

REPORT
Of The
TASK FORCE FOR DIAMOND SECTOR

Ahmedabad

February 26, 2009

**Report of the Task Force to look into distress arising on account of
the problem faced by Diamond Industry in Gujarat**

ACKNOWLEDGEMENT

The Task Force is grateful to Dr. D Subbarao, Governor, Reserve Bank of India, for giving it an opportunity to conduct this study of immense value for the diamond industry and its workers.

The members of the Task Force, during its meetings held at Ahmedabad as also during its visit to/meeting at Surat, met various associations of the Diamond Industry and the Diamond Workers' Union to get a complete view of the issues and problems. Substantial inputs were received from various sources. Thus, the report is a result of collective efforts and contributions of many people, and the Task Force expresses its indebtedness to each one of them.

The Task Force is thankful to State Bank of India and the Govt. of Gujarat for effectively coordinating the meetings of the members of the Task Force at Surat. The Task Force would like to express its sincere thanks to the Finance, Industries and Labour Departments of the Government of Gujarat and to SBI, BoI, BoB, Dena Bank and SIDBI for providing valuable information that has helped in preparation of this Report. The Task Force also wishes to acknowledge the excellent secretarial support provided by the officers of Rural Planning and Credit Department of the Reserve Bank office at Ahmedabad.

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Abbreviations

BoB	Bank of Baroda
BoI	Bank of India
CGM	Chief General Manager
DIC	District Industries Centre
DLCC	District Level Consultative Committee
GoG	Government of Gujarat
GM	General Manager
NREGP	National Rural Employment Guarantee Programme
PMEGP	Prime Minister's Employment Generation Programme
RBI	Reserve Bank of India
RD	Regional Director
RPCD	Rural Planning and Credit Department
RUDSETI	Rural Development and Self Employment Training Institute
SBI	State Bank of India
SIDBI	Small Industries Development Bank of India
SJSRY	Swarna Jayanti Shahari Rozgar Yojna
SLBC	State Level Bankers' Committee
ITI	Industrial Training Institute
GCC	General Credit Card
SGSY	Swarnajayanti Gram Swarojgar Yojana
DRI	Differential Rate of Interest Scheme
KVIC	Khadi and Village Industries Commission
KVIB	Khadi and Village Industries Board

EXECUTIVE SUMMARY

BACKGROUND:

Pursuant to the deliberations in the meeting held by the Governor of RBI with the Honourable Minister of Finance, the Minister of State for Finance of the Government of Gujarat and senior officials of government and banks on February 11, 2009, a Task Force was constituted, comprising representatives of the State Government, the SLBC convener, other banks and SIDBI to look into the distress arising on account of problems faced by diamond industry in Gujarat and to make practicable recommendations for mitigating the difficulties.

RECOMMENDATIONS:

The Task Force, based on the discussions with various stake holders and deliberations in the meetings, recommend the following:

Expeditious restructuring of the existing borrowal accounts as per RBI guidelines

RBI has issued detailed guidelines for suitable restructuring of borrowal accounts. Banks will take suitable measures to expeditiously release the benefits of restructuring. In order to enhance the liquidity support to the industry, banks will examine the scope for lending against stock of polished diamonds held by units in their inventory.

Finance for new diamond sector units for creation of employment opportunities

Banks may consider proposals for credit support to new diamond sector enterprises, which will generate employment for the workers. Banks may also explore the possibility of financing procurement of rough diamonds from reputed agencies for cutting and polishing, to maximise employment of workers.

Re-training, re-skilling and rehabilitation of displaced diamond workers

Suitable training programmes will be organised at district level by the district administration to train displaced diamond workers for alternative employment. The district authorities may also identify and sponsor all eligible workers for appropriate financial assistance / loans under various Government Schemes.

Financial relief measures for diamond workers

With a view to helping the diamond sector workers to tide over the distress caused to them on account of loss of jobs / work, soft loans with elongated repayment cycle, will have to be considered, based on their identification by their employers. The diamond sector units will need to sponsor such workers to the banking system. Banks may consider rescheduling of existing housing, educational and personal loans of diamond workers on a case to case basis. Small monetary limits may be considered by banks for workers through General Credit Cards (GCCs), with relaxations, as may be appropriate.

An education fund will have to be constituted to help payment of school fees of children of displaced diamond sector workers.

