CHAPTER II

SMALL SCALE INDUSTRIES – AN OVERVIEW

2.1 INTRODUCTION

This chapter attempts to discuss the development and growth of the small scale industry in India. It also explains the supportive measures taken by the Government to nurture the SSI.

2.2 DEVELOPMENT AND GROWTH OF SMALL-SCALE INDUSTRY IN INDIA

“...The small scale industries have a place of pride in Indian economy. They have a high potential for generating employment dispersal to semi–urban and rural areas, promoting entrepreneurship and earning foreign exchange62. The development of small scale industries is an integral part of the overall economic, social and industrial development of our country. These units have developed a spirit of self–reliance and improved the socio–economic conditions of the entrepreneurs and the people depending on them. They use domestic technology in production in most cases. In certain cases, foreign technology is also applied. They use local as well as imported..."

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raw materials and produce finished goods to cater to the needs of local markets. In certain cases, small scale industries also earn foreign exchange by exporting some of their products.

Small scale industries are located near the places where raw materials and labour are available. They engage mainly in the manufacture of consumer products and for the disposal of their goods heavily depend upon the encouragement of Government. SSI has all the pre-requisites characteristics of the decentralized sector such as small size and employment intensity. Hence, the existent of SSI is essential to encourage the spread of industrial entrepreneurship throughout the country. The Indian small scale sector has been fortunate to built upon indigenous heritage of enterprise, dynamism and renewal.

2.3 PROFILE OF SSI IN INDIA

The SSI sector as an important segment of Indian economy, accounts for 95 per cent of the industrial units; 40 percent of the output in the manufacturing sector; employment to over 17 million persons; and 35 per cent of the total exports\(^6\). The SSI sector has been receiving due attention and importance from the policy makers owing to its special characteristics namely the low level of investment required, the high

potential for creating employment opportunities, and least locational constraints; thereby the sector contributes to a balanced regional development and a high utilization of local resources. This sector covers a wide spectrum of industries categorized under small, tiny and cottage segments. The sector has also maintained its pace of growth over the years and has contributed significantly in supporting the overall economic development of the country.

The interest in the development of the SSI was aroused only when it was realized that the development of large-scale industries in India was considered a difficult task. The constraints of capital, skilled manpower and raw materials aided and abetted such difficulty.

In 2002-03, there were 3.4 million small scale industrial units accounting for more than 40 per cent of the gross value of output in the manufacturing sector and about 35 per cent of the total exports, and providing employment to over 79.2 million people. This is second only to agriculture. They promote the growth of entrepreneurship promote a decentralized pattern of ownership and diversification of economic activities, and also introduce new products to enrich the living standard of people and help in the equitable dispersal of industries throughout the country.\(^\text{64}\) The SSI sector enjoys the station of priority sector for seeking financial and non-financial

assistance from the Central Government, State governments and non-Governmental organizations.

2.4 DEFINITION OF SSI

Various parameters have been laid down in different countries to describe the small scale industries. These parameters have changed continually from time to time mainly due to operational considerations and partly to the changing needs of economic and social conditions. In most of the countries of the world, the criterion for defining a small industry is based on the size of employment

In India the term small-scale industry evokes different meanings for different agencies. The Planning Commission of the Government of India views the entire Village and Small Industries (VSI) sector as the SSI sector. The National Sample Survey Organisation under the Central Statistical Organisation (CSO) of the Government of India defines the entire industrial sector in terms of organised and unorganized segments and also in terms of industrial enterprises run by households and non-households. The Central Excise Department, on the other hand, distinguished the SSI on the basis of the annual turnover of the respective unit. However, with a view to determining the types of industrial units requiring special support, a more clear cut

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definition was felt necessary. Accordingly, from the industrial policy perspective the size of gross investments in plant and machinery, land and buildings as well as the strength of the work-force in the respective units were taken as the criteria to mark a unit as SSI. These rules have undergone periodical changes over the years. The shift from work-force criterion to investment criterion was made in the later years. Further, the new concept of ancillary and tiny units was introduced with a view to bringing more units under the SSI concept. The SSI is currently defined in terms of investment ceilings on the original value of installed plant and machinery. This classification on the basis of investment in plant and machinery also covers residual units not included under the assistance programme of any of the statutory boards. Since 1998, the Government of India has fixed the ceiling as Rs.1 crore in plant and machinery for small-scale industries and ancillary industries. The ceiling is Rs.25 lakhs in plant and machinery for tiny industries.

2.5 PERFORMANCE OF SSI SECTOR IN INDIA

With a view to building a sound industrial base and a strong village and small industrial sector, the first step taken by the Government in the post-independence era was the announcement of the industrial policy of 1948. It spelt out the framework of the basic and strategic industries to be established by the states.
The enactment of the constitution which guarantees fundamental rights for the citizens of India, the launching of the First Five Year Plan and the adoption of the socialistic pattern of society by the Parliament paved the way for the Industrial Policy Resolution, 1956. It recognized the role of the SSI sector in providing employment opportunities, mobilizing local skills and capital resources and, in the process, integrating with the large-scale industrial sector. The SSI has emerged as a dynamic and vibrant sector of the economy and its contribution in setting up of new units and in providing employment is next only to that of agriculture\textsuperscript{66}. The significant growth of the SSI sector over the past five decades is on account of the high priority accorded to this sector by the Government and the Reserve Bank of India. Table 2.1 clearly shows the performance of the SSI sector in terms of the number of units, output, employment and exports.

