CHAPTER IV

RECOMMENDATIONS OF STUDY GROUPS / COMMITTEES IN RESPECT OF SSI
Recommendations of Study Groups/Committees in respect of Small Scale Industries

With a view to enabling the Government of India to formulate a proper industrial policy, which would boost the growth of small scale industries in the country under the five year plans and with a view to suggesting certain measures for solving the problems of small scale units, different Study Groups / Committees were appointed from time to time. Besides certain Study Groups appointed mainly for some other purposes have also made certain recommendations which are helpful to small scale units. For example, the Working Group appointed to review the system of cash credit under the Chairmanship of Shri K.B.Chore has made certain recommendations which may solve the problem of delayed payments to small scale units. It is not possible nor is it necessary to mention the recommendations of all such Study Groups / Committees or to mention each and every recommendation of these major committees/study groups. Therefore only the main recommendations of such major Study Groups / Committees are given here under.

1. The International Perspective Planning Team (IIP Team) 1954.

The International Planning Team (sponsored by the Ford Foundation) which toured India to study problems of...
small industries submitted its report in 1954. The team came to the conclusion that small factories even excluding units not registered under the Factories Act, contributed a large share of the manufacturing output. The team observed that in order to achieve their integral role in India's rapid industrial expansion, the modern small industries in India should have equal access to raw materials and industrial finance. Small industries should also have selective technical and managerial assistance. The Team recommended that commercial banks should delegate more powers to their branches for granting loans to small business and that the State Financial Corporation should be set up in all the States for financing small industries. It also recommended that the Central Government should establish an autonomous marketing service corporation for determining consumer demand through surveys and for encouraging producers to meet this demand. The team also recommended to establish 4 multipurpose institutes of technology in the country.

The Government of India thereafter established 4 multipurpose Regional Institutes of Technology and National Small Industries Corporation (NSIC) and a marketing organisation.
2. **Kerwa Committee Report 1955**

During the Second Five Year Plan, a committee was appointed by the Planning Commission with Professor D.G. Karve as its Chairman. The principal objects of the Karve Committee were:

1) **Removal of technological unemployment specially in traditional village industries.**

2) **Additional employment generation through village and small scale industries.**

3) **Providing infrastructure for decentralised industrialisation and also for the progressive economic development.**

The main recommendations of the Committee are as under:

a) **Measures should be taken to stabilise the village and small industries at a level from which further expansion would become easy.**

b) **Improvements should be made in financial assistance, marketing techniques and labour structure of traditional industries.**

c) **Subsidies, rebates etc. should be treated as short term assistance.**

d) **The reservation of certain fields of production should be used to the minimum extent necessary.**
a) The Reserve Bank should have the overall responsibility for the programme of financing rural and co-operative industries.


Following the visit of Shri Manubhai Shah (India's Minister of Industry) to Japan, the Japanese Government sponsored a delegation on Small Scale Industries to visit India. The delegation was led by Mr.T.Iwatake, Director General for Smaller Enterprise Agency of the Government of Japan. The important suggestions/recommendations and conclusions of the delegation are given below.

i) Small Industries Co-operatives should be established which should undertake common sale of the products of members of the society. The Government should render positive assistance in marketing by subsidising the facilities or extending working funds.

ii) A trade association may be organised for each industry in each state, which should not be engaged in economic activities but should promote growth of small industries by undertaking the following functions -
   a) Marketing research of products
   b) Collection and dissemination of technical information
   c) Guidance in business administration
   d) Public Relations activities and
   e) Liaison with Government representatives.
iii) Credit Guarantee System should be established in each state for smooth and easy flow of credit to Small Scale Industries.

iv) The State Co-Operative Bank (or Apex Co-Operative Bank) existing in each state should be divided into the State Bank for Industrial Co-operatives and the State Bank for Agricultural Co-operatives. The State Bank for Industrial Co-operatives should be specialised in making loans to the Industrial Co-operatives.

v) State Financial Corporations should be strengthened. Besides State Bank of India with its abundant capital and wide net work of branches should do positive activity of lending to small industries extensively.

vi) Small Industries Service Institutes and Extension centres should be increased in number and should be equipped with buildings, tools, excellent engineers and research laboratories and testing facilities.

