the 5.82 lakh working units were in the production slab of upto Rs.10 lakhs, with a share of 35% in the total production or about Rs.15,127 crores. As the number of units in this lowest slab is very large, it may be safely assumed that a great majority of them would be very small with little or no working capital facilities. Even if only one-third of the production in this slab lacks working capital support, the total of Rs.7,148 crores reported in the survey as the working capital used by the SSI would appear to have generated an output of Rs.38,177 crores. This would give a ratio of 18.7% of working capital to output.

3.10 It is interesting to compare these ratios with the availability of bank finance to the medium and large industries (MLI) whose production of about Rs.1,57,925 crores[1] in 1989-90 was matched by total outstandings of Rs.38,262 crores[2]. The outstandings include a significant proportion of term loans also. Available data reveal that 30.7%[3] of total bank credit outstanding as of end-march 1990 related to medium and long term loans; in the case

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1 Derived from the data given in paragraph 3.8.

2 Report on Currency and Finance, 1990-91, RBI.

3 Basic Statistical Returns, March 1990, RBI.

of large borrowers covered by the Credit Monitoring Scheme of RBI, the term loans from the commercial banks formed 12.3%[4] of the total credit provided to them. In the absence of more specific data, it will be assumed that about 20% of total bank credit to MLI would represent term loans and the remaining 80%, working capital. On this basis the ratio of bank financing of working capital was about 19.4% of output. MLI have access to the capital market and to company deposits. The level of financing of their working capital from all sources may, therefore, be assumed to be a few percentage points higher than the SSI level.

3.11 The picture is vastly different, however, when the position in respect of the SSI sector as a whole is examined. The best estimate of the total output of all the categories of SSI in 1989-90 is around Rs.1,54,000 crores and the commercial banks' outstandings of working capital thereagainst were Rs.12,399 crores. The overall ratio of working capital to total output would thus be only 8.1%. When looked at in this perspective, the SSI, as a whole, would seem to have been poorly served by the banking system and the deep disturbance caused among the SSI community can be readily appreciated. The reason for such a state of affairs is not far to seek. Our estimate of output of the unregistered SSI sub-sector is placed at around Rs.1,03,800

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4 RBI, IECD.

crores in 1989-90 based on the value added of Rs.28,600 crores and the ratios of output to value added available from the data collected for the Second All-India Census of SSI units (registered upto 31.3.1988) and the 40th round of NSSO. The outstanding bank credit was only Rs.2,817 crores forming 2.7 per cent of the output. Hence, the conclusion is inescapable that working capital assistance to the Village Industries and the smaller among the Tiny Industries is almost non-existent.

3.12 We, therefore, propose to deal first with this segment of the SSI. There is little doubt that it is in need of a much higher level of working capital as a percentage of its output. What that level may be will depend upon factors, such as, their technology level, sources and lead time for raw materials supply and the market absorbability of products. The more important types of activity will have to be studied in some detail. As, however, an overwhelming proportion of such units is in the unorganised sector, it would appear that, in macro terms, a substantial increase in the supply of working capital to this sub-sector would take time, considering the vast numbers of units to be serviced and the existing credit delivery system.

3.13 In any case, it would be unrealistic to expect that the 1989-90 ratios of working capital to output achieved by the registered SSI could be reached in the 8th Five Year Plan by the small unregistered units, broadly corresponding to the Village Industries and the smaller Tiny Industries with credit limits of not more than Rs.1 lakh. The Committee feels that the practical first step should be to require that such units should have the first claim on the priority sector credit to the SSI, with an allocation built up from a notional 1989-90 base which should be atleast 50% higher than the actual credit outstanding in March 1990 of about Rs.2,800 crores. As the existing working capital gap is, in fact, much wider, ranging from the present low level of 2.7% to nearly 20% of the output, the banking system should gear itself up, to reach an even higher level of credit supply, though it is difficult to recommend a specific level without the benefit of detailed studies.

3.14 The Service Area Approach to the planning of credit is eminently suited to the identification and financing of units in this category. The scope is vast, equal to the working capital demand for a production level of over Rs.1,00,000 crores (in 1989-90) which today enjoys little working capital. Perhaps, it would be easier for banks to begin with smaller units included in the 5.82 lakh units registered by the State Governments. Then there are the unregistered units presented by the bulk of the 36 lakh bank borrowal accounts operating within low credit limits of up to Rs.1 lakh. No single formula of working capital may be applicable to all such units. Bank branches should give priority to those Village Industries and the smaller Tiny Industries which can use working capital efficiently, having established production successfully but unable to make further progress for lack of working capital.

3.15 Close monitoring of the bank's progress in this new activity will be necessary. The Committee was pleased to note that RBI has already launched computerised credit planning and monitoring under the Service Area Approach. Most activities which are classified under the broad category of Village Industries and the smaller Tiny Industries, referred to above, are part of the reporting process. The Committee recommends that RBI should make full use of this device in the years to come for this purpose.

3.16 The Committee on the Financial System (Narasimham Committee) has recommended that priority sector advances for SSI may be restricted to the tiny units which are presently defined as units with investments in plant and machinery of up to Rs.5 lakhs. The very small tiny units with credit limits of up to Rs.1 lakh will fall into the "unregistered" sector (as defined by ASI) and, consequently, will be receiving very low levels of working capital assistance from the banks at present. We have already recommended, in paragraph 3.13 above, that the flow of credit to such units should be stepped up substantially.

3.17 In regard to the rest of the tiny units, if it is assumed, as may be reasonable, that they will broadly fall into the working capital slabs between Rs.1 lakh and up to Rs.10 lakhs, it is seen that about Rs.4,900 crores of working capital advances of the larger tiny units were outstanding in March 1990. The Committee has found that the level of advances to such tiny units is comparable to the levels obtaining in the large SSI units which have been enjoying working capital limits much better than those of the Village Industries and the smaller Tiny Industries. Nothing should be done which may adversely affect the existing share of tiny industries in the total priority sector. The Committee recommends that the new priority sector credit dispensation, when adopted, should fully provide for the working capital requirements of all tiny units up to credit limit of Rs.10 lakhs after first taking care of the working capital allocation made for the Village Industries and the smaller Tiny Industries with credit limits up to Rs.1 lakh, as recommended in paragraph 3.13 above. A specific allocation to the larger tiny units should be made by fixing their proportion of the credit to the total priority sector credit.

3.18 We now turn to the larger SSI. We have recommended later in this Report that there should be flexibility in the application of the inventory norms as per the Tandon Committee recommendations and that, in respect of units for which the norms are not presently applicable or have not been prescribed, 25% of the output value should be freely allowed as working capital, of which atleast four-fifths should be provided by the banking sector. As will be evident from the ratio arrived at in paragraph 3.8, SSI units presently do not quite get this level of working capital support from the banking system, the shortfall being a little over 6%. The recommended minimum level should, therefore, be put on a firm footing by the provision of the required amount of credit (as distinct from 'directed credit') by the commercial banks themselves through an annual budgetary exercise described later in this chapter. Besides, if the genuine need-based demand of the SSI sector as reflected in the budget requires diversion of a part of the resources flowing to the MLI sector at present, the same should be mandated by the top managements of banks. The MLI are able to tap the capital market for their working capital needs which most of the SSI cannot hope to do. The Committee recommends that the working capital needs of the larger SSI should be fully met by the commercial banks and that the Chief Executive of each bank shall ensure that this is done. The Committee is aware that the larger SSI units are greatly disturbed that they might soon find themselves outside the priority sector, if the Narasimham Committee recommendations were to be accepted, but it sees no reason for anxiety that the flow of working capital to them would be adversely affected.

<u>Working capital adequacy in the 8th Five Year Plan</u>

3.19 It will be appropriate, at this stage, to examine the scenario of demand and availability of bank finance for the working capital requirements of the SSI sector during the 8th Five Year Plan. The outstanding bank credit to the SSI sector excluding the smaller units with credit limits of up to Rs.1 lakh and village industries in the traditional sector (handlooms, handicrafts, sericulture, coir, khadi and other village industries) as at the end of March 1990 was Rs.9,711 crores. Data available with RBI show that during the 7th Plan, the outstanding working capital finance provided to the SSI by commercial banks grew at the rate of about 15% per year. Hence, the rate of growth during the 8th Plan can be safely assumed to be 15% per year. On this basis, the incremental credit flow during 1992-97 to this segment of SSI will be of the order of RS.13,000 crores. If the shortfall in the present level of supply of working capital is made up, the 8th Plan demand could be placed around Rs.14,600 crores.

3.20 The outstanding advances of commercial banks, including RRBs, to the small tiny units and traditional industries mentioned above were Rs.2,800 crores. We have recommended that in order to step up the credit flow to this segment of the SSI sector, they should be given the first claim on the priority sector credit for SSI and conscious efforts should be made to build up an allocation from a notional base of about Rs.4,200 crores as of March 1990. Assuming a 15% annual growth rate, the outstanding credit as at the end of 1996-97 (the terminal year of the 8th Plan) will be around Rs.11,172 crores. This can be achieved if the actual growth in the 8th Plan (1992-97) can be ensured at around 25% p.a which will require incremental credit of the order of Rs.7,500 crores during the Plan. The total incremental credit demand of SSI towards working capital during the 8th Plan could thus be about Rs.22,100 crores.

3.21 If the deposits in the banking system are projected into the 8th Plan at the same growth rate of 17.6% p.a. as experienced in the last 5 years, and the same credit-deposit ratio (60%) and the same share of credit of SSI in the total credit (16%) are assumed, the incremental credit to the SSI sector based on the 1991-92 deposit of Rs.2,30,829 crores will be about Rs.27,700 crores. This figure includes term loans to SSI also which are made up mostly of refinance from SIDBI and NABARD as explained in chapter IV. Making an allowance of Rs.4,300 crores for the same, the net amount available for lending by the commercial banks for working capital to SSI will be around Rs.23,400 crores. It will, therefore, be seen that the demand projection is well within the availability as estimated above. Industries which have been freshly transferred to the SSI category due to the recent raising of the investment ceiling would also have their demand transferred from MLI.

3.22 However, the Committee recognises that several developments in the financial system which have taken place in the last few months might affect the availability of credit as projected above. First, if the monetised deficit of the Central Government comes down as proposed, the growth of deposits will reduce. On the other hand, if the inflation rate is arrested, the demand for credit will decline. The probability cannot also be discounted that the MLI sector may turn increasingly to non-bank resources, thus facilitating a greater flow of bank credit to the SSI.

The net impact of such conflicting trends will emerge only gradually. The Committee feels that, at least in the 8th Plan, the immediate past trends of demand and supply may continue and the banking system will manage to find the enhanced level of working capital resources needed by SSI.

3.23 If, however, due to adverse growth trends or unforeseen contingencies, a resource constraint is experienced towards the later years of the Plan, the Committee would recommend one or more of the undernoted measures for securing additional resources to the banking system:-

a) A part of the SLR, now being freed, could be used exclusively for financing SSI.

b) Funds could be provided by the Central Government in the form of loans to the credit institutions through an appropriate mechanism and the resources for the purpose may even be secured through international support.

c) A supplementary refinance window may be provided to the commercial banks by SIDBI/NABARD, as is being done in the case of seasonal agricultural operations of co-operative banks by NABARD. Such resource support to the banks by SIDBI/NABARD may be supplemented by RBI, if necessary.

SSI dissatisfaction with credit delivery

3.24 While the shortage of resources of the commercial banks could be one of the reasons for the various complaints voiced by the SSI sector, it is apparent that in a significant number of cases, as pointed out in para 3.5 above, bank branches have departed from the guidelines, subjecting SSI to unwarranted delays and exposing them to the danger of losing viability. We shall deal later with practical measures to ensure the smooth delivery of credit but here we detail the types of difficulties brought to our notice by the SSI associations:-

a) arbitrary curtailment of credit limits applied for and release of working capital in driblets,

b) delays occurring at the time of the initial sanction of working capital, often resulting in the non-availability of working capital even after start-up,

c) long wait for increase in working capital sought for and the cumbersome application form and related formalities,

d) little consideration shown for difficulties stemming from factors outside the control of the SSI unit and

e) continuous deterioration, in the meanwhile, in the health code category of the unit on account of the delays which, ironically, is subsequently cited by banks as the reason for further procrastination/adverse decision.

3.25 Implicit in these charges is the perception that the commercial banks do not generally consider themselves as partners having a real stake in the progress of the units financed although, in reality, the banks may have provided substantial amounts of assistance to the units almost on permanent basis as part of the operating capital. This often results in the financing bank shutting down all windows of help and assistance and recalling the advance/s at the first sight of any adverse signals in the working and/or financial position of the SSI. There is a widely prevalent feeling, which is not entirely without substance, that in similar situations in the case of MLI banks do not withdraw/recall the advance but, on the contrary, are only too ready to come to their rescue. The Committee is aware that this is a question of attitudinal orientation of bank personnel at various levels. No prescriptions will help here; only a continuous effort of reorientation of the bankers' outlook.

3.26 The banks, on their part, have asserted that such instances are only exceptions. They also cite the very large number of SSI clientele, the inadequate staffing/

rapid turnover of staff at the branches and their inability to find skilled and experienced personnel for manning all the posts. More importantly, in the view of the Committee (which the bankers accept), it seems that even a well-meaning, able, practical banker is deterred from taking decisions which are sound and at the same time helpful to the unit, by his perception of the long term consequences of such decisions arising from his ultimate accountability and hence prefers to play safe.

3.27 Bankers may also be lacking in skills of credit appraisal and entrepreneur assessment. The findings, given below, of a quick sample study of 80 credit officers/branch managers carried out during 1990 by the Entrepreneurship Development Institution of India (EDI) are quite revealing in this regard.

a) Out of the 80 managers/credit officers, 75 reckoned their lack of training in credit assessment and project appraisal as one of the reasons for the problems they faced in sanctioning credit. An equal number explained that they lacked project appraisal experts on their own staff and, therefore, their personal limitation was not compensated by adequate in-house expertise.

b) All the Officers indicated that they lacked entrepreneur assessment skill. They, therefore, took precautions by seeking collateral security and experience of the prior track record of the borrower, such as, satisfactory deposit account operations with the same branch

c) Since these skills which would have enabled them to reach a solid judgement were lacking, fear of accountability bothered all the 80 Officers since they knew that if they sanctioned loans on the basis of the merits of the project and the person as an entrepreneur there may not be any recognition given to them for the risk-taking but if such entrepreneurs failed, they would be held responsible.

Reorientation of the banker

3.28 Most of the problems of the SSI sector in regard to bank finance will be solved if the branch level officials have the right aptitude, skills and orientation. In understanding their role the branch manager/officials at the branch should be made aware of the fragile nature of the small scale industry, and the following special features:

(i) The SSI sector is as important as the MLI sector, even though the latter, comprising only a few borrowal accounts with large credit limits, may be more attractive to the banker. It is an accepted fact that the

SSI sector is far more important for the creation of additional employment.

(ii) Though the role of a banker is generally that of a lender, he has a special role in the development of the SSI sector - first, to be a catalyst and thereafter, to nurture it through teething troubles. He should, therefore, be able to finely balance the two roles.

(iii)Since substantial amounts are lent to the SSI units, the banker should have a vital interest in the healthy growth of the sector which will also facilitate smooth loan recovery in the SSI borrowal accounts.

(iv) 'A stitch in time saves nine'; timely assistance will prevent advances from turning sticky at a later date when even large doses of assistance with concessions/ reliefs may not be able to prevent the unit from becoming irretrievably sick.

The aforesaid aspects should form a part of the inputs in the training imparted to bankers in the various training institutions including those functioning under RBI NABARD, IDBI/SIDBI etc., to drive home to them the need for developing the right attitude towards the SSI sector. The Committee also recommends the following measures for encouraging the development of the right attitude towards the SSI among bank personnel :-

(i) There should be frequent interaction between the banks staff and the SSI borrowers as part of the training programmes.

(ii) The performance appraisal system for the bank staff should take into account, as one of the criteria for evaluation of performance, the attitude towards the SSI borrowers and achievements in regard to lending for this sector.

(iii) Trophies should be awarded to branches for outstanding performance in financing SSI, as a mark of public recognition.

3.29 The Committee would like to emphasize that while it is in favour of a more understanding attitude on the part of the banks in meeting the genuine credit needs of the SSI entrepreneurs, it is uncompromisingly for stern treatment of wilful defaulters/borrowers flouting credit discipline, to whom no leniency should be shown.

<u>Some modifications to guidelines</u>

3.30 Having carefully examined the prevailing risks and practices, the Committee feels that the reorientation of the banker will be facilitated by certain modifications in the existing instructions/guidelines issued to commercial banks by RBI. The Committee, accordingly recommends the following alterations/additions to the guidelines:

(1) The branch managers should be vested with adequate discretionary powers which will enable them to grant ad-hoc increases up to 10 percent over the sanctioned limits to meet unforeseen contingencies including escalation in raw material/input costs, even if the quantum of such ad-hoc limits is beyond the powers granted to him for sanctioning credit without reference to higher authorities. For example, if the powers of the branch manager are only up to Rs.10 lakhs, he should be empowered to grant ad-hoc increases in existing limits of even Rs.100 lakhs or more though such limits might have been originally sanctioned by the higher levels in the bank. Such 'ad-hoc' increases should be regularised, where necessary, by the sanction of regular enhanced limits by the competent authority.

(2) While the requirement of working capital margin is a necessary pre-condition for the sanction of bank finance, where the borrower is unable to bring in the additional margin money immediately, banks should not insist upon the additional margin to be brought in by the entrepreneur in one instalment at the time of granting 'adhoc' increases in/enhancement of working capital limits to meet unforeseen contingencies. Such additional margin should be permitted to be built up within a reasonable

period from future cash accruals. A provision for such phased build-up of working capital margin will go a long way in helping the SSI units.

The Committee does not recommend the extension of the aforesaid accommodation to cases in which the working capital margin of new projects financed by bank and SFC gets eroded even before the unit commences production on account of cost overruns. If SFCs are not prompt in sanctioning further loans to meet such escalation in costs, the commercial banks should not be expected to provide the working capital. The Committee would like to emphasize that the facility of building up the requisite working capital margin over a period of time cannot be applied to new units/ expansion/diversification affected by cost overruns and that, in such cases, the agency providing project finance should be first required to grant an additional loan towards the shortfall in working capital margin before the commercial bank is called upon to provide the working capital.

(3) Though current guidelines require that requests for fresh or enhanced limits should not be rejected without the approval of the next higher authority, it appears that sometimes such higher authority routinely agrees with the decision of the sanctioning authority. It should be made

clear that, to enable the next higher authority to apply his mind properly, applications for fresh limits/ enhancement of existing limits which are not considered favourably by the appropriate sanctioning authority, should be referred to the next higher authority with all relevant particulars, and the latter should scrutinise each case and come to his own judgement. The final decision should invariably be based on such review by the higher authority and should be taken within a reasonable time.

(4) A similar procedure should be evolved whereby the curtailment of limits applied for will also be reported to the next higher authority by the sanctioning official, so that a scrutiny by the independent authority of the merits of such curtailment in each case will be ensured and the decisions confirmed or otherwise disposed of in a time-bound manner.

(5) RBI has prescribed the loan application forms to be used by banks in respect of advances to SSI. There are 4 different types of application forms to be used according to the amount of credit, as under :

a) Where total assistance (including working capital) does not exceed Rs.25,000/-.

b) Where aggregate limits are above Rs.25,000/- and up to and including Rs.2 lakhs.

c) Where assistance by way of either term loan or working capital is above Rs.2 lakhs and up to Rs.10 lakhs.

d) Where assistance by way of either term loan or working capital is above Rs.10 lakhs.

These forms have been envisaged for use in the case of enhancement of limits, new projects and expansion/ diversification and do not cover renewal of existing working capital facilities without enhancement.

The application forms at (c) and (d) above relate to the amount of loan/credit limit applied for by a unit and do not take into account the size of the unit approaching the bank for credit assistance. Consequently, a small SSI unit requiring loan up to Rs.10 lakhs, as also a large SSI unit which is already enjoying sizeable bank credit facilities but requires additional assistance up to Rs.10 lakhs have to use the form mentioned at (c) above. Similar is the case with form (d). We feel that these two forms should be made applicable with reference to the aggregate institutional credit assistance (including the existing facility) enjoyed by the applicant unit.

New developments point to the need for raising the limit under each type of application form. RBI has, in May 1992, allowed enhancement of the maximum amount of 'composite loan' from the existing level of Rs.25,000/- to

Rs.50,000/-. In terms of the revised SSI policy of the Government of India 'tiny enterprises' will comprise units having original value of plant and machinery up to Rs.5 lakhs. Considering term loan component for such units at around Rs.5 lakhs and an amount of Rs.10 lakhs towards working capital, the next cut-off point for credit limit application forms may be fixed as Rs.15 lakhs. Further, the 'Single Window Scheme'(SWS) has been liberalised to cover units having project outlays (excluding margin for working capital) up to Rs.20 lakhs with working capital (cash credit facilities) up to Rs.10 lakhs. A cut-off point of Rs.25 lakhs will take care of most of the units covered by SWS. The application form at (b) above with slight modifications will, in the Committee's view, be adequate to cover this category. A perusal of the forms at (c) and (d) gives the impression that there is scope for simplification by eliminating inessential particulars and repetitions. Further, the forms can be recast in such a way that the SSI borrower is able to grasp the requirements and furnish the necessary information without difficulty. Subject to the foregoing observations the Committee recommends that 4 types of application forms may be evolved for use by SSIs on the basis of aggregate credit limits enjoyed by the units as shown below:-

Form	Category of units
(a)	Units enjoying/requiring aggregate assistance (including working capital) not exceeding Rs.50,000/-.
(b)	Units with aggregate credit assistance between Rs.50,000/- and Rs.15 lakhs.
(c)	Units having aggregate credit assistance between Rs.15 lakhs and Rs.25 lakhs.
(d)	Units with aggregate credit assistance above Rs.25 lakhs.

The Committee recommends that RBI and SIDBI may take early steps for the simplification of these forms.

(6) Collateral security and/or third party guarantee should be dispensed with as a rule, irrespective of the amount of credit involved. Exceptions may be justified only in the case of larger advances of over Rs.2 lakhs in the undernoted circumstances:-

i) The technology is new and untried and the bank/ SFC considers the lending risk to be higher than normal.

ii) The proposal is only marginally viable but the bank/SFC would like to support the same with due care being taken to cover the extra risk involved.

iii) The entrepreneur/promoter has adequate own assets which can be charged to the bank/SFC, as there should normally be no objection to offering such assets as collateral security for the credit limits.

Where collateral security is taken, the bank should return it to the borrower, after a stipulated minimum period, if the unit has been functioning well and the operations in its various borrowal accounts have been satisfactory.

No applications for advances should be rejected merely for want of collateral security.

(7) The commercial banks are reported to be charging high cash margins from SSI borrowers for non-fund based facilities, such as, guarantees and letters of credit. Where the bank has a first charge over the fixed assets of the unit, either singly or jointly with the SFC on a pari-passu basis, it should not ask for cash margins, provided such fixed assets leave adequate surplus, after covering the existing facility, to provide for the non-fund based facilities.

(8) Complaints have been voiced regarding the insistence by some banks on compulsory deposit mobilisation

by the unit as 'quid pro quo' for the sanction of credit facilities to SSI units. While deposit mobilisation is the legitimate function of banks and enlisting the co-operation of the borrowers in this regard cannot be faulted, the Committee is clear in its mind that insisting on deposit mobilisation of stipulated amounts as a precondition to the sanction of credit has no justification. Such undesirable and unhealthy practices have to be prevented through the issue of unambiguous guidelines.

