CHAPTER II

INSTITUTIONAL FINANCE TO SMALL SCALE INDUSTRIES IN INDIA
Small Scale Industries have an important role to play in the planned economic development of India. They are aimed at increasing industrial production, generating employment on a large scale and reducing regional imbalances in the country. Since capital intensity and gestation period of small scale sector are much lower than the medium and large scale industries, employment and production can be increased in a shorter span of time.

However, the development of small scale industries depends upon several factors like suitable raw materials, skilled labour, latest technology, adequate, easy and cheap finance and right kind of management. The factor of finance has got a greater role to play in the development of small scale industries. Non-availability of finance at a right time and in right quantities poses a serious threat to the development of small scale industries. So availability of adequate finance at lower rate of interest is considered to be the most important requirement of small industry development. With the availability of adequate funds, it is possible for the business unit to acquire other factors of production and distribution.

The main sources of finance to small scale industries are promoters, institutional agencies and non-institutional agencies. The capacity of promoters to finance their respective units is rather very limited in view of their poor financial background. Similarly, the non-institutional agencies are always reluctant to finance small scale industries in view of limited earning capacity as well as poor reputation of small entrepreneurs. It is also to be mentioned that most of the small scale industries have no access to equity capital from the public. Therefore, the role of institutional financial agencies assumes greater significance in the development of small scale industries.

There are various institutional agencies which cater to the financial needs of small scale industries. Commercial banks, cooperative banks and regional rural banks mostly provide working capital finance to small scale industries. They may also participate in the long-term financing of small scale industries along with State Financial Corporations but in a limited scale. Financial assistance in kind is available to the small scale industrial sector from the National Small Industries Corporation (NSIC) at national level, and State Small Industries Development Corporations (SSIDCs) at the State level. The Industrial Development Bank of India (IDBI), Small Industries Development Bank of India
(SIDBI), National Bank for Agriculture and Rural Development (NABARD) and other national level development banks provide refinance facilities to banks and other grass root level agencies for financing small scale industries. Further, Export-Import Bank of India (Exim Bank) facilitates external trade by rediscounting of bills of small scale industries. The Deposit Insurance and Credit Guarantee Corporation (DICGC) assists the small scale sector by guaranteeing advances to small scale industries. Similarly the Industrial Reconstruction Bank of India (IRBI) helps in rehabilitating the sick small scale units.

An attempt is made to discuss the functioning of each one of these organisations in regard to their support for the development of small scale industries.

Commercial Banks

Before the nationalisation of major commercial banks in July 1969, the commercial banks had been mostly engaged in financing organised trade, commerce and industry. Being urban-based and profit-oriented, the commercial banks were not responsive to the financial needs of the small scale sector. In other words, the entire banking system was built in such a way as to cater to the needs of a particular class, viz., big industrialists and traders. Further, the branch network of commercial banks had a strong urban-bias
with consequent inadequate coverage in the rural areas. The deposits of the banks had increased, but bulk of the increase was accounted for by the organised sector and prosperous states/regions. As the bank lendings were urban biased and concerned with the organised industry and trade, the other sectors of the economy had to depend upon the non-institutional agencies for their financial needs. The banking facilities were also beyond the reach of the vast masses of economically weaker sections of the society.

The idea of socialisation of bank lending was introduced in 1967 under Social Control Over Banks (SCOB) with an objective of assisting the hitherto neglected sectors of the economy such as agriculture, small scale industries, retail trade, small transport, etc. However, the mere issue of guidelines did not make the desired impact on the deployment of bank credit. Therefore, the Government of India took a major step of nationalising the 14 major commercial banks on July 19, 1969. On April 15, 1980, six more private sector banks were nationalised to extend further the area of control over the country's banking system.

One of the major objectives of nationalisation was

to ensure that no viable productive endeavour should falter for lack of credit support, irrespective of the fact whether the borrower was big or small. Accordingly, the concept of 'priority sector' was evolved to ensure that the assistance from the banking system flowed on an increasing scale to the hitherto neglected sectors of the economy and according to national priorities. The concept of priority sector has been reviewed from time to time and suitable changes have been made in order to ensure uninterrupted flow of credit to the needy. Thus, the concept priority sector lending is mainly intended to ensure that assistance from the banking system flows in an increasing measure to those sectors of the economy which have been hitherto neglected by the banking system. The inclusion of any item in priority sector has two advantages, viz., (1) priority in allocation of credit; and (ii) concessions in terms and conditions including rate of interest.

The priority sector broadly includes the following:

(1) Agriculture;

(ii) Small Scale Industry;

(iii) Industrial Estates;


(iv) Road and Water Transport Operators;
(v) Retail Trade and Small Business;
(vi) Professionals & Self-employed persons;
(vii) Education;
(viii) Housing loans to weaker sections; and
(ix) Pure consumption.

On the basis of the recommendations of the Working Group under the chairmanship of A. Ghosh, the Reserve Bank of India has prescribed the following main targets in regard to lending to priority sector:

(i) Banks should aim at raising the proportion of their advances to priority sector to 40 per cent by 1985;

(ii) Out of the advances to priority sector, at least 40 per cent should be extended to agricultural sector;

(iii) Advances to the weaker sections in SSI should constitute 12.5 per cent of the total advances to small scale industries by 1985. All small scale industrial units with limits upto and inclusive of Rs.25,000 are to be treated as weaker sections. This was expected to cover almost all the artisans as well as village and cottage industries. It was also expected that a portion of the tiny sector would also come under the said definition.
The commercial banks grant both long-term and short-term loans to small scale industries. But bulk of the assistance rendered by them is in the form of short-term credit. They extend credit on easy and concessional terms in matters of rate of interest, margin, security, etc.

Long and Medium Term Loans

The commercial banks have been traditionally engaged in financing working capital requirements of the industry. However, they have entered into the field of long term industrial finance in recent years. Though term lending financial institutions like state financial corporations have been set up for granting term loans, the participation of commercial banks in term financing has become necessary because the network of their branches and their intimate connections with the borrowing concerns facilitate effective follow-up and supervision of credit.

The term loans are provided by commercial banks to small scale industries for acquiring fixed assets. These loans are granted for the construction of factory buildings, and the purchase and installation of machinery and equipment. These loans are also sanctioned for purposes of expansion, modernisation and renovation. These loans can be secured against mortgage on fixed assets. The charge on fixed assets is reinforced by a personal guarantee of the
borrower. The rate of margin normally varies between 25 per cent and 35 per cent, depending upon the credit rating of the borrower. Loans are repayable over a period of seven to ten years in suitable instalments.

Under the scheme for financing qualified entrepreneurs, assistance is provided by commercial banks to technically qualified entrepreneurs and artisans desirous of setting up small scale units. The assistance may be in the form of instalment credit for the purchase of machinery and equipment, a medium term loan for financing permanent working capital, and cash credit for the short-term working capital. Equity fund scheme provides interest free assistance for meeting the equity gap in the project and is repayable on a long-term basis. The actual amount of assistance is the difference between 25 per cent of the project cost and the capital available with the entrepreneur.

An individual or a firm providing services like watch repairing, catering, etc., and professionals such as engineers, doctors, lawyers, architects, and transport operators are eligible for financial assistance for the purchase of necessary equipment and/or working capital under

the assistance to business, trade and professionals scheme of commercial banks.

The commercial banks normally obtain refinance from the Industrial Development Bank of India (IDBI) in respect of term loans, provided the loans are sanctioned according to the terms and conditions laid down by the IDBI from time to time. When the loans are refinanced, the commercial banks may get servicing charges besides maintaining liquidity of their funds.

Short-term Loans

Short-term loans are granted by commercial banks to small scale industries for maintaining necessary inventory of raw materials, finished and semi-finished goods and maintaining day-to-day expenses. These loans are advanced against pledge of materials and processed goods. The short-term loans or working capital loans are provided by commercial banks in the form of cash credit, bill financing, loans against book debts and advance against fixed deposit receipts, letter of credit, and pre-shipment and post-shipment credit.

An attempt is made in the following lines to discuss the various forms of commercial bank credit to small scale industries.
Cash Credit

Cash credit account is very popular mode of borrowing in the country. It is like a running account operated by the borrower through cheques and other instruments of credit. Day-to-day transactions of the borrower are put through this account. Here the account is permitted to be overdrawn up to the limit sanctioned or the drawing power, whichever is lower. Before an advance is allowed, drawing power is calculated on the basis of value of goods pledged and/or hypothecated subject to stipulated margins. This determines the maximum amount of advance admissible within the overall sanctioned credit limit. In other respects, cash credit account is operated in the same manner as an overdraft account. Generally, cash credit limits are sanctioned against security of goods by way of pledge or hypothecation.

Financing of Trade Bills

Banks provide credit facilities to small entrepreneurs by purchasing documentary demand bills or by discounting usance bills. Under the bill financing scheme, the bank sanctions credit against the security of bills drawn by the seller in respect of its dues from the

purchaser. Bills may be either demand bills/usance bills or clean bills/documentary bills. When a bill is payable at sight or on demand, it is known as a demand bill and if it matures for payment after a certain period of time, it is called a usance bill. When the drawer of the bill encloses with the bill, the documents of title to goods such as railway receipt to be delivered to the drawee of the bill on payment or against acceptance of the bill, the bill is called a documentary bill. In the absence of such documents, the bill is called a clean bill.

Under the bill financing scheme, the bank credit customer's account with the amount of the bill, net of bank charges and discount. In case of demand bills, it is known as purchase of bills as the demand bills are payable on demand and there is no maturity date. In case of usance bills it is called discounting of bills as the usance bill matures after a certain period and the banker retains the bill for that period and realizes the amount of the bill from the drawee on maturity.

