Chapter – IV

FINANCE

1. Need for Finance

With the launching of the Five Year Plans, in the absence of a sufficiently broad domestic capital market, there was need for adapting and enlarging the institutional structure to meet the medium- and long-term credit requirements of the industrial sector. It was in this context that the RBI took the initiative in setting up statutory corporations at the all India and regional levels to function as specialized financial agencies purveying term credit.

Finance for agro-based industries is provided by commercial banks—the State Bank of India Group, nationalised banks, private sector banks and development corporations which have been especially established to provide industrial finance. In addition, the Reserve Bank of India gives credit guarantees and the ECGC give export guarantees to the agro-based sector. By its refinance operations, the India, too plays significant role in the promotion of the agro-based sector, for it has enabled the SFCs and commercial banks to extend a large quantum of financial assistance to this sector. The national Small Industries Corporation offers financial assistance in the form of its hire purchase schemes.
Commercial banks provide a wide ranging financial assistance to agro-based units from equity to bill finance.

(i) **Equity Support:** Under the scheme, the technically qualified entrepreneur gets equity capital to start his business. Interest-free loans ranging from Rs. 5,000 to 50,000 are sanctioned to strengthen his equity base. These loans are repayable in 7 years after a moratorium of 5 to 7 years.

(ii) **Term Loans:** Banks grant loans for the construction of factory buildings and the purchase and installation of the machinery and equipment. Loans are also sanctioned for purposes of expansion, modernisation and renovation.

(iii) **Working Capital:** Agro-based industries are given financial assistance against pledge or hypothecation of stocks of raw material, semi finished and finished goods. They are also given overdraft and bill finance facilities.

(iv) **Export Finance:** Agro-based units engaged in export of their products are given full finance from production to realisation under pre-shipment and post-shipment credit facilities.
(v) **Special Hypothecation**: This is sanctioned to agro-based units to supplement their working capital requirements.

(vi) **Clean Advance**: Banks also sanction clean advances to agro-based industries to enable them to tide over unforeseen financial difficulties.

**Chart - 4.1**

- **COMMERCIAL BANKS**
  - **WORKING CAPITAL**
    - **PLEDGE**
    - **HYPOTHECATION**
      - RAW MATERIAL
      - SEMI-FINISHED GOODS
      - FINISHED GOODS
  - **CLEAN ADVANCE**
  - **OVERDRAFT**
  - **BILL**
  - **TERM LOANS**
    - **MEDIUM LOAN**
    - **LONG-TERM LOAN**
      - **INSTALMENT CREDIT**
      - **EQUIITY LOAN**
      - **CONSTRUCTION OF SHARES**
      - **MACHINERY**
    - **DISCOUNTED**
      - **PURCHASED**
        - **EXPORT FINANCE**
          - **PRE-SHIPMENT**
          - **POST-SHIPMENT**
          - **INDUSTRIAL ESTATES**
2. Financing Agencies

In recent years, commercial banks have stepped up their short-term and long-term credit facilities to agro-based industries. Agent of the State Bank (or of the local co-operative bank, if he belonged to the co-operative sector) for all his credit. The application is dealt with by a local working group consisting of representatives of the agencies operating the scheme, which will refer the application to the appropriate agency depending upon the type of credit asked for. It is provisionally agreed that applications for loans below a particular amount (10,000 to 20,000) will be taken up by the director of Industries under the Government’s liberalised scheme for financing small-scale industries, which those for more than this amount will be dealt with by the concerned State Financial Corporation, if they are for medium or long-term credit. However application for loans for working capital purposes would ordinarily by deal with by the State Bank or co-operative banks. If the accommodation required for short and long-term credit, the agencies concerned would act in collaboration.

The State Bank or the co-operative bank, as the case may be, gives the necessary assistance to the other financing agencies in assessing the creditworthiness of as on applicant. The Director of Industries or the representatives of agro based Service Institutes offer assistance in preparing a technical report on the industrial unit. Applications, which the various agencies are normally able to entertain in order to find out how best the needs of the borrower can be met.
Two flow charts are given to discuss it –

**Chart – 4.2**

- **IDBI**
  - **SBI GROUP**
  - **NATIONALISED BANKS**
  - **OTHER BANKS**
  - **COMMERCIAL BANKS**
- **RBI**
  - **REGIONAL RURAL BANKS**
  - **COOPERATIVE BANKS**
- **GOVERNMENT**
  - **SFCS**
  - **NSIC**
  - **SSIDC**

**AGRO-BASED SECTOR**
Chart 4.3

COMMERCIAL BANKS → WORKING CAPITAL

COOPERATIVE BANKS

RRBS → TERM LOANS → LONG TERM

SFCS

NSIC → MACHINERY

SSIDC

IDBE → CREDIT GUARANTEE

RBI → REFINANCE

IFC

IRCI → SUBSIDY

GOVERNMENT → STATE AID

In this Chapter, attention has been focused on the financial and other promotional assistance offered by commercial banks – the State Bank of India, the nationalized banks, and the Reserve Bank of India.

Commercial banks endeavour to fill the credit gaps in the field of agro-based industries arising out of the inadequate development of industrial co-operatives; and they contribute to their development by
systematically preparing programmes of development suitable to the resource base of the area.