## TABLE 2.1
PERFORMANCE OF SSI SECTOR IN INDIA
(UNITS, PRODUCTION, EMPLOYMENT, INVESTMENT AND EXPORTS)

DURING THE PERIOD 1993 – 94 to 2002 - 03

(Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Units (Lakhs)</th>
<th>Employment (Lakhs)</th>
<th>Investment (Crores)</th>
<th>Production at Current price</th>
<th>Exports</th>
<th>Share in total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>23.88</td>
<td>138.4</td>
<td>22934</td>
<td>241648</td>
<td>25307</td>
<td>36.4</td>
</tr>
<tr>
<td>1994-95</td>
<td>25.71</td>
<td>146.0</td>
<td>24874</td>
<td>298865</td>
<td>29068</td>
<td>35.2</td>
</tr>
<tr>
<td>1995-96</td>
<td>26.58</td>
<td>151.0</td>
<td>26726</td>
<td>362656</td>
<td>36470</td>
<td>34.3</td>
</tr>
<tr>
<td>1996-97</td>
<td>28.03</td>
<td>160.0</td>
<td>27313</td>
<td>411858</td>
<td>39248</td>
<td>33.4</td>
</tr>
<tr>
<td>1997-98</td>
<td>29.44</td>
<td>167.2</td>
<td>28900</td>
<td>462641</td>
<td>44442</td>
<td>35.2</td>
</tr>
<tr>
<td>1998-99</td>
<td>30.80</td>
<td>171.6</td>
<td>31274</td>
<td>520650</td>
<td>48979</td>
<td>34.6</td>
</tr>
<tr>
<td>1999-00</td>
<td>32.12</td>
<td>178.5</td>
<td>32026</td>
<td>572887</td>
<td>54200</td>
<td>34.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>33.12</td>
<td>185.6</td>
<td>33241</td>
<td>639024</td>
<td>69797</td>
<td>34.4</td>
</tr>
<tr>
<td>2001-02</td>
<td>34.42</td>
<td>192.2</td>
<td>34289</td>
<td>690316</td>
<td>71244</td>
<td>34.3</td>
</tr>
<tr>
<td>2002-03</td>
<td>35.72</td>
<td>199.5</td>
<td>35412</td>
<td>763013</td>
<td>86012</td>
<td>34.0</td>
</tr>
</tbody>
</table>
Table 2.1 discloses the performance of the small scale industries in terms of the number of units, investments, as at the end of the year and the value of production, employment and exports during the years 1993-94 to 2002-03.

The number of small scale units has increased from 16.0 lakhs in 1951-52 and 23.88 in 1993-94 to 35.72 lakhs units in the year 2002-03. There has been a steady growth in the investments and in production also during the same fifty-five year period. The investment and value of production have increased from Rs.22934 crores and Rs.2,41,648 crores and in 1993-94 to Rs.35412 crores and Rs.763013 crores respectively in 2002-03 at current price levels. There has been a steady increase compared to the immediately preceding years ranging between seven and eleven per cent in investment between thirteen and twenty-one per cent in respect of production.

<table>
<thead>
<tr>
<th></th>
<th>2003-04*</th>
<th>2004-05*</th>
<th>GCR#</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>113.95</td>
<td>118.59</td>
<td>4.408</td>
</tr>
<tr>
<td></td>
<td>271.36</td>
<td>282.91</td>
<td>4.082</td>
</tr>
<tr>
<td></td>
<td>NA</td>
<td>NA</td>
<td>4.843</td>
</tr>
<tr>
<td></td>
<td>357733</td>
<td>418263</td>
<td>12.988</td>
</tr>
<tr>
<td></td>
<td>97644</td>
<td>NA</td>
<td>13.984</td>
</tr>
<tr>
<td></td>
<td>34.5</td>
<td>NA</td>
<td>----</td>
</tr>
</tbody>
</table>

Source: 1. Ministry of Small Scale Industry
2. * Development Commissioner (Small Scale industry),
   # Compound Growth Rate (CGR) is calculate on the period from 1993-94 to 2002-03
3. WWW.indiabudget.com
The level of employment is an important variable that significantly influences the economic development of a nation. In a country with more than 100 crores of people, it is feasible to get more of employment mainly through small scale units. Employment opportunities provided by the SSI units are highly encouraging as the data show that employment has increased from 138.4 lakhs in the year 1993-94 to the level of 199.5 lakhs in the year 2002-03.

The small scale industries mainly cater to the needs of the local markets and depend upon local raw materials and local skills mainly. Those which have their market operations in areas outside the state or the country, and which are already in the export field, experience increased competition in the domestic market on account of the removal of the quantitative restrictions and or the lowering of the tariff rates. In this scenario of competition new export markets become difficult to capture, and the small scale industries are facing serious problems in the matter of marketing their products.

The performance of small scale industries in the export front has also been significant. Exports have increased from Rs.25307 crores in the year 1993-94 to the remarkable level of Rs.86012 crores in 2002-03. The share of the SSI sector’s contribution to the total value of export has increased from 34.5 per cent to 36.4 percent during the last ten-year period. The contribution of the SSI sector in the total
value of the export of the country has been steadily increasing and many of the important products of exports originate from the small scale sector.

### 2.6 GROWTH RATE OF INDUSTRIAL SECTOR AND SSI SECTOR

That the rate of growth of SSI in the post-reform and liberalisation period has generally been better than the general industrial growth in the country is clearly evidenced from the figures given in Table 2.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Industrial Sector</th>
<th>SSI Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992-93</td>
<td>2.3</td>
<td>5.6</td>
</tr>
<tr>
<td>1993-94</td>
<td>6.0</td>
<td>7.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>9.4</td>
<td>10.1</td>
</tr>
<tr>
<td>1995-96</td>
<td>12.1</td>
<td>11.4</td>
</tr>
<tr>
<td>1996-97</td>
<td>7.1</td>
<td>11.3</td>
</tr>
<tr>
<td>1997-98</td>
<td>5.8</td>
<td>8.43</td>
</tr>
<tr>
<td>1998-99</td>
<td>4.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Year</td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td>--------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>1999-00</td>
<td>6.5</td>
<td>8.16</td>
</tr>
<tr>
<td>2000-01</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>2001-02</td>
<td>2.9</td>
<td>6.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>6.0</td>
<td>7.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>7.4</td>
<td>8.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>9.0</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Source: 1. Laghu Udyog Samachar Jan-March 2001 and Jan-March 2002
         Government of India.

2. Annual Report, Reserve Bank of India.
Table 2.2 shows the growth rate industrial and SSI sectors during the period from 1992-93 to 2004–05. The growth rate of the industrial sector increased tremendously from 2.3 per cent in 1992-93 to 12.1 per cent in 1995-96, and declined
from 7.1 per cent in 1996-97 to 4.1 percent in 1998-99 again to 2.9 per cent in 2001-02. A slight increase was observed from 6.0 in 2002-03 to 9 per cent in 2004-05. But the growth rate of the SSI sector has increased from 5.6 per cent in 1992-93 to 11.3 per cent in 1996-97 and after that fluctuation was observed till 2004-05.

2.7 GROWTH OF SMALL SCALE SECTOR IN TAMIL NADU

Tamil Nadu is one of the leading and progressive states in India in promoting the concept of industrialization through various policies and measures. It stands in the forefront in implementing the policies advocated by the Central Government relating to industries in general and the small scale sector in particular. Organized efforts have been make to promote the SSI in Tamil Nadu even during the independence.

i) Growth of Small Scale Industries in Tamil Nadu during the Period from 1995-96 to 2004-05

Table 2.3 shows the growth of small scale industries in Tamil Nadu during the period from 1995-96 to 2004-05.