vii) Each enterprise should be given guidance regarding quality control so that it may purchase raw material in accordance with standard and adopt the operation control, process control etc. It is advisable to create a quality marking system, which will grade the quality of industrial products.
viii) An independent State Small Industries Corporation (SSIC) should be established in each state and NSIC should take charge of central planning and control. Both NSIC and SSIC should put particular emphasis on the purchases by small scale units of raw materials. For this purpose, a depot should be set up in each industrial zone and that controlled goods collectively received by SSIC should be constantly kept in the depot. As regards imported raw material, SSIC should collectively apply for import licences and should keep such imported raw materials in its depots.

ix) In the case of Industrial Estates, diesel power generation should also be projected in areas where there is no electric power available. It is also necessary to facilitate the establishment of industrial estates by the new small industries cooperatives.

x) Since the products of the so called small scale industries cannot favourably compete (both in quality and price) with foreign products in the export market at present, small industries should concentrate on the domestic market, where there is large demand. During this process small industries should improve quality of their products and lower their prices.

A working group on Small Scale Industries, Handicrafts and Sericulture was set up by the Ministry of Industry, Government of India in August 1963 for assessing progress of SSI in the third plan and for carrying out the ground work for the formulation of projects for the fourth plan. This sub group was headed by Shri K.V.Venkatachalam, Jt. Secretary, Ministry of Industry as its Chairman. The Group has made about 150 recommendations. Some of the important recommendations of the group are as under.

1. For the rapid development of ancillary industries licences of large units should be endorsed with suitable provision regarding development of ancillaries. Besides, raw materials and other resources should be directly provided to ancillary units. Raw materials should be supplied directly to small scale ancillary units on a priority basis and suitable deductions be made in the entitlements of corresponding large scale units.

2. The system of sector-wise allocation of raw materials should be discarded and they should be allotted on the basis of production capacity without reference to the size of the unit. Capacities of existing SSI units requiring scarce raw materials should be scientifically and uniformly assessed.
3. The question of special legislation to promote growth of the small scale sector be deferred for the time being as the greatest advantage would seem to lie in leaving matters as they are.

4. Surveys with the end products as the basis should be initiated immediately to determine the priority and scope for further growth of small industries.

5. The entire working capital requirements (i.e. over and above 20% approximately brought in by entrepreneurs themselves) should be met as far as possible by financial institutions.

The working groups should ensure that all units which have a bank account get finance to the full extent from the banks.

6. The quality marking system should be extended to cover all products intended for export, and sophisticated consumer goods. SSI units should be encouraged to become members of ISI and get the ISI Mark. The ISI in turn should constitute a separate small industry wing to study the problems of standardisation in SSI.

7. FASI (Federation of Association of Small Industries of India) should popularise modern management practices among small industries.
5. **ARC Report on Small Scale Sector 1969**

The Administrative Reforms Commission (ARC), a high level body set up to probe into the administrative pattern of the entire range of Government operations, recommended setting up of an autonomous commission known as Small Scale Industries Commission, which would guide the development of the small industries including hand looms and handicrafts, excepting village industries. It was also suggested that an apex level financial institution may be promoted to cater exclusively to the needs of the small scale sector. Greater emphasis should be given to technical guidance and consultancy services provided by the Small Industries Service Institutes and suggested establishment of well-equipped laboratories for testing raw materials, components and for quality inspection.


In 1970, the Reserve Bank of India appointed a Committee under the Chairmanship of Shri KNR Ramanujam to suggest remedies to solve the problem of delayed payments to small scale industries. The Committee submitted its report on 17th March, 1972. The important recommendations/suggestions/conclusions of the committee are given below.
a) The Committee noted that about one-sixth of the total number of functioning small scale units, were estimated to supply goods to medium and large industries / Government Departments/Public Sector undertakings. More than half the number of small scale units supplying their products to medium and large industries faced the problem of delayed payments.

b) The delay in payments of Small Scale Industries by medium and large industries was generally attributed to (a) the inferior quality of goods supplied by them (b) non-adherence to the supply schedules (c) lack of adequate care taken by suppliers in the submission of relevant documents (invoices, bills, etc.) and (d) the delay in inspection of goods by the buyers.