For the promotion and development of these industries, banks have created Special Village Industries, which conduct surveys in rural areas in co-operation with various agencies in order to identify clusters of artisans for intensive lending, and to evolve special schemes to suit the particular needs of artisans. Banks have not been content with financing only units which seek support, but have been constantly reviewing their schemes to render greater and increased assistance to the smaller among the small units. For this purpose, they regularly conduct evaluation studies and make their financing schemes more effective. As a result of such successive evaluation exercises, many liberalisations have been introduced; technical consultancy services have been strengthened and increased efforts have been made to acquaint the agro-based units with simple procedures of good housekeeping and maintaining accounts not only to facilitate borrowing from banks but also as a control mechanism to enable them to monitor closely the financial health of the units. Apart from providing 100 per cent finance to technically qualified people under their qualified entrepreneur scheme to promote self-employment, banks have been organising entrepreneurial development programmes to stimulate the development of entrepreneurship in backward areas.
LIBERALISED SCHEME OF STATE BANK OF INDIA

One of the major difficulties faced by agro-based industries in India, as elsewhere, is the lack of adequate facilities for the supply of different types of capital. Over the past decade, a number of institutions have been set up by the Central and State Government to remedy the situation. The State Aid to industries Acts and Rules enabled the various State Governments to provide direct assistance to these industries; and State Financial Corporations are established in many States to cater to the credit needs of medium and small agro-based industries. Early in 1955, the National Small Industries Corporation is set up the Government of India, inter alia, to provide these industries which certain special types of credit, such as hire-purchase loans for the purchase of machinery Agro and small industries in the co-operative has access to the higher level co-operative agencies which, in turn, are financed by the Reserve Bank.

In a broad sense, these agencies were complementary rather than competitive. State aid is intended to furnish “risk” or promotional capital for the smallest categories of borrowers, who can not secure such finance from institutional sources. The National Small Industries Corporation and the State financial Corporations are concerned with long and medium-term loans. Industries in the co-operative sector has access to the apex institutions for their working capital needs. For small industries outside
the co-operative sector, the proper source of working capital is the commercial banks; but, in practice, these banks did not lend much to such industries. Despite existence of the credit agencies mention above, the flow of finance for the agro-based industries sector is impeded, among other reasons, by a lack of co-ordination in the activities of these credit agencies. It is obvious that if the agro-industrialist appeals to a multiplicity of lenders for his financial needs, a considerable delay and expense will be involved in the receipt of the loan. Moreover, State Financial Corporations and the National Small Industries Corporation do not have a widespread network of branches, which make it difficult for industries in remote towns and villages to contact them. There is also avoidable duplication of the initial investigation of the potentialities of the borrower’s business by each credit agency. What needed, therefore is a “package deal” with the borrower, credit for him in adequate amounts and at the appropriate time, so that he can plan his production programme in advance. Moreover, a local agency in charge of all types of credit can exercise better supervision over the use of the finance than a number of agencies situated far away. These considerations underscore the need for an arrangement which will deal with the total credit needs of the borrower and ensure the supply of each type of credit by the concerned institution.
Quality Control

Quality control is another technique which can increase the turnover of an enterprise without much additional cost, and increase profits. Agro-based industrialists are generally reluctant to introduce this measure because of the sheltered market they enjoy. It is necessary that are encouraged by the Government and the financial to take to scientific control, especially because they have now entered the export market in a big way.

Past experience has shown that wherever banks and Government agencies have co-ordinated their efforts in developing agro-based units, encouraging results have followed. There is no doubt that if small entrepreneurs, commercial banks and Government agencies join together, the agro-based sector will make a spectacular progress in the years to come.

Development of Backward Areas

The State Bank lays special emphasis on covering on covering agro-based industrial units in backward districts. Under its liberalised scheme, concessions are given to agro-based industries in backward areas by way of lower margins, extended grace periods for repayment and longer amortisation periods for term loans. In Rural Industries Projects areas located in backward districts, a special scheme of financing small
units up to Rs. 10,000 without the stipulation of any margins has been in operation. The Bank also allows special concessions in margins up to 10 per cent for schemes which envisage the setting up of industrial ancillary complexes in backward areas formulated by State Government. Besides, it assists entrepreneurs in formulating viable projects, and provides finance, guidance and free consultancy assistance to enable them to set up and run their units. At the end of 1986, industrially backward districts accounted for 60 per cent of the total number of agro-based units and 28 per cent of the outstanding credit. With a view to motivating potential entrappers to take up productive ventures, entrepreneurial development programmes were conducted by the bank in 17 backward districts; and 350 potential entrepreneurs were trained in 1986. With the recent decision of the Government to disperse agro-based units, to non-metropolitan areas and to demarcate the tiny sector, a large number of such units are likely to come up in these areas. This will enable the Bank to increase its stake in backward areas.

Subsidiaries

In recent years, the seven subsidiaries of the State Bank of India continued their policy of extending need-base financial assistance to small-scale agro-based units, with the main thrust in the direction of extending finance to the smaller units of these sector in course of the last
nine years the subsidiaries have registered more than four fold increase in their assistance to agro-based industries. The performance of the subsidiaries varies from one bank to another.

In addition, the subsidiaries continued to play a catalytic role through their consultancy cells and comprehensive nursing programmes. The Rural Industries cell set up in the Patiala Bank continues to play an important role in the development of village and cottage industries. Besides, the subsidiaries organised workshops and management programmes for entrepreneurs. The banks have been actively associated with the District Industries Centers.

The development of new entrepreneurship is a complex. It has manifold dimensions- economic, social, technological, managerial and psychological as well as cultural. There are no ready-made formulae for quick results. Neither the possession of technology nor the ready availability of finance can by itself make a successful entrepreneur. The vast majority of our people have no entrepreneurial of commercial traditions while the present system of education does little to develop among students the creative ability of entrepreneurial culture. The most important problem, therefore, is that of identifying a prospective entrepreneur and of stimulating his energies for productive purposes. There are, of course, other requirements too- of providing a package of
services covering counselling, of training him in commercial and managerial disciplines, of assisting him, in the completion of various initial formalities which often as disincentives, of guiding him in setting up an enterprise and assisting him in getting over its teething troubles, of assisting him also in the maintenance of quality and in locating suitable markets, of quality and in locating suitable markets, apart from securing for him the necessary financial assistance.