The margin to be required depends upon several factors like credit rating of the drawee, and market conditions in respect of the goods covered under the bills. Normally the margin varies between 0 and 30 per cent and it is usually higher in the case of clean bills than the documentary bills.
Credit Against Government Supply Bills

Commercial banks also extend credit to those small scale industrial units which supply goods to central and state governments, public sector undertakings, etc., against adhoc or regular supply orders. In such cases banks obtain an irrevocable power of attorney in their favour authorising them to obtain payment from the concerned department on behalf of the unit. Such power of attorney is then registered with the respective department. The amount of advance is limited to 85 to 90 per cent of the amount of the invoice, leaving a margin of 10 to 15 per cent for the banks.

Credit against Book Debts

Since small scale units have to sell their goods usually on credit terms and in small quantities to a large number of buyers it may not be convenient to draw bills for small amounts. Therefore, a large amount of credit given by the small scale units is in the form of book-debts. Commercial banks provide credit facilities to small units against the book-debts. The units are required to submit periodic statements relating to book-debts with names and address of the debtors, the amounts due and the period for which the debts are outstanding. Debts outstanding for over three to six months are excluded while calculating the drawing power. The rate of margin normally varies between 30
to 50 per cent depending upon the credit quality of book debts. The margin may also vary according to the amount of discounts, returns, and rejections. For example, if the discounts, returns and rejections amount to 20 per cent of gross sales, then with even very well rated accounts the credit is limited to 60 per cent.

Letter of Credit

A letter of credit is issued by the importer's bank in favour of the exporter, authorising him to draw bills, upto a particular amount at the contracted price. The various forms of letter of credit are: clean and documentary credit, revolving letter of credit, revocable and irrevocable letter of credit, confirmed and unconfirmed letter of credit, transferable letter of credit, back to back credit and red clause letter of credit.

The small scale units intending to import machinery & equipment or raw materials or parts and components from abroad are provided the letter of credit facilities. Under this scheme, the letter of credit is opened by a bank in India on another bank abroad authorising the latter to honour the bills drawn by the beneficiary named therein, provided the merchandise is shipped within the period specified in the letter of credit. The banks usually require a margin of 10 per cent on the amount mentioned in the letter of credit.
Pre-shipment and Post-shipment Credit

To promote exports, commercial banks provide pre-shipment and post-shipment credit to the small scale industrial units. The pre-shipment credit is of two forms, viz., packing credit and red clause credit. Similarly post-shipment credit consists of advances against foreign bills, duty drawback advance and cash incentive scheme advance. The packing credit is made available to the exporter for the purpose of purchasing, processing and packaging exportable goods for shipment. The credit is given against the security of goods to be exported on concessional interest rate. Such loans should be liquidated, within the prescribed time, only from the proceeds of exports made by the borrower. The red clause credit is nothing but the letter of credit with the red clause. The red clause authorises the intermediary bank to make advances to the exporter for the purpose of shipments. In a red clause letter of credit, the advances are made against a simple receipt and are unsecured. The receipt indicates that the funds will be used to purchase the material stipulated in the letter of credit and the beneficiary will deliver the necessary shipping documents prior to the expiry date of the letter of credit.

Under the scheme of advances against foreign bills, the bank extends credit against foreign bills
tendered by the borrower. The bank generally becomes a pledge of the goods and is deemed to be the holder for value of the bill to the extent of the amount of advance made against it. In order to avoid the cost of swapping funds to the banks arising due to bills remaining outstanding for an unduly long period, the exporters are required to bear the exchange risk.

Duty drawback is the refund of custom duty paid on imports used in manufacturing the goods exported. The custom authorities issue a certificate to exporters stating the amount of duty drawback payable through the Reserve Bank of India to the concerned bank. On receipt of the claim from the financing bank, the custom authorities sanction the drawback amount and inform the Reserve Bank of India which in turn informs the financing bank. All commercial banks which are authorised dealers in foreign exchange may grant credit against those duty drawbacks. The Reserve Bank of India provides refinance upto 100 per cent of the amount of eligible loans.

Under the credit against cash incentives scheme, subsidy is given to exporters on the FOB value of their exports of certain commodities to enable them to face the competition in the international market. As it generally takes sometimes for the exporter to receive cash incentive,
the bank may grant credit against cash assistance entitlement. The Reserve Bank of India gives interest subsidy of 1.50 per cent per annum on such advances.

Special Schemes of Commercial Banks

Apart from conventional lending to small scale sector, the commercial banks have designed special schemes for financing target groups under small scale sector. Though different banks have designed different special schemes, only the schemes of State Bank of India are highlighted in the following lines. The schemes of other banks could not be discussed here for want of adequate information. Moreover, the State Bank of India is a pioneer in the area of financing of small scale industries. It was the State Bank of India which instituted a 'pilot scheme' way back in 1956 to meet all types of credit requirements of small scale industries. The State Bank of India, for the first time in the country, introduced the concept of need-based approach to financing small scale industries, which was a radical departure from the security-oriented approach.

Entrepreneur Scheme

To provide financial assistance to technically qualified entrepreneurs, the State Bank of India designed a scheme called entrepreneur scheme. The scheme which came into effect in 1967, covers all technically qualified
persons, as also persons who have technical experience and skill but may not have received any formal technical education. Under the scheme, 100 per cent finance is provided to the entrepreneurs, without insisting on any minimum equity contribution. The financial assistance is given upto Rs.5 lakhs, which is repayable on easy instalments.

Special Scheme of Financing Artisans and Craftsman

To assist the traditional industries under small scale sector, the State Bank of India introduced a special scheme of financing artisans and craftsman. In fact the bank introduced the scheme in coordination with the Government of India to cover the target group under Rural Industrial Projects. Under the scheme, the bank gives liberal credit assistance upto Rs.7,500 to the eligible borrowers, identified by the bank in coordination with the Government agencies.

Equity Fund Scheme

The State Bank of India instituted a fund called Equity Fund in 1978 with the objective of providing equity assistance to new entrepreneurs eligible for financial assistance. Assistance under the scheme is provided by way of interest-free loans, ranging from Rs.5000 to Rs.50,000 to meet the shortfall in equity. The loans are repayable, after
an initial moratorium period of 5-7 years, in a further period of 5-7 years. Preference under the scheme is given to the units in the backward areas, tiny sector units in the rural areas and export oriented units in the small scale sector.

The State Bank of India also takes up promotional role for the benefit of small entrepreneurs. The bank set up in 1973 its own technical consultancy cells in each of its Local Head Offices to provide technical and managerial guidance to small scale industries. In order to upgrade the managerial skills of small scale industrialists, the bank also conducts 'Management Appreciation programmes' with particular emphasis on backward and remote areas. Further, with the objective of accelerating industrial development in the backward areas, the bank launched in 1978 a programme of entrepreneurial development. The training under the programme aims at development of entrepreneurial motivation, economic insight and management skills, creating confidence through direct experience, supply of information about the region, industry potential, etc. The programme also includes practical training in small industrial units to impart industrial experience. After the training, the bank provides to the entrepreneurs continuous counselling and consultancy services free of charge in areas like project selection,
preparation of project report, market surveys, project validation, etc.

**Regulation of Bank Credit**

Bank credit is a scarce resource, more so in a developing country like India. Therefore, the bank credit should be utilised optimally, and there should not be any abuse and misuse of bank credit. In order to ensure adequate and timely flow of bank credit to the needy sectors of the economy and also effective utilisation of credit, the Government appointed several committees from time to time to study and make suitable recommendations for better utilisation of bank credit. The background, terms of reference, and major recommendations of such committees are discussed in the following paragraphs.

**Dehajia Committee**

The National Credit Council set up a Study Group in October 1968 under the chairmanship of V.T. Dehajia to examine the extent to which the credit needs of the industry and trade were likely to be inflated and how such trends could be checked. The Group submitted its report in September 1969.

While reviewing the existing situation, the Group found that the bank credit during the period from 1960-61 to 1966-67 expanded at a higher rate than the rise in the
Industrial output. The group, therefore, came to the conclusion that in the absence of specific restraints, there was a tendency on the part of industry to avail itself of short-term credit from banks in excess of the amount based on the growth in production and/or inventories in value terms.

The Committee found that the commercial banks were not able to prevent the emergence of excess demand for credit from certain borrowers. The commercial banks were inclined to relate their credit limits to the security offered by the customers and as such they did not attempt to make any assessment of the overall financial position of the borrowers through a cash flow analysis. Further, the banks did not follow any uniform method of valuation of stocks. There were also considerable divergence in practice as regards the prescription of margins by banks.

The Committee also found that 20 per cent of the gross fixed assets of many companies were financed with short-term sources of funds which included bank loans. The banks extended these loans by way of cash credit limits which were only technically repayable on demand. The system was found to be convenient as the banks insisted on the security aspect of their lendings. The security oriented approach to lending had led to over financing of industry in
relation to production and inventory needs. The Committee also observed that the present system of lending made the borrowers depend upon short-term debts. However, the short-term borrowings in actual practice did not remain short-term and self-liquidating.

In view of the aforesaid findings, the Committee made the following recommendations: (1) The banks while granting loan to a borrower should study the overall financial position of the enterprise by cash flow analysis and forecasts submitted by the borrower.

(11) The banks should also insist on certain basic documents while sanctioning loans. The documents should include information about the end use of credit, repayment capacity etc.

(111) With a view to checking extra bank credit, commitment charge on utilised limits should be levied. If necessary, some minimum interest could also be charged.

(1iv) proper care and attention should also be paid to the question of adequacy or otherwise of inventories held by various industries.

(v) The working capital limits are to be considered only in a need-based manner. Double credit should be avoided by deducting the credit purchases made by the borrower.
A large chunk of working capital advances is permanently needed by the borrower to carry on the operations. Therefore, in the financial planning of the borrower, it is necessary to find out permanent working capital and temporary working capital. The banks should finance the temporary working capital through short-term credit and for the permanent working capital the borrower should try for long term sources of finance.

Tandon Committee

The Reserve Bank of India constituted in July 1974 a Study Group, popularly known as Tandon Committee to frame guidelines for rational allocation and effective utilisation of bank credit. The Committee submitted its report in 1975 with wide ranging recommendations. The recommendations are applicable to all industrial units having working capital limits of Rs.10 lakhs and above from the banking system.