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Units (cumulative)</th>
<th>Employment (No of employees)</th>
<th>Fixed Investment (Rs. In Crores)</th>
<th>Production (Rs. In Crores)</th>
</tr>
</thead>
</table>

**TABLE 2.3**

GROWTH OF SMALL SCALE INDUSTRIES IN TAMIL NADU DURING THE PERIOD FROM 1995-06 TO 2004-05
Table 2.3 presents the growth of the small-scale industry in Tamil Nadu over the years. From the table it is evident that the growth in the number of small-scale industry units from 102224 in 1988-89 and 234400 in 1995-96 to 489784 in 2004-05 is a real achievement. The output of this sector has progressed from Rs.5622.30 crores to Rs.99496.47 crores in 16 years. The employment generation from this sector shares a significant increase of twenty-one times increase from 1951 to 1996. In 1988-89 only 10.7 lakh persons were employed in the small-scale industry sector whereas in 2004-05, 35.3 lakh persons were employed. Regarding investment. This has been as impressive as in size: that is from Rs.5627.90 crores in 1995-96 to Rs.14397.31 crores
in 2004-05. The production of this sector is impressive: from 14343.50 crores in 1995-96 to 99496.47 crores in 2004-05.

ii) Share of the Small Scale Industries of Tamil Nadu Compared with All India Level

In Tamil Nadu, the growth of the small scale industries is in consonance with the national plans and their objectives. The objective of SSI units are to bring about a balanced regional development, to tap the potential at the block level promoting entrepreneurship, to generate employment and to induce personal savings. The focus on the SSI sector began only during the Second Five Year Plan. A systematic programme for the development of the small scale sector was formulated and there was also concentration on the development of ancillary units during the Second Plan period.

The share of the number of small scale industries of Tamil Nadu compared to that of the number of units in the whole of India from 1990-91 to 2002-2003 is presented in Table 2.4.

**TABLE 2.4**

SHARES OF THE SMALL SCALE INDUSTRIES OF TAMIL NADU COMPARED TO THE WHOLE OF INDIA 1990-91 to 2002-03
<table>
<thead>
<tr>
<th>Year</th>
<th>Number of SSI Units (No. in thousands)</th>
<th>Percentage share of SSI units in Tamil Nadu</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All India</td>
<td>Tamil Nadu</td>
</tr>
<tr>
<td>1990-91</td>
<td>1948</td>
<td>127</td>
</tr>
<tr>
<td>1991-92</td>
<td>2082</td>
<td>138</td>
</tr>
<tr>
<td>1992-93</td>
<td>2246</td>
<td>158</td>
</tr>
<tr>
<td>1993-94</td>
<td>2388</td>
<td>178</td>
</tr>
<tr>
<td>1994-95</td>
<td>2571</td>
<td>207</td>
</tr>
<tr>
<td>1995-96</td>
<td>2658</td>
<td>234</td>
</tr>
<tr>
<td>1996-97</td>
<td>2803</td>
<td>264</td>
</tr>
<tr>
<td>1997-98</td>
<td>2944</td>
<td>295</td>
</tr>
<tr>
<td>1998-99</td>
<td>3080</td>
<td>324</td>
</tr>
<tr>
<td>1999-00</td>
<td>3112</td>
<td>355</td>
</tr>
<tr>
<td>2000-01</td>
<td>3312</td>
<td>388</td>
</tr>
<tr>
<td>2001-02</td>
<td>3442</td>
<td>420</td>
</tr>
<tr>
<td>2002-03</td>
<td>3572</td>
<td>449</td>
</tr>
<tr>
<td>2003-04</td>
<td>113.95*</td>
<td>475</td>
</tr>
<tr>
<td>2004-05</td>
<td>118.59*</td>
<td>490</td>
</tr>
</tbody>
</table>

2. Directorate of Industries and Commerce, Government of Tamil Nadu, Chennai.* statistics from Development commission (Small Scale Industries), New Delhi.

Table 2.4 discloses the number and share of the SSI units in Tamil Nadu state compared to those of the whole of India. A close analysis of the data shows that both in India as a whole and in Tamil Nadu state the same pattern of growth in terms of the increased in the number of units had taken place. At the All India level, the units have increased from 1059 thousands in the year 1982-83 to 3572 thousands in the year 2002-
So far as Tamil Nadu is concerned, the number of units has increased from 46 thousands in the year 1982-83 to 449 thousands in the year 2002-03. The percentage share of the number of units in Tamil Nadu increased continuously and steadily from 4.3 percent in 1982-83 to 12.6 percent in 2002-03. This is not a surprising trend since Tamil Nadu is one of the leading industrial states in India.

iii). Growth of SSI Units in the Selected Districts of Tamil Nadu

In this section an attempt is made to study the growth of the number of SSI units in the selected districts of Tamil Nadu. The Government of Tamil Nadu took measures to rearrange the existing districts to form new districts from time to time during the early 1990’s. Therefore, data relating to the selected districts where more than 50 percent of SSI units have been located were collected from 1995-96 to 2004-2005 and are presented in Table 2.5

<table>
<thead>
<tr>
<th>TABLE 2.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROWTH OF NUMBER OF SSI UNITS IN SELECTED DISTRICTS OF TAMIL NADU FROM 1995-96 TO 2004-05</td>
</tr>
</tbody>
</table>
Table 2.5 shows that Coimbatore district accounts for nearly 12 per cent of the number of SSI units in Tamil Nadu and the district occupies the most dominant position among the selected districts followed by Chennai, Salem and Kancheepuram. It could also be seen that the shares of all the selected districts were almost similar from year to year except those of Chennai, Salem and Kancheepuram where a marginal decline is found. As far as the other residuary districts are concerned, the percentage of total number of units was increasing every year during the period under review.

2.8 GROWTH OF SMALL–SCALE INDUSTRIES IN MADURAI DISTRICT
Madurai District is one of the many districts of the state declared by the Government of India as industrially backward. Except for sporadic development of SSI units around Madurai city and the sub-urban areas of Madurai and Thirumangalam Taluks, the entire district lags behind in industrial development. This is evident from the fact that the districts of Coimbatore, Chennai, Salem and Kancheepuram each have more than 36000 SSI units together, and account for 40 per cent of the total number of SSI units in Tamil Nadu\(^6\). The main reason for the stagnation in the industrial development is attributed to agriculture, which is the main occupation in the district as a whole. The infrastructure facilities and the communication network now made available in the district could not attract people towards industries due to frequent droughts in this district. To eradicate the unemployment problem, the only way is to start small scale and tiny industries for which the governments, both Central and State, have provided special assistance. Because of these efforts industrial development is gradually picking up. The growth is mainly in the areas of Engineering, Automobile Servicing and Repairing, and Manufacturing of Jet Pump, Electrical and Electronics, Ready-made Garments, Food Processing, Chemical, Drug and Pharmaceuticals, Metal Products, Polythene products, Biscuits and Confectionery\(^6\).