An open system

3.31 The Committee is aware that the SSI sector is adversely affected by a host of external factors over which it has little control. While the problems emanate from various causes, such as, the non-availability of raw materials, shortage of power and other sources of energy, industrial relations and the high rate of taxes, they get reflected sooner or later, as cash flow problems and at that stage, demands are made for various concessions and/or additional finance from the banking system. The performance of other agencies connected with the growth of the SSI sector in granting timely help to the units has been none too satisfactory. The Committee is clear in its mind that credit is only one of the vital inputs for the proper functioning of the SSI sector and that the financing banks cannot be expected to make sacrifices where other agencies are required to bear the burden. The banker may often be justified in taking an unbending stance of disowning responsibility.

3.32 Though banks have nothing to gain and much to lose by taking such a strict view, the prevailing atmosphere in the banking system does not permit of easy solutions. The Committee considers that along with the procedural changes suggested in this chapter, it is important to create a more open system which provides for shared responsibility which, in turn, will foster mutual confidence between the banks and the SSI entrepreneurs. In particular, it is necessary to create an atmosphere in which the SSI units will feel that the banker will take a positive view in regard to environmental difficulties which are not of the SSI's own making. This will also facilitate the detection of sickness at the very early stages and the sifting of genuine difficulties from spurious ones.

3.33 The first prerequisite of the open system which we have in mind is a credit planning process which will enable the commercial banks to provide the necessary resources to meet the genuine credit requirements of all their SSI clientele. Banks should prepare a budget in respect of the working capital required by SSIs well before the year begins. Such budgeting should cover (a) functioning (healthy) units which already have borrowing limits with the banks, (b) new units/units whose proposals are under appraisal, and (c) sick units under nursing and also sick units found viable and for which rehabilitation programmes are under preparation.

3.34 The working capital budgeting exercise should be on the 'bottom-up' basis. The exercise should begin at the level of the borrowing units and the branches financing them. The budget should be based on discussions held with the units specifically for the purpose; alternatively, the feedback obtained by the branch from units at the time of renewal of their credit facilities could also be made use of, wherever such a course is feasible. The branches could also meet the representatives of various categories of SSI and obtain first-hand information about the prospects of the industry in the coming year. The budget should take into account, among other relevant aspects, normal sales growth, price rise during the past year and anticipated spurt in business. While projected business levels commensurate with past experience should always be considered for budgeting the working capital requirements, it may not be prudent to base the budget on an anticipated price rise. It is essential that the unit level working capital budget should be accepted by the unit itself and once the budget is so prepared, it should not be modified by the bank unilaterally.

3.35 It has been suggested in chapter V that working capital at around 25 per cent of output should be considered as the minimum requirement in cases where inventory norms as per the Tandon Committee recommendations are not applicable or not available. This should be borne in mind in finalising the working capital budgets of individual units.

3.36 In regard to the larger units with aggregate credit limits of over Rs.10 lakhs, the budget will follow the prescribed inventory norms, wherever such norms are available. Even in these cases the Committee emphasises the need to eschew a rigid application of the norms and reiterates the flexible approach suggested by the Tandon Committee. For other industries for which inventory norms have not been prescribed, banks should form their own judgement as to what should be regarded as a reasonable inventory level having due regard to the requirements of individual units. What is important is that a mechanical approach to this question should be avoided.

3.37 There is a general impression among SSI units that the assessment of working capital in their case is done very conservatively by the bank officials since, in the prevailing atmosphere in which accountability is given importance, the fear of consequences of things going wrong is common. The system of joint assessment with the borrower, as recommended above, will help in dispelling this impression. When the borrower and the branch manager are unable to reach an agreement, the views of both the borrower and the branch manager, clearly indicating the reasons therefor, should be kept on record by the branch. This procedure is likely to fortify the confidence of the branch manager in taking decisions without fear of consequences.

3.38 The working capital budget so prepared by the bank branches should form the basis on which resources should be allocated to the SSI sector by the top managements of banks. Macro-level shifts in the allocation of resources from the MLI sector should be ordered by the Chief Executive, if such a course becomes necessary. Banks should advise RBI of the budgets so prepared and the resources allocated thereagainst. If the top management has not been able to fully support the ground level budgets, RBI should be apprised of the fact and the reasons therefor.

3.39 RBI should accept the bank's allocation for working capital to SSI budgeted as detailed above or suggest suitable inter-se changes in allocation. It may, when required, use the expertise of SIDBI in making such changes. The figures accepted by RBI should be advised to SIDBI/NABARD to enable them to plan for the required level of refinance support. RBI should, however, provide refinance for working capital to the extent the bank's budget, as it emerges finally, exceeds the available funds including those expected from NABARD/SIDBI, subject to the reservation of such minimum percentage of total credit for SSI as may be fixed by RBI, much in the same manner as it provides refinance for agricultural operations to State Co-operative Banks in excess of their prescribed involvement in agricultural lending. Such refinance may be provided in the form of preferential refinance in respect of incremental credit (as suggested by the Narasimham Committee) and shall be set off against the bank's own resources during the next year.

3.40 The Committee recognises that contingencies may arise which will demand urgent enhancement in the working capital for individual units or for groups/categories of units. Commercial banks should take a positive attitude towards such demands. If the bank/s cannot accommodate such demands from out of the available resources as per the budget, RBI/SIDBI should intervene in deserving cases and, accordingly, raise the quantum of refinance.

3.41 An important element of the open system is an information base to ensure that decisions are taken objectively on all requests for credit facilities from the SSI sector. To impart objectivity it is necessary to refine the information base by updating frequently data on decision-related parameters and making the unit-level information available simultaneously to the concerned decision-making levels in the bank and the next higher level. This would be possible, if a computerised information and monitoring system is developed. To begin with, the computerisation of data may cover only the larger SSI units, say, those with aggregate fund-based borrowings exceeding Rs.10 lakhs from the banking system. This limit should be lowered to Rs.5 lakhs after gaining experience for a period of 2 or 3 years.

3.42 The Committee envisages that such an information system would also be used in the monitoring of sick units and their rehabilitation, dealt with in chapter VI. The system should, therefore, be so designed that it provides a unit-wise picture of not only the units in operation already financed by the bank and units under appraisal but also of sick units including those which are under a rehabilitation programme. The computer output should enable the bank authorities to focus on the financial health of the units as well as the status of the new proposals. While the level next above the sanctioning authority is the crucial level for monitoring decision-making, the ready availability, at even higher levels, of the computer-processed output relating, particularly, to sick units will provide the top management with an invaluable tool to monitor, by exception, the progress of SSI units which need to be kept under watch when they are facing delays or heading towards trouble.

3.43 In addition to the information provided by the banks, there should be a provision for inputs from the individual industrial units themselves, either directly or through the SSI associations. Such a step would help units facing difficulties to represent their problems and will also enlarge the coverage of units under the system and make it more meaningful. SIDBI should be the nodal institution for this task of furnishing the client input for inclusion in the information system.

3.44 The importance of ensuring timely decisions cannot be overemphasised. A good way to attempt this is to eliminate delays inherent in the consideration of proposals by successive tiers in the hierarchy. To facilitate this a committee approach will be helpful in which decisions are taken by the competent authority after a structured discussion with the branch manager and also the intervening levels. For example, if a credit proposal comes within the sanctioning powers of the Zonal Manager, the appraisal done by the branch should be vetted and circulated by the Regional Office to the Zonal Office and the branch. If the appraisal is found insufficient for decision-making and a further discussion is considered necessary by the Zonal Manager, the zonal, regional and branch authorities should have a joint meeting and arrive at an agreed decision. This system will save considerable time and avoidable correspondence between the branch and the controlling office in the first instance, and between these two and the Zonal Office later which seems to be an inevitable stage in the practice obtaining in the banks. It will also minimise the fear of accountability for decisions taken by single officers. We, therefore, recommend that RBI may issue suitable guidelines in respect of a committee approach.

3.45 An effective grievance redressal machinery within the bank which can be approached by the SSI in case of difficulties with banks is likely to reduce he real or perceived helplessness of the SSI. The arrangements made in this regard so far such as (i) setting apart one day in a month by bank Chairmen and other officials for grievance redressal of customers, (ii) periodical banker-borrower meets, and (iii) senior officials dealing with customers' complaints during their regular visits to branches, should be persevered with. The Committee would also like to suggest the creation of an 'ombudsman' type of authority, on a full time basis, at the regional/controlling offices within the banks. Customers' complaints should be heard and investigated by the Ombudsman who will report directly to the Chairman. In order to make the aforesaid measures meaningful it is of the utmost importance to lay down time limits within which decisions on the complaints are communicated to the complainants. RBI should undertake periodical review of the working of the grievance redressal machinery in each bank with a view to toning up the same, wherever deficiencies are observed.

3.46 A forum independent of the banks and financial institutions will impart credibility to the open system which the Committee has in mind. The Government of India's SSI policy of August 1991 also envisages that "a special monitoring agency would be set up to oversee that the genuine credit needs of the small scale sector are fully met...". The involvement of the State Government in such a forum will be advantageous. Chapter VI contains a review of the performance of the State Level Inter Institutional

Committees (SLIIC) set up by RBI and recommendations to revitalise them. Though the rehabilitation of the sick units has, over time, become their main concern, dealing with general problems relating to the grant of credit to SSI units, particularly, the obtaining of timely sanction of working capital are also among the more important functions of the SLIIC. The Committee, therefore, recommends that SLIIC should act as the State forum to which SSI with intractable problems with the banks should turn to air their grievances. SLIICs should invite the representatives of SSI/tiny sector and the concerned borrowers, whenever necessary, for a full discussion of the complaints.

3.47 Considering the wide spread of SSI within the State, the Committee has also recommended in chapter VI that a district level forum may also be set up for dealing with the grievances of SSI borrowers. This forum may be constituted out of the District Industries Centre (DIC) and may be able to handle easily uncomplicated cases of decentralised industries. So far as other SSI are concerned, the Committee feels that the district level forum may be most effective, in the initial years, if it can bring to the attention of the State forum, cases which the district forum is not able to successfully resolve through its own efforts.

Coordination between banks and development financial institutions

3.48 A major cause of worry for the entrepreneur intending to set up a new SSI is the lack of co-ordination often noticed between the SFC which is a term-lending institution and the working capital dispensing bank. This results in uncertainty regarding the tie-up of working capital at the time of sanction of term loans by the SFC and sometimes even much later when the unit is about to start production.

3.49 A system of joint appraisal of projects was recommended in July 1978 based on the suggestions of the Working Group on co-ordination between SFCs and banks (Bhide Committee) to secure co-ordination among SFCs and banks in the matter of financing SSI units. Where such joint appraisal is not found to be feasible, the appraisal should at least be taken up simultaneously by the SFC and bank, so as to ensure that the entire process is completed within a maximum period of three months from the date of receipt of the application, complete in all respects. It is envisaged that there will be satisfactory arrangements between the banks and SFCs for exchanging information about the parties and the views taken on the proposals. Reservations, if any, in financing a project should be communicated by one institution to the other at the earliest opportunity. Difference of opinion, if any, among the SFC and the bank about the adequacy of margin money for working capital should be resolved in a joint meeting of the concerned officials of both the institutions.

3.50 The steps referred to above have not, unfortunately, been followed in practice by SFCs and banks. One of the more important reasons for this appears to be the large number of units for which term finance is granted by the SFCs which has to be matched by working capital to be provided by the commercial banks. The banks are also generally of the view that they cannot dispense with the appraisal of a project independently before sanctioning working capital, especially, if there is a time and cost overrun in the completion of the project or if circumstances have changed since the SFC's sanction of the term loan.

3.51 The Committee's interaction with banks, SFCs and SSI representatives has revealed that all of them favour a single financing agency for the small scale units in view of the aforesaid difficulties. The 'Single Window Scheme'(SWS) of SIDBI enables the same agency - SFC or commercial bank, as the case may be - to provide term loan and working capital to SSI units having project outlay up to Rs.20 lakhs and working capital of Rs.10 lakhs. This should, to a large extent, take care of the needs of the majority of small scale units. The Committee feels that SFCs and banks should endeavour to cover the financial requirements of SSI under SWS to the maximum extent. SIDBI should make concerted efforts to make SWS popular with SFCs and commercial banks and to inform entrepreneurs of its salient features.

3.52 The spatial spread of SSIs is not, however, uniform. The Second All India Census of SSI (1988) by the DC (SSI), Government of India has revealed that 85 districts, each with more than 2000 registered SSI units, account for 51.2% of the total number of functioning, registered SSI units[1] in the country. The high density of SSI in those districts may continue for some years. It is, therefore, necessary to have sharper focus on the arrangements for the provision of credit to SSI units in these districts. SFCs do not, at present, have the requisite expertise or experience in regard to working capital credit. The Committee has also noted the none-too-happy financial position of some of the SFCs which are facing problems of poor recovery and dwindling profitability. In the circumstances, it cannot be said that SFCs which were set up specially for the

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1. Denotes registration with the Industries Department of the State Government.

development of the small and medium scale industry can, at present, discharge their responsibilities satisfactorily in the entire country. The Committee under the Chairmanship of Dr.K.U.Mada, appointed by IDBI, has looked into the health of the SFCs and has made appropriate recommendations for improving their financial position and future performance. A restructuring of the weak SFCs in a time-bound manner is called for and SIDBI/IDBI should take appropriate action in this regard.

3.53 The Committee has, therefore, come to the conclusion that the SFCs may be initiated into their full role in about 40 out of the 85 districts referred to above, in which they will act as the principal financing agency for SSI. The selection of the districts may be done by RBI in consultation with SIDBI. In these 40 districts the concerned SFC will take care of both term loan and working capital requirements of all new SSI units which can be financed under SWS. Units which have already taken term loans from SFCs and working capital from commercial banks will continue under existing arrangements undisturbed. The new units to be financed under SWS by SFCs in these districts will approach commercial banks as and when their working capital requirements grow beyond the limits specified under SWS and such banks will, subject to their being satisfied about the health of the borrowing unit and its past performance, take over the outstanding working capital advances from the SFC. If the bank wishes to take over the outstanding term loan also, it should be encouraged to do so. Thus, in the long run, SFCs will emerge in these 40 districts as the primary lender for the SSI, and more particularly, the Village Industries and the smaller Tiny Industries.

3.54 The Committee is aware that SFCs do not have the requisite organisational capability or reach to perform the role described above in all areas. However, the Committee feels that within the limited number of districts allotted to them the concerned SFCs should be in a position to create the necessary organisation to discharge this responsibility satisfactorily. SIDBI as the apex finance institution will have to support and, if necessary, supplement, the SFCs' efforts in this direction. SIDBI may have to act as the primary lender in these selected districts if, for any reason, the SFC is found wanting at a later date.

3.55 Units whose credit requirements fall outside the coverage of SWS in these as well as the remaining districts will continue to be financed, as hitherto, i.e., either by the commercial bank alone (if it is agreeable to do so) or by the SFC and commercial bank. In all such cases the loan should be sanctioned by the SFC only after confirming that working capital has been firmly tied up and would be provided by a commercial bank as soon as the unit needs it. It is ruinous to the unit for the SFC to rush through a term loan only to have the unit face uncertainty and delay in obtaining working capital from the bank.

3.56 In the remaining 45 districts having more than 2000 registered SSI as well as in the rest of the country the commercial banks should act as the principal financing agency for SSI and should provide both term loan and working capital to all eligible new units coming under SWS. The banks will, in this respect, play the same role as the SFCs in the 40 selected districts referred to earlier. The responsibility for ensuring adequate flow of credit to the SSI sector in the districts allotted to the commercial banks should rest with the concerned lead banks. This may necessitate a certain amount of flexibility in the Service Area Approach in so far as the SSI sector is concerned. RBI should ensure that the lead banks fulfil their responsibility in this respect.

3.57 To discharge their responsibility well under this scheme, the commercial banks should be encouraged to open specialised branches to cater to the SSI clientele. In the first phase such branches, to be opened in the 45 districts with a concentration of SSI, should preferably have the block/taluka as their area of operations. Adequate staff with the requisite skills should be stationed in these branches. It should also be ensured that such branches have officers of adequate seniority having powers to sanction cases coming under SWS without reference to a higher authority; if, for any reason, there are difficulties in extending such arrangements to all the specialised branches, the required powers should exist at least at the district level.

3.58 Units already having borrowings from both SFC and bank will continue under existing arrangements undisturbed. Units outside SWS in all these districts will get their working capital from commercial bank and term loan from the bank and/or SFC, as hitherto. SFCs will not sanction term loans without ensuring that arrangements for working capital have been finalised and that such working capital will be provided to the unit as and when the requirement arises.

3.59 The multi-agency approach of both SFC and bank providing finance to the SSI has been envisaged by us in regard to new units outside SWS norms, though this approach goes contrary to the single financing agency concept which found wide acceptance. It has been necessitated by the fact that on the one hand, SFCs are unable to take up the role of SSI financing on a large scale nor of mobilising the necessary resources in the foreseeable future and, on the other, the commercial banks, with their multifarious responsibilities, may not be able to give their undivided attention to the entire SSI sector. In the Committee's view the long term goal should be to develop SFCs as the specialised agencies for providing credit support of various kinds to the SSI sector.

3.60 In order, however, to minimise, if not eliminate, the various points of friction between the two agencies under the recommended arrangement, in all future lending, the securities available for the advances should be shared on a 'pari passu' basis wherever the commercial banks share the term loans. The development and use of "Participation Certificate" on a risk-cum-security sharing basis could be a simple method of achieving this objective without resort to cumbersome documentation and other formalities.

3.61 According to the second All-India Census of SSI (1988) there were 119 districts each having between 1000 and 2000 registered[1] SSI units. These districts which together

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accounted for 29.8% of the total SSI units will be the emerging districts of SSI concentration. Commercial banks should open specialised branches for financing SSI in such districts also. In addition, they should consider converting such of the branches as have a fairly large number of SSI borrowal accounts, into specialised branches which should have the requisite skilled staff including technical officers. Besides, adequate discretionary powers should be delegated to the branch manager which will enable the branch to deal with atleast 80-90% of the proposals without reference to a higher authority. Even in regard to the small percentage of cases which may require approval by higher levels there is need to ensure timely decisions. The Committee approach recommended earlier should be adopeted here as well.

CHAPTER IV

INSTITUTIONAL CREDIT FOR TERM FINANCE

4.1 Institutional sources of term credit do not account for all capital investments in SSI. The lack of organised data has, however, frustrated the Committee's efforts to see clearly the picture of capital investment as a whole and the position that term credit occupies relative to total investment. It had, therefore, to be satisfied with a number of assumptions for which only commonsense and informed opinion can form the basis.

4.2 SIDBI has furnished, in annexure 2.6, statistics regarding the growth of the SSI sector in its several aspects. It shows that capital investments grew from Rs.8,380 crores in 1984-85 to Rs.18,196 crores in 1989-90, indicating an increase of Rs.9,816 crores in the 7th Plan period. During the same period, investment made possible with the help of institutional lending may have been of the order of about Rs.7,250 crores which estimate is arrived at through a series of assumptions, as follows.

4.3 The flow of term finance to the SSI units is dependent, to a large extent, on the refinance assistance from SIDBI. Table 4.1 gives the particulars regarding aggregate disbursements of refinance and bill finance (rediscounting) made by IDBI/SIDBI to banks, SFCs and State Industrial

Development Corporations (SIDCs) in respect of their advances to SSI and the corresponding level of loaning by these primary lending institutions which would have to be made in order to draw the level of refinance/bills rediscounted from IDBI/SIDBI.

Table 4.1
Disbursements by IDBI/SIDBI under Refinance/ Bills Rediscounted and Loaning by Banks/ SFCs/SIDCs to SSI

(Amounts in Crores of Rs.)

Year	Refinance disbursed and bills rediscounted by IDBI/SIDBI	Term credit corr-esponding to Col.2 **
1.	2.	3.
1985-86	527.5	621
1986-87	687.2	808
1987-88	711.4	837
1988-89	834.8	982
1989-90	946.2	1113
1990-91	1099.9	1294
1991-92	1246.3	1466

** Since figures relating to disbursements of commercial banks are not available, the figure under column 2 has been taken to be 85% of the figure under column 3.

(Source:- Reports on Development Banking in India - IDBI, SIDBI Annual Reports)

4.4 It will be seen from Table 4.1 that the total disbursement of refinance during the 7th Plan (1985-90) by IDBI to SFCs and banks for the SSI sector was Rs.3,707 crores reflecting corresponding disbursements by the primary lenders of Rs.4,361 crores. The banks and SFCs also provide credit to SSI, without taking recourse to SIDBI refinance, by using their own resources or through NABARD refinance. No data exist indicating the extent of such loaning. Assuming that the same would not, in any case, exceed 20% of the total term credit to the SSI sector, the aggregate term credit provided to the sector during the 7th Plan is estimated at Rs.5,451 crores. Considering the normal debt-equity ratio of 3:1, this would have given rise to investments of Rs.7,268 crores.

4.5 It is, therefore, probable that the investment supported by institutional credit accounted for about 75% of the incremental investments in the sector, the remaining 25% coming from non-institutional sources. The proportion of credit itself was probably much less, at about 55% of total investment. In the absence of data or studies on the subject, it is not easy to pinpoint the segments within the SSI sector which were affected most by this shortfall in the availability of investment credit. The Committee is of the view that the Village Industries and the smaller Tiny

Industries which get meagre working capital support from the credit institutions, as pointed out in chapter III, could be the worst affected in the matter of term loans also.

4.6 Term credit requirements of the SSI sector are mainly met by SFCs and commercial banks; they together account for nearly 95% of the term credit provided to the sector by all institutional sources. Regional Rural Banks (RRBs), the National Small Industries Corporation Ltd. (NSIC) and the Khadi and Village Industries Commission (KVIC) also assist the SSI sector by providing term loans, besides other types of assistance.

4.7 Particulars of assistance provided by SFCs to SSI units are given in Table 4.2. The annual growth rate of disbursements of SFCs' advances sharply declined from 29.7% in 1986-87 to 7.6% in 1989-90 but looked up slightly in 1990-91. However, the average growth rate during the years 1985-86 to 1990-91 was 16.5% per annum.

Table 4.2

Assistance to SSI sector from SFCs

(Amts. in crores of Rs.)

Year	Disbursements		
	Total	SSI	Percentage of (3) to (2)
1.	2.	3.	4.
1981-82	317.7	210.7	66.3
1982-83	404.0	291.1	72.1
1983-84	435.5	308.2	70.8
1984-85	497.7	370.0	74.3
1985-86	608.5	452.9	74.4
1986-87	791.9	587.5	74.2
1987-88	938.0	697.6	74.4
1988-89	1055.0	774.8	73.4
1989-90	1154.6	833.4	72.2
1990-91	1267.3	923.6	72.9

(Source: Reports on Development Banking in India - IDBI)

4.8 Data in respect of term loans of commercial banks to the SSI sector are given in annexure 2.1. It will be seen therefrom that the outstanding term loans increased from

Rs.1,573.58 crores spread over 5.77 lakh borrowal accounts, as at the end of December 1985, to Rs.3,570.85 crores in 12.65 lakh accounts, as at the end of March 1990 but here also the rate of growth in outstanding loans declined in the 7th Plan period from 31.6% p.a. in 1986 to around 20% in 1989.

4.9 Nevertheless, the shortage of term finance has not been a major source of complaint by SSI associations, except in the case of the Village Industries sub-sector in which, as is well known, the SFCs and banks have evinced little interest. The slow-down in the rate of credit growth in the other segments of the SSI sector seems to have been caused by the poor recovery performance and the resultant difficult resource position of the SFCs , in turn, affected their capacity to re-cycle the funds and prevented their free access to SIDBI refinance. Banks also cite poor recovery as a major reason for the curtailment of credit to the SSI sector. Delays in the disbursement of assistance sanctioned by SFCs are frequently reported. Such delays are caused more by the failure to tie up the working capital in time due to a lack of co-ordination between SFCs and banks than by a shortage of funds.