Chapter I

TASK FORCE: CONSTITUTION AND METHODOLOGY

1.1. On the occasion of the meeting of the Central Board of Directors in Ahmedabad, the Governor of the Reserve Bank of India had a meeting on February 11, 2009 with the Hon'ble Minister of Finance of Gujarat Government, the Minister of State for Finance, Senior Officials of the State Government, and Senior Officials of commercial banks and financial institutions represented in Gujarat, to discuss State-specific issues relating to banking industry. Pursuant to the deliberations in the meeting, the Governor of RBI, *inter alia*, announced that a Task Force would be constituted, consisting of the representatives of the State Government, the State Level Bankers Committee (SLBC) Convener and other bankers, to look into distress arising on account of problems faced by diamond industry in Gujarat and to make practicable recommendations for mitigating the difficulties. The Reserve Bank will be the convener of the Task Force, which would submit its report not later than February 28, 2009.

Constitution of the Task Force

1.2. The Task Force comprising the following members was thereupon constituted:

- I. Shri S. Murali Krishna, Addl. Industries Commissioner, GoG,
- II. Shri Manish Verma, Joint Secretary, Finance Dept. and Director, Institutional Finance, GoG,
- III. Shri H R Shah, Deputy Labour Commissioner, GoG.
- IV. Dr H C Pattnaik, CGM, SBI, LHO, Ahmedabad,
- V. Shri Mukesh Kumar Jain, GM, Dena Bank (SLBC Convener),
- VI. Shri G G Joshi, GM, BoB,
- VII. Shri A K Bhandari, GM, Bol , and
- VIII. Shri D Ghosh, GM, SIDBI.

Shri A K Bera, RD for Gujarat, RBI was the Convener of the Task Force.

Terms of Reference of the Task Force and methodology adopted

1.3 The Terms of Reference of the Task Force were as under:

- a) To study the coverage of existing banking facilities for financial restructuring of borrowal accounts of registered diamond sector units and,
to work out a suitable package to give credit support to new enterprises which can provide employment opportunities to the unemployed workers.
- b) To examine the possibility of rehabilitation, re-training and re-skilling, with support from Government set-up, for gainful employment of unemployed diamond industry workers ; and
- c) To consider provision of some relief to the unemployed workers by way of personal / consumption loans from the banking system within the existing norms, for mitigating their hardships.

Methodology adopted by the Task Force

1.4. To facilitate the setting up of the Task Force and firming up its terms of reference, a preliminary meeting of senior officials of the Government of Gujarat, the SLBC Convener bank and other leading banks and SIDBI was convened by the Regional Director (RD) of RBI, on February 16, 2009. This meeting was followed up by a visit of the members of the Task Force to Surat on February 24, 2009 to discuss with the Diamond Industries Association the problems faced by the industry and to meet the Diamond Workers' Union to assess the nature of distress caused to the diamond workers as a result of the large scale lay-offs. This was followed by a meeting of the Task Force in Surat on the same day, and a final meeting in Ahmedabad on February 26, 2009. In all, the Task Force had three meetings in Ahmedabad and Surat for finalising its recommendations.

Chapter II

INTRODUCTION

2.1. Though India was known to have diamond mines many centuries ago, it has virtually no mines today. However, India has continued to maintain its tradition of diamond cutting and polishing, and thousands of people are involved in this skilled occupation. The Indian diamond cutting centres are mostly concentrated in Surat in Gujarat. However, there are many units in other parts of the State viz, Ahmedabad, Mehsana, Banaskantha, Patan, Rajkot, Amreli, Junagadh and Bhavnagar. The diamond industry is an employment generating industry. The factor that contributed to the growth in the trade of diamond jewellery is the traditional expertise of artisans in Gujarat in cutting and polishing of rough diamonds and transforming them into glittering jewellery.

2.2. As per the information available with the Government of Gujarat, there are approximately 6547 diamond processing units employing approximately seven lakh people in the State. Of this, approximately 38 % of the units and 57 % of the workforce are in Surat, while Amreli District, with 22% of the units, occupies the second place in terms of number of units, and Ahmedabad, with 14.3% of the workforce, occupies the second position in terms of labour.

2.3. The industry is dependent on foreign countries for raw materials (rough diamonds). Rough diamonds, imported by traders pass through a few layers before reaching the cutting and polishing units. These units undertake the work of cutting and polishing only and no purchase / sale is involved in their dealing with the suppliers of diamonds. These units are, generally, not registered. Very few diamond cutting and polishing units have availed of bank finance.

The diamonds, after cutting and polishing, are returned to the supplier and are ultimately exported by the businessmen engaged in the activity. As the

finished product is exported, the survival of the industry depends on overseas markets, especially in view of the limited domestic demand.

Chapter III

PROBLEMS FACED BY THE INDUSTRY

3.1. The diamond industry is predominantly an export oriented industry, which is demand driven. With the demand for polished diamonds in the global market having slumped, the industry is caught in a crisis situation where there are no buyers for polished diamonds leading to a build up of large inventories.