Thus, over the past eleven years, banks in India have vigorous and sustained efforts to discharge their social responsibility to the community. Efforts have constantly been directed at stimulating a rapid growth in all the sectors of the industry, at promoting new entrepreneur talent, raising employment level and developing backward areas. Banks have formulated special schemes to finance such categories of the weaker section of the community as handloom weavers, and disabled lefencepersor.net, and formulate schemes for financing craftsmen and technically qualified entrepreneurs. They, however, believe in tailoring credit to suit the specific requirements of each case because requirements vary from unit to unit. Also, new situations arise from time to time; to meet them new credit instruments have to be devised. Thus, for schemes for craftsmen and technically qualified entrepreneurs, all that the banks require today is a worthwhile project which is technically fusible and
economically viable, and which is backed by technical competence and the ability to manage an enterprise. Credit from a baker is no problem today, even when the entrepreneur is not in a position to bring in the normal owner's.

The experience of banks, has been that entrepreneurship is not a commodity that can be secured or obtained on the payment of a price or by way of grant of credit. Most of the students coming out of schools and colleges today—even technical institutes—look for jobs, except when they come from a family of industrialists, or have some sort of connection with them. The other category of aspirants to entrepreneurship covers those who have worked in industrial enterprises, and having acquired technical and managerial skills, develop an ambition to set up and run their own units. To identify and promote such entrepreneurs banks have had plans to set up entrepreneurial clinics to provide counseling services, inclusive of technical and managerial assistance to the extent feasible. However, for the required catalytic role, banks operate in collaboration with the various organizations representing agro-based industries, commerce and trade. These aim at the provision of a package of services, including counseling and where necessary, in-plant training.

The above analysis indicates that agro-based industries are concentrated in developed states and, that, within these developed States,
they are further concentrated in metropolitan towns. If they are to be the harbingers of rural development, it is essential that bank funds should flow to them in an increasing measure. As it is, bank credit has widened regional imbalances- a fact which calls for in-depth study of and a new thrust to, the flow of financial assistance to agro-based industries.

**Size of Credit:**

The distribution of credit to these industries per unit varied from less than Rs. 10,000 to more than Rs. 5 lakhs. The total outstanding in the range of Rs. 10 lakhs and more amounted to Rs. 251.94 crores or 18.8 per cent of the total credit. Thirty-five per cent of the credit was between Rs. 1 lakh and Rs. 5 lakhs.

**Type of Accounts:**

Over the years, the share of term loans in the total has been on the increase. Cash credit, on the other hand, has been on the decline.

**Ownership:**

Credit to agro-based industries is classified as public credit, co-operative credit and private credit. Industries in the private sector are run by private individuals or as partnership concerns, or they are private or public corporation. The majority of bank credit is absorbed by the private sector (96.94 per cent), of which partnership and proprietary concerns account for 96.46 per cent and public and private concerns for 24.47 per
cent. This indicates that agro-based industries are private enterprises but backed by Government incentive and push.

**Interest Range:**

The distribution credit to small-scale industries shows that, total credit was given on an interest of 12 per cent to 15 per cent, while 30.61 per cent of the credit was offered at above 15 per cent; only one per cent of the credit was advanced at less than 9 per cent. This indicates that agro-based industries are not shown any consideration are not shown any consideration in so far as interest rates are concerned. As a result, production costs go up.

**Credit Guarantee Scheme for Agro-Based Industries:**

Agro-based industries are finding it difficult to have easy access to various financial institution supply in finance, mainly because they can not offer adequate security and because their repaying capacity is doubtful. In order to overcome this bottleneck in the development process, the Government of India, in consultation with the Reserve Bank of India, introduced a scheme in July 1960, known as the Credit Guarantee Scheme, for small-scale and agro-based units. This scheme is intended to provide a high degree of protection to lending institutions against possible losses for credit facilities granted to these units. The scheme is modified in 1970, and has been amended from time to time in
order that its scope and the benefits it offers may be enlarged. The
scheme provides a guarantee up to 75 per cent of the amount in default,
or the amount guaranteed, whichever is less. From April 1977, the
guarantee cover for advances to technocrats has been up to 90 per cent of
the credit recovered by them.

As recommended by the Working Group on agro-based industries
with special reference to District Industries, the guarantee norm has been
increased to 90 per cent for loans granted up to these industries. This has
been done with a view to protecting the credit institutions against the
risks attendant on the grant of advances without insistence on margins in
respect of such advances.

In addition to be activities covered under Government’s Credit
 Guarantee Scheme for Small-Scale agro-based industries since cancelled,
the new activities brought under the guarantee under the Corporation’s
Small Guarantee Scheme, 1981 after its introduction from 1st April, 1981
are as under :

(i) Biological /Bio-Chemical testing laboratories, which are rendering
services to the medical profession by conducting test / analysis of blood
samples / urine etc; (ii) Printing and publishing of newspaper ; (iii)
Deepening of wells by removing silt with the help of cranes while
digging (iv) Hatcheries registered as such industrial units where eggs are
incubated with the help of plant machinery; (v) Laboratories engage in testing of raw materials and finished products; (vi) Units engaged in the manufacture and use of equipments for developments and utilisation of renewable sources of energy such as solar or wind energy.