4.10 In estimating the demand for term credit during the Eighth Five Year Plan (1992-97), it is necessary to take into account the recent trends in the financing of SSIs. It is apparent from Table 4.1 that the average annual growth rate of SIDBI's refinance/bill finance to SFCs/SIDCs/banks during the years from 1986-87 to 1991-92 was about 15.5% which compares with the average growth rate of 16.5% per annum of SFCs' advances for SSI, as stated in paragraph 4.7. Besides, the coverage of the SSI sector has been widened with the upward revision in the ceiling on investment in the small scale and ancillary units. The Committee, therefore, feels that the demand for term credit for SSI in the 8th Plan, as well as SIDBI's refinance for SSI, would grow at around 16% per year. Starting from the 1991-92 base of Rs.1,246 crores of SIDBI refinance, including bill finance (rediscounting), the credit demand during the Plan period will be around Rs.11,700 crores, reflecting demand for SIDBI refinance at Rs.9,950 crores, the balance (Rs.1,750 crores) being provided by SFCs, banks, etc.

4.11 NABARD also provides refinance support to banks for lending to the traditional industries within the SSI sector. The demand for NABARD's refinance during the 8th Plan has been projected by it at Rs.1,865 crores, corresponding to ground level demand of the order of Rs.2,000 crores. Thus the total demand could be placed at Rs.13,700 crores.

4.12 The major share of the demand for investment credit will have to be borne by SIDBI, as in the past. SIDBI has quantified its internal resource generation in the 8th Plan at Rs.8,000 crores. Net of repayments to IDBI, the resources available for disbursement would be Rs.6,480 crores. SIDBI has been able to earmark about 61% of its disbursements to SFCs/SIDCs and banks in respect of their term lendings to SSI, the balance going for other schemes, the most important of which was refinance against loans to small road transport operators. If the same ratio continues to operate in the 8th Plan, SIDBI will be able to provide Rs.4,000 crores to SSI as compared to Rs.9,950 crores required for the purpose, leaving a gap of Rs.5,950 crores.

4.13 As the gap is substantial, it will be necessary to find ways to cover it. The Committee has noted in chapter III that the overall position of availability of resources to the commercial banks for lending to the SSI sector for working capital would be comfortable, given favourable conditions. The commercial banks may also be able to increase their own involvement in working capital/term loans to a higher level than what has been envisaged. Further, the Government of India, reportedly, intend to set up a modernisation fund of Rs.1,000 crores for SSI. This should also help in meeting the term credit needs of SSI to some extent.

4.14 In view, however, of the uncertainties attending deposit growth and credit deployment by the banking system as indicated in chapter III, the Committee suggests the following measures to augment the resources of SIDBI with a view to ensuring adequate flow of term finance to the SSI units:-

(a) The contribution from RBI out of the NIC(LTO) Fund to SIDBI has been discontinued from 1992-93. If future allocations would not be available, it will be necessary for RBI to relend to SIDBI every year the repayments of past NIC(LTO) borrowings by IDBI.

(b) The shortfall, if any, in the contribution from the NIC(LTO) Fund, after taking into account the above relending, should be compensated by other low-cost funds; SIDBI should be permitted to float tax-free bonds with a Government of India subsidy towards the interest differential between the LTO Fund rate and the bond rate.

(c) SIDBI's share of the SLR bonds could be increased. The additional resources raised should be utilised exclusively for increasing its assistance to the SSI units.

(d) The foreign banks operating in India have, reportedly, been unable to achieve the target for priority sector lending stipulated by RBI for them. RBI should examine the feasibility of diverting their resources to SIDBI/NABARD to the extent of the shortfall in their obligation in this regard. Such funds should be utilised by SIDBI/NABARD for meeting the credit requirements of the SSI units.

(e) Government of India may permit SIDBI to mobilise deposits from the SSI sector with suitable tax incentives to the depositors.

(f) SIDBI should be enabled to tap the resources of international financing agencies through foreign lines of credit/commercial borrowings.

(g) SIDBI should explore the feasibility of raising its refinance to SSI units from the present level of 61% of its total disbursements by suitably rearranging its priorities.

(h) LIC and GIC should be persuaded to lend a portion of their funds at reasonable rates to SIDBI for on-lending to SSI units.

4.15 The Committee has dealt exhaustively in chapter III with the need for changes in the system of delivery of investment credit to SSI through a spatial rearrangement and redistribution of the respective responsibilities of the SFCs and banks, particularly, in respect of term loans falling within the parameters of the SWS of SIDBI. The changes recommended will help in fulfilling the enlarged credit demand, as projected in the preceding paragraphs.

4.16 The Committee also considered certain other ancillary aspects which have a bearing on the mobilisation of resources for providing term loans to SSI. These are discussed below:-

(i) The inability of SSI units to raise resources from the capital market is partly due to the fact that under the guidelines issued by the Controller of Capital Issues, Government of India, a minimum amount of Rs.3 crores had been prescribed for issued capital of which not less than Rs.1.8 crores should be for the public, if the issue is to be listed on the stock exchanges. The Committee hopes that after the abolition of the Office of the Controller of Capital Issues, the aforesaid guidelines will not be applicable in future. Further, with the launching of the Over-the-Counter Exchange of India (OTCEI) and the guidelines issued by the Government of India for listing on the OTCEI, the minimum issued equity share capital of a company should be Rs.30 lakhs, subject to a minimum public offer of equity shares worth Rs.20 lakhs in face value. Therefore, small sized companies in the small scale sector can also tap the capital market by meeting the listing requirements of the OTCEI and making a public issue as per the guidelines. Further, if the issued equity capital is more than Rs.30 lakhs but less than Rs.300 lakhs, the Government guidelines prescribe that the minimum public offer should be 40% of the issued capital or Rs.20 lakhs worth of shares in face value, whichever is higher (as against 60% in respect of companies seeking listing with the stock exchanges). SIDBI, as also banks and SFCs, should take necessary steps to provide information inputs to small-sized companies in the SSI sector to enable them to tap the capital market through the OTCEI route, wherever such a course is feasible.

(ii) The Government's SSI policy of August 1991 envisages that non-SSI units can invest up to 24% of the equity of SSI. This would also be helpful for the companies in the small scale sector to register with OTCEI. In order to accelerate the flow of capital resources to SSI through this mechanism, the non-SSI units should be encouraged to maximise their participation in the SSI units.

(iii) The enactment of the Limited Partnership Act without delay will also facilitate the flow of equity capital to the SSI units.

CHAPTER V

NORMS FOR WORKING CAPITAL AND LENDING METHODS

5.1 The Study Group to frame guidelines for follow up of Bank Credit (commonly referred to as the Tandon Committee) set up in July 1974, recommended radical changes in the system of bank lending. Besides shifting the basis of bank lending from the erstwhile security-oriented system to a production oriented one, it also recommended certain norms to facilitate meeting the genuine credit needs of industry while, at the same time, preventing pre-emption of scarce bank resources by the large industry. The major changes introduced as a sequel to the Working Group's recommendations consisted of (a) norms relating to inventory and receivables (current assets) and (b) method of lending. These are briefly described below:

5.2 The Tandon Committee suggested norms for 15 major industries (norms have since been finalised for 45 industries) on the basis of various studies conducted earlier and discussions with the representatives of industry. These norms represent the maximum levels for holding inventory and receivables in each industry for the purpose of sanctioning short-term credit limits to supplement the borrowing unit's own resources to carry an acceptable level of current assets. If, however, a borrowing unit has managed with lower levels of inventory and receivables in the past, banks are to finance the level of current assets on the basis of such reduced levels of holding unless warranted otherwise. Deviations from the prescribed norms are also permissible under certain circumstances and the applicability of these norms is confined to borrowing industrial units with aggregate limits in excess of Rs. 10 lakhs from the banking system.

5.3 The Committee also suggested three ways to assess the maximum permissible level of bank finance(MPBF). These are:

(i) Banks could provide finance up to a maximum of 75 per cent of the Working Capital Gap(defined as Current Assets less Current Liabilities other than short term bank borrowings). The balance should be contributed by the borrowing units out of their long term funds, owned or borrowed. This method of arriving at MPBF known as the first method of lending, will thus ensure a minimum Current Ratio of 1:1.

(ii) A borrowing unit will be required to contribute a minimum of 25 per cent of the total Current Assets out of its long term funds. This method of assessing MPBF known as the second method of lending, will, therefore, ensure a minimum Current Ratio of 1.33:1.

(iii) A borrowing unit is required to contribute from out of its long term funds towards the build-up of the entire Core Current assets*, as also a minimum of 25 per cent of the balance Current Assets. The third method of assessing MPBF will, therefore, ensure a further strengthening of the Current Ratio as compared to the second method.

5.4 The Tandon Committee recommended the gradual adoption of the suggested norms, starting with the first method, with the objective of reducing dependence on short term bank borrowings for the build-up of Current Assets. The recommendation to assess MPBF under the third method of lending was not accepted by RBI.

5.5 While suggesting inventory norms for specific industries the Tandon Committee had given the rationale for laying down such norms. To quote the Committee -

"Inventory and receivables comprise the bulk of the current assets. The different types of inventory may be described as follows:-

- Flabby inventory, comprising finished goods, raw materials and stores held because of poor working

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* The Tandon Committee defined 'Core Current Assets' as representing the absolute minimum level of raw materials, process stock, finished goods and stores which are in the pipeline, so to speak, to ensure continuity of production.

capital management and inefficient distribution.

- Profit-making inventory, representing stocks of raw materials and finished goods held for realising stock profit.

- Safety inventory, providing for failures in supplies, unexpected spurt in demand, etc., in effect, an insurance cover.

- Normal inventory, based on a production plan, lead time of supplies and economic ordering levels. Normal inventories will fluctuate primarily with change in production plan. Normal inventory also includes a reasonable factor of safety.

There could be yet another type of inventory, viz., excessive inventory, which even an efficient management may be compelled to build up for reasons beyond its control, as in the case of a strategic import or as a measure of Government price support of a commodity.

'Flabby' inventory should not be permitted, and 'profit-making' inventory ought to be positively discouraged - both are selfish and an inequitable and inefficient use of resources; as regards 'safety' inventory, good management should bring it down to what disciplined experience, subjected to periodical statistical checks, will justify. Carrying inventory in excess of the normal inventory, which includes a reasonable factor of safety, is but an avoidable luxury which the banker should not encourage."

5.6 The Committee had also suggested that these norms, which represented the maximum levels for holding inventory and receivables, should not be regarded as absolute or rigid and that allowances would have to be made for some flexibility under circumstances justifying a need for reexamination. Thus, deviations from the prescribed norms were visualised under the following circumstances:-

a) bunched receipt of raw materials including imports,

b) power-cuts, strikes and other unavoidable interruptions in the process of production,

c) transport delays and bottlenecks,

d) accumulation of finished goods due to non-availability of shipping space for exports or other disruptions in an established market but not under circumstances where a sales stimulation is needed through reduction in prices,

e) build-up of stocks of finished goods such as machinery, due to a failure on the part of purchasers for whom these were specifically manufactured, to take delivery, and

f) need to cover full or substantial requirement of raw materials for a specific export contract of short duration.

While some of the contingencies listed above, such as, power-cuts, strikes, transport delays and bottlenecks, uncertainty/bunching in the matter of raw material availability etc. are factors relevant to almost all SSI, the rest may apply, in varying degrees, to this sector.

5.7 We have seen in chapter III of this Report that the Village Industries and the smaller Tiny Industries within the SSI sector get hardly any working capital at all. We have also seen that, in macro terms, in respect of the registered tiny and larger units within the SSI sector, there is a slight shortfall in the working capital. Besides, there are several obstructions to the smooth flow of working capital in a significant percentage of units. It is, therefore, necessary to reiterate the need for flexibility in the application of inventory norms as envisaged by the Tandon Committee. Such flexibility is almost indispensable in the case of the tiny units as the rigid application of inventory norms, prescribed for the larger category of small industries, leaves little room for manoeuvrability in their precarious existence.

5.8 The small scale industries, or at any rate, the smaller among them are on a different footing in so far as the piling up of inventories is concerned on account of the following factors:-

a) The environment in which they operate is very different from that of the large industry.

b) Inventory pile-up is rather difficult for SSI with their meagre capital and limited access to sources of finance other than commercial banks. Even if the units wish to pile up inventory it will not be advantageous to them as interest costs will be ruinous.

c) They have to compete with other units in the open market for procuring raw materials except in the case of a selected few items.

d) There are large variations in the different regions of the country with regard to the availability of raw materials. Also, the general infrastructure available differs considerably from region to region.

Consequently, holding inventory at levels somewhat higher than those prescribed may be often required for the successful functioning of the SSI units.

5.9 Mention has already been made in chapter I, of the constitution of a sub-group of the Committee to look into the special problems of the SSI sector in the north-eastern region. It was repeatedly represented to the sub-group of the Committee that in view of the special problems obtaining in the region such as transport difficulties, communication problems, market limitations, raw material constraints and infrastructural deficiencies, there is an urgent need to have a liberal policy for financing of SSI including exemption from the rigid application of the inventory norms.

5.10 Taking the above factors into consideration, the Committee has come to the view that a system of prescribing inventory norms has little relevance to the present status of a large majority of SSI, and that working capital requirement, roughly around 25% of the annual turnover, should be considered as reasonable in their case, with bank finance providing approximately 80% of such requirement. Inventory norms may be applied, if needed, after providing for the aforesaid minimum level. In respect of units for which norms have not been laid down/are not applicable (due to the units coming below the cut-off point of Rs. 10 lakhs of aggregate working capital) also, requests for working capital should be considered favourably so long as the requirements are not very much above such minimum level. Special norms have to be evolved for inventory and receivables in respect of the north-eastern and other hilly regions. Working capital below the minimum level may be justified under special circumstances in which the requirement is demonstrably lower, as in the case of an ancillary unit in the SSI with assured supply of inputs and off-take of output.

5.11 It has been represented to this Committee that SSI units which are producing import substitutes, units whose activities are seasonal, such as, the fire-works industry, pesticides formulators etc., as also industries like agarbathi manufacture (which depends on widely dispersed manufacturing and dealers who, reportedly, control practically all aspects of the industry) should receive special attention, particularly, in the matter of inventory levels that can be held and permissible bank finance for working capital. The Committee agrees that all such categories of industry should receive special attention and the working capital requirements should be assessed objectively. The steps suggested in chapter III in regard to working capital budgeting in consultation with the borrower should go a long way in solving the difficulties expressed by these industries.

5.12 The problems faced by the SSI units in regard to the availability of raw material, particularly, if it is dependent upon Government policies, such as, canalisation, have been brought to the notice of the Committee. Apart from their need for stocking the raw materials as and when they are made available, there is also the problem of price increases which are announced periodically by the Government of India, as in the case of steel, coal and petroleum products. In the case of small scale industries which are mainly dependent upon such raw materials, the Committee feels and has, accordingly, recommended that there should be an automatic provision in the system of providing working capital which will enable the borrower to draw higher amounts to procure the normal level of raw materials at the enhanced prices, even if the existing credit limit may not be adequate for the purpose.

5.13 The second important change brought about by the Tandon Committee was in regard to the method of lending, that is, the method of assessing the bank finance which can be provided as working capital. This system is conducive to the better financial health of the borrowing units, since it ensures a certain minimum level of margin on working capital out of the unit's long-term resources. Thus, for any increase in the level of current assets to be held, the unit will have to comply with the requirement of a certain percentage of long-term resources for financing the additional current assets. The first method of lending which envisages 25 percent of the Working

Capital Gap to be met out of long-term resources, is a wholesome method. The second method, under which 25 percent of the total Current Assets are to be met out of long term resources and has to be achieved only gradually, will ensure a minimum current ratio of 1.33:1. The Committee knows that there could be cases of SSI units which have genuine difficulties in operating with inventory levels as per prescribed norms and they may require a flexible approach. Insistence by banks on compliance with the second method of lending would prove too harsh for such units. The Committee, therefore, recommends that the banks should be advised to adopt an understanding attitude towards such SSI units in the matter of compliance with the second method of lending.

5.14 SSI Associations have brought to the notice of the Committee the fact that under the extant instructions of RBI, the term loan instalments falling due for repayment during the ensuing year are to be reckoned as items of current liabilities as on the balance sheet date. Since the total current liability is thus artificially increased, the permissible bank finance calculated on the basis will be lower than otherwise. The term loan instalments falling due during the next year will, in the normal course, be repaid out of cash generation during the relevant year and it will be unrealistic to expect SSI to fund such instalments beforehand. Repayment of term loan instalments is supported by cash generations during that year to a considerable extent, if not fully. The Committee is, therefore, convinced that there is substance in the argument put forth by the SSI associations. The implications of additional credit requirements, in case the aforesaid instructions are modified, may be examined by RBI.

5.15 The working group to review the system of cash credit (known as the Chore Committee) made important recommendations in regard to the style of credit, information flow to the banks from individual borrowers, promotion of the bills culture etc., of which the following were accepted for implementation by RBI:

(i) Excess of cash credit over the permissible limit as per second method of lending should be segregated into a working capital term loan (WCTL) with a higher rate of interest. This is not applicable to sick units.

(ii) Peak level and normal non-peak level working capital should be fixed for working capital, wherever feasible. Past utilisation of cash credit should be an important criterion in deciding these levels.

(iii)'Ad hoc'/temporary accommodation should be given through a separate demand loan or non-operable cash credit. Such accommodation should be charged a penal rate of 2 percent above the working capital interest rates.

(iv) Relaxation of inventory norms/'ad hoc' increase in working capital should be given only in exceptional circumstances.

(v) Finance against book-debts should be converted into bill limits, wherever possible. Drawee bills scheme should be introduced and atleast 50 per cent of the cash credit facility for raw-materials should be extended under this scheme in the case of large units (both public and private sector) with working capital facilities of Rs.50 lakhs and above.

(vi) Dues of SSI in sundry creditors should be segregated and banks should insist on public sector undertakings/large borrowers maintaining control accounts in their books to give precise data in this regard. Banks should take measures for ensuring prompt payment of the dues to small units by stipulating, if necessary, that a portion of the limits for bills acceptance (drawee bills) should be utilised only for drawee bills of SSI units.

While the recommendations at Sr.Nos. (i) to (iii) and that of drawee bills scheme in item (v) were to be applicable to units having aggregate working capital limits of Rs.50 lakhs and over from the banking system, those at Sr.Nos. (iv) and (v) relating to conversion of finance against book-debts into bills were to be applicable to all units. Incidentally, it may be stated that the recommendation at Sr.No. (vi), though advised by RBI for implementation by the banks, has not been successful. The aspect regarding prompt payment to SSI has been dealt with later in chapter VII.

5.16 Certain modifications in regard to some of the above suggestions of the Chore Committee, such as, banks taking a more liberal attitude in granting 'ad hoc'/temporary accommodation to the SSI units for working capital, relaxation of inventory norms, financing against book-debts in the case of certain small scale industries etc. have been suggested elsewhere in this Report. RBI may issue suitable amending instructions to the commercial banks. Other suggestions of the Chore Committee may continue to be applied in the case of SSI units also.

CHAPTER VI

REHABILITATION OF SICK SSI UNITS

6.1 Side by side with the growing magnitude of institutional credit for SSI units and the rapid growth of the industries the phenomenon of sickness in the SSI sector also became prominent. Not only did this lead to wastage of precious capital investment in the units, but it also added to the non-performing assets of the credit institutions. RBI as well as the Central/State Governments has been paying close attention from the latter half of the 70's to the problem of industrial sickness in general and that of the sickness in the SSI sector in particular with a view to arresting its growth and for the speedy revival of those units which showed the potential for becoming healthy units under a suitable nursing programme. Apart from issuing appropriate guidelines to banks and financial institutions, these efforts also resulted in the setting up of state level forums of coordination known as the State Level Inter Institutional Committees (SLIIC) dealt with in detail later in this chapter.

6.2 A system of data reporting on sick SSI units in the portfolio of commercial banks and the position regarding their rehabilitation was a part of the steps initiated by

RBI. The latest available data as of September 1990, show the position of sick SSI units in the lending portfolio of commercial banks as in Table 6.1 below:

Table 6.1

Position of sick SSI units in the lending portfolio of commercial banks - end September 1990

(Rs.in crores)

		No. of units	Amount outstanding
(a)	Total No. of SSI	18.27 lakhs@	..
(b)	Total sick SSI	2,25,324	2,610.87
(c)	% to Total SSI	12.3	..
(d)	Potentially viable	16,977 (7.5)	656.87 (25.2)
(e)	Non-viable	2,06,213 (91.5)	1,867.00 (71.5)
(f)	Viability yet to be decided	2,134 (1.0)	87.00 (3.3)
(g)	Of (d) above, units already put under nursing programme	13,235 (5.9)	522.00 (20.0)

@ Data furnished by DC(SSI) and relates to end-March 1990. (Figures within brackets indicate percentage to total sick SSI)

The data above includes village industries, tiny units as well as other SSI which have been financed under various special programmes of the Government of India, such as, SEEUY, SEPUP and SUME, as also other State Government Schemes, and have become sick.

Source : RBI, IECD.

6.3 Sickness in the SSI sector stems mainly from its various internal weaknesses, such as, limited financial resources and lack of organisational, financial and management skills and expertise. Consequently, the SSI units are extremely susceptible to even minor environmental pressures. The external causes of sickness are many, the more important of which are (i) difficulties in the availability of raw materials and other inputs including power, (ii) marketing difficulties, (iii) delayed and inadequate credit, (iv) high rates and taxes, (v) labour problems, (vi) faulty appraisal of projects and (vii) management which is inefficient/lacking in honesty/ plagued by dissensions among partners etc. In the case of SSI where more than 97%# of the units have proprietory/ partnership forms of organisation, management efficiency is of crucial importance for the success of the unit.

6.4 Since the steps taken to tackle industrial sickness appeared to be ineffective, it became necessary to have a separate mechanism to deal with the problem at least in the case of the large units. With the setting up of the Board for Industrial and Financial Reconstruction (BIFR) in 1986 to deal with sick non-SSI units, it was felt that the

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Report on the second all-India census of small scale industrial units - 31st March 1988 - DC(SSI),Government of India

RBI's guidelines, which were common to all sick industrial units, were inadequate for the SSI sector and that a fresh look was needed into the entire gamut of sickness in the sector. Accordingly, RBI issued a set of guidelines in February 1987 which laid down, inter alia, the definition of a sick SSI unit and of the viability of a sick unit and the extent of reliefs/concessions which could be granted by commercial banks as part of the rehabilitation package. Complementary guidelines were issued by IDBI to SFCs.

6.5 A sick SSI unit was defined in these guidelines as one which "has (a) incurred a cash loss in the previous accounting year and is likely to continue to incur a cash loss in the current accounting year and has suffered an erosion on account of cumulative cash losses to the extent of 50 per cent or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly installments of interest or two half-yearly instalments of principal on term loans and there are persistent irregularities in the operation of its credit limits with the bank." While both the conditions (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either (a) or (b) was satisfied in the case of the tiny and decentralised sector units.

6.6 Banks expressed practical difficulties in adopting this definition due to the following reasons:

(i) It is difficult to predict whether a unit was likely to incur cash loss in the current accounting year.

(ii) Even if there is erosion in the net worth, the operations in the credit limits need not show irregularities since the units often manage to delay such manifestation by postponement of other dues or by private borrowings or both.

(iii) As per the definition, erosion is to be measured on the basis of cumulative cash losses; since cash loss, that is net loss plus depreciation added back, represents an advanced stage of sickness as compared to loss, units got classified as sick as per the above definition only after the sickness had advanced too far.

6.7 These aspects were considered and the definition was modified in June 1989, as under:-

"A small scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak networth in the immediately preceding five accounting years. In the case of the tiny/decentralised sector also a unit should be considered as sick if it satisfies the above definition. However, in the case of such units, if it is difficult to get financial particulars, a unit may be considered as sick, if it defaults continuously for a period of one year in the payment of interest or instalments of principal and there are persistent irregularities in the operation of its credit limit with the bank."