3.2. The diamond industry in Gujarat accounts for 72% of the world's processed diamonds and 80% of India's diamond exports. Owing to a drastic fall in export orders from the US and European countries, the two largest markets for cut and polished diamonds, the diamond industry in India has come under the grip of a global economic slowdown and has been pushed to the brink of recession. This unprecedented slack in demand has forced traders to shut their units and there seems to be no sign of recovery or improvement in the market as the US economy continues to remain in turmoil and there is no alternative to the US market. The immediate cause for concern is the large-scale layoffs of diamond workers resulting in acute distress to them. While the entire economy, both in India and the world at large, is faced with the prospect of a severe recession, the large number of workers affected in the diamond industry has begun to engage the attention of the Government and banking circles.

3.3. The diamond industry is, essentially, a closed family-based sector where the labour force is not systematically organised. The diamond workers are often engaged on job-work basis and frequently move from one unit to another. Further, most of the units are unregistered and, hence reliable data on their existence, operations, labour force used etc. is not readily available. The data available with the government pertains to the registered units only. It is, therefore, not possible to ascertain the precise number of people in the diamond industry

who have been rendered jobless. However, based on the survey etc. conducted by the labour department, it is estimated that approximately 4.13 lakh workers have lost their jobs in the recession-hit diamond industry.

Unemployed workers: Data

3.4. The data available on the unemployment facing the diamond industry is as under:*

Name of the District	No. of Diamond units (approx)	No. of Diamond workers (approx)	No. of functioning units (approx)	No. of Diamond workers engaged (approx)	No. of workers who have lost their jobs (approx)
Surat	2,500	4,00,000	1,238	2,00,000	2,00,000
Ahmedabad	900	1,00,000	315	42,000	58,000
Mahesana	32	9,450	20	5,670	3,780
Banaskantha	300	20,500	90	10,000	10,500
Patan	50	2,000	37	1,500	500
Rajkot	290	39,000	90	10,000	29,000
Amreli	1,450	60,000	250	12,000	48,000
Junagadh	125	10,000	20	2,000	8,000
Bhavnagar	900	70,000	170	14,000	56,000
Total	6,547	7,10,950	2,230	2,97,170	4,13,780

{*Source: Deptt. of Labour, Govt. of Gujarat-Rough estimate based on surveys}

BANK FINANCE TO DIAMOND UNITS

3.5. The information made available by leading banks operating in the State with regard to the diamond units financed by them in various districts is as under:

FINANCE TO MICRO & SMALL UNITS BY MAJOR BANKS & SIDBI

(Amount in Rs. lakh)

Bank	Rajkot		Bhavnagar		Surat		Navsari		Valsad		Ahmedabad		Total	
	Unit	Amt.	Unit	Amt.	Unit	Amt.	Unit	Amt.	Unit	Amt.	Unit	Amt.	Unit	Amt.
BoB	5	45.00	-	-	4	34.00	-	-	-	-			9	79.00
Bol	2	75.03	16	152.37	6	28.04	2	11.37	1	2.75			27	269.56
SIDBI	-	-	1	29.79	12	287.58	-	-	-	-			13	317.37

SBI			11	66.00	21	159							32	225.00
Dena					3	946.64					1	272.00	4	1218.64
Total	7	120.03	28	248.16	46	1455.26	2	11.37	1	2.75	1	272.00	85	2109.57

(Note: All financed units are falling under Micro & Small Categories)

It may be observed that the aggregate of finance extended to diamond units by the four major commercial banks operating in the state and SIDBI works out to Rs.21.09 crore only, involving 85 units as against the total of 6547 estimated units in the state. This observation points to the fact that the units have not been, generally, obtaining financial support from banks for undertaking the cutting and polishing work.

Chapter IV

ISSUES AND SUGGESTIONS

4.1. Banks' support to units

4.1.1. In the context of the global developments and the knock on effects in the domestic credit markets, RBI has taken several measures to enhance credit delivery to the employment intensive Micro and Small Enterprises (MSE) sector. On August 27, 2008, RBI vide its circular DBOD.BP.BC No.37/ 21.04.132/2008-09 issued comprehensive prudential guidelines for restructuring of advances by banks. This circular along with the modifications issued subsequently provides adequate framework for undertaking restructuring of existing loans (Details are given in Annex-I).

4.1.2. It is observed that most of the finance extended to diamond sector is sanctioned in Mumbai and no major finance is sanctioned to traders in Gujarat. It is also observed that out of the total units engaged in diamond cutting and polishing (about 6547), very few have availed of direct bank finance. Nevertheless, banks may consider restructuring the accounts of those units financed by them. The instructions issued by RBI are adequate to take care of the requirements in this regard.