The recommendations of the committee can be classified under the following heads:

1. Norms for inventory and receivables;
2. Approach of lending;
3. Style of credit;
4. Information system; and
5. Bill finance.

Report of the Study Group to Frame Guidelines for Follow-up of Bank Credit, (Bombay: Reserve Bank of India, 1975)
In the opinion of the Committee, the main function of a banker as a lender is to supplement the borrower's resources to carry on acceptable level of current assets. That is, the level of current assets must be reasonable and based on norms. Further, a part of the fund requirements for carrying current assets must be found from long term sources of funds.

The Committee suggested norms for 15 industries. The norms represented the maximum levels for holding inventory and receivables in each industry. The norms were applicable to all industrial borrowers including small scale industries with aggregate credit limits from the banking system in excess of Rs.10 lakhs. The working capital gap viz., the borrower's requirement of finance to carry current assets (based on norms) other than those financed out of his other current liabilities, could be bridged partly from his owned funds and long term borrowings; and partly by bank borrowings. The maximum permissible level of bank credit could be worked out in three ways. In the first method, the borrower will have to contribute a minimum of 25 per cent of the working capital gap from long term funds. This would give a minimum current ratio of 1:1. Under the second
method, the borrower will have to provide a minimum of 25 per cent of total current assets from long term funds. This would give a current ratio of at least 1.3:1. In the third method, the borrower's contribution from long term funds will be to the extent of the entire core current assets, and a minimum of 25 per cent of the balance current assets, thus strengthening the current ratio further. The Committee recommended the first method as a stop-gap method till borrowers got used to the new approach of lending and moved towards the idea of the third method.

The other recommendations of the Committee are summarised as follows:

(1) The annual credit limit may be bifurcated into a loan which would comprise the minimum level of borrowing throughout the year and a demand cash credit, which would take care of the fluctuating requirements, both to be reviewed annually.

(11) Receivables should be financed by way of bills rather than cash credit against book debts.

(111) It should be the responsibility of the borrower to supply all necessary and relevant information to lending bank, such an information should include an opera-

8. Ibid., p.69.
ting as well as funds flow statement for the whole next year. It should also supply projected balance sheet as it stood at the end of next year. This would help the bankers in finding out annual drawing with in the sanctioned limits; and

(iv) Every bank, should actively follow up and supervise the use of credit advanced by it to the parties. The banks should ensure that the end use of the credit is according to the purpose for which it was advanced. The Tandon Committee recommendations were accepted by the Reserve Bank of India in 1975, and the banks were asked to act upon them in their future lending operations. It is to be mentioned that the Tandon Committee recommendations have brought about a noticeable change in the outlook and attitude of all the parties concerned.

Chore Committee

Although the banks were advised by the Reserve Bank of India to implement the recommendations of the Tandon Committee, particularly with regard to cash credit system, the progress achieved had been very slow. It was in that context the Reserve Bank of India appointed a Working Group
under the chairmanship of K.B. Chore in the year 1979. The terms of reference were as follows:

(1) to review the operation of the cash credit system in recent years, particularly with reference to the gap between sanctioned credit limits and the extent of their utilisation;

(11) to suggest modifications in the system with a view to making the system more amenable to rational management of funds by commercial banks; and

(111) to suggest alternative types of credit facilities, which would ensure greater credit discipline and also enable banks to relate credit limits to increases in output or other productive activities.

The Committee observed that the gap between the sanctioned limits and its utilisation was large and hence the sanctioned limits did not give a correct picture of the utilisation of bank facilities. It was observed that without a periodic review based on a quarterly information system, cash credit system, loses much of its amenability to discipline and planning. It was also observed that the utilisation of credit limits was higher in the case of private sector borrowers (around 70 per cent), and lower in the case of public sector borrowers (50-55 per cent).

Further, the utilisation was higher (around 70 per cent) in the case of very large and very small borrowers.

The Committee felt that the advantages of the existing system of extending credit by a combination of the three types of lending, viz., cash credit, loan, and bill system of finance should be retained. It was also felt that the bifurcation of cash credit limit into a demand loan portion and a fluctuating cash credit component has not found acceptance either on the part of the banks or the borrowers.

In the light of the above findings, the Committee made the following recommendations:

(1) In order to ensure that the borrowers do enhance their contributions to working capital and to improve their current ratio, it is necessary to place them under the second method of lending as recommended by the Tandon Committee.

(11) While assessing the credit requirements, the banks should appraise and fix separate limits for the normal non-peak level as also for the peak level credit requirements indicating also the periods during which the separate limits would be utilised by the borrowers. This procedure would be extended to all borro-
winters having working capital limits of Rs.10 lakhs and above.

(iii) Banks should review the system of financing book debts through cash credit and insist on the conversion of such cash credit limits into bill limits.

(iv) Banks should sanction to manufacturing units at least 50 per cent of the cash credit limit against raw materials as drawee bill limit particularly when such purchases are made from small scale industries.

On the basis of the Chord Committee recommendations, the Reserve Bank of India has prescribed that while assessing the credit requirements of the borrowers having working capital credit limit of Rs.50 lakhs and above, separate limits should be fixed for the normal non-peak level as also for the peak level credit requirements, indicating the periods during which the separate limits would be utilised by the borrowers.

Nayak Committee

A committee under the chairmanship of P.R. Nayak was set up in December 1991 by the Reserve Bank of India to look into the various aspects of the credit requirements of the small scale industries (SSI) sector. The terms of
reference of the Committee included examination of (a) the adequacy of institutional credit (both for working capital and for term loans) to the SSI sector; (b) the need for modifications/relations in the norms prescribed by the Tandon and Chore Committees in so far as the SSIs are concerned; (c) revision, if any, required in the existing RBI guidelines for the rehabilitation of the sick SSI units; and (d) any other aspect related to the above.

After a thorough enquiry into the problem, the Committee observed that the credit support extended by the banking systems to the SSI sector is inadequate. Small scale industries as a whole got only 8.1 per cent of their output as working capital from the banking system. While the larger segments within the SSI sector secured around 18.8 per cent of their output which was marginally less than what the Committee considered reasonable, the village and smaller tiny industries got only 2.7 per cent of their output as working capital.

The Committee suggested that small unregistered units with credit limits of not more than Rs.1 lakh should have the first claim on the priority sector credit to small scale industries. Further, the banking system should meet all the working capital requirements of all the units under tiny sector with credit limits upto Rs.10 lakhs. The

Committee also recommended that the working capital needs of other SSIs at 20 per cent of the output should be pre-empted by commercial banks through an annual budgetary exercise and, if necessary, a part of resources flowing to the medium and large industries sector at present, should be diverted to fully meet the demands of SSIs.

While the norms for inventory and receivables (as per the Tandon Committee) has little relevance to the vast majority of SSIs, the Committee felt that these norms should not come in the way of SSI units getting at least 2 per cent of their turnover as working capital from the banks. Special norms for SSI units in the north-eastern and hilly regions may also be considered.

The Committee recommended a modified definition of a sick SSI unit. A unit may be classified as sick when any of its borrowal accounts remains overdue for a period exceeding 30 months and there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years. To tackle the problem of sickness in small scale sector, the Committee recommended for creation of cells within the banks at regional levels. Constitution of state level tribunals on the lines of BIFR, changes in the state level inter-institutional committees (SLIIC) and a role for
a district counterpart of SLIIC in monitoring and overseeing the bank's progress in the quick determination of viability of sick units are the other recommendations of the Committee in regard to sickness in small scale industries.

Other aspects considered by the Committee in regard to which recommendations have been made, include - (i) indexation of the value of investment in plant and machinery of units to ensure a uniform application of the definition of SSI, (ii) modernisation in the interest rates charged to tiny units, (iii) reduction in the service/collection charges and overdue interest charged by banks in the bills of their SSI clientele, (iv) abolition of the system of levying the DICGC credit guarantee fee separately from SSI borrowers, (v) creation of a separate modernisation fund for SSIs and (vi) setting up of factoring organisations in all parts of the country and allowing the private sector to enter this field.

The Committee emphasised the role of the SSI associations in mitigating the manifold hardships and difficulties of their member units and recommended that the associations should develop separate technical wings consisting of qualified personnel which would be able to look into the problems of units and pursue them with various authorities.
Performance of Commercial Banks

For a long time, commercial banks were not inclined to finance small scale industries as they considered that financing small industry was a risky proposition. Therefore, at the time of nationalisation of major commercial banks the small scale industries accounted for Rs.347 crores or 9.6 per cent of the total bank credit. However, the involvement of banks in lending to small scale industrial sector has been increasing ever since the nationalisation of major commercial banks in 1969. The RBI has instructed the banking sector that credit to the small scale sector should be given on a priority basis. As a result of this directive, credit to the small sector has increased significantly year after year.