The main difficulty with this modified definition seems to be that a unit has to be in existence for at least 5 years before it can be classified as sick. Under the present instructions, reliefs/concessions by way of lower interest rates can be given only as a part of the rehabilitation package for a sick unit. Thus, even if a new unit becomes sick due to genuine reasons outside its control, rehabilitation involving concessions/reliefs can be provided only if the unit completes five years of existence. Banks can provide support in the intervening period by rescheduling loans, by granting additional credit etc., but concessions or reliefs are not envisaged.

6.8 RBI has since issued revised instructions on the system of asset classification on the basis of the recommendations of the Committee on the Financial System (known as the Narasimham Committee) and has laid down the undernoted classification :

Category	Definition
i) Standard	..
ii) Sub-standard	Non-Performing Asset for 2 years or less
iii) Doubtful	Non-Performing Asset for more than 2 years
iv) Loss	Loss identified by bank/or in ternal/external auditors/RBI inspection but the amount has not been written off, wholly or partly.

Non-Performing Asset means, in general terms, any loan or advance in respect of which any amount to be received remains past due for more than 180 days. In the case of term loans, those where instalments of principal have remained overdue for a period exceeding two years are treated as doubtful. The RBI guidelines, however, allow the application of this norm in a phased manner over a three year period. The time limit will be four quarters (instead of 180 days) for the year 1992-93 and three quarters for 1993-94, the prescribed period of 180 days being applicable from 1994-95 and onwards.

The Committee is of the view that sickness cannot be said to have commenced unless any of the advances granted to the unit has first entered the 'doubtful' classification. To ensure uniformity of approach, we suggest that for the purpose of classifying an SSI unit as sick, a 'doubtful' advance may be defined as any advance in respect of which any amount has remained past due for a period exceeding 2 1/2 years. Such a course will help in adapting the asset classification system to the defining of sickness in the long run.

6.9 In this view an SSI unit may be classified as sick when

a) any of its borrowal accounts has become a 'doubtful' advance as defined above, i.e., principal or interest in respect of any of its borrowal accounts has remained overdue for periods exceeding 2 1/2 years, and

b) there is erosion in net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding 2 accounting years.

We have suggested accumulated cash losses to be the basis for reckoning the erosion in the net worth since the period for such reckoning is proposed to be reduced to 2 years from the existing 5 years; if cumulative losses are taken as the basis without regard to depreciation provisions, it could lead to several units becoming sick technically in their initial stage itself due to the high depreciation and low profits in the first few years of the working of a unit.

6.10 The asset classification system will be useful for detecting, well in time, advances which are deteriorating in quality. When any advance to an SSI has to be rated down from "standard" to "sub-standard" category as per RBI norms, the bank branch should go on the alert and make a full enquiry into the financial health of the unit, its operations etc., and report its findings to the higher authorities. Such reports should pinpoint the factors which have led to default and also indicate whether there are signs of incipient sickness in the unit. It will be much easier, and more beneficial, both to the bank and the SSI borrower, to have the problems identified and tackled at an early stage corresponding broadly with the change in classification to 'sub-standard'. This will enable incipient sickness to be detected so that timely help can reach the unit. The progress of the unit should be kept under close watch and, wherever necessary, additional finance may be provided, if such a course is warranted.

6.11 As soon as an advance comes under the category 'doubtful' the position relating to all the advances granted to the concerned unit should be reviewed and the unit classified as 'sick', if it satisfies the condition relating to the erosion in net worth. There are persistent complaints regarding delays in deciding the potential viability or otherwise of a unit once it is identified as sick and, further in finalising a rehabilitation programme. According to the instructions issued by RBI, viability studies/nursing programmes should be taken up within 3 months and 6 months, respectively, from the date of identification of the unit as sick. The Committee would like the above instructions to be strictly followed. The Committee has learnt that quite often the rehabilitation programme is delayed because the sick units' accounts have not been brought upto-date. The Committee recommends that banks may have such accounts written up and the cost involved as well as the cost of preparing the package of rehabilitation proposals may be met by the banks in the first instance, if the sick unit is unable to bear such expenses and the same may be recovered in instalments by making them a part of the rehabilitation programme.

6.12 Quite often the entrepreneur may hold the view that the unit is potentially viable, whereas the bank/financial institutions (FI) may decide that it is not viable and a dispute will arise as a result. The issue whether such disputes should be referred to an independent authority or forum was brought up before the Committee. After giving considerable thought to the subject, the Committee has come to the conclusion that even if such a forum were to be set up, its decisions cannot be made binding on the banks/FIs.

It is pertinent to note in this context that even the Sick Industrial Companies (Miscellaneous Provisions)Act, 1985 (SICA) does not empower the BIFR to order a bank or FI to provide nursing finance against its own commercial judgment. This is as it should be, since the credit risk is to be ultimately borne by the bank/FI and not by the BIFR. The Committee, therefore, feels that in all matters relating to the decision on viability of a sick unit, the commercial judgement of the bank and/or the SFC, as the case may be, will have to be accepted and there is no need to provide for a forum for intervention. There should, however, be a proper system, within the banks, for review of such decisions by higher level officials, on an appeal being made by the aggrieved borrowers.

6.13 In order to tackle the problem of sickness among the SSI units expeditiously, banks were advised by RBI in November 1976 that they should set up cells at important regional centres also, besides the cell at the Head Office, to deal with sick industrial units and provide expert staff, including technical personnel to look into the technical aspects. The Committee reiterates the above guidelines and would like the RBI to ensure that the cells are set up at the regional centres without further loss of time wherever the same has not been done so far.

6.14 According to the RBI guidelines, the time limits for concessions/reliefs and repayment of restructured debts are 5 and 7 years, respectively (2 and 3 years, respectively, for tiny/decentralised sector units). There is a demand that the time limits should not be applied very strictly and that, in deserving cases, longer periods should be allowed. RBI has, in January 1991, allowed the banks freedom to extend concessions/reliefs (which include the determination of periods for which such concessions/ reliefs are to be allowed and/or for repayment of restructured debts) beyond those laid down by it, in deserving cases where such a course of action is deemed absolutely necessary, for example, where (i) good export potential exists for the unit's products; (ii) there is established demand for the products; (iii)the cost of setting up a similar new unit will be disproportionately high, as compared to the cost of revival of the unit; (iv) substantial relief/assistance is provided by the Central and/or State Governments and sacrifices are made by the labour for the unit's revival, etc. The Committee is of the considered view that these instructions are wholesome and adequately serve the needs of deserving cases. Hence no further change in this regard is called for.

6.15 As regards concessions in interest rates which can be considered as part of the rehabilitation packages, RBI has issued revised instructions which lay down the undernoted norms:

Category of loan/advance	Extent of Concession
i) Working Capital	1.5 percentage points below the fixed rate/prevailing minimum lending rate wherever applicable.
ii) Funded Interest Term Loan	May be interest-free.
iii) Working Capital Term Loan	1.5 to 3 percentage points below the prevailing fixed rate/minimum lending rate wherever applicable.
iv) Existing Term Loans	Not more than 2 percentage points (not more than 3 percentage points in the case of tiny/decentralised sector units) below the document rate.
v) Fresh rehabilitation Term Loan (for start-up expenses)	1.5 percentage points below the fixed/minimum lending rate (wherever applicable) or as pre scribed by SIDBI where refinance assistance is obtained from it for the purpose.
vi) Contingency Loan Assistance	At the concessional rate allowed for working capital assistance.

These are broadly in line with the existing norms. As stated earlier, banks have been allowed freedom to grant a higher level of reliefs in deserving cases. The Committee does not consider any change in these guidelines to be necessary except in respect of Working Capital Term Loan in which case it should be 1.5 to 3 percentage points below the prevailing fixed rate/minimum lending rate wherever applicable, but not more than the lowest interest rate (at present 11.5%) for Village Industries and the smaller Tiny Industries and not more than 5 percentage points below the minimum lending rate in the case of advances over Rs.2 lakhs for other SSIs.

6.16 Banks have the feeling, and this has been supported by others, that the concessions/reliefs granted to sick units have sometimes proved counter-productive, as they enable the unit to cut down significantly on its interest costs, once it is able to secure a "sick unit" classification and also a nursing programme. There is, reportedly, a tendency to claim the benefit of the full range and extent of the concessions listed. The experience of RBI also has been that the entrepreneurs often demanded maximum reliefs, although the future projections warranted only a lower level of concessions. The Committee, therefore, reiterates the instructions of RBI that the concessions/reliefs are not to be given in a routine manner and that they would have to be decided by the concerned bank and SFC based on their commercial judgement and depending on the merits of each case. The circumstances leading to sickness should be one of the important criteria for deciding the promoter's contribution in the rehabilitation package; units becoming sick purely due to external factors over which they have no control, should receive a lenient treatment.

6.17 It is also necessary to consider the cause of sickness while granting reliefs/concessions for the revival of a unit. Units becoming sick on account of wilful mismanagement, unauthorised diversion of funds, disputes among partners/promoters, etc., should not be treated in the same manner as other cases where sickness is caused by factors beyond the control of a unit which is otherwise well-run and has a satisfactory record of financial discipline. The former type should not, in the Committee's opinion, be given any concessions/reliefs by way of a nursing package; banks should take a stern view of such cases and proceed to recover the dues. The Committee is of the view that the SSI associations should play an active role in ensuring that bank dues are repaid in such cases without delay and without the bank having to go to court.

6.18 While sick units look to the banks/SFCs for the maximum extent of concessions for rehabilitation, the Committee understands that the response from the other agencies closely connected with industrial development has not been equally encouraging. The Committee emphasises that sacrifices for the rehabilitation of sick units should be borne equitably by all the concerned agencies. The banks and/or SFCs alone cannot be expected to bear the brunt of rehabilitation. The Committee was happy to note that, of late, some of the State Governments have come forward with packages of reliefs to sick SSI units for their revival. These packages include exemption/deferment of sales tax/ purchase tax, exemption from electricity duty and reschedulement of arrears of sales tax/purchase tax and electricity charges. The Committee considers that all State Governments/U.T. Administrations should extend similar concessions.

6.19 A demand for a BIFR-type of authority to deal with cases of sick SSI units is being voiced for some time now and the Committee has also received such suggestions from various quarters. Some State Governments have also taken steps in this direction. The Government of India were in favour of setting up state level tribunals under a common central legislation for this purpose. However, the

Government felt that the tribunals would not be able to deal with the large number of sick units within the SSI sector as a whole and hence, units above a prescribed cut-off point only should come under the purview of the tribunals. The Committee endorses this view and recommends that sick units with fund-based working capital limits and term loans aggregating Rs.25 lakhs or more may be covered, to start with. There were 6455 SSI borrowal accounts of Rs.25 lakhs and over, including sick units, with the commercial banks as of March 1990, constituting 0.17% of the total SSI borrowal accounts. After gaining some experience, the cut-off point may be lowered suitably. The Committee would like to emphasize that the tribunals should be set up expeditiously.

6.20 In regard to sick SSI units falling outside the ambit of the tribunals - and they will constitute the bulk of the sick units, it will be necessary to think of a suitable mechanism to speed up decision-making in regard to their viability and their rehabilitation, once they are found to be potentially viable. Since the small scale units, particularly, Village Industries and the smaller Tiny Industries are widely spread, it will be advantageous to set up district level forums to keep a constant watch over the cases and help the banks in quickly tackling the problems of such units. We shall presently deal with the functioning of the district forums.

6.21 State Level Inter-Institutional Committees (SLIIC) were constituted by RBI during the late 1970s in order to provide a forum for adequate interfacing between State Government officials and State level institutions on the one side and the term lending institutions and banks on the other. These Committees have the Secretary, Industries of the State Government, as Chairman. The in-charge of the regional office of the Rural Planning and Credit Department, RBI acts as the convener of the committee. The major banks operating in the State, SFC, SIDBI, SIDC and the Small Industries Service Institute are members of the SLIIC. Essentially, SLIIC has been envisaged as an advisory forum and it has no backing of any statute for enforcing its decisions. The committee, besides providing a useful forum for the exchange of information and discussion of the problems faced by the small and medium scale industrial units and small entrepreneurs, also deals with the following:

(i) co-ordination between banks and financial institutions,

(ii) provision of adequate infrastructural facilities to industrial units and

(iii) general problems relating to grant of credit to such units.

6.22 Although, initially, RBI had advised that SLIIC should not concern itself with the problems of individual sick units and should concentrate on problems relating to categories of industries or industries in particular areas, in due course, RBI found it necessary to relax this stipulation. At present, almost all the SLIICs are dealing with the problems of individual sick SSI units either directly or through sub-committees constituted for the purpose.

The following additional items of work have been entrusted to SLIIC over the years:

(i) monitoring timely sanction of working capital to units which have been provided with term loans by SFCs,

(ii) monitoring the implementation of special schemes, such as, Margin Money Scheme of State Governments, National Equity Fund Scheme of SIDBI,

(iii) general problems of industries and

(iv) review of sickness in the SSI sector based on data furnished by the banks.

Some of the State Governments have decided to empower the SLIIC to grant certain concessions, such as, deferral of sales-tax dues and exemption from power cut, to SSI sick units under rehabilitation, based on the merits of each case.

6.23 Periodical reviews undertaken by RBI regarding their performance have corroborated the widespread impression that SLIICs have not been effective in dealing with the general problems leading to sickness, nor have they been able to achieve significant results with respect to individual sick units. While a host of factors might be responsible for the sub-optimal performance of these forums, the Committee is of the view that SLIIC should be revitalised with the active involvement of the State Government. It should function as a committee of the State Government and attend to all the functions entrusted to it through well planned meetings with inputs provided by the Industries/Institutional Finance Departments of the State Government, SIDBI, SFC/SIDC, banks and the district level forums. SIDBI, with the co-ordinating role it has begun to play among banks and SFCs within each State, is best fitted to act as the convener of the committee. If the state level industrial tribunals on the lines of BIFR are set up under a common central legislation as recommended in para 6.19 above, the rehabilitation of only the smaller SSI including Village Industries and the smaller Tiny Industries have to be co-ordinated by SLIIC.

6.24 We have recommended elsewhere in this Report a system which will enable the vast majority of SSI units to be financed by a single financing agency. This should take care of the initial problems arising out of inadequate co-ordination among banks and SFCs in regard to SSI units. However, there could still be grievances in regard to delays in rehabilitation, inadequate financing etc., particularly, relating to the Village Industries and the smaller Tiny Industries. Having regard to the fact that such units are widely dispersed, it will be essential to have some forum at the district level which can look into such grievances. The District Industries Centre is a ready-made nucleus around which the district forum can be built with the Lead Bank Officer as the banks' representative. The nomination of an officer of SIDBI on this forum will be essential.

6.25 Searching for examples, we have noted the field level arrangements existing in Maharashtra. The Zilla Udyog Mitra functioning under the Chairmanship of the District Collector with the General Manager, DIC,as the member-secretary and with the various concerned Government agencies/departments represented on it besides the Lead Bank Officer, is a forum of co-ordination for the promotion of SSI units in the district and for extending meaningful help to entrepreneurs in a time-bound manner. There is also a 'sick unit rehabilitation committee' at the district level which is again, headed by the District Collector and has the General Manager, DIC as its member-secretary. It has, as members, representatives of the lead bank, the State Bank of India and three leading industrial associations working in the district. These two forums are expected to work in close co-ordination. We recommend that the above model which is a functioning arrangement, could be adopted by other State Governments also with necessary modifications to suit their conditions.

6.26 Mention has been made in para 6.22 of the sub-committee of SLIIC. The sub-committee/sub-group came into being as a result of the felt need for a compact forum which could look into the cases of individual sick units and the problems in their rehabilitation. A recent review made in RBI showed that except in respect of the constitution there was no uniformity of any kind among the sub-committee/sub-group of SLIIC as to the style of functioning, reporting system, calendar of meetings or the subject matters considered. In general, the SLIICs do not appear to be playing a useful role in the functioning of the sub-committees. We recommend that SLIIC should guide, co-ordinate and monitor the working of the district forum which should function as the district level counterpart of SLIIC and should maintain close links with it. SLIIC should lay down guidelines for the district forum to take up issues posed by the district SSI units, particularly, the tiny units and village industries and to submit them to SLIIC, if the district forum itself is unable to settle them.

6.27 Among the various suggestions received by the Committee there is one which refers to a "smooth exit policy" for unviable units. The thrust of the suggestion seems to be not so much in regard to any legal hurdles in declaring lock-out or closing down the unit as for the quick settlement of dues to the banks. The idea put forward, in substance, is that when a unit decides to close down, there should be a one-time settlement of its dues to the commercial bank which should involve a suitable scaling down of the debt. Demands have also been made for laying down the percentage upto which such scaling down may be done. It is necessary to note that banks are commercial institutions and they will have the ultimate right to decide, on the merit of each case based on sound business practices, whether the writing-off of a debt is required and desirable. It will, therefore, be inappropriate to circumscribe the authority of banks in this regard.

6.28 The Expert Group on State Enactments having a bearing on Commercial Banks' lending to Agriculture appointed by RBI in 1968 under the Chairmanship of Shri R.K. Talwar (known as the Talwar Committee) had recommended that in order to facilitate the prompt recovery of dues of commercial banks without having to resort to protracted and time consuming litigation in civil courts, the States should enact legislation on the lines of the draft model bill which was also recommended by the Expert Group. Information available with RBI indicates that so far only 16 States have passed the necessary legislation either covering agricultural advances and/or other categories of advances also, by the banks. The Committee recommends that the remaining States should also enact the necessary legislation, covering agriculture and other dues on the lines recommended by the Expert Group without any further delay.

6.29 There is an urgent need to consider ways and means of expediting legal proceedings for the recovery of bank dues. Utilising the 'Lok Adalats' has been suggested to us in this regard. The Committee notes that RBI has recently requested IBA to advise its members to take recourse to the 'Lok Adalats' for the settlement of dues of upto Rs. 2 lakhs. The 'Lok Adalats' may not, however, be a substitute for special courts. The Committee would urge the setting up of special courts for dealing with the recovery suits of banks.

CHAPTER VII

OTHER RELATED ASPECTS

7.1 The SSI sector in India, by definition, covers a wide spectrum stretching from the very small artisans/village units to the modern, capital intensive units which are at the borderline of the norm relating to investment in plant and machinery. The activities eligible for inclusion under the term "small scale industry" have been stipulated by different agencies connected with it in as many different ways. The Committee found that there were different connotations as under:

(i) RBI

Both registered and unregistered units are included and no distinction is made; separate data regarding registered and unregistered units are, therefore, not available in so far as the banking system is concerned.

(ii) Government of India

The SSI policy of the Government covers all activities covered by RBI but SIDO concerns itself only with a portion thereof; activities such as handlooms, handicrafts, sericulture, khadi & village industries, as well as activities falling outside the purview of the Union Ministry of Industry are not covered by SIDO and hence, such units are not eligible for SIDO registration.

(iii) SIDBI

SIDBI is allowed to finance, besides SSI, various activities like road transport operators, clinics, tourist resorts etc., since such activities are defined as "industry" under the IDBI Act, 1964.

As a result of these different perceptions of the various authorities/agencies, the Committee faced considerable difficulty in gathering information/data. Assumptions have had to be made at various stages to relate one set of data to another. The Committee is of the view that this anamoly should be removed and uniform definition of the term 'SSI' evolved urgently which should be followed by all the agencies.

The Committee also recommends that data in respect of the SSI sector should comprise the three sub-groups viz., (i) Village Industries, (ii) Tiny Industries, and (iii) Other SSI. If the data does not include any of these three categories, the fact should be clearly indicated. In so far as the banks and SFCs are concerned, the data reporting system should be modified so that, in future, the break up of the data in respect of the aforesaid three categories will be readily available. This is also essential in the case of the data regarding sick units. Government of India, RBI and SIDBI may take urgent steps in this regard.

7.2 The defining norm of investment in plant and machinery is revised upward by the Government of India periodically. With each such revision all units whose original investment in plant and machinery is within the new (higher) limit get the SSI status. Since the norm is in respect of the original value of investment in plant and machinery, it appears that granting the SSI status to all units including the existing units is unscientific. The Committee suggests that the enhanced limits should be applicable only to those existing units whose original investment, when measured at the current value of rupee, satisfies the norm. For this purpose the value of investment in plant and machinery should be suitably indexed.

7.3 Allied to the above is the difficulty in applying uniform prescriptions for the promotion of the SSI sector. It is unrealistic to expect that a village industry unit and a modern, hi-tech, capital intensive SSI unit can be promoted by the same type of measures. This is relevant, particularly, in the case of credit inputs. There is hardly any difference between a large SSI unit and a small non-SSI unit lying on either side of the line dividing SSI from non-SSI. The former could well qualify for SSI status for no other reason than the raising of the limit for investment in plant and machinery. There is, therefore, no weighty argument in favour of lower interest rates, higher debt-equity ratio etc., for the large SSI units.

7.4 A suggestion has been made that in the case of SSI units, banks should be instructed to follow uniform rates of interest so that different rates may not be charged by different banks. Under current instructions of RBI, banks have the freedom to stipulate the rate of interest (above the minimum rate prescribed by RBI) for advances over Rs.2 lakhs. Since the freedom to charge interest at any rate above the prescribed minimum according to the cost of funds, assessed credit risk etc. has been given to the banks as part of the general policy of deregulation and since even the same bank can charge different rates to different SSI borrowers on the basis of their credit rating, the Committee feels that it will not be desirable to modify the existing instructions except to the extent suggested below.

7.5 The Committee is, however, of the view that within the discretion given to the banks, there is room for preferential treatment to be given to the tiny sector units. According to the RBI directives on interest rates, the minimum rate of interest at present for advances exceeding Rs.2 lakhs is 15 per cent p.a. on term loans and 19 per cent p.a. on working capital. Banks are generally charging rates of not less than 18 per cent p.a. as the interest on term loans and more than 19 per cent p.a. on working capital for advances over Rs.2 lakhs granted by them to SSI units. SIDBI which has been authorised by RBI to stipulate its own interest rate structure under the refinancing scheme, has also prescribed the minimum rate of interest of 19 per cent p.a. to be charged by banks and SFCs for their term loans to SSI units in excess of Rs.2 lakhs. The Committee recommends that for tiny units with credit limits between Rs.2 lakhs and upto Rs.10 lakhs, the banks/SFCs should charge only 18 per cent p.a. on the term loan and 19 per cent p.a. for working capital as long as the present interest rate structure continues.

7.6 At present, the banks are charging their SSI customers collection/service charges in respect of the bills discounted and sent for collection to local banks. The service charges are in addition to the interest charged by them as per the RBI directive on interest rates. The service charges are levied as under:-

For amounts upto Rs.1,000/-	Rs. 5/-
Above Rs.1,000/- upto Rs.2,500/-	Rs.10/-
Above Rs.2,500/- upto Rs.5,000/-	Rs.12/-
Above Rs.5,000/- upto Rs.10,000/-	Rs.40/-
Above Rs.10,000/-	Rs. 5/- per thousand (maximum Rs.1,500/-)

In the case of usance bills discounted by the banks, the above charges amount to 6% p.a. for 30 days and 3% p.a. for 60 days. It has been represented to the Committee by

SSI associations that the service/collection charges are on the high side. The Committee suggests that the IBA should examine the matter and prescribe nominal charges as service/collection charges from the SSI clients of the banks.

7.7 Several banks are, reportedly, charging the SSI units overdue interest at the rate of 27% p.a. or more in the case of default in payment of discounted bills on the due date. This interest is charged from the due date till the date of actual payment. Similarly, in the case of bills/cheques purchased, overdue interest at the rate of 27% p.a. or more is charged on the outstanding amounts of bills/cheques returned unpaid from the date of presentation/purchase till the date of actual payment. SSI associations have represented to the Committee that the banks are not justified in charging so high a rate of overdue interest for the non-payment of bills on due date/date of presentation. They request that the rate of interest to be charged by the banks in this regard should be reasonable, say, 2% above the effective rate of interest to be charged by banks for the discounting of bills as prescribed by RBI. The Committee has considered the matter and is of the view that overdue interest at 27% or more in such cases is excessive. High overdue interest and service charges for collection of bills discourage the bills culture. The Committee, therefore, suggests that RBI should issue suitable instructions to the banks to ease the hardship.