Since July 1983, advances granted by credit institutions to physically handicapped handloom weavers upto Rs. 2,500 per borrower for purchase of artificial limbs, hearing aids, wheel chairs etc. have been made eligible for guarantee under the small Loans Guarantee scheme, 1981, subject to the condition, inter alia, that such advances are granted along with advances for productive purposes. Effective from July 1984, such advances have been made eligible under the small Loans Guarantee scheme, 1971 also.

In respect of credit facilities granted \ renewed \ altered on after 1st January, 1985 the guarantee cover has been reduced to 60% of the amount in default (from 66 2/3 % 75 % or 90 % wherever it was so available) under all the schemes of the corporation, with a view to ensuring, inter alia, that there is no dilution in the quality of lending to smaller borrowers and better recycling of funds, and also to ensuring the financial viability of these Schemes.

Consequent on the revision of the definition of agro-based and small-scale industrial unites by Government of India from 15th March,
1985, advances granted to all undertakings, with investment in plant and machinery not exceeding Rs 35 lakhs and ancillary industrial undertakings with investment in plant and machinery not exceeding Rs.45 lakhs were made eligible for guarantee cover under the scheme.

Advances granted to those industrial units engaged in ship breaking\dismantling activities are made eligible for cover under the Small Loans Guarantee Scheme,1981 provided all other terms and condition of the Scheme are complied with.

The standing Advisory committee to review the of institutional credit to these sectors has made the following recommendations:

(i) The State Government and federations/associations consumed with the development of agro-based industries shall take up area-wise/industry-wise sample studies these industrial units to identify problems/causes leading to industrial sickness. They shall also make suitable arrangements to improve the information system. The various facilities available from IDBI Banks and NABARD be brought to the notice of the potential and existing the sector.

(ii) Measures shall be taken to popularise customer service centers and opportunity made available to individual entrepreneurs to contact the officers in-charge of controlling offices of bank
branches as also chief executives of banks on fixed days of each month, so that this machinery becomes effective in reducing delay in flow of credit and sorting out problems of co-ordination. The divisional/ regional/ zonal offices of banks shall also conduct customer meet programmes where customers and intending borrowers can entract with the executives of banks and steps are quickly initiated for redress of grievances.

(iii) The state-level inter-institutional committee shall be made use of for sorting out policy issues concerning flow of credit to these sector which may have a bearing on incipient sickness.

The committee has detailed deliberations on financing of these sector in the north- eastern region. Bank credit outstanding these sector in the region as on the last Friday of December 1985 was Rs. 77 crores, constituting around 1 percent of the total all-India bank credit to the sector.

**Refinance for RRBs**

The Working Group (Kelkar Committee) on RRBs, appointed by the Government of India, has recommended a uniform refinance formula for all lending operation other than schematic lending as indicated below:

- NABARD’s refinance: 50%
- Sponsor bank: 20%
- RRB’s own involvement: 30%
The recommendation has been accepted by the Government of India and NABARD. However, in view of the low resource base of RRBs, NABARD will continue to maintain its involvement in nonschematic loans at 60% as before.

National Small Industries Corporation (NSCI)

The National Small Industries Corporation was established in 1955 with an authorised capital of Rs. 20 lakhs, which was entirely subscribed by the Government of India.

The Corporation’s objective is to assist in the promotion of agro-based industries by securing Government orders for them; by providing financial and technical assistance to them to enable them to meet these orders for the products by co-ordinating the activites of these industries so as to enable agro-based industries to manufacture components and spare parts required by industries; and by large undertaking the underwriting and guaranteeing of loans given by commercial banks and other financial.
Activities of NSIC

institutions to agro-based industrial enterprises. These for reaching development and the scale scope of operation of agro-based industries have brought to the importance of provision of administrative and finance at various levels.
3. GOVERNMENT

The success of agro-based industries depends solely on the well-established financial set-up. In order to meet the requirements of the rapidly expanding agro-based industries sector in the country, the Government gave adequate financial support; and it may well claim to have achieved some success in this sphere. The role of various institutions set up promote the growth of agro-based industries is quite unique, In this chapter an attempt has been made to discuss the role of industrial finance in the promotion of agro-based industries in India. In other words, the assistance that the agro-based industries take from different institutions for varied purposes.

The institutions aiding agro-based industries may be broadly classified into three categories: (i) Advisory bodies; (ii) Government institutions; (iii) Corporate institutions.

Chart – 4.5

AGRO-BASED INDUSTRIES

- ADVISORY BODIES
- GOVERNMENT INSTITUTIONS
- CORPORATE INSTITUTIONS
In the first category, we have the Development Commissioner agro-based industries; the State Small Industries Board; Directorate of Industries; Export Promotion Council; and the Small-Scale Industries Association. In the second category, the following are included: Commodity Boards, National Small Industries Corporation, agro-based industries Service Institutes, etc. In the third group, the following corporate bodies are discussed: the State Trading Corporation, the MMTC, the ISI, the Central Institute of Tool Design and IDBI.

The institutional set-up for the accelerated growth of the agro-based industries sector has been broad-based during the last two decades. An attempt has been made to cover the wide spectrum of institutions in the following order.