As is evident from Table-II.1, there has been a tremendous increase in the priority sector advances since 1969. At the end of December 1969, the total bank credit was Rs.3,616 crores. But it increased to Rs.1,14,502 crores by June 1992, that is about 32 fold increase in the total outstanding bank credit over a period of 23 years. In the case of priority sector credit, it was Rs.659 crores in 1969, but increased to Rs.44,995 crores, that is about 68 fold increase in priority sector lending over the same period. With regard to SSI sector advances, it was Rs.347
Table II.1

SCHEDULED COMMERCIAL BANKS' ADVANCES TO SSI SECTOR IN INDIA

(Amount in Rs. crores)
(No. of Accounts in thousands)

<table>
<thead>
<tr>
<th>As on the last Friday of Accounts</th>
<th>SSI Sector Total Amount</th>
<th>Total Priority Sector Credit</th>
<th>% of (3) to (4)</th>
<th>% of (5) to (4)</th>
<th>% of (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec, 1969</td>
<td>2</td>
<td>347</td>
<td>659</td>
<td>3,616</td>
<td>52.6</td>
</tr>
<tr>
<td>&quot; 1975</td>
<td>72</td>
<td>1,147</td>
<td>2,610</td>
<td>9,885</td>
<td>44.0</td>
</tr>
<tr>
<td>&quot; 1980</td>
<td>794</td>
<td>3,136</td>
<td>8,327</td>
<td>23,968</td>
<td>37.7</td>
</tr>
<tr>
<td>&quot; 1981</td>
<td>961</td>
<td>3,953</td>
<td>10,803</td>
<td>29,091</td>
<td>36.6</td>
</tr>
<tr>
<td>&quot; 1982</td>
<td>1,050</td>
<td>4,464</td>
<td>12,343</td>
<td>34,230</td>
<td>36.2</td>
</tr>
<tr>
<td>&quot; 1983</td>
<td>1,244</td>
<td>5,386</td>
<td>14,882</td>
<td>41,292</td>
<td>36.2</td>
</tr>
<tr>
<td>&quot; 1984</td>
<td>1,455</td>
<td>6,537</td>
<td>18,330</td>
<td>46,296</td>
<td>35.7</td>
</tr>
<tr>
<td>&quot; 1985</td>
<td>1,642</td>
<td>7,829</td>
<td>21,631</td>
<td>52,842</td>
<td>36.2</td>
</tr>
<tr>
<td>&quot; 1986</td>
<td>1,863</td>
<td>9,127</td>
<td>25,224</td>
<td>60,312</td>
<td>36.2</td>
</tr>
<tr>
<td>&quot; 1987</td>
<td>2,179</td>
<td>10,785</td>
<td>29,269</td>
<td>67,855</td>
<td>36.8</td>
</tr>
<tr>
<td>&quot; 1988*</td>
<td>2,598</td>
<td>12,309</td>
<td>32,564</td>
<td>72,175</td>
<td>37.8</td>
</tr>
<tr>
<td>June 1989*</td>
<td>2,707</td>
<td>13,248</td>
<td>34,874</td>
<td>78,178</td>
<td>38.0</td>
</tr>
<tr>
<td>June 1990*</td>
<td>2,798</td>
<td>14,127</td>
<td>38,649</td>
<td>91,302</td>
<td>36.6</td>
</tr>
<tr>
<td>&quot; 1991*</td>
<td>2,890</td>
<td>16,590</td>
<td>42,093</td>
<td>1,02,959</td>
<td>39.4</td>
</tr>
<tr>
<td>&quot; 1992*</td>
<td>2,823</td>
<td>17,689</td>
<td>44,395</td>
<td>1,14,502</td>
<td>39.3</td>
</tr>
</tbody>
</table>

* Details relate to Public Sector Banks only.

Source: Reserve Bank of India Monthly Bulletin (Relevant Issues).
crores in 1969, but increased to Rs.17,689 crores, that is about 51 fold increase in SSI sector advances over the period.

In terms of percentage to total credit, priority sector credit accounted for 18 per cent in 1969. But as a result of the deliberate policy of the Government and the Reserve Bank of India, this percentage increased to 26 per cent by 1975, 35 per cent by 1980, 42 per cent by 1990, 41 per cent by 1991 but declined to 39.3 per cent by June 1992. Thus, it can be stated that the commercial banks have well reached the target of 40 per cent priority sector advances to total bank credit. Similarly, the SSIs share in the total bank credit was 10 per cent in 1969, but increased to 12 per cent in 1975, 13 per cent in 1980, 16 per cent in 1990, 16 per cent in 1991 but declined to 15 per cent in 1992. Further, the share of SSI sector in the total priority sector lending (in terms of percentage) was 53 per cent in 1969, 44 per cent in 1975, 38 per cent in 1980, 37 per cent in 1990, 39 per cent in 1991, and 39 per cent in 1992. It can also be seen from the table that while there has been a significant increase in absolute terms both in the number of accounts and the amount of credit to small scale industries, there has actually been a decline in the percentage share of credit to small scale industries in the total priority
sector advances. This might be because of increase in the share of credit to other constituents of the priority sector.

Cooperative Banks

In consonance with the Government Policy, the cooperative banks also have taken on the task of financing industrial projects in a big way. Even before independence, the industrial cooperatives had been financed by the cooperative banks. In urban areas cooperative banks financed people engaged in a variety of professions, trades and other avocations. In other words, cooperatives have played an important role in the development of small scale and cottage industries.

In every state, there is a state level cooperative bank and district level central banks. Cooperative banks provide both term as well as working capital finance to the small scale industries. The cooperative central bank may finance an entrepreneur who is a 'B' class member of village society or a cooperative central bank. Where a borrower is situated nearer to the state cooperative bank or he prefers to obtain his finances from that bank or in case the cooperative central bank is unable to finance an entrepreneur, the state cooperative bank will be agreeable to consider financing the entrepreneur.

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direct. Procedure for appraisal, norms of discipline prescribed for the borrower and other related matters are the same as in the case of commercial banks. Similarly, norms of security margins are also more or less similar to those prescribed by the commercial banks.

The terms for financing fixed capital are dependent on the type of industry and nature of the fixed capital required. Working capital is provided either on pledge or hypothecation of stocks. Facilities for discounting of bills are also provided especially by the state cooperative banks. Interest on term loans will range from 9.50 per cent to 15 per cent depending on the source of refinance, type of unit and location of the unit. Under the existing terms of finance, units set up in a backward area are entitled to term finance at 12.50 per cent while units covered under credit guarantee scheme or technician/entrepreneurs scheme can get the finance at 11 per cent. In case any unit is set up in a remote rural area whose application is routed through primary cooperative society, the interest rate on its working capital could be as low as 11 per cent. Similarly in respect of an industrial cooperative set up in the district, the minimum rate will be 9.50 per cent. Normal procedures as are usually followed by other banks are adopted by cooperative banks in respect of
margins, hypothecation, pledge, furnishing of stock statements at periodical intervals, remittance of sale proceeds etc

State Financial Corporations (SFCs)

While the Industrial Finance Corporation of India (IFCI) meets the financial requirements of medium and large scale industries, the small scale industries have been left high and dry. Moreover, a single corporation cannot be expected to shoulder the additional responsibility of meeting the varied financial requirements of diversified small scale industries. Therefore, the Government thought of creating another layer of institutions exclusively for financing the small and medium scale industries. Accordingly, the State Financial Corporations Bill was passed in September 1951. The first State Financial Corporation was set up by the Government of Punjab in 1953 and, thereafter other states followed suit. At present, there are as many as 18 SFCs including the Tamil Nadu Industrial Investment Corporation (TIIC) in the country.

The main objective of the state financial corporation is to meet the medium and long-term credit needs
of small and medium scale industries in the state and thereby accelerating the industrial development in the country.  

Sources of funds

The main sources of funds to the state financial corporations consist of share capital and reserves, bonds and debentures, deposits, and borrowings from the Reserve Bank of India and the concerned state government. They may also obtain funds from IDBI under the refinance scheme.

Functions of SFCs

The following are the main functions undertaken by the State Financial Corporations:

(1) Deployment of long term credit to industrial concerns, primarily for the purpose of acquiring fixed assets in the shape of land, buildings, and machinery;

(ii) Underwriting of the issue of bonds, shares and debentures by industrial concerns;

Guaranteeing loans raised by industrial concerns from scheduled banks or state cooperative banks for acquisition of fixed assets;

Guaranteeing deferred payments due from industrial concerns in connection with their purchase of capital goods within India;

Subscribing to debentures of industrial concerns;

Acting as an agent of the state or the central Government or any other financial institution notified in this behalf by the Government of India; and

Providing foreign exchange loans under IDA line of credit.

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(1) Manufacture, preservation or processing of goods;
(11) Mining, and development of mines;
(111) Hotel industry;
(iv) Transport of passengers or goods by road or by water or by air or by ropeway or by lift;
(v) Generation or distribution of electricity or any other form of power;
(vi) Maintenance, repair, testing or servicing of machinery of any description or vehicles or vessels or motor boats or trailers or tractors;
(vii) Assembling, repairing or packing any article with the aid of machinery or power;
(viii) Development of any contiguous area of land as an industrial estate or industrial areas;
(ix) Fishing or providing shore facilities for fishing or maintenance thereof;
(x) Research and development of any process or product in respect of industrial activities eligible for assistance by SFC;
(x1) Providing of weigh bridge facilities;
(x11) Providing special or technical knowledge or other services for the promotion of industrial growth.
(x111) Setting up nursing homes/hospitals and for medical equipment to doctors;
(xiv) Borewell rigs/road laying equipment/earth excavators;
(xv) Business enterprises set up by qualified professionals in management, accountancy, medicine, architecture, engineering, etc.

The state financial corporations do not extend financial assistance towards working capital except under composite loan scheme, single window scheme, and self-employment scheme for young entrepreneurs.

Quantum of Assistance

Loans given by the SFCs are generally between Rs.10,000 and Rs.30,00,000. In the case of limited companies and cooperatives, the maximum limit is extended upto Rs.60 lakhs including deferred payment guarantees and underwriting of shares. Any industrial concern with a project cost not exceeding Rs.3.00 crores is eligible for financial assistance. Wherever necessary the corporations undertake joint financing with other financial institutions such as IFCI, ICICI, commercial banks, etc. Recently, the SFCs have also been sanctioning mini loans of Rs.5,000 to small entrepreneurs.

Special Schemes Operated by the State Financial Corporations

In addition to extending term loan assistance for setting up new industrial undertakings or for
expansion/diversification of the existing industrial units, the SFCs also operate the following special schemes for the benefit of wide range of entrepreneurs.

Composite Loan Scheme

Under the composite loan scheme units belonging to the tiny, village or cottage industries located in places with a population less than 5.00 lakhs are eligible for 100 per cent financial assistance for both fixed capital and working capital subject to a maximum of Rs.50,000. Moratorium period under the scheme shall be 12-18 months. Repayment period can range from 3 to 10 years. Certain concessions are also given in the rate of interest for the loans sanctioned under the scheme.