7.8 The SSI associations have also pointed out that in the discounting of bills, if the cheque in respect of payment for supplies, issued on the due date, is tendered/deposited at the bank by the supplier of goods on a subsequent date on account of an intervening holiday or Sunday, banks charge overdue interest for 3-4 days till the time the cheque is collected and credited to the account of the SSI unit. The Committee recommends that, in such cases, the banks should allow a suitable grace period to the SSI units and charge normal interest during the grace period instead of charging overdue interest.

7.9 The guarantee scheme for loans to SSI, operated by the DICGC, has been the subject of much criticism. The risk cover is restricted to a percentage of indemnification with a ceiling on the absolute amount payable in each case, whereas the guarantee premium is levied on the entire credit. These rather incongruent stipulations make the guarantee scheme irrelevant, especially, in the case of the larger SSI units. RBI has instructed banks that the guarantee premia should not be passed on to the borrowers belonging to the weaker sections but should be borne by the banks themselves. In all other cases the banks can levy guarantee premia from the borrowers subject to the stipulation that the interest plus guarantee premium does not exceed the floor rate. This stipulation, ironically, results in the floor rate loans in the highest slab escaping the guarantee fee altogether, the burden shifting to the interest rate. The Committee recommends that the credit guarantee fee should be built into the interest rate in all cases and should not be levied separately from the borrowers. Since such a step will have a bearing on the lending rate structure, the Committee would like RBI to consider this as part of the revision of the lending rate structure.

7.10 One of the suggestions received by the Committee is for a self-financing insurance scheme which proposes that the small scale units will pay one per cent of their borrowings from banks and SFCs towards the insurance premium. When the unit becomes sick and is found not viable, the entire assets and liabilities will be taken over by the insurance company which will dispose of the assets and liquidate all the dues of the unit, secured and unsecured, including dues to workmen and other employees, Governments, etc. The owners of the units will stand completely discharged from all liabilities. It has been stated that the liquidation of the unit will be as per the prevailing law.

7.11 The scheme is evidently meant to be more comprehensive than the existing DICGC scheme which merely insures banks' advances. Therefore, it may be useful to examine the record of the existing scheme. The DICGC guarantee scheme under which limits are prescribed for the maximum amount of guarantee cover, itself could not be sustained with a low premium; the present guarantee fee @ 1 1/2 per cent of the borrowings is also found inadequate. An analysis of the available data for the 7th Plan period shows that, had the proposed insurance scheme been applicable, the total receipts by way of guarantee premia by the commercial banks would have been about Rs.550 crores during the 5 years 1986 to 1990, whereas during the same period the total amount locked up in sick units went up by over Rs.2000 crores. As at the end of September 1990, the outstanding advances of commercial banks in respect of non-viable/defunct SSI units totalled Rs.2154 crores. Thus, the premia receipts through the commercial banks would not have been adequate even to liquidate the commercial banks' dues to the full extent. It is, therefore, very unlikely that the insurance scheme will become self-financing. Moreover, the fact that the scheme cannot support itself also makes it administratively infeasible. Where insurance coverage is vast, as in the small scale, tiny and village industries, an insurance scheme can be administered only if the coverage is automatic and compensation normative. If the experience of DICGC has shown that normative compensation cannot be successfully implemented for lack of resources, the insurer under the proposal can be expected to be careful in admitting claims and will demand satisfaction that sickness was not preventable and, in any case, not due to dishonest practices. Therefore, while the collection of insurance premia may be undertaken by banks as agent of the insurer, the latter will want to keep track of individual units, which, considering the very large number of non-viable units, will be administratively daunting, apart from entailing prohibitive cost. The Committee does not, therefore, endorse the proposal.

7.12 In order to facilitate a larger flow of funds to the SSI sector it has been suggested that separate mutual funds should be set up exclusively for the SSI sector; alternatively, it has been represented, that mutual funds may be brought under an obligation to earmark a certain portion of their funds for investment in SSI issues. Mutual funds in India function as investment companies which undertake to redeem their shares as per the conditions of issue of such shares. Their investment pattern is subject to regulation. The present rules do not allow the mutual funds to compete with banks and provide credit in the form of loans and advances; the mutual funds can, however, provide support through investment in equities, debentures, bonds, etc. Only a minuscule proportion of the SSI units will be able to benefit in this way and it is not clear whether the establishment of separate mutual funds exclusively for SSI will be a viable proposition. We have referred, elsewhere in this Report, to the lower limits prescribed for capital issues for listing on the OTCEI. This should enable more SSIs to gain access to the capital market. As regards the suggestion that mutual funds may not feel enthused about SSI issues and hence a stipulation should be made to compel them to earmark a certain portion of their funds for investment in SSI issues, it does not appear to be a desirable step, since the mutual funds, which garner the small savings of the community, have to ensure optimum returns to investors and hence they should have unrestricted freedom to optimise their earnings.

7.13 Modernisation is of great importance to the SSI sector, especially, since efforts have been launched to open up the economy to global competition. A suggestion has been made in this connection for setting up a growth fund to which SSI units will contribute. The fund which will be utilised exclusively for meeting the modernisation costs of the member units is to be maintained by SIDBI and contributions to the fund are to be exempt from tax. Though the proposal sounds, prima facie, in order, its practical feasibility will depend mainly on the size of the contributions by the SSI units and the tax exemption available for such contributions. The Committee, therefore, suggests that the creation of a separate fund may be examined for extending financial assistance to SSI units for modernisation at a concessional rate of interest. The details of the fund may be worked out by SIDBI in consultation with RBI, if the proposal is found viable. The Government of India are, reportedly, making a provision of Rs.1000 crores for the modernisation of SSI in the 8th Plan. The Committee sees advantage in integrating the industry proposal with the Government scheme.

7.14 One of the suggestions made to the Committee for promoting modern, hi-tech units in the SSI sector was that of encouraging Venture Capital Funds (VCFs). The idea mooted was that each State should have at least one VCF, with or without Government participation. In this connection, it is observed that there are already 7 or 8 VCFs operating in the country. There is also the venture capital assistance provided by IDBI through an in-house programme. Detailed guidelines regarding the functioning of VCFs were issued by the Office of the Controller of Capital Issues (CCI) in November 1988. These guidelines stipulate, among other things, that VCFs could be set up by public sector financial institutions, scheduled banks including foreign banks and subsidiaries of banks. Joint ventures with non-institutional promoters are allowed, subject to the condition that the equity holding of such non-institutional promoters did not exceed 20 per cent and that they did not constitute the largest single holding. Thus, private sector venture capital funds are not permitted under the Government guidelines. The VCFs in existence do not seem to have made any significant impact in the field. The focus of their operations has been on short term investments, including money market operations. It is not clear whether the poor performance of VCFs, particularly, those sponsored by agencies other than development finance institutions, is on account of inadequate venture capital investment opportunities in the country. None of the VCFs appears to have divested itself of its investments. With the coming into existence of OTCEI, it appears that a feasible exit route will be available to the venture capitalist. The poor progress so far should not, however, cloud the inherent merits of the venture capital experiment. The Committee recommends that, besides encouraging the private sector in setting up VCFs, with appropriate tax relief, the State Governments also should be encouraged to do so for financing SSI units.

7.15 It has been suggested that a credit rating system for small scale entrepreneurs should be introduced so that banks and financial institutions will have an objective tool for assessing whether a credit proposal should be viewed favorably or not. It is pertinent to note that the suggestion relates to credit rating of the entrepreneur as different from that of the enterprise. The Committee is not aware of such a practice having been developed scientifically. While an attempt on these lines may be possible in the case of entrepreneurs who are already managing one or more enterprises, it will be well-nigh impossible to undertake such a study in the case of a new entrepreneur. The Committee is, therefore, unable to endorse the suggestion.

7.16 The terms of reference of the Committee require it to examine, among other issues, the adequacy of institutional credit to SSI for working capital requirements with particular reference to the delay in the realisation of sale proceeds from large companies and Government agencies, a problem which has been engaging the attention of the authorities for a long time but has been defying a practical solution. Much as the Committee would have liked to gauge the actual extent of this problem whose dimensions are generally known to be huge, the lack of data has prevented it from exhaustively dealing with this issue in chapter III. Several suggestions were received by the Committee, as noted below, for mitigating the difficulties experienced by the SSI units on account of the wanton delay in receiving payments against the supplies made by them to large units, both in the public and private sectors:

(i) Supply bills of SSI should be routed through the bankers of the large units.

(ii) Higher levels of receivables should be allowed to SSI suppliers by their bankers commensurate with the actual lock-in period of funds.

(iii) Part of the working capital limits granted to the large units should be earmarked specifically for payment to SSI suppliers.

(iv) The performance of the large units in making prompt payment to SSI suppliers should be one of the factors for deciding their credit ratings and higher rates of interest should be charged for units having poor record in this regard.

The Committee deliberated at length on these suggestions and found that with the exception of the one at item No.(iv) above, the suggestions do not admit of practical implementation. We note that public sector undertakings are among the major defaulters. The Government of India and State Governments should issue suitable instructions to these undertakings in the matter. In the case of these as well as other medium and large industries the prompt payment of bills of SSI units should be one of the factors for deciding their credit ratings as also for charging of interest on advances by the financing banks. Appropriate guidelines to banks should be evolved by RBI for this purpose.

7.17 The Committee is reassured that the Government of India have proposed to introduce a bill in the Parliament which will make timely payment to SSI suppliers mandatory for all buyer units and will impose a penal interest in the case of defaults. Since the small scale suppliers are, in the present scheme of things, virtually at the mercy of the buyers, the latter are able to impose their own terms even at the cost of the financial health of the SSI units. The Committee would, therefore, like to caution that the law will be effective only if the following aspects are taken care of :-

a) The penal interest should be high enough to make it unattractive for the buyers of SSI manufactured goods to tap this source for their working capital needs.

b) The penal interest should be payable for the entire period from the date of despatch/receipt of the goods and not from the date on which they are approved. This is suggested because in the absence thereof, the purchaser can use up the supplies although, on record, such supplies will be shown as awaiting approval, a practice which is, reportedly, in vogue.

7.18 The introduction of "factoring services" was expected to benefit the SSI sector by providing liquidity against receivables. In particular, it was envisaged that the factoring agencies would help in the matter of delayed payments to SSI suppliers by the large scale units/ Government Undertakings. The two factoring agencies so far set up as subsidiaries of the commercial banks and financial institutions have made only a beginning in this direction mainly in the southern and western parts of the country. Factoring agencies are yet to take root in the northern and eastern regions. RBI should take steps towards the setting up of factoring organisations all over the country. Though the factoring is "with recourse", progress in the coverage of the smaller SSI units by the Factors seems to be rather slow. This may, perhaps, be due to the limited reach of the factoring agencies, who prefer corporate clients with a large volume of business and the delay in bringing about changes in various statutes, as recommended by the RBI Study Group For Examining Introduction of Factoring Services in India (known as the

'Kalyanasundaram Committee'). It will, however, be difficult for a few factoring agencies to cater to the large number of SSI units in the country. The Committee, therefore, suggests that necessary steps should be taken expeditiously to allow factoring agencies in the private sector also.

7.19 Two problem areas in regard to factoring have been brought to the Committee's notice. The first relates to the difficulty faced by the SSI units in obtaining "letters of disclaimer" in respect of the receivables from their financing banks, a requirement which is, reportedly, insisted upon by the Factor. The second point is the limit for borrowings which has been fixed at 3 times the owned funds of the factoring organisations which is said to inhibit their growth. The Committee would like RBI to look into these difficulties and take appropriate action.

7.20 The handloom industry which is one of the traditional industries is facing several problems and the number of handloom weavers is reported to be declining. The Committee did not go into these problems as they were mainly of a non-credit nature. It is suggested that a separate Task Force may look into the problems of the handloom industry.

7.21 Looking to the nature and extent of the problems faced by the SSI sector, the Committee feels that the SSI associations have an important role to play in extending help and supporting services to their members and mitigating their hardships. The SSI associations should, as a first step in this direction, develop separate wings consisting of technically qualified personnel who will be in a position to look into the problems/difficulties of its member units and to represent the grievances of the entrepreneurs to the various authorities/organisations concerned including banks/financial institutions.

Annexure 1.1

RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY 400023

MEMORANDUM

It has been decided to appoint a Committee to review the arrangements for meeting the working capital requirements of small scale industries and for the rehabilitation of sick small scale industries and to examine any other issues relating to small scale industries. Accordingly, Reserve Bank of India appoints the following persons to constitute the Committee for the said purpose.

1.	Shri P.R.Nayak * Deputy Governor Reserve Bank of India Central Office Bombay - 400 023.	Chairman
2.	Shri S.L.Kapur Secretary to the Govt. of India Ministry of Industry (Department of SSI and Agro and Rural Industries) Udyog Bhavan New Delhi 110 011.	Member

3. Shri K.J.Reddy $ Member
Addl. Secretary
Ministry of Finance
Deptt. of Economic Affairs
(Banking Division)
Government of India
'Jeevan Deep'
Parliament Street
New Delhi 110 001.

4. Shri Ashim Chatterjee $ Member
Adviser (Village and Small Industries)
Planning Commission
Yojana Bhavan
Government of India
New Delhi.

5. Shri A.W.Bhadkamkar $ Member
Secretary Industries
Government of Maharashtra
Mantralaya
Bombay - 400 021.

6. Smt. Sarita J.Das $% Member
Commissioner-cum-Secretary
Department of Industries, Textiles
and Handloom
Government of Orissa
Bhubaneswar 751 001.

7. Shri V.Mahadevan Member
Managing Director
State Bank of India
Central Office
Bombay 400 021

8. Shri R.S.Agrawal — Member
Managing Director
Small Industries Development Bank of India
Nariman Point
Bombay 400 021.

9. Shri P. Kotaiah + — Member
Chairman
National Bank for Agriculture and Rural Development
Sterling Centre
Dr. Annie Besant Road
Worli
Bombay - 400 018.

10. Shri A.N.Srinivasa Rao — Member
63, IVth Main Road
Gandhinagar
Madras 600 020.

11. Shri V.G.Kalantri @ — Member
President
All India Manufacturers' Organisation
73, B.S. Marg
Bombay 400 023

12. Shri N.Dutta @ — Member
9/1A, Bright Street
Calcutta 700 019.
(President, Indian Federation of Tiny Enterprises)

13. Shri Chakradhari Agrawal $ — Member
President
National Alliance of Young Entrepreneurs
301-302, Saraswati House
27, Nehru Place
New Delhi 110 019.

14. Shri M.S.Parthasarathy $ Member
President
National Confederation of Small Industry
10, G.S.T. Road
Madras 600 032.

15. Dr. S.L.Shetty Member
Officer-in-Charge
Department of Economic Analysis and Policy
Reserve Bank of India
Bombay 400 023.

16. Shri Jagdish Capoor Member
Chief Officer
Industrial and Export Credit Department
Reserve Bank of India
Central Office
Bombay - 400 023.

17. Shri R.K.Jalan Member-Secretary
Chief Officer
Rural Planning and Credit Department
Reserve Bank of India
Central Office
Bombay 400 023.

2. The terms of reference[ss] of the Committee are as follows:

(i) to examine the adequacy of institutional credit for the SSI sector, particularly, with reference to the increase in the cost of raw material and locking up of the available resources due to delay in realisation of sale proceeds from large companies and Government agencies,

(ii) to examine the adequacy of institutional credit for term finance to the SSI sector,

(iii)to examine the need for making any modifications/relaxations in the norms prescribed by the Tandon/ Chore Committee in respect of SSI units,

(iv) to examine whether any revision is required in the present RBI guidelines for the rehabilitation of sick SSI units, and

(v) in the light of the above, to suggest :

a) suitable arrangements for ensuring adequate flow of institutional credit for working capital and term finance to SSI sector including refinance arrangements by SIDBI/NABARD etc.,

b) modifications/relaxations, if any, required in the norms prescribed by the Tandon/Chore Committee in respect of SSI units,

c) methods by which the locking up of resources on account of delay in realisation of bills can be minimised,

d) changes, if any, required in the present guidelines for rehabilitation of sick SSI units.

(vi) to make recommendations on any other related matter which the Committee may consider germane to the subject.

3. The Committee is expected to submit the report by 30th June 1992 @@.

4. The Secretariat for the Committee will be provided by the Rural Planning and Credit Department, Central Office, Reserve Bank of India, Bombay - 400 023.

Sd/-
(Ms. I.T. Vaz)
Executive Director
9 December 1991.

* Shri P.R.Nayak retired as Deputy Governor of Reserve Bank of India on 31st March 1992. He, however, continued as Chairman of the Committee as per Reserve Bank of India, Governor's orders dated 23rd March 1992.

$ S/Shri K.J.Reddy, Ashim Chatterjee, A.W.Bhadkamkar, Chakradhari Agrawal, M.S.Parthasarathy and Smt. Sarita J.Das were included in the Committee in terms of RBI Governor's orders dated 13th February 1992.

+ Shri P.Kotaiah was included in the Committee as per order of RBI Governor dated 5th March 1992.

@ S/Shri V.G.Kalantri and N.Dutta were included in the Committee in terms of RBI Governor's orders dated 2 and 7 January 1992 respectively.

@@ The period was subsequently extended upto end of August 1992.

% Smt. Sarita J.Das took over as Joint Secretary, Govt. of India, Ministry of Agriculture, Department of Agriculture and Cooperation, New Delhi 110 001.

$$ The scope of the terms of reference of the Committee was widened in terms of a subsequent RBI Memorandum dated 7th March 1992 with the following additions/amendments.

a) item (ii) "to examine the adequacy of institutional credit for term finance to the SSI Sector"

b) item (v) "suitable arrangements for ensuring adequate flow of institutional credit for working capital and term finance to SSI sector including refinance arrangements by SIDBI/NABARD etc."

c) Consequent to the above additions/amendments, the earlier items nos. (ii) to (v) were changed to item nos. (iii) to (vi) respectively.

Annexure 1.2

List of officials, representatives of organisations and individuals who met the Committee

A. Officials

1. Shri S.N.Sinha
   Industrial Development Commissioner
   Government of Bihar
   Patna

2. Shri S.S.Nadkarni
   Chairman
   Small Industries Development Bank of India
   Bombay

3. Shri P.S.Gopalakrishnan
   Chairman
   Indian Banks' Association
   Bombay

4. Shri Rashid Jilani
   Chairman
   Punjab National Bank
   New Delhi

5. Shri S.Subramaniam
   Chairman
   Central Bank of India
   Bombay

6. Dr. A.C.Shah
   Chairman
   Bank of Baroda
   Bombay

7. Shri R.L.Wadhwa
Chairman
Allahabad Bank
Calcutta

8. Shri J.V.Shetty
Chairman
Canara Bank
Bangalore

9. Shri D.Basu
Deputy Managing Director
State Bank of India
Central Office
Bombay

10. Shri S.P.Sabapathy
Chairman
Bank of Madura Ltd.
Central Office
Madras

11. Shri Y.S.Bhave
Managing Director
Maharashtra State Financial Corporation
Bombay

12. Shri L.M.Sud
Managing Director
Gujarat State Financial Corporation
Ahmedabad

13. Shri V.N.Channa
Managing Director
Uttar Pradesh Financial Corporation
Kanpur

14. Shri R.Balakrishnan
Managing Director
Orissa State Financial Corporation
Cuttack

15. Smt. Poonam Khetrapal
Managing Director
Punjab Financial Corporation
Chandigarh

16. Shri Kamal Taori
Chief Executive Officer
Khadi & Village Industries Commission
Bombay

17. Shri K.George Joseph
Council of Small Industries Corporation of India
New Delhi

B. Representatives of Organisations/individuals

1. Shri Sushil Jalan
Chairman
PHD Chamber of Commerce and Industry
New Delhi 110 016

2. Shri T.S.Dhanapalan
President
Tamil Nadu Small Scale Industries Association
Madras 600 032

3. Shri D.B.Sarda
President
Organisation of Small and Tiny Industries in Maharashtra
Nashik 422 007

4. Shri Richard D'Souza
President
Kanara Small Industries Association
New Mangalore

5. Shri A.G.Rohira
Electronic Components Industries Association
New Delhi

6. Shri B.K.Lekhadia
Secretary
Surat Small Scale Dyes & Chemicals Manufacturers Association
Surat 395 003

7. Shri Lokesh N.Vemulkar
President
All India Agarbathi Manufacturers Association
Bangalore 560 009

8. Shri P.P.Dave
President
Pesticides Formulators Association of India
Bombay 400 016

9. Shri D.E.Ramakrishnan
President
Small Scale Sick Industries Association
Madras

10. Shri R.S.Agarwal
President
Sick Industries Association
Nagpur

11. Shri Phiroz A.Poonawalla
President
Holistic Turnaround Management
Pune 411 013

12. Shri Venkateswarulu
Chartered Engineer and Licensed Surveyor
Vijaywada

Annexure 2.1

Outstanding advances of Scheduled commercial banks to SSI Sector

(No. of A/cs. in thousands)
(Amounts in Crores of Rupees)

As on the last day of	Working Capital		Term Loan		Total		Net Bank Credit	Percentage of total SSI advances to net bank credit	Of the total, advances to artisans, village and cottage Industries	
	No.of A/cs.	Amount	No.of Accounts	Amount	No.of A/cs.	Amount			No. of A/cs.	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Dec. 1969	----	----	----	----	72	346.90	3615.90	9.6	----	----
Dec. 1975	----	----	----	----	269	1147.43	9885.30	11.6	----	----
Dec. 1980	----	----	----	----	794	3136.40	23996.86	13.1	----	----
Dec. 1985	1065	6255.73	577	1573.58	1642	7829.31	52842.09	14.8	1011	349.70
Dec. 1986	1136	7055.97	727	2071.28	1863	9127.25	60312.04	15.1	1104	447.20
Dec. 1987	1277	8361.47	902	2423.77	2179	10785.24	67855.53	15.9	1440	561.45
Dec. 1988	1409	10093.85	1124	2874.14	2533	12967.99	79598.12	16.3	1432	593.86
Sept. 1989	1495	11293.08	1223	3342.11	2718	14635.19	91271.67	16.0	1503	671.15
March 1990	1526	12398.51	1265	3570.85	2791	15969.36	101178.11	15.8	1534	711.80
March 1991	----	----	----	----	3172	17513.24	120374.07	14.5	----	----
March 1992	----	----	----	----	2923	17398.42	112160.42	15.5	----	----
(Public Sector Banks)										

Data Provisional

SOURCE : RBI - RPCD ---- Data not available

Annexure 2.2

State Financial Corporations assistance to S.S.I.

(Amounts in Crores of Rupees)

Year	Sanction		Percentage of S.S.I. to Total	Disbursements		Percentage of S.S.I. to Total
	Total	S.S.I.		Total	S.S.I.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1969 - 70	32.5	20.2	62.2	22.3	13.8	61.9
1974- 75	149.6	80.4	53.7	79.6	42.6	53.5
1979 - 80	263.8	166.4	63.1	184.8	114.1	61.7
1984 - 85	743.1	553.2	74.4	497.7	370.0	74.3
1985 - 86	1009.1	761.7	75.5	608.5	452.9	74.4
1986 - 87	1210.8	919.7	76.0	791.9	587.5	74.2
1987 - 88	1284.7	912.3	71.0	938.0	697.6	74.4
1988 - 89	1391.9	995.8	71.5	1055.0	774.8	73.4
1989 - 90	1511.0	1114.8	73.8	1154.6	833.4	72.2
1990 - 91	1848.0	1301.9	70.5	1267.3	923.6	72.9
Cumulative upto March 1991	11635.3	8121.3	69.8	8756.1	6260.2	71.5

SOURCE : IDBI - Report of Development Banking in India and Operational Statistics of IDBI.