In the case of Government Departments/Public Sector Undertakings, in addition to the above, the Government procedures covering payments to the suppliers and more importantly, the manner of their implementation had also important bearing on the delay.

c) While the period of suppliers' credit would depend upon several factors, a period upto 3 months may be considered as a norm for purchases from Small Scale Industries and any extension of this period should be justified by special factors.
d) For units who sold their products exclusively to medium and large industries or Government Departments, the impact of delayed payments on their operations was severe.

e) The recommendations for minimising the delay in making payments to small scale industries emanated from the basic need to strengthen the bargaining position of small scale units on the one hand and the need to inculcate a greater measure of financial discipline on the medium and large industries.

f) Small scale units should give greater attention to quality of goods and delivery schedules.

g) Medium and large industries should accept the bills drawn on them by SSI units. As an incentive for large units to accept bills, small units may offer a discount on the lines of cash discount. Procedures regarding inspection of goods by purchasers should be streamlined and completed within 30 days.

h) Government departments should simplify and streamline their procedures for payment.

i) A detailed scrutiny of the 'Sundry Creditors' item in the financial statements submitted by large borrowers will enable banks to watch whether the proportion of 'bills payable' to the sundry creditors is showing
a progressive improvement. These proposals may be tried by the banks in respect of their borrowers enjoying credit facilities of Rs.25.00 lakhs and over.

7. **Bhat Committee Report 1973**

In March 1973, the Government of India constituted a Committee under the Chairmanship of Shri H.S. Bhat to formulate specific recommendations to accelerate the growth of small and medium entrepreneurs. The Bhat Committee made the following recommendations.

1) **Infrastructure for small scale industries should be developed on a priority basis.**

2) **'Centres' rather than 'areas' should be preferred for regional industrial development.**

3) **Effective measures should be taken to implement the instructions given by the Government in regard to availability and allocation of scarce raw materials.**

4) **There should be a promotional set-up for Small Scale Sector at State level. State Governments should set up cells for guiding and assisting entrepreneurs.**

5) **The programme of tax concessions to support new entrepreneurs should be reinforced.**
8. Report of Study Group to frame guidelines for follow up of Bank Credit 1975

The study group appointed by Reserve Bank of India under the Chairmanship of Shri Prakash Tandon, recommended that the norms of inventory suggested by the group should apply to all industrial borrowers, including small scale industries (enjoying credit limits of more than Rs.10.00 lakhs). The group mentioned that the norms, suggested cannot be absolute or rigid. However, delayed payments by Government Agencies and sometimes by large units in the private sector to the Small Scale Sector cannot be treated as circumstances warranting deviations and the matter should be tackled at the sources rather than throwing upon the banking system the burden of providing additional credit. The group further suggested that the Reserve Bank should discuss the matter with Government agencies and the Bureau of Public Enterprises. Government and Public enterprises should set an example in prompt payments.

9. Report of the Study Team of the State Bank of India on effective growth of Small Scale Industries 1975

The above study team appointed under the Chairmanship of Shri J.M. Varshney mentioned that most of the SSI units are prone to sickness mainly due to (i) limited resources and lack of equity, (ii) lack of financial management, planned and organised approach and (iii) Small entrepreneurs' ignorance of the approach to be adopted to get out of the difficulties.
The team suggested that banks should prepare counselling material and make use of their consultancy organisations in guiding small entrepreneurs. It suggested that banks should train and educate this class of borrowers and bring about attitudinal change in their officers.

It further suggested that in case of irregularity in the accounts, the entrepreneurs should be given a period of 3 months to adjust the same. As per the team's report a sick unit is one which fails to generate internal surplus on a continuing basis.

The team also analysed the major factors which may affect a nursing programme and made suggestions regarding rehabilitation programmes.

10. Study Group to review Co-ordination between banks and SFCs - 1976

IDBI appointed a working group under the Chairmanship of Shri V.M. Bhide to review and recommend co-ordination between banks and State Financial Corporations.

The group made certain recommendations regarding sharing of securities between banks and SFCs, meeting of overrun cost, exchange of information between banks and SFCs. The Group also recommended that in the case of sick units, banks and SFCs may undertake a joint study, as soon as they would know...
that all is not well with the unit. It recommended that the institution with higher financial stake should take initiative in this behalf.


The Government of India constituted a committee under the Chairmanship of Shri I.C. Puri, former Development Commissioner, Small Scale Industries, to examine the bank credit problems of SSL units. The Reserve Bank has accepted recommendations of the Committee.

The Committee recommended that banks should introduce uniform sets of simplified application forms and interview-cum-appraisal forms for small scale industrial borrowers whose requirements of credit facilities do not exceed Rs.2.00 lakhs.

The Committee felt that a low equity base has an adverse impact on the well being of the units. It recommended that a National Equity Fund should be set up to help such units.