The district offers scope for development of small scale, village and cottage industries as well as khadi industries such as wood works, yarn twisting and winding,

\(^6\)Office of Industries and Commissioner, Director of Industries and Commerce, Chennai.

\(^6\)Official notes on District Industries Centre, Madurai.
tailoring, oil seed crushing, leather works, making country bricks and lime kilns, pickle making, and pappad-making.

The number of small-scale industries in Madurai District is shown in Table 2.6.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of SSI Units (Cumulative)</th>
<th>Employment (No. of Employees)</th>
<th>Investment (in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>11455</td>
<td>28237</td>
<td>28608.9</td>
</tr>
<tr>
<td>1995-96</td>
<td>12652</td>
<td>34230</td>
<td>30874.5</td>
</tr>
<tr>
<td>1996-97</td>
<td>13628</td>
<td>40755</td>
<td>37070.3</td>
</tr>
<tr>
<td>1997-98</td>
<td>14688</td>
<td>45656</td>
<td>28160.4</td>
</tr>
<tr>
<td>1998-99</td>
<td>15636</td>
<td>50109</td>
<td>30423.5</td>
</tr>
<tr>
<td>1999-00</td>
<td>19616</td>
<td>51217</td>
<td>32364.6</td>
</tr>
<tr>
<td>2000-01</td>
<td>20813</td>
<td>53829</td>
<td>36819.2</td>
</tr>
<tr>
<td>2001-02</td>
<td>21968</td>
<td>56360</td>
<td>38232.6</td>
</tr>
<tr>
<td>2002-03</td>
<td>23155</td>
<td>59670</td>
<td>41827.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>24335</td>
<td>61216</td>
<td>44893.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>25118</td>
<td>63839</td>
<td>45637.3</td>
</tr>
</tbody>
</table>

Source: Compiled from the SSI Directory for the year 1994 – 95 to 2004–05, prepared by DIC, Madurai.

Table 2.6 clearly indicates the growth of small-scale Industries in Madurai District during the period form 1994-95 to 2004-05. The number of SSI units has
increased steadily from 11455 units in 1994-95 to 25118 units in 2004-05. In the case of employment, it has also increased from 28237 in 1994-95 to 63839 in 2004–05.

A steady increase in employment in the SSI sector in Madurai district is observed from the data. The fluctuation in investment was found during the period from 1994-95 to 2004-2005. The investment in the SSI sector ranged from Rs.28608.9 lakhs in 1994 – 95 to Rs.45637.30 lakhs in 2004 – 05.

2.8.1 Industry-wise Classification of Registered SSI Units in Madurai District

The industry-wise classification of registered SSI units in Madurai District is presented in Table 2.7.
Table 2.7 shows the industry-wise classification of the registered SSI units in Madurai District during 1995 to 2005. Among the registered units, the greater number of units have been registered under the hosiery and ready-made garments. The number of units ranges from 2689 as on 31.3.95 to 6018 as on 31.3.05. It is followed by the industry, food products, the number of units ranging from 1421 units as on 31.3.95 to 2296 units as on 31.3.05. A steady rise in registrations was observed in Textile units during 1995-2005. The least number of units registered was jute, hemp and mesta products. The number of units ranged from 17 units on 31.3.1995 to 32 units as on 31.3.2005. The number of units under the wool, silk, synthetic fiber products, the wood,
wooden products furniture and fixtures and paper, paper products and printing have been three fold from 1995 to 31.3.2005.

2.9 BANKING INFRASTRUCTURE IN MADURAI DISTRICT

Banks play an important role in the development of an economy. They mobilize surplus funds with individuals and institutions and deploy them as productive investment through lending to various sectors of the economy. The presence of a good banking infrastructure is one of the facilitating factors for industrial development in any region.

Madurai District possesses a good bank branch net work. There are 37 banks (one Central Co-operative Bank, one Land Development Bank, 35 Commercial Banks) with 244 bank branches catering to the banking needs of the people in the District. The average population served by each branch works out to 815, with per capita deposit Rs.15,422. Table 2.8 shows the banking infrastructure in the District.

TABLE 2.8

BANKING INFRASTRUCTURE IN MADURAI DISTRICT

<table>
<thead>
<tr>
<th>Location of Branches</th>
<th>Central Co-Operative Banks</th>
<th>Land Development Banks</th>
<th>Commercial Banks</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>14</td>
<td>--</td>
<td>70</td>
<td>84</td>
</tr>
</tbody>
</table>
The Tamil Nadu Industrial Investment Corporation Limited (TIIC) has three branches in the District – two in the urban and one in the semi–urban areas.

Total deposits received by banks in Madurai District amounted to Rs.3,84,09,358 crores and the total advances disbursed as on 31\textsuperscript{st} March, 2005 were Rs.2,88,05,926 crores. The Credit-Deposit (CD) Ratio was 75 per cent. The total priority sector advances as on 31\textsuperscript{st} March 2005 amounted to Rs.12674607 crores, which constituted 44 per cent of the total advances. Out of the total priority sector lending, around 60 per cent constituted agricultural advances\textsuperscript{69}.

\textbf{2.10 GOVERNMENT’S POLICIES ON FINANCING OF SMALL-SCALE INDUSTRIES}

Government’s policy towards the SSI sector is pronounced through the Industrial Policy Resolution/Statements. They have been formulated to promote

\textsuperscript{69}Annual Credit Plan for Madurai District 2004 – 2005, Published by Lead Bank Section of Canara Bank, Madurai p.43.
industrial growth and also to determine the pattern of state assistance to small industries for fulfilling various socio-economic objectives under different plans. Important features of the Industrial Policy Resolution/Statements so far announced by the Government from 1948 to 2001 are presented here.

The Small Scale Industrial Policy would reflect the direction and pattern of development of small scale industries in the country. The policies help one to realize the economic, social and political objectives of national development. The Government policy incorporates all related subjects relating to small-scale industries, covering all segments.

2.10.1 Policy Initiatives of the Government:

Till 1990 the Government provided protection to the SSI sector. It took measures for promotion and created a congenial environment for it to grow and prosper. “The protection was tenable on the ground that new enterprises cannot withstand predatory competition from large companies. This policy was initiated immediately after the independence of the country in 1947”\(^{70}\). A number of changes took place between 1947 and 1990 (before the initiation of reforms in 1991) as a result of elaborate policies and programs, which include.

Protection afforded to the SSI sector by reserving a large number of productions exclusively for SSI.