Annexure 2.3

Financial assistance to Small Scale Sector by IDBI / SIDBI

(Amounts in Crores of Rupees)

Year	Sanctions		Percentage of Column 3 to 2	Disbursements		Percentage of Column 6 to 5
	Total	S.S.I.		Total	S.S.I.	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1982 - 83	791.37	526.02	66.5	506.49	343.82	67.9
1983 - 84	737.89	542.74	73.6	578.51	402.89	69.6
1984 - 85	882.97	586.77	66.5	727.11	449.05	61.8
1985 - 86 *	1153.60	878.40	76.1	820.70	553.10	67.4
1986 - 87 *	1307.90	1001.50	76.6	1029.70	731.40	71.0
1987 - 88 *	1615.60	1243.20	76.9	1189.50	826.60	69.5
1988 - 89 *	2007.00	1506.60	75.1	1411.80	927.40	65.7
1989 - 90 *	2255.20	1699.40	75.4	1695.90	1158.60	68.3
1990 - 91 @	2408.80	1754.40	72.8	1838.50	1198.30	65.2
1991 - 92 @	2898.10	2308.80	79.7	2027.40	1438.10	70.9

* Data for the years 1985-86 to 1989-90 comprises assistance under seed capital / special capital schemes through New Debt Instruments and through NSIC, SSIDCs and SIDBI.

@ Indicates finance extended by SIDBI and excludes assistance of Rs. 415 crores and Rs. 560.7 crores in 1990-91 and 1991-92 respectively by way of short term bills rediscounting but includes usance bills rediscounting, seed capital assistance and direct discounting of bills.

SOURCE : IDBI - Reports of Development Banking in India and Annual Reports of SIDBI.

Annexure 2.5

Khadi & Village Industries Commission (Disbursement)

(Amounts in Crores of Rupees)

Year	Khadi		Total	Village Industries		Total	Other Schemes		Total	Grand Total (Khadi and Village Industries)		
	Grant	Loan		Grant	Loan		Grant	Loan		Grant	Loan	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1986-87	42.14	26.29	68.43	5.07	43.88	48.95	11.49	0.67	12.16	58.70	70.84	129.54
1987-88	43.69	24.99	68.68	5.53	52.19	57.72	9.03	1.39	10.42	58.25	78.57	136.82
1988-89	52.14	32.17	84.31	5.53	48.54	54.07	4.91	2.23	7.14	62.59	82.94	145.52
1989-90	55.00	23.01	78.01	8.06	65.87	73.93	15.47	2.53	18.00	79.47	90.47	169.94
1990-91	58.78	23.88	82.66	4.55	84.01	88.56	16.98	3.70	20.68	80.31	111.59	191.90

<u>SOURCE :</u> KVIC

Annexure 2.4

Outstanding advances of Regional Rural Banks
to artisans, village and cottage industries

(Amounts in Crores of Rupees)

Year ended	Outstanding advances to artisans, village and cottage industries		Total outstanding advances	Percentage of Column 3 to 4
	No. of A/cs	Amount		
(1)	(2)	(3)	(4)	(5)
December 1980	123108	11.63	243.38	4.8
December 1985	526364	79.91	1407.67	5.7
December 1986	656182	107.99	1784.84	6.1
December 1987	807654	148.38	2232.26	6.6
December 1988	980523	201.02	2804.29	7.2
September 1989	1092150	239.31	3154.93	7.6
March 1990	1193201	282.04	3554.04	7.9
March 1991	1375804	280.56	3535.35	7.9
December 1991 *	1010660	265.35	3333.74	8.0

Data provisional and covers only 157 RRBs out of 196.

SOURCE : NABARD

Annexure 3.6

Growth of SSI Sector

Years	No. of Units (Lakh)	Investment (Rs. Crore)	Employment (Lakh Nos.)	Export (Rs. Crore)
(1)	(2)	(3)	(4)	(5)
1973 - 74	4.16	2296	39.7	393
1974 - 75	4.98	2697	40.4	541
1975 - 76	5.46	3204	45.9	532
1980 - 81	8.74	5850	71.0	1643
1981 - 82	9.62	6280	75.0	2071
1982 - 83	10.59	6800	79.0	2045
1983 - 84	11.58	7360	84.1	2164
1984 - 85	12.42	8380	90.0	2553
1985 - 86	13.55	9585	96.0	2773
1986 - 87	14.64	10881	101.4	3631
1987 - 88	15.86	12610	107.0	4535
1988 - 89	17.12	15229	113.0	5681
1989 - 90	18.27	18196	119.6	7990
1990 - 91 Provisional	19.38	N.A.	124.3	9100

SOURCE : Office of Development Commissioner (SSI) and data furnished by SIDBI.

SUMMARY OF MAJOR RECOMMENDATIONS

Chapter III - Adequacy and flow of institutional credit for working capital

A set of comprehensive instructions/guidelines to commercial banks was issued by RBI in 1988 in the matter of financing the working capital requirements of SSI units. There is a widespread belief among the industry that, though these guidelines were wholesome, the banks did not always follow them and that was at the root of the travails of the SSI. A sample study conducted by the RBI during 1989 also revealed that, even one year after the issue of the guidelines, the compliance at the field level was deficient in certain respects and that, in one-third of the branches surveyed, full working capital according to the instructions had not been sanctioned. The Committee considered the percentage of non-compliance too large to be overlooked and recommended as follows :

1. Banks should take immediate steps to ensure full adherence by all their branches to the RBI guidelines on financing of working capital requirements of SSI. [Paragraph 3.6]
2. RBI, as well as the banks themselves, should carry out special studies periodically on as large a sample of

branches as possible, specifically, to ascertain the position regarding the implementation of its guidelines. [Paragraph 3.7]

The Committee examined the profile of bank finance of working capital, as SSI were strongly of the view that the SSI sector was not getting adequate support from the banking system. The examination revealed that the SSI sector, as a whole, presently received a level of working capital which was only about 8.1% of its output. Among them the Village Industries and the smaller Tiny Industries could scrape working capital of a bare 2.7% of their output, while the larger units commanded about 18.8% which was still a little lower than the level of about 20% of the output considered by the Committee to be the reasonable bank finance requirement of SSI. The recommendations of the Committee, therefore, are :

3. Village Industries and the smaller Tiny Industries with credit limits upto Rs.1 lakh should have the first claim on the priority sector credit to the SSI, with an allocation built up from a notional 1989-90 base which should be at least 50% higher than the actual credit outstanding in March 1990 of about Rs.2,800 crores. [Paragraph 3.13]

4. Bank branches should give priority to those Village

Industries and the smaller Tiny Industries which can use working capital efficiently, having established production successfully but unable to make further progress for lack of working capital. [Paragraph 3.14]

5. Close monitoring of the banks' progress in this matter is necessary. RBI should make full use of the computerised credit planning and monitoring under the Service Area Approach in the years to come. [Paragraph 3.15]

6. The new priority sector credit dispensation, when adopted, should fully provide for the working capital requirements of all tiny units up to credit limits of Rs.10 lakhs, after first taking care of the working capital allocation made for Village Industries and the smaller Tiny Industries with credit limits up to Rs.1 lakh. A specific allocation to the larger tiny units should be made by fixing their proportion of the credit to the total priority sector credit. [Paragraph 3.17]

7. In regard to the larger SSI, the recommended minimum level of working capital bank finance at 20% of the output should be put on a firm footing by the provision of the required amount of credit (as distinct from "directed" credit) by the commercial banks through an annual budgetary exercise. Besides, if the genuine need-based demand of the SSI sector as reflected in the budget requires diversion

of a part of the resources flowing to the Medium and Large Industries (MLI) sector at present, the same should be mandated by the top managements of banks. The working capital needs of the larger SSI should be fully met by the commercial banks and the Chief Executive of each bank shall ensure that this is done. [Paragraph 3.18]

The Committee examined the demand for and availability of bank finance for the working capital requirements of the SSI sector during the 8th Plan period. Based on the recommendations regarding the provision of working capital to the various segments of the SSI sector and also the past growth trends, the total incremental credit demand was estimated at Rs.22,100 crores. As against this, the availability of resources for the sector is estimated at about Rs.23,400 crores. Despite uncertainties due to recent new developments in the financial system, the Committee feels that the banks will manage to find the enhanced level of working capital resources needed by SSI.

8. If, however, resource constraint is experienced for meeting demand for working capital during the 8th Plan (1992-97), one or more of the undernoted measures for securing additional resources could be resorted to :-

(a) A part of the SLR, now being freed, could be used exclusively for financing SSI.

(b) Funds could be provided by the Central Government in the form of loans to the credit institutions through an appropriate mechanism and the resources for the purpose may even be secured through international support.

(c) A supplementary refinance window may be provided to the commercial banks by SIDBI/NABARD, as is being done in the case of seasonal agricultural operations of co-operative banks by NABARD. Such resource support to the banks by SIDBI/NABARD may be supplemented by RBI, if necessary. [Paragraph 3.23]

While the shortage of resources of the commercial banks could be one of the reasons for the various complaints voiced by the SSI sector, many of the difficulties brought to the Committee's notice by the SSI associations stemmed from the banks' non-adherence to the RBI guidelines as also from the attitudinal orientation of the banks' staff. With a view to ensuring the right aptitude, skills and orientation, the Committee has recommended the following:

9. Special aspects of SSI, such as, their fragile nature, their importance in providing employment, the developmental role of the banker, the recognition of the banker's stake in the healthy growth of the SSI sector and the importance of timely assistance should form a part of the inputs in the various training programmes for the banks'

staff. [Paragraph 3.28]

10. There should be frequent interaction between the banks' staff and the SSI borrowers as a part of the training programmes. The confidential reporting on the banks' staff should take into account their attitude towards the SSI borrowers and their achievements in lending to this sector. Trophies should be awarded to branches for outstanding performance in financing SSI, as a mark of public recognition. [Paragraph 3.28]

11. The reorientation of the banker will be facilitated by the following modifications in the existing instructions/guidelines issued to commercial banks by RBI :

(1) The branch managers should be vested with adequate discretionary powers which will enable them to grant 'ad-hoc' increases upto 10 per cent over the sanctioned limits to meet unforseen contingencies, including escalation in raw material/input costs, even if the quantum of such 'ad-hoc' limits is beyond the powers granted to him for sanctioning credit without reference to higher authorities.

(2) Where the borrower is unable to bring in the additional margin money immediately, banks should not insist on the additional margin to be brought in by the entrepreneur in one instalment at the time of granting 'ad-

hoc' increases in/enhancement of working capital limits to meet unforseen contingencies. Such additional margin should be permitted to be built up within a reasonable period from future cash accruals.

(3) Applications for fresh limits/enhancement of existing limits which are not considered favourably by the appropriate sanctioning authority, should be referred to the next higher authority with all relevant particulars, and the latter should scrutinise each case and come to his own judgement. The final decision should invariably be based on such review by the higher authority and should be taken within a reasonable time.

(4) A similar procedure should be evolved whereby the curtailment of limits applied for will also be reported to the next higher authority by the sanctioning officials and the decision conveyed in a time-bound manner.

(5) Four types of application forms may be evolved for use by SSIs on the basis of aggregate credit limits (a) not exceeding Rs.50,000, (b) between Rs.50,000 and Rs.15 lakhs, (c) between Rs.15 lakhs and Rs.25 lakhs and (d) above Rs.25 lakhs. RBI and SIDBI may take early necessary steps for the simplification of these forms.

(6) Collateral security and/or third party guarantee should be dispensed with as a rule, irrespective of the

amount of credit involved. Exceptions may be justified only in the case of larger advances of over Rs.2 lakhs in the undernoted circumstances :-

(i) The technology is new and untried and the bank/ SFC considers the lending risk to be higher than normal.

(ii) The proposal is only marginally viable but the bank/SFC would like to support the same with due care being taken to cover the extra risk involved.

(iii) The entrepreneur/promoter has adequate own assets which can be charged to the bank/SFC, as there should normally be no objection to offering such assets as collateral security for the credit limits.

Where collateral security is taken, the bank should return it to the borrower, after a stipulated minimum period, if the unit has been functioning well and the operations in its various borrowal accounts have been satisfactory. No applications for advances should be rejected merely for want of collateral security.

(7) Where the bank has a first charge over the fixed assets of the units, either singly or jointly with the SFC on a pari-passu basis, it should not ask for cash margins from SSI borrowers for non fund-based facilities provided, such fixed assets leave adequate surplus, after covering the existing facility, to provide for the non fund-based

facilities.

(8) Undesirable and unhealthy practices such as the insistence by some banks on compulsory deposit mobilisation by the unit as a quid pro quo for the sanction of credit facilities to SSI units have to be prevented through the issue of unambiguous guidelines. [Paragraph 3.30]

Along with the procedural changes suggested, it is important to create a more open system which will foster mutual confidence between the banks and the SSI entrepreneurs. Towards this end, the following measures have been recommended:

12. The bank should prepare a budget in respect of working capital required by SSIs well before the year begins. Such budgeting should cover (a) functioning (healthy) units which already have borrowing limits with the banks, (b) new units/units whose proposals are under appraisal, and (c) sick units under nursing and also sick units found viable and for which rehabilitation programmes are under preparation. The budgeting exercise should begin at the level of the borrowing units and the branches financing them. The budget should be based on the discussions held with the units specifically for the purpose; alternatively, the feed back obtained by the branch from units at the time of renewal of their credit facilities could also

be made use of, wherever such a course is feasible. The branches could also meet the representatives of various categories of SSI and obtain first hand information about the prospects of the industry in the coming year. The budget should take into account, among other relevant aspects, normal sales growth, price rise during the past year, anticipated spurt in business etc. [Paragraphs 3.33 and 3.34]

13. It is essential that the unit level working capital budget should be accepted by the unit itself and once the budget is so prepared, it should not be modified by the bank unilaterally. In finalising the budgets of individual units, working capital at around 25 per cent of output should be considered as the minimum requirement in cases where inventory norms as per the Tandon Committee recommendations are not applicable or not available. [Paragraphs 3.34 and 3.35]

14. In regard to the larger units with aggregate credit limits of over Rs.10 lakhs, the budget will follow the prescribed inventory norms, wherever such norms are available. Even in these cases there is the need to eschew a rigid application of the norms and reiterate the flexible approach suggested by the Tandon Committee. For other industries for which inventory norms have not been

prescribed, banks should form their own judgement as to what should be regarded as a reasonable inventory level having due regard to the requirements of individual units. [Paragraph 3.36]

15. When the borrower and the branch manager are unable to reach an agreement, the views of both the borrower and the branch manager clearly indicating the reasons therefor should be kept on record by the branch. This procedure is likely to fortify the confidence of the branch manager in taking decisions without fear of consequences. [Paragraph 3.37]

16. The working capital budget prepared by the bank branches should form the basis on which resources should be allocated to the SSI sector by the top managements of banks. Macro-level shifts in the allocation of resources from the MLI sector should be ordered by the Chief Executive, if such a course becomes necessary. Banks should advise RBI of the budgets so prepared and the resources allocated thereagainst. If the top management has not been able to fully support the ground-level budgets, RBI should be apprised of the fact and the reasons therefor. [Paragraph 3.38]

17. RBI should accept the bank's allocation for the budgeted working capital to SSI or suggest suitable inter-

se changes in allocation. RBI should, however, provide refinance for working capital to the extent the bank's budget, as it emerges finally, exceeds the available funds including those expected from NABARD/SIDBI, subject to the reservation of such minimum percentage of total credit for SSI as may be fixed by RBI, much in the same manner as it provides refinance for agricultural operations to State Co-operative Banks in excess of their prescribed involvement in agricultural lending. Such refinance may be provided in the form of preferential refinance in respect of incremental credit and shall be set off against the bank's own resources during the next year. [Paragraph 3.39]

18. Contingencies may arise which will demand urgent enhancement in the working capital for individual units or for groups/categories of units. Commercial banks should take a positive attitude towards such demands. If the bank/s cannot accommodate these demands from out of the available resources as per the budget, RBI/SIDBI should intervene in deserving cases and accordingly raise the quantum of refinance. [Paragraph 3.40]

The success of the open system will depend upon an information base to ensure that decisions are taken objectively on all requests for credit facilities from the SSI sector.

19. The information base should be refined by updating frequently data on decision-related parameters and making the unit-level information available simultaneously to the concerned decision-making levels in the bank and the next higher level. This would be possible, if a computerised information and monitoring system is developed. This information system would also be used in the monitoring of sick units and their rehabilitation. [Paragraphs 3.41 and 3.42]

20. There should also be a provision for inputs from the individual industrial units themselves, either directly or through the SSI associations. SIDBI should be the nodal institution for this task of furnishing the client input for inclusion in the information system. [Paragraph 3.43]

21. To facilitate timely decisions on credit proposals by eliminating delays inherent in the consideration of proposals by successive tiers in the hierarchy, a committee approach will be helpful in which decisions are taken by the competent authority after a structured discussion with the branch manager and also the intervening levels. [Paragraph 3.44]

22. An effective grievance redressal machinery within the bank which can be approached by the SSI in case of difficulties with banks/FIs, as well as other agencies

connected with SSI, is likely to reduce the real or perceived helplessness of the SSI. The arrangements made in this regard so far should be persevered with. The creation of an 'ombudsman' type of authority, on a full time basis, at the regional/controlling offices within the banks would be an effective measure to assist this machinery. Customers' complaints should be heard and investigated by the ombudsman who will report directly to the Chairman. In order to make the aforesaid measures meaningful it is of the utmost importance to lay down time limits within which decisions on the complaints are communicated to the complainants. [Paragraph 3.45]

23. SLIIC should act as the State forum to which SSI with intractable problems with the banks should turn to air their grievances. [Paragraph 3.46]

24. A district level forum may be constituted out of the District Industries Centre (DIC) which can easily handle, uncomplicated cases of grievances of Village Industries and the smaller Tiny Industries. So far as other SSI are concerned, the district level forum may bring to the attention of the State forum cases which the district forum is not able to successfully resolve through its own efforts. [Paragraph 3.47]

Under the multi-agency approach for financing SSI, term finance is usually provided by SFC and working capital, by the commercial bank. The lack of co-ordination between the two has been a major cause of the difficulties faced by SSI entrepreneurs. Several measures initiated in the past to secure better co-ordination have had only limited impact. Banks, SFCs and SSI associations all favour a single financing agency to provide all the credit requirements of an SSI unit. There are, however, some impediments in implementing the idea. The financial health of many of the SFCs is weak and this aspect is currently engaging the attention of IDBI and SIDBI. Also, SFCs do not have the requisite organisational capacity or reach to provide the financial assistance to SSI units throughout their areas of operation. On the other hand, the commercial banks, with their multifarious responsibilities, may not be able to give their undivided attention to the entire SSI sector. Taking all these aspects into consideration, and keeping in view the long-term goal of the development of SFCs as the specialised agency for providing credit support of various kinds to the SSI sector, the Committee has recommended the following measures :

25. SFCs and banks should endeavour to cover the financial requirements of SSI under the Single Window Scheme (SWS) to the maximum extent. SIDBI should make concerted efforts

to make SWS popular with SFCs and commercial banks and to inform entrepreneurs of its salient features. [Paragraph 3.51]

26. The SFCs should act as the principal financing agency for SSIs in about 40 out of the 85 districts having a concentration of SSI Units. The selection of the districts may be done by RBI in consultation with SIDBI. In these 40 districts the concerned SFCs will take care of both term loan and working capital requirements of all new SSI units which can be financed under SWS. Units which have already taken term loans from SFCs and working capital from commercial banks will continue under existing arrangements undisturbed. The new units to be financed under SWS by SFCs in these districts will approach commercial banks as and when their working capital requirements grow beyond the limits specified under SWS and such banks will, subject to their being satisfied about the health of the borrowing unit and its past performance, take over the outstanding working capital advances from the SFC. If the bank wishes to take over the outstanding term loan also, it should be encouraged to do so. Thus, in the long run, SFCs will emerge in these 40 districts as the primary lender for the SSI, and, more particularly, the Village Industries and the smaller Tiny Industries. [Paragraph 3.53]

27. SIDBI as the apex finance institution will have to support and, if necessary, supplement the SFC's efforts in creating the necessary organisation to discharge this responsibility satisfactorily. SIDBI may have to act as the primary lender in the selected districts if, for any reason, the SFC is found wanting at a later date. [Paragraph 3.54]

28. Units whose credit requirements fall outside the coverage of SWS in these and the remaining districts will continue to be financed, as hitherto, either by the commercial bank alone (if it is agreeable to do so) or by the SFC and commercial bank. In all such cases the loan should be sanctioned by the SFC only after confirming that working capital has been firmly tied up and would be provided by commercial bank as soon as the unit needs it. [Paragraph 3.55]

29. In the remaining 45 districts having a concentration of SSI units, as well as in the rest of the country, the commercial banks should act as the principal financing agency for SSI and should provide both term loans and working capital to all eligible new units coming under SWS. The banks will, in this respect, play the same role as the SFCs in the 40 selected districts referred to earlier. RBI should ensure that the lead banks fulfil this responsibil-

ity. [Paragraph 3.56]

30. To discharge their responsibility well under this scheme, the commercial banks should open specialised branches to cater to the SSI clientele. In the first phase, such branches to be opened in the 45 districts with a concentration of SSI, should preferably have the block/ taluka as their area of operations. Adequate staff with the requisite skills should be stationed in these branches. It should also be ensured that such branches have officers of adequate seniority having powers to sanction cases coming under SWS without reference to a higher authority. Further, commercial banks should also open specialised branches for financing SSI in 119 districts each having between 1000 and 2000 registered SSI units according to the Second All-India Census of SSI (1988) which will be the emerging districts of SSI concentration. In addition, they should consider converting such of the branches as have a fairly large number of SSI borrowal accounts, into specialised branches which should have the requisite skilled staff including technical officers. Besides, adequate discretionary powers should be delegated to the branch managers which will enable the branch to deal with at least 80-90% of the proposals without reference to a higher authority. [Paragraphs 3.57 and 3.61]

31. Units already having borrowings from both SFC and bank will continue under existing arrangements undisturbed. Units outside SWS in all these districts will get their working capital from commercial bank and term loan from the bank and/or SFC, as hitherto. SFCs will not sanction term loans without ensuring that arrangements for working capital have been finalised and that such working capital will be provided to the unit as and when the requirement arises. [Paragraph 3.58]

32. In order, however, to minimise, if not eliminate, the various points of friction between the two agencies under the recommended arrangement, in all future lending, the securities available for the advances should be shared on a 'pari passu' basis wherever the commercial banks share the term loans. The development and use of "Participation Certificate" on a risk-cum-security sharing basis could be a simple method of achieving this objective without resort to cumbersome documentation and other formalities. [Paragraph 3.60]

Chapter IV

Adequacy of term credit provided to the SSI sector

The major share of the demand for investment credit for SSI will have to be borne by SIDBI, as in the past. Going by the 7th Plan growth trend, the total demand in the 8th Plan is likely to be about Rs.13,700 crores of which Rs.9,950 crores will be in the form of SIDBI refinance, the balance being found from the owned resources of SFCs/banks or through NABARD. The internal resource generation of SIDBI, however, is expected to be about Rs.8,000 crores of which only Rs.4,000 crores will be available for term loans to SSI. There will, therefore, be a gap of about Rs.5,950 crores. The following measures are suggested to augment the resources of SIDBI:

1. If future allocations would not be available to SIDBI from the NIC(LTO) Fund of RBI, it will be necessary for RBI to relend to SIDBI, IDBI's repayments of past borrowings from the Fund. [Paragraph 4.14(a)]

2. The shortfall, if any, in the contribution from the NIC(LTO) Fund, after taking into account the above relending, should be compensated by other low-cost funds; SIDBI should be permitted to float tax-free bonds with a GOI subsidy towards the interest differential between the LTO Fund rate and the bond rate. [Paragraph 4.14(b)]

3. SIDBI's share of SLR bonds should be increased. The additional resources raised should be utilised exclusively for increasing its assistance to SSI units. [Paragraph 4.14(c)]

4. RBI should examine the feasibilty of diverting the resources of foreign banks, to the extent of the short-fall in their achievement of the prescribed priority sector lending targets, to SIDBI/NABARD for meeting the credit requirements of SSI units. [Paragraph 4.14(d)]

5. Government of India may permit SIDBI to mobilise deposits from the SSI sector with suitable tax incentives to the depositors. [Paragraph 4.14(e)]

6. SIDBI should be enabled to tap the resources of international financing agencies through foreign lines of credit/commercial borrowings. [Paragraph 4.14(f)]

7. SIDBI should explore the feasibilty of raising its refinance to SSI units from the present level of 61% of its total disbursements by suitably rearranging its priorities. [Paragraph 4.14(g)]

8. LIC and GIC should be persuaded to lend a portion of their funds at reasonable rates to SIDBI for on-lending to SSI units. [Paragraph 4.14(h)]

Certain ancillary aspects having a bearing on the mobilisation of long term resources for SSI have been dealt with as under :

9. SIDBI, Banks and SFCs should take necessary steps to provide information inputs to small-sized companies in the SSI sector to enable them to tap the capital market through the OTCEI route wherever such a course is feasible. [Paragraph 4.16(i)]

10. The Government's SSI policy of August 1991 envisages that non-SSI units can invest up to 24% of the equity of SSI. The non-SSI units should be encouraged to maximise the flow of capital resources to SSI through this mechanism. [Paragraph 4.16(ii)]

11. The enactment of Limited Partnership Act should be expedited to facilitate the flow of equity to the SSI. [Paragraph 4.16(iii)]

Chapter V - Tandon/Chore Committee norms for inventory levels, current ratio etc.