Development Commissioner, the Small industries Development Organisation; Small-Scale industries of State Governments; State Small industries Corporations; Small industries Extension Training institute; Small-Scale industries Board; the Indian Investment Center; Export Promotion Councils; Commodity Boards; Export Houses, Indian Institute of Packaging; Export Inspection Council; Indian Council of Arbitration; State Trading Corporation of India; MMTC; IDBI; Central Institute of Tool Design.
The Development agro-based industries is primarily the responsibility of the State Government; but in consideration of the fact that various questions and issues involved in the programme of Development of these industries have an all-India character and can be efficiently considered and tackled at the national level, and also because of the scale on which efforts were required to be made to tackle the problems, it was considered desirable by the Central Government to assume responsibility for planning and co-ordinating the basic programme of development. With this end in view, an All-India Board, known as the Small-Scale Industries Board, was set up in November 1954, charged with the responsibility of overall planning, co-ordination and development of agro-based industries in the country. The Board is composed of Central and State Government officials, representatives of various institutions, financing bodies, the Federation of agro-based industries Associations and a number of nonofficial representing trade, industry and other interests. The meetings of the Board are held by rotation in each State, usually once every six months. This, no doubt, helps the members to acquire first-hand knowledge of developments in every State, besides drawing their attention to the particular problems of local industries. The Board discusses question connected with credit facilities, supply of raw materials, revision of the definition of agro-based
industries for the purposes of assistance programmes, dispersal of industries; it reviews the programme of implementation and formulates new directives for a further growth of the small industry sector. Although the Board functions in an advisory capacity, its decisions are given very great importance by the Government.

**Chart – 4.6**

![Diagram showing the relationships between various entities such as SIDO, SISH, DIC, NSIC, SSIC, SDI, SFCS, BANKS, SIETI, CITD, ISI, EXPORT PROMOTION COUNCIL, STC, SELECTION CONSUTANCY, TRAINING, FINANCE, MACHINERY, RAW MATERIAL, FINANCE, TECHNICAL KNOWHOW, STANDARDISTION, MARKETING, and EXPORTS.]
(1) THE SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)

The Small Industries Development Organisation (SIDO) functions as a policy-formulating, co-ordinating and monitoring agency for the development of agro-based industries. It maintains a close liaison with the relevant Central Ministries, the Planning Commission, State Governments, financial institutions and other organisation which are involved in promoting the development of the agro-based sector. Its activities relate to all the agro-based industries, excluding those which fall within the purview of specialized Board or agencies, viz. the All India Handloom and Handicrafts Board, the Coir Board, the Central Silk Board and the Khadi and Village Industries Commission.

The SIDO provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to the agro-based industries units. At the head quarters. The Development Commissioner is assist as follows:
Small Industries Development Organisation (SIDO).

(i) Joint Development Commissioner;
(ii) Director for Industrial Development and Raw Materials;
(iii) Director for Chemical Industries;
(iv) Director for Industrial Estates;
(v) Director, Economic Investigation and Statistics;
(vi) Director for Industrial Management and Training;
(vii) Director who functions as Secretary of the Small Scale Industries Board and looks after the State Government Schemes, Publications and Publicity.
Each Director is assisted by a Deputy Director, an Assistant Director and Junior Field Officers.

The main functions of the Small Industries Development Organisation (SIDO) include: (i) co-ordination, (ii) industrial development and (iii) industrial extension service.

The organisation co-ordinates the work relating to the development of agro-based industries on an all-India basis by:

(i) Evolving an all-India policy and programme for the development of agro-based industries;

(ii) Co-ordinating the policies and programmes of various State Governments;

(iii) Acting as a liaison between different States and between the States and Central Ministries, the Planning Commission and the Reserve Bank and the State Bank;

(iv) Co-ordinating the programme for the development of agro-based industries;

(v) Co-ordinating the programme for the development of industrial estates and ancillaries all over the country.
Consultancy and Workshop Services

The SIDO offers a comprehensive range of technical services to the agro-based sector on improved technical processes, production planning, selection of machinery, use of modern machines and processes, preparation of factory layouts and designs, materials handling, etc.

Modernisation of Selected Industries

The SIDO has been implementing a programme of modernisation of selected industries and of other on the basis of concentration in certain areas. Under this programme, motivational programmes –seminars, workshops, industrial clinics, modernisation courses, etc.-have been arranged and literature and other publicity materials have been disseminated. Quick and intensive in –plant studies have been conducted with a view to assisting selected agro-based units in implementing the suggestion made by various study teams.
Consultancy Services, Management Development & Training

One of the important activities of the SIDO has been the provision of consultancy services and training in various disciplines to help improve the competitive strength of agro-based units and enable them to keep abreast of the latest developments in their respective fields. Such services were offered in the field of management, cost accounting, personnel management, documentation, etc.

About 15 open house discussions, seminars and workshops were organised by the SIDO with a view to providing opportunities to units located in different regions or belonging to particular trades to identify their problems, exchange views and discuss measures for the expeditious development of their undertaking.

The following are the important functions of the SIDO:

(i) To approve the production programme of specifically selected industries and of such items as come under the Common production Programme;

(ii) To assess the requirements of indigenous and imported raw materials and components for the agro-based sector and to arrange their supplies;

(iii) To secure reservations of certain products for the agro-based sector;
(iv) To assist and advise the Ministry of I.D. and C.A. in regard to cases of foreign collaboration, both technical and financial, in the agro-based sector and to work in close liaison with Development Wing (DGTD) with a view to arranging the distribution of raw materials from indigenous production centers in the country;

(v) To assist and advice the C.C.& E in regard to the issue of import licences and the imposition of restrictions on the import of various products whose manufacture has already been undertaken indigenously by the existing or developing new units;

(vi) To collect data on consumer items which are imported and encourage the setting up of new units by giving them co-ordinated assistance; and

(vii) To prepare model schemes, project reports and other technical literature for prospective entrepreneurs.

The DCSSI is represented on different Licensing Committees, Development Council other bodies, and seeks to safeguard the interests of the based agro-based industries.
(2) NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

Another central organisation, the National small industries Corporation, a Government if India undertaking, was set up in 1955, with the objective, of supplying machinery equipment to agro-based industries and assisting them in procuring Government orders for various items of stores.