Supply of raw materials through the National Small Industries Corporation, State Industries Development Corporations and Commodity Board.

Fiscal concessions by way of excise reliefs, sales tax holidays, etc.

Extension of promotional services by the government including procurement of goods and services from the SSI sector on a preferential basis and assistance in marketing.

Treatment of SSI as priority sector and provision for directed credit.

Delivery of credit at concessionary rates particularly in the case of tiny and village industries.

Institutional support by setting up institutions such as the Small Industries Development Corporation, National Small Industries Corporation, Khadi and Village Industries Commission and Small Industries Development Bank of India. This institutional support was provided with an objective to evolve policies and programs for the development of the SSI sector, to provide a comprehensive range of extension services, provide facilities for technology upgradation, modernization, quality improvement, consultancy services and financial support.
Government policies were aimed at the simultaneous development of the three segments of small industry, viz, the village, cottage, and modern enterprises. Since independence, a total of six industrial policy resolutions/statements have been formulated to promote industrial growth. The foundation of the SSI policy was laid in the Second Five-Year Plan. These industrial policies were also to determine the pattern of state assistance to small industries for fulfilling socio-economic objectives. Industrial policies over the years have promoted SSI through various schemes and incentives in order to fulfill socio-economic objectives. These schemes and incentives related to financial, fiscal and infrastructural measures and were targeted at achieving the growth of this sector during the various plan periods. Important features of various policy statements are as follows:

2.10.2 The Industrial Policy Resolution 1948:

The Industrial Policy Resolution of 1948 laid emphasis on the promotion of cottage and small-scale industries, as the former could play a crucial role in the rehabilitation of displaced persons through the establishment of individual/cooperative enterprise. The Industrial Policy Resolution of 1948 realised that in order to achieve an integral role in India’s rapid industrial expansion, the small-scale industries should have equal access to raw materials and industrial finance, plus selective technical and management assistance.
2.10.3 The Industrial Policy Resolution 1956:

Under this policy choose equity as the guiding principle for SSI development. The Industrial Policy Resolution observed that lack of adequate finance was one of the reasons for the slow development of small scale industries in the country. Steps were taken to improve the situation. It also supported the measures to improve the competitive strength of the SSI and emphasized the creation of facilities such as industrial estates, production technologies, other amenities and incentives.

2.10.4 The Industrial Policy Resolution, 1970:

This reiterated the importance of the SSI and emphasized the development and expansion of cottage, small scale and village industries as an essential step towards economic self-reliance.

2.10.5 The Industrial Policy Resolution, 1977:

The main thrust of the Industrial Policy Statement (1977) was to encourage small-scale and cottage industries as against large scale industries, dominated by big industrial houses and multinationals. It stressed the wider dispersal of cottage and small industries into rural areas and small towns. It emphasized that “Whatever can be produced by small and cottage industries must only be so produced”. This led to the expansion of the list of reserved items for exclusive production by the SSI sector.
The District Industrial Centres were proposed as a single agency to meet the requirements of village and small industries under one roof. The tiny sector concept was introduced to have investment in plant and machinery up to Rs. 1 lakh. Marketing scope was provided by including services such as for product standardization, quality control, marketing surveys, etc.

The salient feature of the Industrial Policy, 1997, was the arrangement for provision of credit to small and cottage industries in all the districts in the country within a short period. The Industrial Development Bank of India has taken steps to set up a separate wing to deal exclusively with the credit requirements of this sector. Banks were also expected to earmark a specific proportion of their total advances for the promotion of small, village and cottage industries. It was the policy of the government to see to it that no worthwhile scheme of small village industry was given up for want of credit.

2.10.6 The Industrial Policy Resolution, 1980

This policy statement redefined SSI units by raising the ceiling of investment in plant and machinery from rupees 10 lakh to rupees 20 lakh. It focused on integrated industrial development and setting up nucleus plants in industrially backward districts to help spatial dispersal of small ancillary unit and the growth of the SSI sector. While
ways and means were identified to tackle the financial differently of SSIs, a scheme was initiated to make buffer stock of critical input for helping the small-scale units.

One of the major constraints restricting the growth of the decentralized sector has been the difficulty of finding finance which had been experienced particularly by industrial entrepreneurs in small scale industries. Although there is an adequate network of institutional finance, it is nevertheless essential to co-ordinate the flow of capital, both short-term and long-term. The government realized the need to evolve a system of co-ordination to ensure the flow of credit to the growing units in the decentralized sector at the right time and on appropriate terms. The Industrial Policy Resolution of 1980 tried to strengthen the existing arrangements and made such changes as might be necessary to facilitate the availability of credit to the growing units in the small-scale sector.

2.10.7 The industrial Policy Resolution, 1990

The industrial policy statement (1990) emphasized the development of the small scale sector as a key link in the process of socio-economic transformation. The policy introduced measures like raising the investment ceiling in plant and machinery, the introduction of central investment subsidy for the backward areas and the assisting of women entrepreneurs.
The investment ceiling was raised in plant and machinery for SSI units from Rs.35 lakhs to Rs. 60 lakhs. These enhancements of investment ceiling have been generally welcomed in the light of cost escalation, which has taken place in the economy over the years.

The core decision of the industrial of the policy resolution of 1990 was to ensure adequate and timely flow of credit for the small-scale industries through the Small Industries Development Bank of India, the commercial banks and other financial institutions.

As a result of the concerted efforts by the government the small-scale sector in India has registered phenomenal growth. For the first time, the small-scale industries policy was announced on August 6, 1991. The principal thrust of the policy was to speed up modernization of the small-scale industries, to upgrade technology and draw the units into the mainstream of industrialization.

The Industrial Policy (1991) announced promotional measures to impart vitality and growth consequent to economic reforms and liberalization. Equity, participation in the SSI industrial undertaking by large industries was increased to 24 per cent of share holding. A new scheme of integrated infrastructural development for SSI was initiated. Legislation to ensure prompt payment of bills by medium, large
industries and new measures aimed at marketing and export development were initiated.

The Government formed a Group of Ministers (GOM) in 2001 on SSI under the Chairmanship of the Home Minister to promote and strengthen the SSI sector in the context of the dismantling of the Quantitative Restriction (QRS). Based on the recommendations of the GOM a comprehensive policy was announced on 31st August, 2001 by the Prime Minister. The policy package was aimed at enhancing competitiveness of SSI’s both globally and domestically and for providing easier access to credit, infrastructure support and marketing to meet the urgent need for technology upgradation. A capital subsidy of 12 per cent for investments in technology in select sectors was announced along with Rs. 75000 cash for those SSI units which get the ISO certification. These initiatives were mainly a result of the recommendations of the S. P. Gupta study group appointed at the instance of the Planning Commission in May 1999. The report by S. P. Gupta submitted in July 2000 made some important recommendations:

- Investment ceiling (for SSI unit up to Rs 1 crores and tiny units up to Rs 10 lakhs) to be adjusted with inflation (whole sale price index) once in three years.