4.1.3. Indian Banks Association, vide its circular No.CE/270/08 dated December 16, 2008 announced a special package for Micro, Small and Medium Enterprises (MSME) sector (Details are given in Annex-II). Banks may consider granting additional facilities / concessions / relaxations as provided in the IBA guidelines. This will provide a framework to take care of the need for financial support and restructuring required by the units, which have availed of bank finance. Banks may undertake a review of diamond units financed and take appropriate action in a time-bound manner.

4.2 Institutional mechanism for identifying beneficiaries

4.2.1. The identification of beneficiaries under Swarna Jayanti Shahari Rozgar Yojna (SJSRY) in the urban areas is undertaken by the Municipality / Corporation of the respective areas. After identifying the applicants and receiving their applications, they are sent for training to selected training institutes. After training, the names of the trained applicants are forwarded to the banks to enable them to consider sanctioning loans to the applicants for commencing / establishing the activity / unit. Applications are also received by District Industries Centre (DIC) in the case of Prime Minister's Employment Generation Programme in addition to banks, KVIC / KVIB, etc. In the case of applicants belonging to Backward Class and Scheduled Caste, the sponsorship is undertaken by Gujarat Backward Class Development Corporation and Gujarat Scheduled Caste Development Corporation.

4.2.2. Considering the urban scenario, there are institutional mechanisms for identifying beneficiaries to be considered under the three major programmes viz., SJSRY, Vajpayee Bankable Scheme and PMEGP. In the case of SJSRY, it is the Municipality / Corporation officials who identify beneficiaries while in the case of PMEGP, selection of beneficiaries is undertaken by the District Task Force Committee headed by District Magistrate / Deputy Commissioner / Collector through an interview process. The beneficiaries who are interested in availing loans under the PMEGP scheme submit applications along with the project to KVIC / KVIB / DIC / bank officials. In the case of Vajpayee Bankable Scheme, the beneficiaries are sponsored by the DIC.

4.2.3. Identification of diamond industry workers

In view of the fact that appropriate records are not maintained by many units engaged in diamond cutting and polishing, it is imperative that proper identification of workers of diamond sector units is undertaken to consider providing necessary support to them. As already mentioned, appropriate and robust institutional mechanism exists at the District Level in urban centres to

identify beneficiaries for various State and Central Government Sponsored Schemes. One of these mechanisms is the Municipality / Corporation in the case of SJSRY Scheme. However, in the process of identification of workers of the diamond industry, it is desirable that assistance of Labour Department officials of Government of Gujarat is also obtained. Hence, it is recommended that the units, which are registered, may be directed to submit to the Labour Commissioner / Labour Welfare Officer the details of labourers engaged by them. In the case of unregistered units, the employees may be asked to make an application for identification along with the details of the employment, unit, location, etc. to the Labour Department. After establishing the correctness of information submitted, the said Department may identify the applicant as a diamond industry worker. Application forms in this regard may be designed by the Labour Department. Identified workers may be issued an Identification Card which can be produced by the workers whenever and wherever required.

4.3. Schemes for Economically Distressed

4.3.1. As of now, there are various schemes for providing a source of livelihood to financially weak people in rural and urban areas. Most of the schemes are sponsored by Government of India, while some of them are sponsored by State Governments. National Rural Employment Guarantee Programme and Swarnajayanti Gram Swarozgar Yojana (SGSY) are available in the rural areas while Swarnajayanti Shahari Rozgar Yojana (SJSRY) is available in the urban areas. Prime Minister's Employment Generation Programme (PMEGP) organized by KVIC / KVIB is available in rural areas as well as in urban areas to the extent of Rs.25 lakh for manufacturing sector and Rs.10 lakh for service sector. Further, the Government of Gujarat has the Vajpayee Bankable Scheme where finance can be obtained for various activities. The finance available under this scheme is up to Rs.5 lakh. Under Differential Rate of Interest (DRI) scheme, funds are available at a very low interest rate. As far as urban areas are concerned, loans are available up to Rs.15,000 under DRI Scheme and Rs.50,000 under Swarnajayanti Shahari Rozgar Yojana respectively. Further loans, under PMEGP, are available for establishing units, etc.

4.3.2. DRI Scheme, SJSRY, Vajpayee Bankable Scheme and PMEGP put together offer a wide range of schemes which could benefit various sections of the society.