Chart – 4.9

Fig. Activities of National small Industries Corporation (NSIC).

Formerly, the Corporation had four subsidiary corporations at Delhi, Bombay, Calcutta and Madras. However, since 1961, all the subsidiary corporations have been amalgamated with the main Corporation, and three Branch Offices have been set up at Bombay, Calcutta and Madras. The Delhi subsidiary corporation has been merged with the parent Corporation, and its work is looked after by a
separate Delhi Cell set up in it. The main functions of the National Small Industries Corporation are:

(i) To provide agro-based industries with modern machines on a hire purchase basis;

(ii) To assist agro-based enterprises to participate in the Stores Purchase Programme of the Central Government;

(iii) To develop agro-based industries as ancillary units to large agro-based industries;

(iv) To arrange the marketing of the products of small industries by starting emporia and promoting their export;

(v) To distribute basics raw material through their raw materials depots;

(vi) To import and distribute components and parts to actual agro-based users in specific industries; and

(vii) To construct industrial estates and run prototype production-com-training centers.
Chart-4.10

A Unique Package of Assistance for Small Entrepreneurs

- Project Export
- Prototype Development
- Technical Upgrade
- Leasing of Equipment
- Common Facility Service
- Raw Material Assistance
- Marketing Development Centres
- Marketing Assistance
- Hire Purchase
- Government Purchase Programme
The NSIC has taken up the challenging task of promoting and developing agro-based industries almost from scratch and has adopted an "integrated approach" to achieve its socio-economic objectives. It has created a proper "industrial" atmosphere and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment for purposes of modernization and/or diversification. The agro-based industries unite, because it is small, is always short of resources. The NSIC, therefore, supplies machinery and equipment, marketing inputs and technical support to small units. And so the seeding comes us as a "factory" which provides jobs for the unemployed or underemployed.

3. DIRECTORATES OF INDUSTRIES OF THE STATE GOVERNMENTS

It should be mentioned here that the agro-based industries sector is a State subject the Indian Constitution and, as such, the primary responsibility for all executive action in regard to its development and the implementation of the programme of assistance to is that of the State Government. The Directorate of Industries in each State and in each Union Territory in particular looks after the work relating to the development of industries of industries in agro-based industries. There
are 22 such Directorates all over the country. Each organisation is staffed with administrative and technical officers at the State Headquarters and by a district Industries Officer, with appropriate supporting staff, in each District. The State Directorates run various training schemes, production schemes and common facilities schemes. They also provide facilities of developed industrial land and built-up factory sheds in industrial estates, allocate quotas of scarce raw materials, certify import requirements and organise industrial co-operatives. Their functions are varied and have grown with the development and diversification of the agro-based industries sector. An Additional Director or a Joint Director and a number of Deputy Directors, Assistant Directors and Technical Officers in charge of specific fields of activities assist each State Director of Industries. At the district level, the District Industries Officer or the Assistant Director of Industries looks after the work. One or two inspectors, depending upon the quantum of work and the industrial importance of the district, assist him. In a number of State there are, at the block level, Extension Officers for industries to act as liaison officers between the District Industries Office and the field.

The Directorate of agro-based industries provides a wide variety of assistance. The details are given below;
General Assistance

1. Entrepreneurial Development Programmes
2. Industrial Accommodation
3. Priority on Telephone and Power
4. Supply of Machinery on Hire-purchase
5. Scarce raw materials
6. Recommendation for import
7. Research grant and Award of Prizes
8. Modernisation

Marketing Assistance

9. Export and Marketing assistance
10. Reservation of items for State Government purchase
11. Single point registration of NSIC
12. Earnest money exemption
13. 15% price preference
14. Quality marking

Financial Assistance

15. Loan under BSAI Act
16. Central / State Investment Subsidy
17. Subsidy towards fees of consultants
18. Subsidy on rent for sheds/land
19. 25% subsidy on captive generation sets
20. 20% subsidy on HT/LT power line
21. 30% subsidy on power bill
22. 3% interest subsidy on working capital
23. 25% interest subsidy on Term Loan
24. Rebate on Handicrafts raw materials units
25. 15% subsidy on new employment
26. Subsidy on stamp duty / registration
27. Return of Octroi / Entry Tax
28. Sales Tax exemption and loan
29. 5% extra subsidy for Scheduled Castes/Scheduled Tribes
30. Margin Money Loan
31. 20% margin money to sick units

For Cottage Section

32. Rebate /grant /loan to Khadi and village Industries
33. Financial Assistance for tools implements
34. Rebate on Handicrafts/Khadi
35. Training, common facilities, design development
36. Financial assistance to Co- operatives
37. Rural artisans programme /IRDP
4. STATE SMALL INDUSTRIES CORPORATIONS

Thirteen State Government have set up Small Industries Corporation as private limited bodies to undertake a number of commercial activities. The most important of these are distribution of scarce raw material, supply of machinery on hire-purchase basis, construction and management of industrial estates, procurement of orders from Government Department to be sub-contracted to agro-based industries assistance in export marketing and, in certain circumstances, provision of financial, technical and managerial assistance to small enterprises.

5. SMALL INDUSTRY EXTENSION TRAINING INSTITUTE

The Small Industry Extension Training Institute (S.I.E.T.), Hyderabad, was set up as an autonomous body in 1962 and was registered under the Societies Registration Act. It is engaged mainly in training Central and State Government officers who are entrusted with the responsibility of implementing agro-based industries development programmes. The Institute conducts courses in industrial management and area development techniques. It also conducts intensive courses in certain aspects of industrial management – in production management, financial management, cost accounting etc. The Institute undertakes
research in fields which are related to development of agro-based industries.