It also recommended that a flexible approach should be adopted towards margin requirements, particularly in regard to the smaller of small scale industry. It should be ensured that no viable schemes are turned down merely for want of margins, if proposals are otherwise in order. In deserving cases, the entrepreneurs should be permitted to introduce equity contribution in stages.
The Committee also recommended that banks should be largely guided by the viability of the projects. No worthwhile proposal should be turned down for want of collateral security or guarantee. Banks should fix repayment programmes in respect of term loans based on cash accruals and not in an adhoc manner.

The Committee also recommended to delegate adequate discretionary powers to Branch Managers, so that 60% to 80% of credit decisions are taken at the branch level itself.


This working group (whose convenor was Shri W.S. Tambe, Executive Director, Reserve Bank of India) was set up by the Banking Division of the Ministry of Finance.

As the credit requirements of artisans and village and cottage industries would not normally exceed Rs.25,000/-, the group recommended that loans upto Rs.25,000/- should be sanctioned as composite loans, (whether it is working capital or equipment finance or both) and that the composite loan should be at a concessional rate of interest and have a longer repayment period of 7 to 10 years. The banks should not insist on margin to be brought in by the promoters. The group also defined village and cottage industries sector.

..69.
The group recommended that all branch managers of banks should be vested with discretionary powers to sanction loan proposals upto Rs.25,000/- without reference to higher authorities. In respect of advances above Rs.25,000/- and upto Rs.1.00 lakh, in order to ensure that the appraisal of both the DIC and the bank/or SFC is taken up simultaneously, the group recommended that the DIC should forward a copy of the application to the bank.

The group recommended that the delay should be avoided in sanction of working capital limits by banks, after sanction of term loans by SFCs.

13. Standing Co-ordination Committee (Bucher Committee) 1979

The Committee discussed the issues relating to the concept of potential viability, rehabilitation of sick units, sharing of losses of sick units, etc., and arrived at the consensus on the following issues.

a) A sick unit should be considered viable if it is in a position to service its debts, at a reasonable rate of interest and within a reasonable period of about 8 to 10 years.

b) Cash losses should be calculated before depreciation as well as interest due to both banks and term lending institutions.
The losses incurred by a unit before the rehabilitation is undertaken, are to be borne by commercial bank. However, losses incurred for a period of six months from the date of reference made to IDBI or such further period which may be needed by the banks to give their consent to the rehabilitation programme, should also be financed by commercial banks. Cash losses subsequent to this period should form a part of the package prepared by IDBI.

c) As regards sharing of cash surplus during rehabilitation period, all the following items should be treated on equal footing, while the interest against existing term loans and funded (irregular) portions of existing working capital finance should be given priority -

- Interest on fresh term loans.
- Interest on fresh working capital and existing working capital.

d) The sharing of securities of a sick unit should be considered on the following lines -

- Banks be given second charge on the fixed assets for the portion of interest that is funded in cash credit account.
- For irregularity in cash credit, converted into term loan, banks may be given pari-passu charge on fixed assets.
- The institutions giving loan for covering cash losses during the period of rehabilitation should be given pari-passu first charge on fixed assets.
a) The legal documents taken by the lead institution in the consortium should be accepted by other members to avoid delay in implementation of the rehabilitation programme.

14. Report of the working group to review the system of cash credit - 1979

The above Study Group appointed by the RBI under the Chairmanship of Shri K.B. Chore observed that the problem of delayed payments of dues of small scale industries from medium and large industries has not been solved. The Group recommended that banks should insist on the public sector undertakings/large borrowers to maintain control accounts in their books to give precise data regarding their dues to the small units and furnish such data in their quarterly information system. This would enable banks to take suitable measures for ensuring payment of the dues to small units by a definite period by stipulating, if necessary, that a portion of limits for bills acceptance (drawee bills) should be utilised only for drawee bills of small scale units.

15. Report of the Committee to examine the Legal and other Difficulties faced by Banks and Financial Institutions in Rehabilitation of Sick Industrial undertakings and suggest Remedial measures including changes in the Law. (1984)

The above Study Group appointed by the Reserve Bank of India under the Chairmanship of Shri T. Tiwari recommended that viability on a commercial basis should be the main
criterion for undertaking rehabilitation of a sick industrial unit. The committee recommended that a quasi-judicial body called the Board for Industrial Revival may be set up under the special legislation to deal expeditiously and exclusively with matters relating to rehabilitation of sick units. The Board will have the powers of a Civil Court in passing orders and in matters of enforcement thereof.