Scheme for Physically Handicapped and SC & ST Entrepreneurs

Entrepreneurs with any physical handicap can get 100 per cent financial assistance for projects costing upto Rs.50,000 for equipment or working capital or both. For projects with the cost exceeding Rs.50,000, financial assistance shall be extended on liberal terms including soft loan assistance. Concessional rate of interests is allowed irrespective of location of the industry.

Single Window Scheme

Single window scheme is meant for new tiny and SSI units whose cost of project does not exceed Rs.20.00 lakhs,
and the total working capital requirement at the normal level of operations is not exceeding Rs. 10.00 lakhs. But the overall debt equity ratio must be 3 : 1. Repayment period is a maximum of 10 years with an initial moratorium period of 2 years for term loans and 3 years for working capital loans.

Women Entrepreneur Scheme

For the development of women entrepreneurs, the SFCs have designed some special schemes. Projects in SSI sector with women entrepreneur(s) having a minimum 51 per cent share in equity, are eligible for assistance under the scheme. Assistance shall be given at a maximum debt equity ratio of 3:1 with a minimum promoter's contribution at 15 per cent of project cost. Term loans are repayable over a period of 10 years with an initial moratorium period upto 2 years.

There is also another scheme called Mahila Udyam Nidhi Scheme exclusively for women entrepreneurs. All new industrial projects with project cost not exceeding Rs. 10.00 lakhs promoted by women entrepreneurs with a minimum of 51 per cent share in equity are eligible for equity type of assistance under the scheme along with regular term loan. Further, seed capital assistance by way of soft loan is considered upto a maximum of 15 per cent of the project cost
to meet gap the in equity. The soft loan repayment period will be a maximum of 10 years with a moratorium period upto 5 years.

Self-employment Scheme for Young Entrepreneurs

To encourage self-employment and thereby reduce pressure on work employment, the SFCs in the country have designed some special schemes. One such scheme is self-employment scheme for young entrepreneurs. The scheme is specifically designed to provide gainful self-employment opportunities to the unemployed in the age group of 20-40 years, with a minimum educational qualification of 10th standard. But those who have acquired skills of artisans and craftsmen without the minimum educational qualifications are also eligible for assistance under the scheme. In case of SC/ST entrepreneurs, the maximum age limit is upto 45 years. To get assistance under this scheme the industrial unit must be a new venture. The total cost of the project including cost of the fixed assets and working capital shall not exceed Rs.5.00 lakhs. The maximum loan repayment period is 8 years with an initial moratorium of 2 years.

Self-employment Scheme for Ex-servicemen

The objective of the scheme is to encourage and extend financial assistance to ex-servicemen, disabled service personnel, and widows of ex-servicemen to take up
self-employment industrial ventures. The ex-servicemen are also eligible for financial assistance for acquiring heavy or light commercial vehicles with 50 per cent collateral security. The ex-servicemen under taking hotel projects/tourism related activities are also eligible for assistance under the scheme. The ex-servicemen forming partnership with one or more non-ex-servicemen would also be eligible for assistance under the scheme provided the contribution from non-ex-servicemen does not exceed 25 per cent of total promoter's contribution and effective management of project rests with the ex-servicemen.

Equipment Refinance Scheme

This scheme is geared to extend financial assistance for the procurement of new machinery/equipment for the purpose of modernisation/expansion/balancing/replacement. To be eligible for assistance under the scheme, the unit should have been in operation for atleast four years and should not have defaulted in payments due to the institutions.

The project cost (including proposed) should not exceed Rs.3.00 crores and the paid up capital and reserves also should not exceed Rs.3.00 crores. The minimum promoter's contribution should be 22.5 per cent and repayment period shall not be exceeding 5 years with
a moratorium period up to 12 months.

Scheme for Modernisation

To get assistance under the scheme the units should be in existence at least for a period of 5 years. In case of replacement/renovation, the machinery should have been in usage for a period of at least 5 years. Proposals for assistance should establish the need for modernisation and should primarily aim at: (a) Upgradation of process technology and products; (b) export orientation; (c) import substitution; (d) energy saving; (e) antipollution measures; (f) conservation/substitution of scarce raw materials and other inputs including recycling/recovery of waste and by-products; (g) improvement in capacity utilisation within the existing capacity through increase in productivity; and (h) improvement in material handling. However, the proposals for mere replacement of machinery or solely for expansion of capacity are not covered under the scheme. The period of repayment of loan will be fixed on the basis of repaying capacity. Minimum promoter's contribution would be 10 per cent of the cost of modernisation scheme.

Special Capital Assistance

Special capital assistance by way of soft loan shall be sanctioned to bridge the gap in equity capital of small scale industrial units promoted by the first
generation technocrat entrepreneurs. Under the special capital assistance scheme, 20 per cent of the project cost or Rs. 4 lakhs whichever is lower, is considered to bridge the gap in minimum promoter's contribution to the project. Moratorium period is considered for repayment upto 5 years.

National Equity Fund Scheme

Under the National Equity Fund Scheme, the SFCs could provide assistance upto 15 per cent of the project cost or Rs. 1.50 lakhs whichever is lower. But the project should have been floated by new entrepreneurs in the tiny or small scale sector with the project cost not exceeding Rs. 10.00 lakhs. The existing SSI units can also avail of this facility for rehabilitation purposes, provided the total outlay on rehabilitation does not exceed Rs. 10.00 lakhs. A nominal service charge of 1 per cent per annum is charged on the assistance under the scheme. The repayment period is generally upto 7 years with an initial moratorium period of 3 years.

Financial Performance

The State Financial Corporations in the country have been assisting the industrial sector since the early 1950s. Cumulatively, by the end of March 1991 all the SFCs in the country sanctioned Rs. 11,635.30 crores, of which the disbursements were to the tune of Rs. 8,756.10 crores. With
regard to SSIs, SFCs had assisted 3,26,487 units with cumulative sanctions of Rs.8,121,30 crores, of which the disbursements were to the extent of Rs.6,260.20 crores. Thus, the share of small scale industries in the total sanctions, works out to about 70 per cent.

The year wise sanctions and disbursements of SFCs are shown in Table-II.2. It can be observed from the table that there is a substantial increase in the number of units assisted as well as amount of loans sanctioned over the period. In the year 1978-79, all the SFCs in the country sanctioned Rs.200.73 crores to all the industries, of which the share of small scale industries was to the extent of Rs.118.31 crores. In other words, small scale industries accounted for 59 per cent of the total sanctions. In the year 1984-85, the total sanctions were to the tune of Rs.743.12 crores, of which Rs.553.15 were to the small scale industries. Thus, the share of small scale industries in the total sanctions works out to 74 per cent. But in 1990-91, the small scale industries accounted for 70.4 per cent of the total sanctions of Rs. 1,848 crores. It can be further observed from the table that actual disbursements were far below the sanctions. In the year 1978-79, disbursements to the small scale industries accounted for 70 per cent of the sanctioned amount; in 1984-85 it was 67 per cent and in
### Table-II.2

DEPLOYMENT OF CREDIT BY STATE FINANCIAL CORPORATIONS IN INDIA  
(Amount Rs. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units Assisted</th>
<th>Small Scale Industries (SSI) Sanctions</th>
<th>Disbursements</th>
<th>Total (SSI's and Others) Sanctions</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>7,248</td>
<td>118.31</td>
<td>82.17</td>
<td>200.73</td>
<td>134.98</td>
</tr>
<tr>
<td>1979-80</td>
<td>15,411</td>
<td>170.36</td>
<td>114.08</td>
<td>263.82</td>
<td>184.75</td>
</tr>
<tr>
<td>1980-81</td>
<td>26,866</td>
<td>275.60</td>
<td>167.53</td>
<td>370.54</td>
<td>247.97</td>
</tr>
<tr>
<td>1981-82</td>
<td>28,178</td>
<td>363.47</td>
<td>210.71</td>
<td>501.04</td>
<td>315.38</td>
</tr>
<tr>
<td>1982-83</td>
<td>28,682</td>
<td>459.66</td>
<td>291.10</td>
<td>590.20</td>
<td>404.22</td>
</tr>
<tr>
<td>1983-84</td>
<td>24,776</td>
<td>461.02</td>
<td>308.24</td>
<td>644.91</td>
<td>435.48</td>
</tr>
<tr>
<td>1984-85</td>
<td>24,447</td>
<td>553.15</td>
<td>370.03</td>
<td>743.12</td>
<td>497.74</td>
</tr>
<tr>
<td>1985-86</td>
<td>23,036</td>
<td>763.45</td>
<td>462.72</td>
<td>1,009.07</td>
<td>608.62</td>
</tr>
<tr>
<td>1986-87</td>
<td>23,339</td>
<td>919.67</td>
<td>587.47</td>
<td>1,210.81</td>
<td>791.89</td>
</tr>
<tr>
<td>1987-88</td>
<td>27,005</td>
<td>891.58</td>
<td>689.24</td>
<td>1,284.74</td>
<td>937.98</td>
</tr>
<tr>
<td>1988-89</td>
<td>25,625</td>
<td>999.18</td>
<td>787.49</td>
<td>1,391.92</td>
<td>1,055.98</td>
</tr>
<tr>
<td>1989-90</td>
<td>27,933</td>
<td>1,113.96</td>
<td>857.01</td>
<td>1,543.61</td>
<td>1,190.22</td>
</tr>
<tr>
<td>1990-91</td>
<td>33,582</td>
<td>1,301.90</td>
<td>923.60</td>
<td>1,848.00</td>
<td>1,267.30</td>
</tr>
</tbody>
</table>

Cumulative upto end March 1991

<table>
<thead>
<tr>
<th></th>
<th>Sanctions</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,26,487             8,121.30</td>
<td>6,260.20</td>
<td>11,635.30</td>
</tr>
<tr>
<td>8,756.10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1990-91 it was 77 per cent. Thus, it can be stated that about one third of the sanctions always remain undisbursed. Furthermore, the number of small scale units assisted by the state financial corporations also increased from 7,248 in 1978-79 to 33,582 in 1990-91. In other words, there is about four fold increase in the number of units assisted over a period of twelve years, 1978-79 to 1990-91.