4.4. Financial support to diamond workers

In order to enable the diamond workers to engage in alternative forms of employment / occupation, it is necessary to identify activities and enlist financial support from institutions for the same. However, to ensure that the workers are provided with adequate support immediately, it is practical to use the existing financing schemes rather than designing new ones.

4.4.1. Categorization of diamond workers

The diamond workers who need to be rehabilitated can be identified through the prescribed institutional mechanism by following the procedure mentioned at paragraph 4.2. After identification, the workers will have to be categorized into various groups based on their education, skills, experience and capability to undertake various types of activities. This categorization of labour may have to be undertaken by the Labour Department.

The grouping of labour with a view to identifying appropriate activities that they could undertake and for considering grant of finance to them by banks under various programmes is given below:

Category	Skill set
Level – I	Uneducated, unskilled, mostly engaged in manual labour
Level – II	Less educated / partially skilled / capable of undertaking small business, etc.
Level – III	Primary level education, moderate capability for undertaking business
Level – IV	Highly skilled; those with managerial capability, etc.

Level – I:

An uneducated unskilled labour with limited capabilities can be identified for activities, which require little skill and management acumen. Such workers can be considered for financing of small activities such as running pan shop / roadside restaurant (making pani-puri, pav-bhaji, etc.), vegetable / fruit vending, ironing of clothes, etc. The workers in this category may be termed as LEVEL-I workers.

Level – II:

Based on the skill, expertise, experience, etc. of workers, they can be categorized under LEVEL-II. These workers can be considered for activities requiring comparatively high capabilities and can be covered under higher level of finance. The workers identified under this level can be financed for activities such as small business, Kirana, dealing in other goods, delivering milk to households, newspaper distribution, etc.

Level – III:

The workers who have at least primary level education and a certain level of skill may be considered for undertaking higher level of activities, including those relating to diamond / gems and jewellery. Here, individual as well as group finance may be considered depending upon the activity to be undertaken. For example, a group of skilled workers can organise and start a business to undertake job-works relating to their field of expertise. They can also be considered for individually or jointly owning auto rickshaws, 3-wheelers for carrying goods, etc. Whenever more than one person owns such vehicles, they will be able to use it by rotation enabling longer working hours and consequently, earnings at higher levels.

Level – IV:

The workers with higher levels of skills and managerial capability and adequate educational background, may be encouraged to establish units/ business in the manufacturing or service sector. A group of individuals can also come forward to establish such business enterprises. The business can range from a photocopying centre, logistic business (with own vehicles) to small units engaged

in activities where the skill of the workers can be effectively used (e.g., artificial jewellery, etc.)

The unemployed, identified diamond workers may be sponsored for bank finance and the banks may consider financing under general schemes or under special schemes subject to eligibility.

The training and skill development required by the workers to undertake activities will have to be arranged by the Labour Department through the training / technical institutions available in the State.

4.5. Issues of Unskilled workers

As a large number of unskilled workers associated with the diamond units will be looking for employment rather than self-employment, arrangements will have to be made to re-skill them. The re-skilling process has to be of a short duration so as to ensure quicker rehabilitation of the workers. Hence, activities which need limited training period such as 4-wheeler driving, 3-wheeler driving, security, cooking of snacks, etc. could be undertaken by them.

4.6. Re-skilling of skilled workers

Highly skilled workers could be absorbed by related industries such as artificial jewellery, etc. Further, there may be scope for absorbing some workers in other industries located in Surat and nearby areas (eg, Textiles etc). It is necessary to identify industries where there are requirements of skilled labour in order to explore the feasibility of relocating the workers in those areas. Labour Department may have to consult industries in this regard, identify the activities and arrange for training through available institutions so as to ensure re-skilling in the shortest possible time.

These initiatives will ensure multi-skilling and multi-tasking capabilities and will provide a medium term solution to the problem.

4.7. Encouragement for re-employment

Various organizations / corporates in manufacturing sector, especially those in and around the affected districts may be encouraged to employ the workers identified as diamond workers even at a lower scale of wages. Local Government officials may hold meetings with industrialists / businessmen and convince them of the need for re-employment of these workers.

4.8. **Technical Support - Infrastructure**

It is understood that training facilities at the following institutions are also available in Surat to provide training to workers:-

1. Baroda Prashikshan Institute, Surat (RUDSETI – Bank of Baroda)
2. JTI, Mujara Gali, Surat
3. S.S. Gandhi Eng. Training Institute, Surat
4. Power Loom Service Centre, Surat
5. Pareekh Technical High School, Surat
6. ITIs

Similar facilities are also available in other affected districts of the State.