The committee also defined a sick industrial undertaking for the purpose of the Special Legislation and recommended that the package of rehabilitation of a sick industrial unit should be based on -

i) Financial implications based on the possible sacrifices from all the concerned agencies.

ii) The merits of the case in such a manner that a viable sick industrial unit will be rehabilitated to normal health at the earliest, in not more than 7 years from the start of the implementation of the package of rehabilitation while keeping the total sacrifices to the minimum.

iii) Conversion of term loan into equity capital, reduction of equity capital, postponement of overdue interest, conversion of overdue interest into term loan and reduction in the concessional rates of interest wherever necessary; the types of concessions and the extent thereof may be considered on the merits of each case.
iv) Within the time frame of seven years for rehabilitation of a sick industrial unit, dividend may be distributed once it comes out of red, even before all institutional long term dues are fully discharged. As and when warranted depending on the merits of the case, concessions extended may be reduced or withdrawn.

The recommendations of this Study Group are applicable mainly to medium and large scale industries.

16. Report of the Study Group to examine the issues relating to the setting up of Soft Loan Assistance Fund for rehabilitation of Sick Small Scale Industrial Units (July 1985)

The main recommendations of the Study Group, appointed under the Chairmanship of Dr. P.D.Ojha (Executive Director, Reserve Bank of India) are as under.

i) A gap both in respect of volume and nature of assistance needed by the credit institutions in encouraging them to nurse sick small scale units fully and in a meaningful way has been identified and the difficulties could be overcome by setting up a special Soft Loan Assistance Fund. IDBI should be entrusted with the job of administration of the fund.

ii) The Fund should provide both direct equity type loans to sick units and also grant refinance to credit institutions.
iii) The equity type of loans should be channelised through the 'lead credit institutions', mainly on the following terms and conditions.

"The quantum of the loan to be worked out, (after taking into account additional funds brought in by the borrowers/promoters), should be to provide for margin money for additional working capital and term loans, PF dues and cash losses if any for the first year of the nursing programme. The rate of interest on such loan should be nominal say 1 per cent per annum and the period of repayment should not exceed nine years, with an initial moratorium of not exceeding 5 years".

iv) With the extension of equity support and the availability of credit guarantee cover from the Deposit Insurance and Credit Guarantee Corporation, the banks should have no hesitation in providing financial support for the cash losses of the sick units. Soft Loan Assistance Fund (SLAF) should provide refinance to credit institutions in respect of clean term loans granted by them to Sick SSI units on the following terms.

<table>
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<tr>
<th>Loan Amount</th>
<th>Rate of Interest</th>
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<tbody>
<tr>
<td>Composite Loans upto Rs.25000/-</td>
<td>@ 6 % p.a.</td>
</tr>
<tr>
<td>Borrowings upto Rs.2.00 lakhs</td>
<td>@ 7 % p.a.</td>
</tr>
<tr>
<td>Borrowings over Rs.2.00 lakhs</td>
<td>@ 8.5 % p.a.</td>
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</tbody>
</table>
The credit institutions may be allowed a spread of 1 per cent per annum in the case of borrowings up to Rs. 2.00 lakhs and 2 per cent per annum in other cases.

v) State Governments should provide active support to sick units assisted under SLAF in the following areas.

a) Preferential treatment in the matter of raw materials, electricity, Government purchases.

b) Early clearance for sale/lease of land of sick units under the Urban Land (Ceiling & Regulation) Act.

Recent Developments

Besides some more committees have also been appointed by the Government of India to look into the problems of SSI units. According to the Economic Times dated 15.5.1984, the Economic Administration Reforms Commission has recommended that various tax concessions should be given to the small scale industry for its growth. The bill to shield small scale units from large industries is reported to be under serious consideration of the Government in consultation with the advisory board on small scale industries. It is also observed from the news items coming up in financial news papers that the Khusro Committee is working on the financial needs of the small scale sector (The Economic Times dated 13.7.1984).
However, reports of these various committees are still not available, the working of these groups/committees is under progress and the work is still incomplete.

In addition to the recommendations of various committees/study groups, certain surveys/studies were undertaken by various economic institutes/individual researchers, e.g. (i) Survey by Shri D.T. Lakdawala and J.C. Sandesara, of 'Small Industry in a Big City - Bombay', (ii) Marketing of the products in Hyderabad District - "Survey by Indian Institute of Economics, Hyderabad - (iii) "Small Scale Industries in Delhi - by Shri P.N. Dhar, etc.

Although, I have not mentioned here recommendations / conclusions/findings of the surveys taken by such various institutes or researchers, I have made a mention of their conclusions/recommendations elsewhere in the thesis, while making my own suggestions/study.

77