National Small Industries Corporation (NSIC)

National Small Industries Corporation was established in February 1955 to aid, counsel, assist, finance and promote the interests of small industries in the country.

Among other things, the Corporation supplies of both indigenous and imported machines on hire purchase terms. Special concessional terms have been introduced for units in backward areas and also units promoted by entrepreneurs from weaker sections of the society.

The hire purchase scheme was launched in March 1956 and its main purpose is to facilitate establishment of new small and ancillary units and modernisation of existing ones. Under this scheme, the NSIC enables the SSIs to obtain machinery and equipment by paying an initial deposit of 10 per cent of the cost of the equipment and paying the rest in instalments over a period of seven years. Thus, under this
scheme small industries get machinery and other equipment on easy terms of payment. The NSIC also operates prototype production and training centres mainly to develop prototype equipment and machine tools for production on commercial basis and distribution to small scale industries. The NSIC also assists small industry by ensuring greater share in government purchase programme, and distribution of raw materials, scarce components, and parts.

The Corporation assisted 748 small scale industrial units in 1980-81 under the hire purchase scheme and the value of machinery supplied was Rs.831.32 lakhs. But over a period of time, the Corporation has increased its quantum of its assistance. As it can be observed from Table- II.3, the number of units assisted increased to 1,195 in 1983-84 and to 1,530 in 1987-88. However, in 1989-90, the number of units assisted were only 985. The value of machinery supplied under the scheme also increased to Rs.1,754.25 lakhs in 1982-83 and further to Rs.2,186.60 lakhs in 1987-88. However, in 1990-91 the value of machinery supplied was only Rs.1,740 lakhs.

Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India (IDBI) was established in July 1964 under the Industrial Development Bank of India Act, 1964. The IDBI is an apex
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units Assisted</th>
<th>No. of Machines Delivered</th>
<th>Value of Machinery Delivered (Rs.in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>748</td>
<td>1,940</td>
<td>831.32</td>
</tr>
<tr>
<td>1981-82</td>
<td>950</td>
<td>2,70</td>
<td>1,151.76</td>
</tr>
<tr>
<td>1982-83</td>
<td>1,124</td>
<td>2,757</td>
<td>1,754.25</td>
</tr>
<tr>
<td>1983-84</td>
<td>1,195</td>
<td>3,025</td>
<td>1,330.80</td>
</tr>
<tr>
<td>1984-85</td>
<td>1,000</td>
<td>2,503</td>
<td>1,018.70</td>
</tr>
<tr>
<td>1985-86</td>
<td>1,120</td>
<td>2,836</td>
<td>1,298.50</td>
</tr>
<tr>
<td>1986-87</td>
<td>1,345</td>
<td>3,625</td>
<td>1,656.80</td>
</tr>
<tr>
<td>1987-88</td>
<td>1,530</td>
<td>4,767</td>
<td>2,186.60</td>
</tr>
<tr>
<td>1988-89</td>
<td>1,060</td>
<td>3,460</td>
<td>1,759.00</td>
</tr>
<tr>
<td>1989-90</td>
<td>985</td>
<td>2,595</td>
<td>1,680.56</td>
</tr>
<tr>
<td>1990-91</td>
<td>N.A</td>
<td>N.A</td>
<td>1740.00</td>
</tr>
</tbody>
</table>

financial institution for coordinating, in conformity with national priorities, the activities of the institutions engaged in financing and promoting industrial development in the country.

The main objectives of IDBI are to serve as an apex institutions for the term lending institutions and to coordinate their activities in financing, promoting and development of industries. IDBI's assistance to small industries sector is channelised through the network of primary lending institutions under its refinance scheme, bills rediscounting scheme, seed capital assistance scheme, etc.

Refinance Scheme

Under the refinance scheme, the IDBI provides replenishment finance (refinance) to eligible institutions viz., commercial banks, cooperative banks, regional rural banks, state financial corporations (SFCs) or state industrial development corporations / state industrial investment corporations (SIDC/SIIC) for their loans to small scale industries. In other words, the IDBI provides assistance to small scale industries through grass root level institutions as it is not possible the for IDBI to reach directly a large number of small industrial units scattered all over the country.

The maximum amount of loan for refinance is Rs. 60 lakhs for SFCs, Rs. 80 lakhs for commercial banks, and Rs. 60 lakhs for SIDCs/SIICs. When projects are jointly financed by SFCs and SIDC/SIIC and commercial banks, the total amount of refinance from the IDBI may be Rs. 200 lakhs. No minimum limit has been laid down for eligibility under the scheme. The minimum period for loans for refinance is 3 years. The maximum period of loans given by commercial banks and state cooperative banks may be upto 7 years; but for other term lending institutions the period is upto 10 years. The IDBI normally refinances upto 90 per cent of the eligible loans. However, refinance is provided upto 100 per cent for loans to small scale units covered under the credit guarantee scheme and to small road transport operators, including the single truck operators.

The IDBI operates a variety of refinance schemes like refinance scheme for industrial loans for small and medium industries, refinance composite loan scheme for artisans, village and cottage industries, refinance scheme for industrial loans for working capital requirements for very small industrial units, refinance scheme for women entrepreneurs, refinance scheme for small road transport operators, refinance scheme for quality control facilities by industrial units in the small scale sector, refinance
scheme for modernisation of small and medium scale industries, refinance scheme for rehabilitation of small medium industries, refinance scheme for scheduled castes/scheduled tribes entrepreneurs and physically handicapped entrepreneurs, etc.

Bills Rediscounting Assistance

The IDBI rediscounts bills/promissory notes arising out of the sale of indigenous machinery on deferred payment basis. Under the scheme, bills/promissory notes drawn in favour of or by machinery manufacturers are discounted by the latter in the first instance with their banks which in turn, rediscount them with the IDBI. The facilities under the scheme are also available for approved design engineering concerns, which get the machinery fabricated according to their own specifications and design under their own supervision and sell them under their own brand names. The sales made by selling agents/distributors of the machinery manufacturers to purchaser users on deferred payment basis, are also eligible for assistance, provided that the agents/distributors have paid in full to the manufacturers for the machinery under sale before the execution of the bills/promissory notes.

Rediscounting assistance is given at concessional rates to seller-manufacturers/purchaser-users in the small
scale sector for the purchase of chassis/machinery by state electricity boards/state road transport corporations in the north-eastern and himalayan hill regions, and to the West Bengal State Electricity Board for use in the hill district of Darjeeling. The IDBI has given special limits to banks for the exclusive use of seller-manufacturers and purchaser-user in the small scale sector.

Seed Capital Assistance Scheme

The IDBI provides equity type of assistance in the form of seed capital through three schemes viz., (1) special capital scheme operated by SFCs and SIDCs; (11) seed capital scheme operated by SIDCs and SFCs as agent of IDBI and in exceptional cases, directly by IDBI itself; (111) national equity fund through nationalised banks as agents of IDBI. The main aim of seed capital assistance scheme is to assist those entrepreneurs, who have worthwhile projects and also possess the necessary technical and managerial skills but lack the required finance to put in the requisite promoter's equity. Thus, the IDBI assists entrepreneurs who have technically feasible and economically viable projects, but do not have enough capital for the promoter's contribution.

Assistance under the scheme is interest-free and carries only a service charge of 1 per cent per annum. The
assistance is also available to the promoters who undertake expansion, diversification and modernisation of their productive processes. The promoters setting up a project in the small scale sector for the first time, are eligible for assistance under the scheme, even if their requirements of seed capital assistance exceed Rs.2 lakhs.

The Industrial Development Bank of India also provides resource support to National Small Industries Corporation for its lending to small scale sector. The IDBI operates schemes which extend financial assistance at concessional rate of interest to the units in the small scale sector covered under the credit guarantee scheme.

The other schemes operated by IDBI are composite loan scheme, scheme for relief refinance, scheme for assistance to industrial estates, scheme for assisting modernisation of small scale units and rehabilitation of sick SSI units.

performance

The assistance of IDBI to small scale industries under the refinance, bills rediscounting and other schemes increased from Rs.309.95 crores in 1980-81 to Rs.1699.40 crores in 1989-90. As it can be observed from Table—II.4, the disbursements increased to Rs.1158.60 crores in 1989-90
## Table II.4