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- Setting up of new cell in the office of the commissioner SSI for matters relating to the WTO and monitor its implications on the SSI sector.

- Need for a comprehensive law for the SSI sector.

- Package of measures for ensuring prompt payment to the SSI by medium and large units.

- Measures for developing human resource development of the SSI sector and providing inputs like training, skill upgradation, new management practices, etc.

2.10.8 State Industrial Policies

The central policy framework serves as a guiding principle for states, which evolve respective policies for SSI promotion depending upon the specific requirements of the state. The state governments also offer suitable incentives to encourage existing units to expand/diversify products and support entrepreneurs to establish new units. The principal objectives of the industrial policy of Tamil Nadu are to accelerate the process of industrialization through the medium of small and tiny industries, to arrange for the dispersal of industries to tap local resources and provide employment generation.

2.10.9 Important Development in the Credit Policy and Related Issues (1998)
In order to ensure an adequate availability of credit for the tiny sector, the RBI issued guidelines to banks that, out of the funds generally made available to all segments of the SSI sector, 40 per cent should be extended to units with an investment of up to Rs. 5 lakhs, 20 per cent for units with an investment between Rs.5 lakhs and Rs. 25 lakhs and the remaining 40 percent for other units in the sector.

For computation of the working capital limit of SSI units, the ceiling of the aggregate turnover was increased from Rs. 2 crores to Rs. 4 crores. The working capital limit was fixed at 20 per cent of the annual turnover. Accordingly, Banks were advised by the RBI to adopt the simplified procedure of sanctioning working capital limits on the basis of 20 per cent of the projected turnover to all SSI units (existing as well as new) requiring aggregate fund-based working capital units up to Rs. 4 crores.

The maximum lending rates for loans up to Rs. 2 lakhs by the public sector banks were pegged at the Primary Lending Rate (PLR) of the concerned bank for its best borrower. Interest rates beyond this loan limit can be fixed as per the discretion of banks based upon the credit risk assessment.

The “Delayed Payment to small-scale and Ancillary Industrial Undertakings Act 1993” to assist small units in securing interest on delayed payments was amended in 1998 providing for the setting up of a “Facilitation Council” at the state level.
The RBI directed banks to ensure that effective from January 1998 not less than 25 per cent of the total inland credit purchases of borrowers should be through bills drawn on them by the seller concerned, including SSIs.

Public sector banks were advised to operationalise more specialized SSI branches at centres where there was a potential for financing a larger number of SSI borrowers. The RBI advised the banks that SSI units with a good track record should be accorded the benefit of lower spreads over the PLR.

Despite the policy bias in favour of SSI and the comprehensive institutional network, the Indian small industry has achieved little in terms of technological progress. Therefore, among other things a change is needed in the direction of policy and targeted efforts away from the present one saddled with product/price reservation.

It can be seen that through various policies and programs the governments has been broad basing its approach to address various problems of the SSI and solve them. The government also continuously monitors the performance of the SSI sector in the context of changing the WTO regime and freeing of tariff restrictions on imports and exports throughout the world.

2.11 SSI DURING THE FIVE YEAR PLANS

The Government of India played a key role in the promotion and growth of the SSI during the planning period by framing policies and allocating funds. Table 2.9 depicts the outlay of the Government of India on the SSI in the various Five-Year Plans.

TABLE 2.9
FIVE YEAR PLAN PUBLIC SECTOR OUTLAYS ON THE VILLAGE AND SMALL INDUSTRIES SECTOR (VSSI)

<table>
<thead>
<tr>
<th>Five Year Plans</th>
<th>Total Plan Outlay Rs</th>
<th>Outlay for industrial sector Rs</th>
<th>Outlay VSSI for Rs</th>
<th>% of VSSI of industrial sector outlay</th>
<th>% VSSI of total plan outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Plan (1951-1956)</td>
<td>1960</td>
<td>97</td>
<td>42</td>
<td>43.30</td>
<td>2.14</td>
</tr>
<tr>
<td>II Plan (1956-1961)</td>
<td>4972</td>
<td>1125</td>
<td>187</td>
<td>16.62</td>
<td>4.00</td>
</tr>
<tr>
<td>III Plan (1961-1966)</td>
<td>8577</td>
<td>1767</td>
<td>241</td>
<td>12.25</td>
<td>2.81</td>
</tr>
<tr>
<td>IV Plan (1969-1974)</td>
<td>15779</td>
<td>3107</td>
<td>243</td>
<td>7.82</td>
<td>1.54</td>
</tr>
<tr>
<td>V Plan (1974-1979)</td>
<td>39426</td>
<td>9581</td>
<td>573</td>
<td>6.19</td>
<td>1.50</td>
</tr>
<tr>
<td>VI Plan (1980-1985)</td>
<td>109292</td>
<td>16948</td>
<td>1945</td>
<td>11.48</td>
<td>1.78</td>
</tr>
<tr>
<td>VII Plan (1985-1990)</td>
<td>218730</td>
<td>29220</td>
<td>3249</td>
<td>11.21</td>
<td>1.49</td>
</tr>
<tr>
<td>VIII Plan (1992-1997)</td>
<td>485457</td>
<td>47888</td>
<td>7265</td>
<td>15.17</td>
<td>1.50</td>
</tr>
<tr>
<td>IX Plan (1997-2002)</td>
<td>859200</td>
<td>69972</td>
<td>8066</td>
<td>11.53</td>
<td>0.94</td>
</tr>
</tbody>
</table>

2. Laghu udyog samachar- various issues.
Table 2.9 delineates the outlay of the Government of India on SSI since the First Five-Year Plan. It is observed that the planned outlay on the village and small industries sector hardly exceeded an average of 1.6 per cent in the Ninth Five Year Plan though the outlay was higher in the First Three Five Year plans. This is in spite of the fact that village and small industries sector accounts for around 95 per cent of the industrial units, 40 percent of the manufacturing sector output and 36 percent of exports\textsuperscript{73}.

The first and the second Five-Year Plans had allocations of Rs.42 crores and Rs.187 crores respectively, which in terms of percentage was 2.14 in the First Plan and 4.00 percent in the Second Plan. The Third Plan allocated Rs. 241 crores amounting to 2.81 per cent of the total plan allocation. Though the fourth plan bemoaned the lack of importance to small industries because of competition from larger industries, the allocation was only Rs.243 crores or 1.54 per cent of the total plan outlay.