The Tandon Committee recommended a shift in the system of bank lending from a security-oriented approach to a production-oriented one. Towards this objective, it introduced (i) a system of prescribing norms for inventory and receivables for different categories of industry and (ii) new methods of computation of the Maximum Permissible Bank Finance in relation to the assessed working capital needs of the unit (as per the norms) and the level of long term resources to be deployed in financing the requirements. The Chore Committee which reviewed the cash credit system attempted, through its various recommendations, to minimise, if not eliminate, the devices through which the cash credit system was being exploited to obtain bank finance at levels which were not commensurate with the genuine production needs of the borrowers. These recommendations, naturally, led to a certain amount of rigidity in the application of the inventory norms, financing against book-debts etc. The feed back from the SSI associations has been that such a rigid approach is not conducive to the smooth working of the SSIs. These aspects have been analysed and the following measures have been suggested:

1. There is need for flexibility in the application of inventory norms for SSIs. The small scale industries, or at any rate, the smaller among them are on a different footing in so far as the piling up of the inventories is concerned on account of certain special factors, such as, (i) their meagre capital and limited access to sources of finance other than commercial banks which would make it difficult for them to pile up inventory, (ii) the need to compete with other units in the open market for procuring raw materials, (iii) large regional variations in regard

to raw material availability, etc. Consequently, holding inventory at levels somewhat higher than those prescribed may often be required for the successful functioning of the SSI units. [Paragraph 5.8]

2. Special norms have to be evolved for inventory and receivables in respect of the units in the north-eastern and other hilly regions. [Paragraph 5.10]

3. The need for a system of prescribing inventory norms may be re-examined for their relevance to the present status of SSI. Working capital requirement which is roughly around 25% of the annual turnover should be considered as the bench mark in their case with bank finance providing approximately 80% of such requirement. Inventory norms may be applied, if needed, after providing for the aforesaid minimum level. Working capital below the norm may be justified only if the requirement is demonstrably lower as in the case of an ancillary unit in the SSI with assured supply of inputs and off-take of output. [Paragraph 5.10]

4. SSI units which are producing import substitutes, units whose activities are seasonal, such as, the fire-works industry and pesticide formulators, as also industries like agarbathi manufacture (which depends on widely dispersed manufacturing and dealers who, reportedly, control practically all aspects of the industry)

should receive special attention, particularly, in the matter of inventory levels that can be held and permissible bank finance for working capital. [Paragraph 5.11]

5. In the case of SSI units using raw materials which are dependent upon Government policies, such as, canalisation, apart from their need for stocking the raw materials as and when these are made available, there is also the problem of price increases which are announced periodically by the Government of India, as in the case of steel, coal and petroleum products. In the case of such units there should be an automatic provision in the system of providing working capital which will enable the borrower to draw higher amounts to procure the normal level of raw materials at the enhanced prices, even if the existing credit limit may not be adequate for the purpose. [Paragraph 5.12]

6. Having regard to the weak capital base of the SSI units and the need to improve the position, the Committee feels that the existing instructions regarding compliance with the methods of lending should continue. There could, however, be cases of SSI units which have genuine difficulties in operating with inventory levels as per prescribed norms and may require a flexible approach. Insistence by banks on compliance with the second method of lending would prove too harsh for such units. Banks

should adopt an understanding attitude in such cases in the matter of compliance with the second method of lending. [Paragraph 5.13]

7. Under the extant instructions of RBI, the term loan instalments falling due for repayment during the ensuing year are to be reckoned as current liabilities as on the balance sheet date. Since the term loan instalments will normally be repaid out of cash generation during the relevant year, the aforesaid instruction seems to be unrealistic. The implications of additional credit requirements, in case the aforesaid instructions are modified, may be examined by RBI. [Paragraph 5.14]

Chapter VI - Rehabilitation of sick SSI units

The Committee looked into the existing RBI guidelines on sick SSI units and the changes suggested with a view to their improvement. Difficulties were expressed in regard to (i) the definition of a "sick" SSI unit, (ii) the definition of viability, (iii) the extent of concessions/ reliefs to be granted as part of the rehabilitation packages and (iv) the means available for the proper redressal of the grievances of sick SSI units. The measures recommended are as follows :

1. An SSI unit may be classified as sick when (a) any of

its borrowal accounts has become a 'doubtful' advance, i.e., principal or interest in respect of any of its borrowal accounts has remained overdue for periods exceeding 2· years, and (b) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years. [Paragraph 6.9]

2. When any advance to an SSI has to be rated down from the 'standard' to 'sub-standard' category as per RBI norms, the bank branch should go on the alert and make a full enquiry into the financial health of the unit, its operations, etc., and report its findings to the higher authorities. Such reports should pinpoint the factors which have led to default and also indicate whether there are signs of incipient sickness in the unit. The progress of the unit should be kept under close watch and, wherever necessary, additional finance may be provided, if such a course is warranted. [Paragraph 6.10]

3. As soon as an advance comes under the category 'doubtful' the position relating to all the advances granted to the concerned unit should be reviewed and the unit classified as 'sick', if it satisfies the conditions relating to erosion in net worth. [Paragraph 6.11]

4. Instructions issued by RBI, which require that

viability studies/nursing programmes should be taken up within 3 months and 6 months, respectively, from the date of identification of the unit as sick, should be strictly followed. [Paragraph 6.11]

5. In all matters relating to the decision on viability of a sick unit, the commercial judgement of the bank and/ or the SFC as the case may be, will have to be accepted and there is no need to provide for a forum for intervention in the case of disputes regarding the viability or otherwise of the sick units. There should, however, be a proper system, within the banks, for review of such decisions by higher level officials, on an appeal being made by aggrieved borrowers. [Paragraph 6.12]

6. RBI should ensure that separate cells to deal with sick SSI units are set up by banks at the regional centres without further loss of time, wherever the same has not been done so far. [Paragraph 6.13]

7. RBI has since issued revised instructions which are in line with the existing norms regarding concessions in interest rates which can be considered as part of rehabilitation packages. Banks have been allowed freedom to grant higher level of reliefs in deserving cases. No change is considered necessary in this matter except in the case of Working Capital Term Loan in respect of which the

rate should be 1.5 to 3 percentage points below the prevailing fixed rate/minimum lending rate wherever applicable, but not more than the lowest interest rate (at present 11.5%) for Village Industries and the smaller Tiny Industries and not more than 5 percentage points below the minimum lending rate in the case of advances over Rs.2 lakhs for other SSIs. [Paragraph 6.15]

8. Units becoming sick on account of wilful mismanagement/managerial inefficiency, unauthorized diversion of funds, disputes among partners/promoters etc., should not be treated in the same manner as other cases where sickness is caused by factors beyond the control of a unit. SSI associations should play an active role in ensuring that the bank's dues are repaid in such cases without delay and without the bank having to go to court. [Paragraph 6.17]

9. Sacrifices for rehabilitation of sick units should be borne equitably by all the concerned agencies. The commercial banks and/or SFCs alone cannot be expected to bear the brunt of rehabilitation. [Paragraph 6.18]

10. Of late, some of the State Governments have come forward with packages of reliefs to sick SSI units for their revival. These packages include exemption/deferment of sales tax/purchase tax, exemption from electricity duty and reschedulement of arrears of sales tax/purchase tax and

electricity charges. All State Governments/U.T. administrations should be induced to extend similar concessions. [Paragraph 6.18]

11. State level tribunals on the BIFR pattern under a common central legislation should be set up expeditiously to deal with the cases of sick SSI units. Initially, fund-based working capital limits and term loans aggregating Rs.25 lakhs or more may be taken as the cut-off point for these tribunals. After gaining experience of one or two years, the cut-off point may be lowered suitably. [Paragraph 6.19]

12. SLIICs should be revitalised with the active involvement of the State Government and should function as a committee of the State Government. SIDBI is best fitted to act as the convener of this committee. [Paragraph 6.23]

13. It will be essential to have some forum at the district level which can look into grievances regarding delays in rehabilitation, inadequate financing, etc., arising particularly, from the Village Industries and the smaller Tiny Industries. The District Industries Centre (DIC) is a ready-made nucleus around which the district forum can be built with the Lead Bank Officer as the banks' representative. The nomination of an officer of SIDBI on these forums will be essential for this purpose.

[Paragraph 6.24]

14. The Zilla Udyog Mitra model of Maharashtra which is a functioning arrangement could be adopted by other State Governments also with necessary modifications to suit their conditions. [Paragraph 6.25]

15. A proposal for a 'smooth exit policy' for unviable units suggests that when a unit decides to close down, there should be a one-time settlement of its dues to the commercial banks involving a suitable scaling down of the debt. Commercial banks are not development finance institutions and a bank will have the ultimate right to decide, on the basis of sound business practices, whether writing-off of a debt, fully or partially, is required and desirable. It will be inappropriate to circumscribe the authority of banks in this regard. [Paragraph 6.27]

16. Only 16 State Governments have so far passed the necessary legislation as suggested by the Talwar Committee on State Enactments having a bearing on commercial banks' lending to agriculture. The remaining State Governments should also enact the necessary legislation without any further delay. [Paragraph 6.28]

17. There is urgent need for setting up special courts for dealing with recovery suits of banks. Utilising the 'Lok Adalats' has been suggested to the Committee in this

regard. The 'Lok Adalats' may not, however, be a substitute for special courts. [Paragraph 6.29]

Chapter VII - Other related aspects

Suggestions were received by the Committee relating to diverse aspects of the SSI sector. Those having a bearing on credit and certain other aspects relevant to the terms of reference of the Committee have been considered and the Committee's recommendations thereon are as follows:

1. As a result of the different perceptions of the activities eligible for classification as SSI, adopted by various authorities/agencies, considerable difficulty is experienced in gathering information/data. A uniform definition of the term 'SSI' should be evolved urgently which should be followed by all the agencies. [Paragraph 7.1]

2. Data in respect of the SSI sector should be collected under the three sub-groups viz., (i) Village Industries, (ii) Tiny Industries, and (iii) Other SSIs. [Paragraph 7.1]

3. Enhancements in the limit of value of plant and machinery (original cost) should be applicable only to those existing units whose original investment when measured at the current value of the rupee, satisfies the norm. For this purpose the value of investment in plant and

machinery should be suitably indexed. [Paragraph 7.2]

4. A suggestion has been made that in the case of SSI units, banks should be instructed to follow uniform rates of interest so as to avoid different rates being charged by different banks. It will not be desirable to modify the existing instructions. [Paragraph 7.4]

5. For tiny units with credit limits between Rs.2 lakhs and up to Rs.10 lakhs, the banks/SFCs should charge only 18% p.a. on the term loan and 19% p.a. for working capital so long as the present interest rate structure continues. [Paragraph 7.5]

6. The Indian Banks' Association (IBA) should prescribe nominal charges as service/collection charges in respect of bills for the SSI clients of banks. [Paragraph 7.6]

7. SSI associations have represented that banks are charging from the SSI units overdue interest at the high rate of 27% per annum or more for the non-payment of bills on due date/presentation. As high overdue interest and service charges for collection of bills discourage the bill culture, RBI should issue suitable instructions to banks in this regard. [Paragraph 7.7]

8. In the case of bills discounted from SSI borrowers, banks should allow a suitable grace period and during the grace period charge only normal interest instead of overdue

interest. [Paragraph 7.8]

9. The fee for the DICGC guarantee should be built into the interest rate in all cases and should not be levied separately from the borrowers. RBI should consider this as part of the revision of lending rate structure. [Paragraph 7.9]

10. The creation of a separate fund may be examined for extending financial assistance to SSI units for modernisation at a concessional rate of interest. The details of the fund may be worked out by SIDBI in consultation with RBI, if the proposal is found viable. It seems advantageous to integrate the industry proposal with the Government of India's plans for making a provision of Rs.1,000 crores for the modernisation of SSI in the 8th Plan. [Paragraph 7.13]

11. The Venture Capital Funds (VCFs) in existence do not seem to have made any significant impact in the field. Besides encouraging the private sector in setting up VCFs with appropriate tax relief, the State Governments also should be encouraged in setting up of VCFs for financing SSI units. [Paragraph 7.14]

12. The proposed Central legislation making timely payment to SSI suppliers mandatory for all buyer units and imposing a penal interest in the case of defaults will be effective provided, the penal interest is sufficiently

high and is made payable for the entire period from the date of despatch/receipt of the goods and not from the date on which they are approved.

The Government of India and the State Governments should issue suitable instructions in the matter to the public sector undertakings which are among the major defaulters. In the case of these as well as other medium and large industries the prompt payment of bills of SSI units should be one of the factors for deciding their credit ratings, as also for charging of interest on advances by the financing banks. Appropriate guidelines to banks should be evolved by RBI for this purpose. [Paragraphs 7.16 and 7.17]

13. A beginning has been made to set up factoring organisations in the southern and western parts of the country. RBI should take steps towards the setting up of factoring organisations all over the country. Necessary steps should be taken expeditiously to allow factoring agencies in the private sector also. [Paragraph 7.18]

14. The two problems in the area of factoring are (i) the difficulty faced by SSI units in obtaining "letters of disclaimers" from their financing banks, and (ii) the restrictions placed on the borrowings of factoring organisations in relation to their owned funds. RBI should

look into these difficulties and take appropriate action. [Paragraph 7.19]

15. The handloom industry is facing several problems and the number of handloom weavers is reported to be declining. The Committee did not go into these problems as they were mainly of a non-credit nature. A separate Task Force may look into the problems of the handloom industry. [Paragraph 7.20]

16. SSI associations have to play an important role in mitigating the manifold hardships of their members and as a first step in this direction, they should develop separate wings consisting of technically qualified personnel who will be in a position to look into the grievances of entrepreneurs and represent their cases to the concerned authorities including banks. [Paragraph 7.21]

Notes received from two members of the Committee

The Committee's Report was finalised in the meeting held at Bangalore on 7 and 8 August 1992. After the final Report dated 29 August 1992 was signed by most of the members, the same was submitted to the Governor, RBI on 15 September 1992. Notes containing the observations on some of the aspects relating to the final Report received by the Reserve Bank from Sarvashri N. Dutta and Chakradhari Agrawal, two members of the Committee, with their letters dated 16 September 1992 and 21 September 1992, respectively, are appended. The Committee had no opportunity to consider these notes and therefore they cannot be treated as dissenting notes forming part of the Committee's Report. The Bank has, however, decided to publish these notes along with the Committee's Report.

Reserve Bank of India
Rural Planning and Credit Department
Central Office
Bombay

Note received from Shri N. Dutta

General points

1. The entire report has been prepared under the following presumptions.

a) The Govt. have irrevocably accepted for implementation the recommendations of the Narasimham Committee, and have also accepted the misconceived notion of the World Bank that all priority sector lending is heavily subsidised and should therefore be drastically pruned down.

b) The committee has to restrict its recommendations within the framework of existing RBI formulations regarding credit allocation and its cost structure.

2. For cross-checking these presumptions I looked again into the terms of reference of the committee particularly in the contentious area of adequacy of institutional finance for working capital. I feel it would be worth while to repeat that the committee was asked "to examine the adequacy of institutional credit for the SSI Sector (emphasis mine), particularly with reference to the increase in the cost of raw materials and locking up of available resources" in receivables.

From the wording of this paragraph it is apparent to me, as it would be to any ordinary man of common intelligence, that the intention was to open up the channels of credit to SSI Sector as a whole to the extent desirable and feasible. As far as the Tiny Sector is concerned by broadening its coverage and promising special support packages for it on the floor of the Parliament, and repeating this commitment time and again on various platforms Govt. had made its intentions very loud and clear. My understanding of the situation is that the govt. intends to continue and improve its support to SSI Sector as a whole and Tiny Sector in particular.

3. Against this background I fail to understand, why the report should have laboured so long and so hard to compress the volume of credit to be made available to SSI Sector - whether they are larger SSIs, medium sized SSIs or Tiny Sector SSIs. Particularly unfortunate is the attempt of the report to trifurcate the Tiny Sector to (a) village industries and units with credit requirement of Rs.1 lac (b) Units with credit limits over Rs.1 lac and upto Rs.10 lacs (c) Larger Tiny Units with credit limits over Rs.10 lacs. The ministry had not prescribed such sub-castes while enhancing the ceiling of Investment in tiny sector.

4. The report to my mind must in un-ambiguous terms spell out the total volume of credit to be made available to SSI Sector and the terms of such credit, with sub-sectoral allotment for the Tiny Sector as a whole with the general

rider that smaller units within the sector or sub-sector should be given a preferential treatment to forestall the movement of funds to the higher end of a given sector, which all financial organisations on cost considerations would prefer to do.

5. In conclusion I had expected the report of this committee to speak out the truth in its own voice, instead of being guided by the recommendations of any other committee or body, or to confine itself within the parameters of existing RBI guidelines with regard to credit dispensation and terms thereof.

In the following pages I have dealt with specific recommendations and my differences of opinion in respect of the recommendations of chapters III, VI and VII.

CHAPTER - III

Adequacy of institutional credit for Working Capital

Profile of Working Capital Adequacy Para 3.8 to 3.21

1. All these paras are based on assumptions, presumptions and deductions arrived therefrom, which are not backed by any firm statistical data.

Production of Registered SSI Subsector has been calculated at Rs.49871 crore, although C.S.O. at Calcutta frankly admitted that they have no record from where this figure can be abstracted. ASI can not throw-up any meaningful figure in this respect.

2. Again units having Bank limit of over Rs.1 lac have been "assumed" to belong to "Registered" category and have been treated as "larger" tiny units. In my experience an unit having a Working Capital limit of a little over Rs.1 lac would have a turnover of app.Rs.5 lacs or so - 20% of output value being the bench mark of working capital as per committee's own opinion. An unit with such a turnover would not employ 10 factory workers excluding office staff and thus would not come within the purview of Factories Act. In general a factory having 10 workers would have an annual production of Rs.20 lacs and a Working Capital limit of Rs.5 lacs or so. My knowledge and experience in the matter was

corroborated by second All India Census of small Industries, (col 4 of Table 6) where production level of factories with 13 workers (including office and Sales staff) has been shown at Rs.19.73 lacs. Therefore in fact majority of units having working capital limit of upto Rs.5 lacs would belong to "un-registered segment" and not units having working capital limit over Rs.1 lac as wrongly "assumed" in the report.

3. Since the major part of the recommendations of this chapter are based on this wrong assumption regarding "un-registered" and "Registered larger Tiny Units" they lose their validity.

4. Only definitive conclusions that can be extracted from inadequate available data are (a) that Tiny Sector as a whole has been starved of working capital (b) within the sector smaller the unit more disadvantaged it is. To go beyond this and create un-realistic and un-called for subdivisions within the Tiny Sector by creating separate compartments of units with limits upto Rs.1 lac, over Rs.1 lac and upto Rs.10 lacs and larger Tiny units with limit of over Rs.10 lacs go against the very object of the enhancement of the ceiling limit of Tiny Sector from Rs.2 to Rs.5 lacs.

5. The committee's brief was to find out adequate level

of credit for Tiny SSIs and larger SSIs, and the report should have been restricted to that primary task only, instead of searching for subdivisions within the sector on artificial and illogical grounds on the basis of "assumptions" and "inferences".

I would urge that the sub-divisions treated by the report be ignored and the Tiny Sector be treated as a whole for passing on the support packages, the govt. has decided to deliver.

Working Capital Adequacy in 8th Plan

1. The committee started with the clear view that present level of working capital (16% of Bank Credit) is grossly inadequate for SSI segment, and yet it argues out in length in para 3.19 to 3.22 that Banks will somehow be able to maintain that ratio over the 8th Plan period taking into account their deposit prospects, and concludes that such a measure (credit allocation of 16%) will fulfill the credit requirements of SSI Sector. To quote from para 3.22 "The committee feels that, at least in the 8th Plan, the immediate past trends of demand and supply may continue and the banking system will manage to find the enhanced level of working capital resources needed by SSI".

2. The committee no where recommends clearly that the present level (inadequate as it is) of 16% of Bank credit

for SSI Sector should continue under RBI guidelines or govt. directive, and therefore I fail to understand what would force the Banks to maintain even their present level of finance to SSI instead of pruning it down, and diverting the resources to what in their opinion would be more desirable and lucrative avenues for investment.

3. On behalf of the tiny Sector I would demand that a fixed percentage of Bank Credit be firmly earmarked for Tiny Sector in clear-cut details as was stated in the first Draft Report para 3.6 a. "It will be necessary to cover TEVI under the (redefined) priority sector with such further reservations as may be necessary for the weaker sections within this category. In the circumstances the Committee recommends that a suitable target may be stipulated for allocation to TEVI out of the total bank credit."

4. For what reasons and under whose directions this clear statement has been dropped from the final report escapes my understanding, when none of the members at any point of time had objected to the inclusion of this paragraph. Equally mysterious is the deletion of the clear cut recommendation of para 3.6 b of the 1st draft which read "A part of the SLR which has been recently defreezed can be used exclusively for financing this (TEVI) sub-sector". This clear provision has been fully diluted by para 3.23

of final report which reads "A part of the SLR now being freed, could be used exclusively for financing SSI" if a "resource constraint is experienced towards the later years of the Plan". The point, that resources crunch is already there for last two years, appears to have been forgotten.

Moreover the working capital requirements and resources projected over the next five year plan differs vastly from our calculations given below:

TABLE : 1

(In crores)

Requirements:

	1992	1993	1994	1995	1996	1997
1. GDP as per Plan Projection	519716					
2. 35% Share of SSI app with 5% growth Annually	188197 *	197606 #	207486 #	217729	228615	243045
3. 8% Inflation effect P.A.	100	108	116.6	125.9	136.01	146.8
4. Inflation Adjusted Production	188197	213414	241929	274120	310962	356790
5. Working Capital requirement at 20%	37639	42682	46368	54824	62192	71758

* Agrees broadly with D.C.S.S.I. and Annual Plan 1992 figures.

\# Expected slippages of first two years due to structural changes in Economy would get corrected during the later years.

Resources:

TABLE-II

	1992	1993	1994	1995	1996	1997
1. Bank Deposits with 17.5% growth	234640	275702	323950	380641	447253	525522
2. Bank credit	128643	154393	184651	220772	263879	315313
3. Credit Deposit Ratio *	55	56	57	58	59	60
4. Percentage share of SSI Actual for 92 and expected figures for 93 onwards**	11	12	14	16	18	20
5. Working Capital to SSI	14000 (App.)	18527	25851	35324	47498	63062

* Credit deposit Ratio would improve on A/c. of S.L.R. Relaxations.