**ASSISTANCE TO SMALL SCALE INDUSTRIES BY INDUSTRIAL DEVELOPMENT BANK OF INDIA**

(Amount in Rs. crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Assistance under Refinance Scheme</th>
<th>Assistance under Bills Rediscoun-ting Scheme</th>
<th>Assistance under Other Schemes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>S 269.86</td>
<td>S 37.69</td>
<td>S 2.40</td>
<td>S 309.95</td>
</tr>
<tr>
<td></td>
<td>D 160.94</td>
<td>D 28.27</td>
<td>D 1.80</td>
<td>D 191.01</td>
</tr>
<tr>
<td>1981-82</td>
<td>S 338.66</td>
<td>S 58.77</td>
<td>S 8.90</td>
<td>S 406.33</td>
</tr>
<tr>
<td></td>
<td>D 220.89</td>
<td>D 44.33</td>
<td>D 3.70</td>
<td>D 268.92</td>
</tr>
<tr>
<td>1982-83</td>
<td>S 443.66</td>
<td>S 80.82</td>
<td>S 8.30</td>
<td>S 532.78</td>
</tr>
<tr>
<td></td>
<td>D 280.83</td>
<td>D 61.07</td>
<td>D 14.70</td>
<td>D 356.60</td>
</tr>
<tr>
<td>1983-84</td>
<td>S 424.37</td>
<td>S 118.37</td>
<td>S 15.90</td>
<td>S 558.64</td>
</tr>
<tr>
<td></td>
<td>D 311.99</td>
<td>D 90.90</td>
<td>D 11.90</td>
<td>D 414.79</td>
</tr>
<tr>
<td>1984-85</td>
<td>S 499.06</td>
<td>S 87.71</td>
<td>S 20.80</td>
<td>S 607.57</td>
</tr>
<tr>
<td></td>
<td>D 382.18</td>
<td>D 66.87</td>
<td>D 14.50</td>
<td>D 463.55</td>
</tr>
<tr>
<td>1985-86</td>
<td>S 742.20</td>
<td>S 111.30</td>
<td>S 20.90</td>
<td>S 874.40</td>
</tr>
<tr>
<td></td>
<td>D 442.60</td>
<td>D 84.90</td>
<td>D 25.60</td>
<td>D 553.10</td>
</tr>
<tr>
<td>1986-87</td>
<td>S 802.30</td>
<td>S 130.80</td>
<td>S 68.40</td>
<td>S 1,001.50</td>
</tr>
<tr>
<td></td>
<td>D 589.80</td>
<td>D 97.40</td>
<td>D 44.20</td>
<td>D 731.40</td>
</tr>
<tr>
<td>1987-88</td>
<td>S 987.80</td>
<td>S 138.30</td>
<td>S 117.10</td>
<td>S 1,243.20</td>
</tr>
<tr>
<td></td>
<td>D 605.70</td>
<td>D 105.70</td>
<td>D 115.20</td>
<td>D 826.60</td>
</tr>
<tr>
<td>1988-89</td>
<td>S 1,254.70</td>
<td>S 135.90</td>
<td>S 116.00</td>
<td>S 1,506.60</td>
</tr>
<tr>
<td></td>
<td>D 731.10</td>
<td>D 103.70</td>
<td>D 92.60</td>
<td>D 927.40</td>
</tr>
<tr>
<td>1989-90</td>
<td>S 1,332.50</td>
<td>S 141.90</td>
<td>S 225.00</td>
<td>S 1,699.40</td>
</tr>
<tr>
<td></td>
<td>D 839.00</td>
<td>D 107.20</td>
<td>D 212.40</td>
<td>D 1,158.60</td>
</tr>
</tbody>
</table>

*S = Sanctions;  D = Disbursements.*

*Note: IDBI Operations in respect of Small sector have been transferred to SIDBI with effect from 4-2-1990.*

*Source: Industrial Development Bank of India: Operational Statistics - 1964-89 and Report on Development Banking in India (Relevant issues).*
from Rs.191.01 crores in 1980-81. The refinance assistance sanctioned during 1989-90, aggregated to Rs.1,332.50 crores as against Rs.269.86 crores in 1980-81. Disbursements also increased from Rs.160.74 crores in 1980-81 to Rs.839.00 crores in 1989-90. During 1989-90, assistance sanctioned under bills rediscounting scheme aggregated to Rs.141.90 crores as against Rs.37.69 crores in 1980-81. The disbursements under the scheme were Rs.28.27 crores in 1980-81, but increased to Rs.107.20 crores in 1989-90.

The assistance of IDBI to SSIs under other schemes also increased from Rs.2.4 crores in 1980-81 to Rs.225.00 crores in 1989-90. Disbursements also increased to Rs.212.40 crores in 1989-90 from Rs.1.80 crores in 1980-81. The total sanctions to small scale industries under all the schemes increased from Rs.309.95 crores in 1980-81 to Rs.1,699.49 crores in 1989-90. The total disbursements also increased from Rs.191.01 crores in 1980-81 to Rs.1,158.60 crores in 1989-90.

Small Industries Development Bank of India (SIDBI)

With a view to ensuring larger flow of financial and non-financial assistance to the small scale sector, it was decided to set up Small Industries Development Bank of India (SIDBI) as a subsidiary of Industrial Development Bank of India. In other words, the SIDBI was established as the
principal financial institution for promotion, financing and development of small scale industries in the country. The SIDBI is also expected to co-ordinate the activities of existing institutions engaged in promotion and development of small scale industries. The SIDBI commenced its operations on April 2, 1990 and has taken over from IDBI the responsibility of administering the small industries development fund and the national equity fund. The main functions of SIDBI are as follows:

(a) Refinancing of loans and advances extended by the primary lending institutions to industrial concerns in the small scale sector and also providing resource support to them;

(b) Discounting and rediscounting of bills arising from sale of machinery to, or manufactured by, industrial concerns in the small scale sector;

(c) Extension of seed capital soft loan assistance under National Equity Fund, Mahila Udyam Nidhi and Seed Capital Scheme through specified lending agencies;

(d) Granting direct assistance as well as refinancing of loans extended by primary lending institutions for financing export of products manufactured by industrial concerns in the small scale sector;

(e) Providing services like factoring, leasing etc., to industrial concerns in the small scale sector;

(f) Extending financial support to State Small Industries Development Corporations for providing scarce raw materials to and marketing the end products of small-scale industrial units; and

(g) Extending financial support to National Small Industries Corporation for providing leasing, hire-purchase and marketing support to SSI units.

The financial assistance of SIDBI to the small scale units is provided through the existing credit delivery mechanism comprising SFCs, SIDCs, commercial banks, cooperative banks and regional rural banks which have a vast network or branches all over the country.

Performance

The assistance of SIDBI to small scale industries is presented in Table-II.5. It can be observed from the table, the total sanctions increased from Rs.2,823.8 crores in 1990-91 to Rs.3,458.8 crores in 1991-92, registering an increase of 22.5 per cent over a period of one year. Similarly, the total disbursements increased from Rs.2,253.5 crores in 1990-91 to Rs.2,588.1 crores in 1991-92. It can be further observed from the table, indirect assistance forms
Table II.5

ASSISTANCE SANCTIONED AND DISBURSED BY SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

(Period: April-March) (Amount in Rs. crores)

<table>
<thead>
<tr>
<th>Schemes/Year</th>
<th>Forms of Assistance</th>
<th>1990-91</th>
<th>1991-92</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sanc-</td>
<td>Disbur-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>tions</td>
<td>sements</td>
</tr>
<tr>
<td>1. Direct Assistance</td>
<td>(a to g)</td>
<td>34.5</td>
<td>20.8</td>
</tr>
<tr>
<td>a. Direct Discounting</td>
<td></td>
<td>26.0</td>
<td>20.1</td>
</tr>
<tr>
<td>b. Marketing Scheme</td>
<td></td>
<td>0.9</td>
<td>-</td>
</tr>
<tr>
<td>c. Assistance to leasing Companies</td>
<td></td>
<td>5.5</td>
<td>0.7</td>
</tr>
<tr>
<td>d. Quality testing</td>
<td></td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>e. Infrastructural Development</td>
<td></td>
<td>2.0</td>
<td>-</td>
</tr>
<tr>
<td>f. Factoring services</td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>g. Others</td>
<td></td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>2. Indirect Assistance</td>
<td>(h to j)</td>
<td>2,707.2</td>
<td>2,155.1</td>
</tr>
<tr>
<td>h. Refinance</td>
<td></td>
<td>2,052.2</td>
<td>1,561.5</td>
</tr>
<tr>
<td>i. Bills rediscoun-</td>
<td></td>
<td>240.0</td>
<td>178.6</td>
</tr>
<tr>
<td>j. Short-term bills</td>
<td></td>
<td>415.0</td>
<td>415.0</td>
</tr>
<tr>
<td>3. Equity support (k to n)</td>
<td></td>
<td>7.1</td>
<td>5.5</td>
</tr>
<tr>
<td>k. Seed capital</td>
<td></td>
<td>0.3</td>
<td>0.2</td>
</tr>
<tr>
<td>l. National equity fund (NEF)</td>
<td></td>
<td>1.6</td>
<td>1.3</td>
</tr>
<tr>
<td>m. Special schemes for</td>
<td></td>
<td>4.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Ex-servicemen (SEMFEX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>n. Mahila Udyama Nidhi</td>
<td></td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>Scheme (MUN)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Resource Support(o to q)</td>
<td></td>
<td>75.0</td>
<td>72.1</td>
</tr>
<tr>
<td>o. NSIC Ltd.(NSIC)</td>
<td></td>
<td>22.0</td>
<td>20.6</td>
</tr>
<tr>
<td>p. State Small Industries</td>
<td></td>
<td>14.5</td>
<td>18.0</td>
</tr>
<tr>
<td>Development Corporations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>q. New Debt Instrument</td>
<td></td>
<td>38.5</td>
<td>33.5</td>
</tr>
<tr>
<td>Total (1 to 4)</td>
<td></td>
<td>2,823.8</td>
<td>2,253.5</td>
</tr>
</tbody>
</table>

the major and substantial segment of total assistance by the SIDBI. Of the total sanctions in 1990-91, about 96 per cent constitutes the indirect assistance. In 1991-92, the indirect assistance forms about 92 per cent of the total sanctions. Under indirect assistance, assistance under refinance scheme is almost whole of the lot. The assistance of SIDBI under other schemes is also creditable. It is noteworthy that the SIDBI has been operating a variety of schemes to suit the varied requirements of the small scale industries in the country.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

The introduction of credit guarantee schemes by the erstwhile Credit Guarantee Corporation of India Ltd., was part of the measures aimed at encouraging the commercial banks to cater to the credit requirements of the hitherto neglected sectors, particularly the weaker sections of the society. While there was an increasing awareness among banks of the need to provide more credit to small borrowers, certain practical difficulties, largely stemming from hesitation on the part of the credit institutions to venture into new and riskier fields of lending, were encountered. Therefore, the idea of setting up of Credit Guarantee Corporation of India Ltd., was conceived to provide a simple but wide ranging system of guarantees for loans granted by
credit institutions to small and needy borrowers. In 1971 the Credit Guarantee Corporation of India Ltd., (CGCI) was established to administer Small Loan Credit Guarantee Scheme for the small borrowers. However, in 1978 the Deposit Insurance and Credit Guarantee corporation (DICGC) took over the functions of CGCI. In 1981 the DICGC formulated a scheme - Small Loans (Small Scale Industries) Guarantee Scheme for guaranteeing credit given to small scale industries. Small Loans (Small Scale Industries) Guarantee Scheme, 1981

The Small Loans Guarantee Scheme provides guarantee support to all eligible credit institutions which are assisting industries in the small scale and priority sector, for acquisition of, or repairs to, or replacement of fixed assets or equipment and for working capital requirements for production and marketing of products.