The Fifth Five-Year Plan identified that the principal objective was the removal of poverty and creating large-scale employment. To facilitate this objective the development of small-scale industries in different industrial sectors on a full scale was envisaged. The outlay to small and village industries during the Fifth Plan was put at Rs.5.73 crores keeping the percentage of the total plan outlay to 1.50 per cent. The actual outlay for SSI in the Sixth Plan was Rs. 1945 crores or 1.78 per cent of the gross exports\textsuperscript{73}.

outlay. This was an increase over the Fifth Plan, but during the Sixth Plan period production and exports increased but employment generation could not take place on expected lines.

The Seventh Five-Year Plan heralded the emergence the modern SSI and power loom sector, which showed an annual average growth rate of 12.4 percent. The traditional khadhi, village handloom and coir sectors did not fare well. The outlay during the Seventh Plan was Rs.3249 crores, which was only 1.49 percent of the total plan outlay.

The government maintained the percentage of 1.50 per cent of the total outlay in the Eighth Plan at Rs.7265 crores. The Eighth Five-Year Plan saw the targets of production being reached with modern and traditional SSI sectors. Both these sectors could also absorb a large number of people. The resultant contribution was noted in the fields of exports, which contributed 44 per cent of the total exports during the Eighth-Plan period. These were the first four years after the introduction of economic reforms by the government.

The Ninth Five-Year Plan attacked the problems of inadequate flow of credit, obsolete machinery and equipment, poor quality standards of products and inadequate infrastructural facilities by taking appropriate measures in these directions. The government set up specialized branches of banks exclusively meant for
SSI, set up a technology development and modernization fund under the SIDBI and a credit guarantee scheme was introduced for tiny units. More Infrastructural Development Centres were set up (IIDC’s) and specialized training was imparted through various Government institutions for quality improvements to reach world standards, ISO certification was introduced. The allocation of funds to the SSI sector in the Ninth Plan was Rs.8066 crores or 0.94 of the total plan outlay.

Overall the plan allocations decreased in successive plans in spite of the significant contribution by the village and small industries. The SSI have become a force to reckon with and to this extent the efforts of the Government has succeeded. The Government could have aimed at accelerating this growth process by planning the allocations significantly and judicially to the broad base the infrastructure of the institutions already created for this purpose.

2.12 SSI AFTER LIBERALIZATION

“The new policy measures introduced in 1991 by the Government in the wake of economic liberalization have resulted in competition in the SSI sector with challenge to achieve greater industrial efficiency and international competitiveness. At present there exist a large indigenous industrial base of manufacturing, processing, assembling, job work, servicing and repairing enterprises with diversified product lines, with a wider geographical spread at dispersed locations and different ownership
pattern in the small scale sector. The small units in the rural and semi-urban areas of the country mainly manufacture products to cater to the demand of the local population. On the other hand SSI units with higher investments, mostly operating in town and cities are experiencing impact of globalization both in domestic and export markets.

The inability of the small-scale units to upgrade their technologies, to achieve product standardization as per international standards (ISO) and the Bureau of Indian Standard (BIS) and to secure foreign collaborations in technical and financial areas is proving a disadvantage in aiming for higher growth. The following are the policy improvements in the post-liberalizations era:

- De-reservation of a large number of items reserved for SSI sector.
- Single window scheme of the Small Industries Development Bank of India for financing requirements of SSI up to project cost of Rs. 50 lakhs.
- Setting up of Entrepreneurship Development Institutes in some states.
- Investment in plant and machinery raised to Rs.300 lakhs in terms of the Abid Hussien Committee’s Recommendations (1999). This was subsequently reduced to Rs. 100 lakhs.
- Package of facilities and incentives for the tiny sector.

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• Promulgation of the ‘Delayed Payments to Small Scale and Ancillary Industrial Undertakings: Delayed Payments Act was promulgated in 1993’ to ensure prompt payment by buyers to their SSI suppliers.

• Constitution of separate ministry for small-scale industries at the Central Government level and also in some states, particularly Tamil Nadu.

• Technology upgradation and modernization scheme under the SIDBI to identify the needs of the SSI sector in terms of process technology, environment management, quality management, common facilities center to meet the emerging requirements in areas of technology. Initial funding of Rs. 200 crores by the government.

• Seven point action plan for improving flow of credit to the small scale sector.

• Ceiling for excise concession goes up to Rs. 100 lakhs to be doubled in another one and a half years (Budget 2001-2002).

• Announcement of natural programme for rural industrialization.

• Working capital limits calculated on the basis of 20 percent of the firm’s annual projected turn over (Nayak Committee Recommendations) raised up to Rs. 500 lakhs.

• Loans without collateral security up to Rs. 5 lakhs. Credit guarantee scheme for loans without collateral rose to Rs. 25 lakhs. Budgetary provision (2001-2002) of Rs. 100 crores made for this scheme, which was increased to Rs. 150 crores in the 2001-2002 budget.

• The limit of project cost raised to Rs. 50 lakhs under National Equity Fund.
Government’s total commitment (Budget 2001-2002) to the SSI sector and the announcement of a comprehensive policy for the SSI sector.

It is generally recognized by the government that the SSI sector is passing through a very crucial phase. Quantitative restrictions (QR) have been dismantled. A new era of free trade has set in; the Government expects that the SSI sector will reengineer its inherent potentials to emerge as a stronger player in the global economy by taking advantage of the policy support by the government.

2.13 IMPACT OF GLOBALIZATION ON THE SMALL-SCALE INDUSTRIES

The dismantling of tariff and non-tariff business as a result of the Uruguay-round multilateral trade negotiations of the General Agreement on Tariff and Trade (GATT) has brought in a new dynamism and vitality to the international trade environment. This will undoubtedly open up several new opportunities for the Indian exporters of traditional and non-traditional items. As the small-scale sector holds a significant share in the country’s growing export earnings it is pertinent to assess the implications of GATT-1994 in the prospects for this sector.

The GATT and the establishment of the WTO pose a number of challenges to the SSIs in India. Most of the trade amendments especially those with respect to agriculture, textiles and clothing TRIPS (Trade Related Intellectual Property Rights) and
the like are likely to have a direct impact on this sector’s exports. Moreover, the agreement on multilateral rule and disciplines have prescribed more stringent health and safely standards which will entail higher quality standards for products competing in the international market.

To compete in the world market, the small-scale enterprises will have to upgrade their manufacturing standard through increased investment in research, strategic alliances, foreign collaboration and inter-industrial cooperation. All these require more financial assistance from banks and financial institutions. Assistance and incentives will also have to come forth from the government for investment in research and development, infrastructure, marketing network and technology upgradation.