** Nominal increase in SSI would be possible with the S.L.R. relaxation already allowed.

Reso: rces Gap:

TABLE-III

	1992	1993	1994	1995	1996	1997
Requirements	37639	42682	48368	54824	62192	71758
Resources	14000	18527	25851	35324	47498	63062
Gap :	23639	24155	22517	19500	14694	8696

5. Against the background of what has been stated above I can neither understand nor accept the contents of para 3.19 to 3.21 where Working Capital requirements and resources have been projected as under :

Requirements

Para 3.20-	8th Plan demand of larger SSI's . .	Rs.14600 cr.
	8th Plan demand of SSI's of . . . less than 1 lac limit	Rs. 7500 "
Working Capital Requirements		Rs.22100 cr.

Resources

Para 3.21 -	Credit to SSI's assuming Deposit accretion of Banks at 17.6% growth	Rs.27700 cr.
Less Term Loan outstanding ..		Rs. 4300 cr.
		Rs.22400 cr.

If an arithmetical balancing act could solve the working capital problems of SSI sector, the report has effectively solved the problem in these three paragraphs by "assuming" the flow of incremental Bank credit to SSI Sector in 8th Plan period as their actual "demand" (Para 3.19). Factually as per recommendations of the Committee the SSI sector, at the end of 1997 will receive Working Capital credit totalling Rs.36,400/- crores (existing Rs.14,000 crores plus additional Rs.22,400/- crores) which will be 11% of the Bank Credit of Rs.3,15,313/- crores of that year as projected in Table-II. Therefore percentage wise share of the Cake for SSI sector in respect of working Capital will remain the same 11% as it is in 1992. I could not reach the 16% figure the Report has "assumed" will be the share of SSI in 1997.

6. Some modifications to guidelines

I consider that the existing monetary ceilings for Loan applications described in para 5 as adequate, and therefore the new ceilings sought to be introduced in the same para of the Final Report need not be enforced. I am particularly against the introduction of the same form for credit limits between Rs.50,000/- to Rs.15 lacs. The span is too large, and I have every reason to apprehend that the form, in order to elicit all available data from borrowers asking for over Rs.10 lacs credit, would be very exhaustive, and would therefore be too cumbersome for small borrowers asking for a mere Rs.50,000/-. If this form is approved the small borrowers will have to chase either the Field Officers or Chartered Accountants to have the form filled in.

Formation of SLIIC and DLIIC

At the request of my organisation in the first draft report it was proposed to include a Representative of the Tiny Sector in these committees. The relevant para 6.20 read "In regard to membership of SSI Associations, the committee considers that the tiny and decentralised sector which are comparatively in a disadvantaged position vis a vis the modern SSI, should have representation in these forums".

Without my concurrence this paragraph has been replaced by the contents of para 3.46 of the Report which reads "SLIICs should invite the representatives of SSI/ tiny sector and the concerned borrowers, whenever necessary, for a full discussion of the complaints".

I strongly protest against this change. By putting the words "whenever necessary" the report has eliminated the chances of the participation in SLIIC/DLIIC meetings either of the borrower or his representative from the association, because their presence howsoever desirable would always be inconvenient and therefore unwelcome for the official members.

This unfortunate change in the recommendation goes against the interests of small borrowers and must not be acceded to, since such a borrower has neither the capability nor the confidence to present his case effectively before such forums.

Financing of New Entrepreneurs

Paraphrasing a World Bank study Team Report last line of para 3.14 of the Final Report reads "Bank branches should give priority to those village Industries and the smaller tiny Industries which can use working capital efficiently, having established production successfully but unable to make further progress for lack of working capital".

I consider this recommendation unhelpful for new entrepreneurs in the sense that it militates against the govt's declared policy of encouraging first generation entrepreneurs to reduce ever lengthening queues before the employment exchanges. This recommendation should therefore be dropped. More so as it would come in handy to Branch Managers, who are even otherwise wary of touching new entrepreneurs for various reasons, including accountability.

CHAPTER - IV

Rehabilitation of Sick SSI

Our organisation had sought a change in the present 1989 definition of a sick SSI unit in terms of which a unit has to remain sick for a period of 5 years and it must lose 50% of its peak net worth before it is officially declared sick, and nursing is started.

I was therefore happy to read 1st draft report para 6.7 which reduced the period of illness from 5 years to 2 years, to get the sick certificate, and for tiny and decentralised units it was further reduced to one year if financial data was not readily available.

This welcome change has been modified in the final report to extend the period of mandatory sickness to 2 1/2 years, and special benefits given to Tiny and decentralised units have also been withdrawn (para 6.9). Thereafter another period of 6 months has been prescribed for completion of viability reports and finalisation of nursing programmes. As a result no SSI unit including Tiny and decentralised Sector Unit becomes eligible for medication before the expiry of 3 years.

In my opinion, for the Tiny Sector definition of the first draft was more appropriate because very few tiny units can outlive 3 years of prolonged illness without medical assistance as the final Report calls for. By this unfortunate revision of the definition the committee has in full knowledge signed the death warrants of thousands of Tiny units who may have the misfortune to fall sick.

Chapter VII - other related Aspects

In para 7.4 the Report has reiterated that under deregulation concept the Banks have been given the freedom to decide upon their interest rate structure considering their cost of funds, perceived risk etc. However in para 7.5 as a measure of kind consideration it agreed to relax the interest on Term loan and Working Capital loan between Rs. 2 lacs to 10 lacs category and respective rates for the time being are 18% and 19%. But in principle RBI would not enter into interest rate structure.

I strongly feel that this is a pernicious doctrine as far as the SSIs are concerned. The doctrine of deregulation is based upon the interplay of demand and supply position at the market place. In such a situation competition between banks will ensure a fair interest rate structure for MLI Sector. But since there are no eager suitors for small scale and Tiny Sector accounts, in their case supply side competition will never come into operation, and in such positions Banks will convert their freedom to charge interest into a Licence. In the resulting situation Large borrowers with hefty profit margins will pay much lower rate of interest than Tiny and SSI borrowers having razor thin profitability. Moreover interest rate should not be fixed in absolute terms for any sector or type of facility, but should always be fixed at certain percentage points below or above the floor rate, so as to allow automatic flexibility.

For small and Tiny sector RBI has to issue both Floor and ceiling rates of interest from time to time to ensure that both Banks and Tiny units operate profitably. The ceiling level for SSI Sector should not go 2% above the floor level for MLI Sector.

In this connection, I enclose a note on the subject of cost of funds and interest rate structure submitted by our organisation in the recent SSI Board meeting and request you to treat the same as part of my arguments for fixing a reasonable interest rate structure for the Tiny Sector.

Cost of credit

a) It is our argument that not only is the quantum of credit inadequate for the TEVI sector, even the terms, and rates of interest at which these funds are being handed out, are un-usually and un-reasonably harsh at present.

To establish that we present in Table I, an analysis of the cost of Funds of some small and large Banks for the year ended 1992 based on their Annual reports. From this table it can be seen that average interest paid on deposits is 7.6%, whereas the total operating costs covering all business areas comes to only 3.6% of the total Deposits. We have added these two figures and deducted therefrom only 1% to account for operating expenses of Banks on misc. business, to arrive at net cost of funds for 1991-92 amounting to 10.2%. The differential between this figure and the average interest received on advance is a healthy 4.3% - which represents net profit. In case of Investments, the net return to Banks is clearly on the negative side.

b) However as the figures presented in the Table I relate to past and any interest rate that is to be adopted relate to future, we have projected the future cost of funds for the year 1992-93 in Table III based on the actual deposit composition of ASCB's over the past 4 years presented in Table II. From this table we find that NIL interest current a/c deposits, low interest saving deposits, and high interest term deposits are respectively 18%, 25% and 57% of their total deposits. On the basis of this composition pattern of deposits the interest payable for the year 1992-93 has been calculated and net cost of Funds for the next year has been projected at 11.34% in Table III.

c) Based on such cost of Funds a reasonable interest rate structure has been worked out in Table IV to give the banks a net income 4.46% from the TEVI Sector. In proposing this interest rate structure TEVI Sector as a whole is not claiming any subsidised or concessional interest rates. If in the interest of equity concessional rates have been recommended for smaller borrowers having weak viability and lower profitability, that concession is proposed to be absorbed by interest applicable for larger borrowers in the same segment.

d) It is our contention that RBI must continue to guide and monitor the cost of finance of TEVI Sector, and small and marginal farmers in the overall national interest. These sectors despite inherent economic weakness provide livelihood to the vast majority of our countrymen, and therefore by extending them a little help and encouragement the Govt. will not only ensure employment generation and increase domestic production, but also cut down the cost of its own social security expenses incurred through a variety of welfare programmes. In the name of deregulation RBI should not abdicate this social responsibility and give a free licence to commercial Banks to charge whatever interest they choose, to shore up their profitability and may be to cover up their functional inefficiency. While such inefficiency costs can not be passed on by the Banks to their large clients on grounds of competition, they will definitely pass on such costs silently to smaller SSI units and TEVI sector as a whole, whose accounts no banks are in a hurry to grab. Against this background in the absence of any guideline from RBI smaller borrowers would be asked to pay higher rates of interest by commercial banks.

e) This unfortunate development in fact has already taken place. Whereas the best and largest borrowers are getting finance at rates of interest varying between 18% to 20% as of now, the smaller borrowers above Rs.2 lacs are forced to pay interest upto 21% and above. And on top of this interest their accounts are being freely debited with DICGC commission, Processing fees, Ledger Folio charges, Cheque book charges and supervision charges etc. The combined effect of all such charges amount to another 2.5% PA. Can the TEVI Sector or other SSIs bear this high interest burden when their pre-tax profits hardly ever exceeds 5% as against the figure of 20.8% (Source - World Development Report 1992) that is earned by the large sector on account of the protected nature of its business activity. We may add that pre-tax profits of large Industries of the Asian giant - South Korea is only 3.5%. It is our position that credit rating should not be the only criterion for fixing interest rates, it should be tempered on considerations of equity and the ability to pay.

f) It would be both relevant and important in this connection to mention one recent development. Due to peculiar disadvantaged position of the small borrowers in general and economic recession of the past year in particular, their bills covering overdraft are not paid in time. For this they have to pay penal interest on such irregular overdrafts at 25% over the standard interest rate, although they are not the defaulters but unfortunate sufferers in this particular situation. It is nothing less than national hypocrisy that while the Govt. is going about declaring the introduction of a legislation to compel large buyers for prompt payments to small suppliers, the public sector Banks are penalising those very small borrowers for not having received payment in time.

g) It is our view that a complete deregulation of interest rates atleast for the TEVI Sector would be a lethal step at this juncture. If deregulation is a must for other reasons, it must be replaced by self-Regulation and Indian Banks Association should be charged with the responsibility of enforcing such discipline on the banks through periodical guidelines. We have amply proved that by adopting a reasonable interest rate structure outlined in Table IV, the banks can ensure a fair return on their outlays without fleecing the TEVI Sector. The authorities who are selling "Deregulation" concept of World Bank must also promote their other important precondition for economic growth - "low and stable rates of interest".

TABLE - I

COST OF FUNDS OF COMMERCIAL BANKS EXTRACTED FROM A RANDOM SAMPLE OF THEIR ANNUAL REPORTS OF 1992

Amt. in Crores

Bank	Deposits Cl.	Deposits Op.	Deposits Av.	Intt.	%	Advances Cl.	Advances Op.	Advances Av.	Intt.	%	Investment Cl.	Investment Op.	Investment Av.	Intt. earned	%	Operating expenses	% of 11 to total Deposits
1	2			3	4	5			6	7	8			9	10	11	12
1. Allahabad Bank	6654	6275	6465	485	7.5	3434 (42%)	3017	3225	475	14.7	2478	2277	2377	223	9.4	188	2.9
2. Bank of Baroda	19050	14309	16579	1448	8.7	10467 (26%)	8977	9722	1402	14.4	5156	3945	4550	454	10.0	465	2.8
3. Canara Bank	14238	12368	13303	897	6.7	8000 (35%)	7073	7536	1113	14.7	5251	4427	4839	504	10.4	469	3.5
4. Dena Bank	3424	2956	3190	255	8.0	1676 (44%)	1584	1630	236	14.4	13.97	1255	1326	133	10.0	141	4.4
5. Union Bank	7929	6835	7382	527	7.1	3673 (37%)	3483	3578	489	13.7	3088	2538	2813	306	10.8	272	3.7
6. S.B.H.	3179	2598	2888	213	7.3	1906 (40%)	1651	1778	259	14.6	1258	986	1122	121	10.8	112	3.8
7. S.B.P.	2777	2449	2613	198	7.6	1759 (37%)	1614	1686	265	15.7	1278	1054	1166	111	9.5	88	3.4
8. S.B.I.	60191	48374	54282	4449	8.1	44018 (34.5%)	40438	42228	5814	13.8	23119	17226	20172	2028	10.5	2254	4.1
Total :					61.0					116.0					81.4		28.6
Average :					7.6					14.5					10.1		3.6

1. Formula for arriving at average cost of funds (Average cost of Intt. paid + Average overhead cost) - 1% to a/c for other business.
2. Therefore the average cost as per above formula for the year ended 1992 is (7.6 + 3.6) - 1 = 10.2%.
3. Average figure has been taken as the mean of opening and closing balances.
4. Abbreviation cl. and op. stand for closing and opening balances.
5. In column 5 figures in Bracket indicate priority sector advances.

TABLE - II

DEPOSIT COMPOSITION OF SOME COMMERCIAL BANKS FOR THE YEAR 1992

PART - I

Amt. in Crores

	Bank	Total Deposits	Demand	%	Savings	%	Term Deposit	%
1.	Allahabad Bank	6654	1487	22.3	1827	27.5	3340	50.2
2.	Bank of Baroda	19050	3257	17.1	3187	16.7	12605	66.2
3.	Canara Bank	14238	2478	17.4	3255	22.9	8505	59.7
4.	Dena Bank	3424	528	15.4	1115	32.6	1781	52.0
5.	Union Bank	7929	1282	16.1	2166	27.3	4481	56.5
6.	S.B. Hyderabad	3179	697	21.9	689	21.6	1792	56.3
7.	S.B. Patiala	2777	473	17.0	884	31.8	1420	51.1
	Total			127.2		180.4		292.0
	Average		Nil Intt.	18%	Low Intt.	26%	High Intt.	56%
8.	State Bank of India	60191	16969	28.0	12041	20.0	31181	52.0

PART - II (See Note B)

Actual figures of all commercial banks for previous three years as per RBI Bulletin of 1992 and as per Annual Report of some Banks

Year	Total Deposits	Demand	%	Savings	%	Term Deposit	%
1989	140150	23342	17%	37446	27%	79362	56%
1990	166959	28856	17%	44567	27%	93536	56%
1991	192542	33193	17%	50501	26%	108848	57%
1992	-	-	18%	-	26%	-	56%

Remarks

Conclusion

A. Deposit Pattern of Banks as per interest rates of previous four years

1. NIL Interest 17%

2. LOW Interest 26%

3. HIGH Interest 57%

B. We have not included the figures of SBI in total because of abnormally high share of interest free deposit - 28% in their total deposit figures of 1992. In 1991 it was very near the normal figures of the industry.

TABLE - III

(Figures in Crores)

PROJECTED COSTS OF FUNDS OF SCHEDULED COMMERCIAL BANKS
FOR THE YEAR 1992-93

A	Deposits	Actual as on 31-3-92	Actual as on 26-6-92	Projected as on 31-3-93	Average deposits 92-93	Rate of interest	Interest payable	Average rate of interest
	1	2	3	4	5	6	7	8
	Demand		45212 (19%)		44820 (18%)	Nil		
	Savings		60298 (25%)		62250 (25%)	6	374	
	Term		135686 (56%)		141930 (57%)	12 Average	1703	
	Total	233086	24196 (14% over 91-92)	265718 (with same 14% increase)	249000 (2+4) - 2		2077	8.34 (7-5)
B.	Operating Expenses							3.00
C.	Average cost of Funds A + B							11.34%

NOTE :

1. Operating expenses vary from 3% to 4% for the year ended 31-3-92. Taking the higher figure of 4% and deducting from that 1% for Misc. business the average operating expenses for deposits and advances would come to at most 3%.

2. If due allowance is made for old long term outstanding deposits carrying lower interest rates, rate of average interest on Term Deposits would be less than 12% that has been projected in column 6.

TABLE IV

REASONABLE AND REMUNERATIVE INTEREST RATE STRUCTURE FOR COMMERCIAL BANKS ADVANCES TO TINY ENTERPRISES

(Except Col. 1 all figures in crores)

A	Credit Limit Break-up	Advances as on 31-3-90	As % of Total Priority Sector Advances	Anticipated average adv. during 92-93	Suggested Int. Rate including DICGC Com.	Amount of Interest	Average % (6 - 4)
	1	2	3	4	5	6	7
1.	Upto Rs. 25,000	1096	9	2460	12.0	259	
2.	Above Rs. 25,000 upto Rs. 50,000	512	4	980	13.5	130	
3.	Above Rs. 50,000 - Rs. 1 lac	635	5	1200	15.0	180	
4.	Above Rs. 1 lac - Rs. 2 lacs	996	8	1920	16.5	317	
5.	Above Rs. 2 lacs - Rs. 5 lacs	2035	17	4080	18.0	734	
6.	Above Rs. 5 lacs - Rs. 10 lacs	1880	16	3840	19.5	749	
7.	Above Rs. 10 lacs - Rs. 25 lacs	2291	19	4560	19.5	889	
		9446	78		Less 1.5% DICGC com. on limit	3258	
8.	Above Rs. 25 lacs	2585	22	(see note 2)	of Rs. 20,000	300	
	TOTAL	12031	100	18720		2958	15.80
B.	Cost of Funds as per Table III						11.34
C.	Net return of advances to Tiny Sector (A - B)						4.46

NOTE :
1. Limit wise Break-up of advances is not available from R.B.I. after 31-3-1990
2. Advances above Rs. 25 lacs should be treated at par with Larger SSI's in respect of Interest.

Note received from Shri Chakradhari Agrawal

1. The Terms of Reference of this Committee, as per Memorandum of Reserve Bank of India, was to review the arrangements for meeting the working capital requirements of the small scale industries and for the rehabilitation of small scale industries and to examine any other issues relating to small scale industries. The Committee could not bring into its purview the examination of credit to village industries, i.e. the entire gamut of VSI sector. The Committee has apparently transgressed the parametres laid down for it under the Memorandum. To that extent, the recommendations have been vitiated. Credit flow to the village industry in itself is an important question which has to be dealt separately in a more specialised manner and it could not have been clubbed with the work of this Committee. The VSI and SSI terms have been used in the Report as a sort of synonomic. The Eighth Plan has dealt with village industries as a sub-sector separately.

2. The Report has failed to link the recommendations with the Policy Statement placed in the Parliament on 6 August, 1991. This Policy Statement is now a mandate which must govern the entire policy regime in regard to credit also.

Providing a separate package for the promotion of tiny industries constituted the main thrust of the Government's new policy. "The tiny enterprises were assured that they will have easier access to institutional finance and also subsidies/cheap credit". The Report does not anywhere indicate that it has taken into congnisance this important policy announcement of the Government of India on 6 August 1991 and this policy announcement has been frustrated by the main recommendations of the Report.

3. The Committee has also failed to lay down responsibilities of lead banks to ensure observance of the RBI guidelines and to perform the duties, responsibilities and obligations assigned to them. The Members of the Committee had also emphasised that banks must have specialised branches for financing small scale industries. The Committee has failed to come out with specific recommendations in this behalf.

4. The share of SSI Sector in the priority sector lending has to be minimum 25 per cent as against approximately 16 per cent presently. The existing provisions under the priority sector lending for the SSI units is totally inadequate to meet even the existing requirements of small sector. The Committee should have specifically recom-

mended that there should be no dilution in the concept of priority sector lending and the share of priority sector lending to the total investible resources of banks should be approximately enhanced to provide for allocation of 25 per cent of priority sector lending to the SSI units.

5. The Committee should have also come out specifically with the quantum of credit supply and time-bound programmes to achieve it rather than being vague.

6. The large scale units have been provided with working capital of Rs.44,425 crores in 1990-91 out of total bank credit of Rs.1,09,283 crores. This compared with the total output of the MLI Sector of Rs.1,83,883 crores works out the availability of institutional working capital from commercial banks to the order of 24.4 per cent. The MLI Sector should not be eligible to get more than 16 per cent of their total annual output. It is desirable to reduce the availability of funds to the MLI Sector by at least 8 per cent and to enhance the availability of resources to the Tiny Sector.

7. I believe that any attempt to further bifurcate tiny units should be discouraged and the Committee should not talk of the smaller of the tiny units. The Committee should have come out with specific recommendations under time-

bound programme for meeting the full requirements of the Tiny Sector out of priority sector lending of the commercial banks.

8. The Report has also erred in stating that the SSI Sector, as a rule, suffers from a lack of managerial, organisational and financial skills (Page 9). This may be true in a few cases but cannot be generally applied.

9. On page 13, it is stated that National Small Industries Corporation and the State Small Industries Development Corporations provide direct assistance to this sector. This assistance is very limited in nature. This should have been amplified.

10. The Committee has relied on a sample study covering 81 bank branches in 25 States and 7 Union Territories (page 30). This is too narrow a sampling and it is not even known how this sampling was done. It will be wrong to come to any conclusion or any observation on the basis of such a restricted study. The field experience of all SSI associations and SSI units does not warrant the conclusions arrived at by such a study.

11. While the Report has conceded that working capital assistance to the smaller among the tiny industries is almost non-existent, yet it has not come out with measures

to substantially improve the access. The recommendation of an allocation built up to be at least 50 per cent higher than the actual credit outstanding in March 1990 of about Rs.2,800 crores is totally inadequate and unacceptable. The availability of working capital for them should be raised by minimum 300 per cent.

12. In page 55, it has been stated that curtailment of limits applied by branches will be reported to the next higher authority by the sanctioning official. This should be clearly stipulated that no curtailment of limit shall take place suomoto until next higher authority has taken a view on the proposal of the sanctioning authority.

13. While on page 61, the Committee expressed the view that the first prerequisite of the open system will enable the commercial banks to provide the necessary resources "to meet the genuine credit requirements of all their SSI clientele", the recommendations of the Committee do not ensure this except in the case of larger of the small scale units (page 42 - para 3.18) wherein it has been stated that the working capital needs of the larger SSI units should be fully met by the commercial banks and that the Chief Executive of each bank shall ensure that this is done. This is one of the most unfortunate part of the Report. It

totally neglects the needs of the Tiny Sector and only ensures adequate working capital credit flow to the larger SSIs. As has been stated above, the Committee was mandated to ensure that the working capital requirements of the entire SSI Sector should be adequately met and not a very small segment of this sector, i.e. the larger of SSI units.

14. The Committee should have also recommended that larger of the SSI Sector should seek working capital outside the priority sector lending in case the definition of small industries continues to be steadily broadened.

15. At the end of the Eighth Five Year Plan, the projections of the Department of Small Industry is that the output would be around Rs.2,44,000 crores which would mean about Rs.49,000 crores as working capital must be made available. The incremental credit demand of SSI towards working capital during the Eighth Plan could thus be Rs.36,000 crores and not Rs.22,100 crores as has been stipulated in para 3.20 on page 44 of the Report.

16. All in all, the Report has failed to meet the genuine needs of the Tiny Sector, has guaranteed supply of working capital requirements only to the larger of SSI sector and has not recommended any measures to ensure an equitable distribution of credit flows between the MLI and SSI Units

and more particularly the tiny industries. It is my belief that the Report, as has been prepared by the Reserve Bank of India, would cause total disappointment and gloom in the SSI Sector and would not be in harmony with the Policy Statement of 6 August, 1991 made in the Parliament assuring adequate flow of credit to SSI units and also cheap/ subsidised credit to specified sector, i.e. the tiny industries.

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