6. SMALL-SCALE INDUSTRIES BOARD

Introductory

The Government of India invited in 1953, an international team of experts sponsored by the Ford Foundation to study the problems of agro-based industries for the purpose of recommending a programme of development in view of their importance in the national economy. The recommendations of the team fall under three categories, viz., (a) those relating to the provision of technical know how and knowledge of business methods and management; (b) those that bear on the financial assistance to be provided in the form of credit facilities; and (c) those that are concerned with other form of aid and services, such as assistance in securing Government contracts, market facilities and research and supply of modern machine tools on easy instalment terms. It established in 1954.

Activities of the Board

The agro-based industries Board is concerned with the development of industrial undertaking which have capital investment of less than Rs. 5 lakhs and which employ less than 50 persons per shift when using power and less than 100 persons per shift when not using power. Match-manufacturing co-operative societies, tailoring co-
operative societies and sports-goods manufacturing units are, however, considered to be small-scale undertakings irrespective of the number of workers employed in them, provided that the capital investment in these units does not exceed Rs. 5 lakhs. These Boards, however, do not cover such village industries as wool, handmade paper, palm gur, khandsari sugar, rice husking, oil pressing by ghanies, bee-keeping etc., and certain other industries like handloom, khadi, handicrafts, coir and silk for which separate All-India Boards have been constituted. Some measures were taken to increase the flow of funds, particularly to agro-based units, at specified rates of interest. These measures are:

(a) Bank credit to artisans, village and agro-based industries in the tiny sector would be treated as composite term loan for equipment or working capital or both up to Rs.25,000, with a repayment period of 7 to 10 years or more.

(b) The rate of interest on term loans has been uniformly brought to 11 per cent.

(c) On the credit for working capital above Rs.25,000 but less than Rs. 100 lakhs granted to artisans, agro-based industries in the tiny sector, the rate of interest would not exceed 12½ per cent per annum.
(d) Simplified interview-cum-appraisal form for agro-based units would be available.

(e) Application for would-be available small loans will be disposed of within a period of 30 days at the district level.

(f) To get over the difficulty of delayed payments, the RBI has issued instructions that the accounts of the creditors should be bifurcated to show the dues of the agro-based units and those remaining unpaid for over 120 days. Banks have been advised to fix separate credit limits for purchases made from agro-based industries.

4. Critical Study

Terms of Reference

The following tasks were spelt out for the study Group:

(i) To suggest guidelines for commercial banks to follow up and supervise credit from the point of view of ensuring a proper end-use of funds, to keep a watch on the safety of the advances and to suggest the type of operational data and other information that may be obtained by banks periodically from such borrowers and by the Reserve Bank of India from the lending banks;
(ii) To make recommendations for obtaining periodical forecasts from borrowers of (a) business/production plans, and (b) credit needs;

(iii) To make suggestions for prescribing inventory norms for different industries, both in the private and public sectors, and to indicate the broad criteria for deviation from these norms;

(iv) To suggest criteria regarding satisfactory capital structure and sound financial basis in relation to borrowings;

(v) To make recommendations regarding the sources of finance for minimum working capital requirements;

(vi) To make recommendations as to whether the existing pattern of financing working capital requirement by cash credit/overdraft system, etc., requires to be modified; if so to suggest suitable modifications; and

(vii) To make recommendations on any other related matter as the Group may consider germane to the subject of enquiry or any other allied matter which may be specifically referred to it by the Reserve Bank of India (RBI).

The Study Group submitted its report early in 1975. In August 1975, the RBI directed all the commercial banks to implement the
principal recommendations of the Study Group. Its approach to lending has been given below for a fuller study.

1. Tondon Committee Approach to lending

Working Capital Gap and Bank Finance:

The banker's main role, as a lender, is to supplement the borrower's resources in carrying a reasonable level of current assets in relation to his production requirements.

Stated differently, it is expected of the borrower to hold only a reasonable level of inventory and receivables, according to the norms. The total current assets will be carried partly by a certain level of credit for purchases and other current liabilities. Funds required to carry the remaining current assets may be called the working capital gap, which may be bridged partly by the borrower's owned funds and long-term borrowings and partly bank borrowings.

Coverage of the Proposed Approach:

The Study Group recommended that the proposed approach to lending and the style of credit be extended to all borrowers having credit limits in excess of Rs. 10 lakhs from the banking system in accordance with the suggested schedule. As regards the proposed information system, however, it was suggested that, to start with it might be introduced in respect of borrowers with limits of Rs. 1 crore and above from the entire
banking system. Progressively, the bank should extend this system, first to borrowers with limits of Rs. 50 lakhs to Rs. 1 crore, and next to those enjoying limits of Rs 10 lakhs to Rs. 50 lakhs.

2. Working Group on Agro-Based Industries

With a view to ensuring greater inflow of bank credit to the agro-based industries, the Reserve Bank appointed a working group on agro-based industries. The Group has made significant recommendations to enlarge the scope of finance to the agro-based sector.

The major recommendations of the Group are –

(i) Institutional assistance to artisans and village and cottage industries up to Rs.25000 should be provided as a composite loan, whether it is for equipment finance or working capital or both. The maturity period should be 7 years to 10 years and the initial moratorium period should be 12 months to 18 months. Such composite loans should be sanctioned at a concessional rate of interest – maximum 11 per cent (91/2 per cent in backward areas) without any margin of collateral security. These loans should be covered by the IDBI Automatic Refinance Scheme; and guarantee cover for such loans should be increased to 90 per cent under the Credit Guarantee Scheme.
(ii) Interest rates for the tiny sector should not exceed 12 1/2 per cent for working capital.