Re-training and re-skilling of workers

There is a need to create adequate capacity by re-training / re-skilling the workers to gainfully engage them. The Labour Department may arrange with various training institutions / Technical Institutions in and around the affected districts to train / re-skill the unemployed labour. This should be undertaken in a time bound manner with proper identification of activities of appropriate duration. Preference may be given to development of skills that can be easily acquired and for which demand is in existence.

4.9. Training Period: Maintenance

As the workers who are expected to undergo re-skilling / re-training are mostly unemployed at present, there will be a need to support them during the training. The trainees may be given stipend / allowance during the training to enable the workers to support themselves.

4.10. Operationalisation of units

It has been observed that many of the units have closed down their operations leaving the employees without work and income. While the impact of recessionary trend on this account is well understood, it is important that the workers are taken care of. In view of this, the authorities may, through moral suasion, persuade the units to open and operate at lower levels of turnover. Labour Department and Industries Department will need to work in tandem in this regard. Banks may consider granting working capital limits to those units which agree to open and operate, subject to fulfilling the procedural requirements in this regard.

4.11. Registration of units

In order to mitigate the problems arising out of non-registration of the units, there is a need to put in place a legal framework necessitating industrial units to register with the respective district authorities (e.g. Collector / Commissioner).

4.12. Financial Support for Education

One of the major problems emanating from the partial / full closure of the units is the difficulties faced by the diamond workers in paying the school fees for their children. While it is learned that the problem has been solved temporarily, the issue may come up in the ensuing academic year. In this context, it is suggested that a special fund may be created and managed with contributions from Diamond Industries' Association, major corporates operating in the State, philanthropists, etc.

4.13. Migrant labour

Workers who have migrated to rural areas, may be given employment under National Rural Employment Guarantee Programme (NREGP) to enable them to earn income, subject to their eligibility in this regard.

Chapter V

CONCLUSIONS AND RECOMMENDATIONS

The Task Force met in Ahmedabad and Surat and held separate meetings with the local administration viz, the District Collector, the Labour and the Industries Department officials of Surat, the Surat Diamond Association and Surat Ratna Kalakar Sangh (Diamond Workers' Union). The following observations emerged from these interactions:-

1. The current recession in the diamond industry is caused by a slackening in demand. The export demand for large and costly diamonds has gone down substantially resulting in closure of many cutting and polishing units in Gujarat. However, some units, predominantly engaged in cutting and polishing small diamonds and catering to domestic market, are still working, though at a reduced capacity.
2. Most of the units have not availed of any credit facilities as they are primarily doing job work. Exporters having units in Gujarat have limits sanctioned by the Mumbai branches of respective banks.
3. The exact number of units engaged in the diamond sector is not known, as most of the units are not registered with the district authorities.
4. In view of non-registration of units in the diamond sector with the Government Authorities, identification of workers engaged in the sector is extremely difficult. The workers are engaged mostly on job-work basis on contractual terms of payment, and change workplace frequently. This makes the accurate quantification of the number of unemployed workers difficult. However, rough estimates from the survey of Labour Department, Government of Gujarat, indicate it at 4.13 lakh in Gujarat of which around 2 lakh are in Surat.
5. The fate of the diamond sector workers is intricately linked with the fortunes of the diamond industry, and any measure to improve the financial condition of workers may not make a significant impact, unless the problems of the industry are also addressed simultaneously.
6. There is some scope for alternative employment in domestic demand driven industries like, artificial gems and jewellery, textiles and garments manufacturing units and embroidery work etc., though the

highly skilled and highly paid section of workers of the diamond sector will not find it attractive to be engaged elsewhere.

In the background of this, the Task Force makes the following suggestions /recommendations for consideration of appropriate authorities:-

1. Expeditious restructuring of the existing borrowal accounts as per RBI guidelines

1.1) RBI has issued detailed guidelines for suitable restructuring of borrowal accounts. There is a need to disseminate the information to all borrowers across the industry so that maximum benefits can be availed of by all borrowers. As a first step in this direction, RBI Ahmedabad Office requested the Finance Department, Government of Gujarat, vide letter RD.RBI.AH.No. 108 / 09.01.08 / 2008-09 dated February 17, 2009, to organize workshops, seminars etc, in association with bankers, to create awareness among borrowers / trade associations on the relaxations made available in the policy guidelines. Banks also will take suitable measures to expeditiously release the benefits of restructuring.

1.2) There was a request by diamond traders to banks to lend against stocks of polished diamonds held in their inventory, to enable them to tide over the liquidity crisis, subject to appropriate valuation by an accredited valuer. Banks will examine this for enhancing the liquidity support to the industry.

1.3) The diamond traders also requested interest rate subvention on export credit to be 4%, instead of the current 2%, which is recommended.