The guarantee is as much as 90 per cent in the case of borrowers having credit facilities not exceeding Rs.25,000, and 75 per cent for borrowers having credit facilities over Rs.25,000 but not exceeding Rs.2 lakhs. In regard to other borrowers, the guarantee cover is to the extent of 50 per cent but in the case of small scale industries located in backward districts, a higher guarantee cover of 66 2/3 per cent is provided. The highest guarantee cover of 90 per cent is also provided in respect of advances to technician entrepreneurs subject to certain monetary
limits. The new scheme stipulates a combined ceiling of Rs.10 lakhs in respect of term loans and working capital finance.

The number of institutions participating in the small loans guarantee scheme, increased from 285, comprising 71 commercial banks, 71 regional rural banks, 126 cooperative banks, 13 state financial corporations, and 4 state development agencies, as at the end of June 1982 to 555 as at the end of June 1990 but declined to 375, comprising 56 commercial banks, 148 regional rural banks, 3 state development agencies and 168 cooperative banks, as at the end of June 1991.

Under the scheme for small scale industries, 78,447 claims for Rs.217.3 crores were received and 80,510 claims for Rs.255.7 crores were disposed off during the fiscal year 1991-1992. The total receipts and disposal of claims since inception of the scheme till March 1992 were 4,64,294 claims for Rs.1,277 crores and 4,52,839 claims for Rs.1,239 crores respectively.

The performance of DICGC can be assessed with the figures presented in Table-II.6. As it can be observed from the table, there has been a tremendous increase in the guaranteeing of advances by the DICGC. At the end of June
<table>
<thead>
<tr>
<th>Year</th>
<th>SSIs Guaranteed Advances</th>
<th>Others</th>
<th>Total Guaranteed Advances (SSIs+others)</th>
<th>Share % SSIs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>3,822.1</td>
<td>4,839.9</td>
<td>8,662.0</td>
<td>44.12</td>
</tr>
<tr>
<td>1983</td>
<td>4,153.7</td>
<td>5,773.8</td>
<td>9,927.5</td>
<td>41.84</td>
</tr>
<tr>
<td>1984</td>
<td>4,890.9</td>
<td>7,104.3</td>
<td>11,995.2</td>
<td>40.77</td>
</tr>
<tr>
<td>1985</td>
<td>5,843.7</td>
<td>8,923.0</td>
<td>14,766.7</td>
<td>39.57</td>
</tr>
<tr>
<td>1986</td>
<td>7,497.5</td>
<td>10,446.0</td>
<td>17,943.5</td>
<td>41.78</td>
</tr>
<tr>
<td>1987</td>
<td>7,738.0</td>
<td>11,116.2</td>
<td>18,854.2</td>
<td>41.04</td>
</tr>
<tr>
<td>1988</td>
<td>10,464.7</td>
<td>14,291.4</td>
<td>24,756.1</td>
<td>42.27</td>
</tr>
<tr>
<td>March 1989</td>
<td>14,094.0</td>
<td>25,586.3</td>
<td>39,680.3</td>
<td>36.52</td>
</tr>
<tr>
<td>March 1990</td>
<td>16,826.2</td>
<td>27,692.3</td>
<td>44,518.5</td>
<td>37.80</td>
</tr>
<tr>
<td>March 1991</td>
<td>N.A</td>
<td>N.A</td>
<td>46,543.0</td>
<td>N.A</td>
</tr>
</tbody>
</table>

N.A. = Not Available.

Source: Reserve Bank of India Monthly Bulletin (Relevant Issues).
1982, the total guaranteed advances under various credit guarantee schemes were Rs.8,662 crores, but increased to Rs.46,543.00 crores by March 1991 recording an increase of 413.95 per cent over the period. In the case of assistance for small scale industries under Small Loans (Small Scale Industries) Guarantee Scheme, 1981, it was Rs.3,822.1 crores in 1982, but increased to Rs.16,826.2 crores by the end of March 1990, recording an increase of 340.23 per cent. In terms of percentage to total guaranteed advances, the guaranteed advances for SSIs formed 44.12 per cent in 1982 and 37.80 per cent in the year 1990. Although, the amount of total guaranteed advances and SSIs guaranteed advances increased, the share of guaranteed advances for small scale industries in the total guaranteed advances of DICGC, declined over the period.

**Industrial Reconstruction Bank of India (IRBI)**

The Industrial Reconstruction Bank of India (IRBI) was established in 1985 as the principal credit and reconstruction agency for industrial revival. The IRBI has since been vested with more powers to tackle and contain the growing malaise of industrial sickness in the country.

**Line of Credit Scheme for Assistance to Small Scale Units**

The IRBI has evolved a scheme for extending assistance to sick small-scale units. The broad principles
of the scheme are stated in the following lines.

(1) Assistance may be extended to a state level corporation which has the requisite competence to monitor the operations of sick units.

(11) The scheme of revival and rehabilitation of units may be prepared by a state level corporation in prior consultation and association with the IRBI and the commercial bank concerned. The IRBI provides such technical or other advice and assistance as may be necessary and possible.

(111) In arriving at the share of financial assistance which the IRBI may agree to extend, it should be a precondition that any past liabilities or irregularities pertaining to financial institutions or banks and not represented by corresponding assets, should be funded. While the cash loss as projected in the revival scheme forms a part of the total assistance, the entrepreneur must undertake to bear additional cash loss, if any, incurred by the unit.

The loan assistance is made available to cover the following elements:

(a) Margin for additional working capital as projected in the agreed revival programme;
(b) Need based start up expenses to cover the restarting of closed units;
(c) Limited capital expenditure inclusive of the installation cost to finance balancing plant and equipment without any margin;
(d) Cash loss as projected in scheme of revival

Performance

The performance of IRBI under the Line of Credit Scheme is shown in Table-II.7. It can be observed from the table that the Bank assisted 124 units with the disbursement of Rs.2.98 crores till 1985. However, the number of units assisted increased to 229 by March 1990 with an amount of Rs.5.93 crores. In other words, the number of units assisted and the amount of loan disbursed have almost doubled over a period of five years. By any standard, it is not a small achievement.

Apart from the assistance under line of credit scheme, the IRBI also extends direct financial assistance to the small scale units whose individual requirements are more than Rs. 10 lakhs. Under this head, the IRBI cumulatively sanctioned and disbursed an amount of Rs.21.68 crores to 84 units and Rs.15.83 crores to 79 units respectively by the end of March 1990 (Table-II.8). As it can be observed from the table, the number of units sanctioned by IDBI under term loans increased to 84 units in 1990 from 69 units.
Table-II.7

CUMULATIVE SANCTIONS AND DISBURSEMENTS TO SSIS BY INDUSTRIAL RECONSTRUCTION BANK OF INDIA UNDER LINE OF CREDIT SCHEME

(Amount in Rs. crores)

<table>
<thead>
<tr>
<th>As at the end of June</th>
<th>Sanctions</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of units</td>
<td>Amount</td>
</tr>
<tr>
<td>1985</td>
<td>157</td>
<td>3.80</td>
</tr>
<tr>
<td>1986</td>
<td>191</td>
<td>4.75</td>
</tr>
<tr>
<td>1987</td>
<td>198</td>
<td>4.94</td>
</tr>
<tr>
<td>1988</td>
<td>235</td>
<td>5.85</td>
</tr>
<tr>
<td>1989</td>
<td>240</td>
<td>5.99</td>
</tr>
<tr>
<td>1990</td>
<td>252</td>
<td>6.33</td>
</tr>
</tbody>
</table>

Note: Operations under this scheme transferred to SIDBI from the year 1990-91.

Source: Annual Reports of IBRI (Relevant Issues).
Table-II.8

CUMULATIVE ASSISTANCE (DIRECT) SANCTIONED AND DISBURSED TO SMALL SCALE INDUSTRIES BY INDUSTRIAL RECONSTRUCTION BANK OF INDIA

(Amount in Rs. Crores)

<table>
<thead>
<tr>
<th>As at the end of</th>
<th>Sanctions</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of units</td>
<td>Amount</td>
</tr>
<tr>
<td>June 1986</td>
<td>69</td>
<td>11.04</td>
</tr>
<tr>
<td>June 1987</td>
<td>75</td>
<td>14.34</td>
</tr>
<tr>
<td>June 1988</td>
<td>78</td>
<td>17.15</td>
</tr>
<tr>
<td>March 1989</td>
<td>81</td>
<td>20.20</td>
</tr>
<tr>
<td>March 1990</td>
<td>84</td>
<td>21.68</td>
</tr>
</tbody>
</table>

Source: Annual Reports of IRBI (Relevant Issues).
in 1986. However, the disbursements were made to 79 units in 1990 as against 63 units in 1986. The amount sanctioned by IRBI to small scale industries under term loans increased from Rs.11.04 crores in 1986 to Rs.21.68 crores in 1990, an increase of 96.38 per cent over the period.

To sum up, there are a host of institutions and agencies extending various forms of assistance to small scale industries. Among them, the financial institutions have a key role to play in the promotion and development of small scale industries in the country. To ensure smooth, continuous and adequate flow of credit to small scale industries, the financial institutions have designed a variety of schemes and programmes. The amount of credit extended under various schemes and programmes by the financial institutions has increased phenomenally over the period.