2.14 COMMITTEES ON THE FINANCING OF THE SSI SECTOR

While the system of bank credit has helped in a substantial increase in credit to the SSI sector, there have also been constraints relating to the timeliness and the adequacy of credit and the complexities of the system as well as the procedures related thereto. In order to examine the various aspects of credit dispensation the Government of India / the Reserve Bank of India constituted various committees and working groups from time to time. These committees and working groups have given a number of recommendations covering different aspects of improving the flow of
credit to the industrial sector, including the SSIs and the strengthening of the financial system.

The Reserve Bank of India appointed various committees with the view to streamline the credit delivery system so as to fall in line with international practice. Some of the recommendations of important committees which brought about a metamorphosis in credit analysis are given here.

The Dahejia Committee (1968)\textsuperscript{75} held the view that bank lending was unrelated to borrower’s actual needs or activities as it was extended based on the financial worth of the borrower, collateral security and guarantee offered. The result was the concentration of bank finance in large industries. As a sequel to the committee’s recommendations, the Reserve Bank of India issued guidelines for systematic appraisal of working capital based on the business needs of the borrowers.

The Tandon Committee 1975\textsuperscript{76} recommended a scientific approach for considering credit requirements of borrowers. The appraisal should be based on production plan, lead time for supplies, economic ordering levels and a reasonable level of stocks, receivables and other current assets. The Committee suggested three months for fixing the maximum permissible bank finance based on the minimum

\textsuperscript{75}National Credit Council, \textit{Report of Study Group on Bank Credit}, New Delhi, 1969.
current ratio under each method. These methods provided for progressive increase in the contribution from the borrowers’ long term sources (capital) for financing current assets. Norms for the level of holding for inventory and receivable were prescribed.

The Chore Committee (1978) 77 recommended that borrowers with working capital limits of Rs.10 lakh and above should compulsorily be brought under the second method of lending (current ratio 1.33 per cent). Working capital limit should be fixed on the basis of the normal non peak level and ‘peak level’ requirements. Borrowers with working capital limits of over Rs.10 lakh were required to submit Monthly Select Operational Data (MSOD). Banks were asked to fix the operational limit on the basis of the Quarterly Information System returns (QIS).

These Committee Reports covered largely the methodology of lending adopted towards medium and large industries. The Government and the Reserve Bank felt the necessity to focus on the SSI sector which was getting marginalized and not getting adequate credit support from banks.

The Government appointed a High Power Committee under the chairmanship of L.C. Puri\textsuperscript{78} to examine the credit problems of SSI. The Committee, inter alia, recommended that:

- Banks should be largely guided by the viability of the projects while entertaining credit proposals. Collateral security should not be insisted upon as a matter of routine.

- Standardized application forms were introduced for small borrowers which are simplified interview-cum-appraisal forms.

- Loan repayments should be fixed taking into account surplus generating.

- Capacity of the project.

- The interest rates on the loans should be charged on the basis of the quantum of loan sanctioned to the borrower limit sanctioned. Limit up to (1) Rs.25000 (2) Rs.25000 to 2 lakh and (3) above Rs.2 lakhs. Sanctioned limits to be charged separate interest rates on the above lines.

The Nayak Committee 1992\textsuperscript{79} recommended that working capital requirements of village industries, tiny industries, and other SSI units availing aggregate fund based working capital credit of Rs.50 lakhs (raised to Rs.500 lakh in April 1999) from the banking system should be computed on the basis of a minimum of 25 per cent of their

\textsuperscript{78}National Council of Applied Economic Research (NCAER), \textit{Report of the Committee to Examine Credit Problems to SSI}, New Delhi, 1978.

projected annual turn over for new as well as existing units. At least four fifths of this 25 per cent (20 per cent) should be provided by the banking sector and the balance one fifth (5 per cent) should be the borrowers contribution towards margin for the working capital. The norms of inventory and receivable as also the first method of lending recommended by the Tandon Committee will not be applicable to such units. This method of computation of the working capital finance is called “Turnover method”. If the projected turnover of a borrower unit is Rs.100 lakh, the bank finance would be minimum of Rs.20 lakh and borrower’s margin would be Rs.5 lakhs.

The Abid Hussien Committee (January 1997)\textsuperscript{80} recommended that the financial system must be reformed to increase access of SSI to term loans and working capital, and to lower the cost of credit. The Committee observed that small enterprises access to credit was inadequate and the existing institutional structure needs a though overhand. The Committee endorsed the recommendations of the Nayak Committee and urged the RBI to vigorously implement the prescribed target of providing working capital of a minimum of 20 per cent of the projected turnover of SSI. The mechanism of credit recovery should be strengthened by common guarantees and the credit record of the companies. The role of specialized SSI branches was highlighted. In regard to over dues to SSI from large companies, the Committee suggested that these companies should disclose this information statutorily in balance sheets.

\textsuperscript{80} NCAER, \textit{op.cit.}, New delhi, 1997
The Kapoor Committee (June 1998)\footnote{Reserve Bank of India, \textit{Report of the High level Committee on credit to SSI}, Mumbai, 1998.} suggested interalia, various steps to improve the credit delivery system and recommended the removal of the difficulties faced by banks in implementing the Nayak Committee recommendations. The removal of various bottlenecks such as complicated applications, insufficient discretionary sanctioning powers of branch managers, absence of proactive interaction between borrower and bank for working out the projections of business and emergent financing requirements was suggested. Setting up a new Guarantee Corporation to guarantee loans, particularly to tiny sector, was recommended to offer collateral support to the SSI entrepreneurs upto projects of Rs.10 lakh. The Committee covered almost all the operational functioning of the legal and financial aspects and came out with numerous recommendations.

In April 1997, Reserve Bank advised commercial banks on the withdrawal of the prescription with regard to the assessment of working capital needs based on the maximum permissible bank finance as recommended by the Tandon Committee. The RBI advised banks to evolve their own system of assessing the working capital needs of the borrowers with the prudential guidelines and exposure norms. The evolution in the methodology of assessing the working capital needs was essentially a movement away from the operating cycle concept to the transaction cycle method. The Nayak Committee (turnover method) is a movement towards a total approach but fell short...
of its objective in rigorous implementation. The freeing of SSI from controls has ultimately become essential in a free environment. Banks are yet to decide upon a wholly realistic method of financing.

2.15 CONCLUSION

The industrial policy resolution, Five Year Plans and the reports of different committees on SSI, focus on the need for adequate and timely delivery of credit to the SSI sector by commercial banks. The increase in the working capital limits, as suggested by different committees on the financing of SSI units, would ease the flow of bank credit to the small-scale industry.