Finance for new diamond sector units for creation of employment opportunities

1.4) As regards provision of finance to give credit support to new diamond sector enterprises with potential to generate employment opportunities for the displaced workers, it will be possible for all banks to consider any such proposal for quick processing and release of finance as per guidelines.

Banks, however, felt that to make the process quicker and meaningful, units will need to register themselves first with the appropriate authorities.

1.5) Banks may explore the possibility of financing procurement of rough diamonds, from reputed agencies, for cutting and polishing, on a labour-intensive scale, to maximize employment of workers.

2.) Retraining, re-skilling and rehabilitation of displaced diamond sector workers

2.1) To take care of alternative employment opportunities of displaced diamond sector workers, it is suggested that suitable training programmes be designed for them at the local district level. Preliminary estimates suggested that local administration has a capability to conduct training of up to 9000 workers per month in Surat, with the help of Industrial Training Institutes (ITI), Polytechnics and training institutes of other banks. Accordingly, about 1 lakh workers can be trained in a year's time in such a module. The trainees will need a stipend for their subsistence. Necessary financial support for organizing the training will have to be provided by the Government.

2.2) In addition, District Authorities may quickly identify and sponsor all eligible workers for appropriate financial assistance / loans under various Government schemes, for alternative work, wherever necessary, with suitable relaxation in norms, as a one-time dispensation.

3. Financial relief measures for diamond workers

3.1) With a view to helping the diamond sector workers to tide over the distress caused to them on account of loss of jobs / work, soft loans with elongated repayment cycle, will have to be considered, based on their identification by their employers. The diamond sector units will need to sponsor such workers to the banking system.

3.2) Banks may consider rescheduling of existing housing, educational and personal loans of diamond workers on a case to case basis.

3.3) An education fund will have to be constituted at the initiative of District administration, with contributions from diamond industry, local industry associations and philanthropists, to help payment of school fees of children of displaced diamond sector workers.

3.4) A Group Savings-cum-Insurance Plan may have to be created with premium contribution from all stakeholders, to tide over any financial difficulties for the workers.

3.5) Finally, issue of General Credit Cards (GCC) with small monetary limits may be considered by banks for the workers engaged in the sector, with relaxation in norms.

The Task Force hopes that with the implementation of the above practicable recommendations, most of the distress arising on account of problems faced by diamond industry in Gujarat will be mitigated.

The progress in the implementation of the above recommendations will be monitored jointly by the Reserve Bank of India, the Government of Gujarat and the banks through the forum of State Level Bankers' Committee.

(S Murali Krishna)
Member

(M K Verma)
Member

(H R Shah)
Member

(H C Pattnaik)
Member

(M K Jain)
Member

(G G Joshi)
Member

(A K Bhandari)
Member

(D Ghosh)
Member

(A K Bera)
Convener

Ahmedabad

February, 26, 2009

ANNEX-I**EXISTING BANKING FACILITIES FOR FINANCIAL RESTRUCTURING****Guidelines from RBI**

1. In the context of the global developments and the knock on effects in the domestic credit markets, RBI has taken several measures to enhance credit delivery to the employment intensive micro and small enterprises (MSE) sector. Specifically, the initiatives taken by RBI for assisting this sector are as follows:

2. On August 27, 2008, RBI vide its circular DBOD.No.BP.BC.No.37/21.04.132/ 2008-09 has issued comprehensive Prudential Guidelines for Restructuring of Advances by Banks. These cover the guidelines for restructuring of advances extended to Small and Medium Enterprises (SMEs). Besides the general principles laid down in Para 3 (General Principles and Prudential Norms for Restructured Advances) of the said circular, wherein the banks may restructure the accounts classified under 'standard', 'sub-standard' and 'doubtful' categories, a special regulatory framework has also been provided for in Para 6 (Special Regulatory Treatment for Asset Classification). This special regulatory framework includes incentive for quick implementation of the restructuring package and retention of the asset classification of the restructured account in the pre-restructuring asset classification category, subject to certain conditions.

3. On October 13, 2008, RBI vide its circular DBOD.No.BP.BC.58/21.04.048/2008-09, while observing that some of the banks have not been undertaking the restructuring of dues of the SMEs, where warranted, has advised all scheduled commercial banks to consider restructuring the dues of the SMEs, under the guidelines, on merits of the case.

4. RBI, vide its circular No.MPD.BC.309/02.01.009/2008-09 dated November 3, 2008 introduced a special refinance facility under Section 17(3B) of the Reserve Bank of India Act, 1934, under which scheduled commercial banks

(excluding RRBs) are provided refinance from the Reserve Bank equivalent to up to 1.0 per cent of each bank's NDTL as on October 24, 2008 at the LAF repo rate up to a maximum period of 90 days. Banks have been encouraged to use this facility for the purpose of extending finance to micro and small enterprises vide circular No.MPD.BC.311/ 02.01.009/2008-09 dated November 18, 2008.

5. To face the problems arising out of the current economic downturn, RBI decided vide its circular DBOD.No.BP.BC.No.93/21.01.132/2008-09 dated December 8, 2008 that, as a onetime measure, the second restructuring done by banks of exposures (other than exposures to commercial real estate, capital market exposures and personal / consumer loans) up to June 30, 2009, will also be eligible for exceptional regulatory treatment.

6. Banks have been advised to contribute an aggregate amount of Rs. 2000 crore to the Micro, Small & Medium Enterprises (MSME) (Refinance) Fund with SIDBI in advance on the basis of the banks' projected shortfall in achievement of sub-target of 10 per cent for lending to Weaker Section category as on the last reporting Friday of March 2009.

7 RBI has provided a refinance limit of Rs.7000 crore to SIDBI for incremental on-lending to the sector directly and through banks, NBFCs and SFCs.

8 RBI, vide its circular DBOD.BP.No.104/ 21.04.132/ 2008-09 dated January 2, 2009 has advised that the period for implementing the restructuring package would stand extended from 90 days to 120 days in respect of accounts covered under the circular dated August 27, 2008.

9. Banks were allowed to apply special regulatory treatment for accounts which were standard on September 1, 2008 and taken up for restructuring up to January 31, 2009 even if these had turned non-performing during this period. Later it was represented to RBI that due to increased workload, the banks have not been able to adhere to the January 31, 2009 time schedule. RBI has, therefore, decided to extend the time schedule for taking up restructuring to

March 31, 2009. All these are one-time measures and would be available for restructuring packages implemented till June 30, 2009. Further, it was clarified that this treatment would be available to all accounts which were standard as on September 1, 2008 and were eligible under restructuring in terms of RBI circulars dated August 27, December 8, 2008 and January 2, 2009.

10. RBI, vide its circular RPCD.SME&NFS.BC.No 84A /06.02.31(P)/2008-09 dated January 20, 2009 advised that banks may extend collateral-free loans upto Rs. 5 lakh to the MSE sector (both manufacturing and service enterprises).

11. Banks may use the above mentioned facilities for financial restructuring of borrowal accounts of registered diamond sector units that have been affected by the current economic slowdown.

ANNEX-II**Special Package from IBA for MSME Sector**

1. Indian Banks Association, vide its circular No.CE/270/08 dated December 16, 2008 has also announced a special package for the Micro, Small and Medium Enterprises (MSME) Sector.
2. Public Sector Banks will grant need based ad hoc Working Capital Demand Loans up to 20 percent of the existing fund based limits in respect of units having overall fund based credit facility up to Rs.10 crore. The loan will be repayable in one year with a provision of moratorium of six months during which only interest will have to be serviced.
3. In the current stretched shipment and receivables situation resulting in elongated operating cycle of business impacting working capital requirement needs, banks will be pro-active and forthcoming in sanctioning adequate increase in working capital limits.
4. Relief will be granted by reducing margin on receivables. Further, receivables up to six months will be reckoned for book debt financing.
5. Cash margins on letters of credit/ guarantee will also be relaxed based on needs.
6. Moratorium period will be extended in respect of loans availed by MSMEs where project implementation has been delayed in the current scenario.
7. For units unable to repay term loan obligation on time, repayment will be rescheduled/ rephased on a case-to-case basis within the overall loan policy of the respective banks.
8. Finance for purchase of gen-sets will be made available on soft terms.

9. Banks will take up a second restructuring of SME accounts on a case-to-case basis.

10. Interest rates for borrowings by Micro Industries will stand reduced by 100 basis points for all existing and new loans with immediate effect. In respect of Small and Medium Enterprises where banks have fund based exposures up to Rs.10 crore, interest rates will stand reduced by 50 basis points with immediate effect. The reduction in these rates of interest will be with reference to the rates of interest prevailing on 30.11.2008.

11. In addition to the above, each Public Sector Bank will also set up Regional MSME Care Centres to facilitate MSM Entrepreneurs for quick redressal of their grievances. The functioning of these Centers will be monitored directly by the Head Office and the list of these Centres will be posted on IBA portal and on the website of each public sector bank by 19.12.2008. These Care Centres would also be in close touch with the branches in their respective jurisdictions to ascertain the position on requests/presentations, in any form, as may be received from any MSME.