(iii) The Centrally sponsored schemes for seed capital /margin money should be mainly oriented to meet the requirement of agro-based sector, and shall be integrated with institutional lending.

(iv) The role of Credit Managers deputed to the DICs should be promotional one- providing guidance, assistance and support required by entrepreneurs and artisans so that they may obtain adequate institutional finance. The Credit Manager should recommend the credit proposal, after due appraisal, to the concerned credit institution. Specific recommendations have been made as to how proposals for financial assistance up to Rs. 1 lakh may be disposed off by the banks within 30 days of their receipt.

(v) Since marketing is a major limitation to the successful establishment of agro-based industries, a two-tier approach for augmenting instructional credit to agro-based industries has been recommended, under which marketing organisations would be eligible for bank credit as if they were priority sector activities.
(vi) For large agro-based industries, suggestions for reducing delays in the sanction of credit limits have been made. Term loans to units in specified backward districts should be charged concessional rate of 91/2 per cent as against 11 per cent in other areas.

3. SBI Study

The experience gained in the working of the scheme has revealed that unless the State Bank liberalises its procedures and practices, it would not be possible to assist agro-based industries to any appreciable extent. Accordingly, the bank’s procedures were liberalised, under which credit facilities were extended to agro-based industries under the Pilot Scheme for working capital purposes against the pledge of raw materials and/or finished goods, either on lock-and-key or factory-type basis, or against hypothecation of stocks. In appropriate cases advances are made against goods in transit, and clean advances are granted against guarantors. Provision has also been made wherever possible, for relaxation in respect of salaries of watchmen and godown-keepers and in respect of margins, insurance, and so on. These liberalised provisions are applicable only to a unit whose products have an assured market, e.g., unit which manufacture goods against Government orders or against order of firms, or which are readily saleable. A unit which cannot satisfy the bank’s
requirements but undertakes technical or organisational improvements under the supervision of the representatives of the Department of Industries Service Institute, can apply for the grant of adequate credit facilities; and its application is favorably considered.

The interest charged by the State Bank on loans under the Pilot Scheme is linked to its prime advances rate, which at present is 41/2 percent annum. Interest is charged on a sliding scale, the lower reach of which is applicable to advances against stocks under the bank’s lock-and-key scheme. The rates on factory-type or hypothecation basis are slightly higher. The highest rate in applicable to clean credits.

The State Bank entered into an agreement with the National Small Industries Corporation Limited, under which agro-based industries, securing orders from Government departments through the good offices of the Corporation would be able to avail themselves of advances at all its branches against the pledge of raw materials up to their full value, the portion of the advances representing the bank’s usual margin being guaranteed by the Corporation. The Corporation has, however, stipulated that the guarantee in individual cases shall not exceed Rs. 25,000 and that the limits of its overall guarantee will be restricted to Rs. 30 lakhs. The scheme came into operation from January 1, 1959; and the working of
this arrangement was reviewed early in 1960. The scheme was further liberalised in 1975.

The State Bank conducted an evaluation of the results of the working of the scheme up to the end of December 1957 at the nine centers where the scheme was first introduced. The evaluation was:

(i) To take stock of the progress made;
(ii) To review how far policy decisions has been implemented;
(iii) To assess the impact of the methods and procedures adopted by the financing agencies on small industrialists;
(iv) To find out the deficiencies and limitations of the scheme if any; and
(v) To draw general conclusions to serve as a guide for the formulation of policies and their implementation in future.

The evaluation team observed that the organisation of the co-operatives of village handicrafts and industries was a time-consuming process. Moreover, agro-based units are not very favorable to the idea of forming co-operatives. It appears, therefore, that attempts to organise them into co-operatives may not prove fruitful; and the progress is likely to be slow, both in bringing about a general improvement in small-scale industries and in improving the credit facilities available to them. As regards the suggestion that the provision of finance to agro-based units
may be taken up by urban co-operative banks, the team has stated that, even if these banks undertake to meet the credit requirement of the agro-based industries, their contribution cannot be substantial, for their resources are limited in relation to the overall requirements of agro-based industries.

The evaluation team has, therefore, come to the conclusion that although the progress achieved at all the nine centers was neither remarkable nor uniform, the scheme has, on the whole, worked fairly well.

The team has, inter alia, recommended that:

(a) The scheme should be operated by branches of the State Bank and should not continue merely as a pilot scheme.

(b) The bank may take suitable action to revise the list of acceptable commodities.

(c) The rate of interest charged by the bank should not exceed an all inclusive rate of 6 per cent, and no additional charges should be recovered from the borrowers.

(d) The bank should consider the acceptance of fixed assets, especially machinery, as Security for the short-term loans granted by it.
(e) To cater to the needs of agro-based units and to secure a better co-ordination among the participating agencies, it would be better if State Government route their loans to those industries through State Finance Corporation, which, on their part, should enter into an agreement with the State Bank of India to act as their agents for collecting reports, disbursing loans, collecting instalments, etc., from agro-based industries.

The State Bank has since accepted some of the recommendations made in the Evaluation Report. In pursuance of the decisions taken in this regard, all its branches now operate the liberalised scheme. It will, however, be worked more intensively at certain important centers with a view to achieving the maximum co-ordination with other participating agencies. Having regard to the present expansion of the range of the marketable industrial goods produced in the country, the bank has taken steps to enlarge the list of commodities which may be accepted as security for advances to agro-based industries. The interest on advance has been fixed at an all-inclusive rate not exceeding 6 per cent annum, and no additional charges will be borne by the borrowers; they do not have to pay the godown-keeper’s salary, inspection charges, etc. In appropriate cases, medium-term advances are granted by the bank
for expansion or renovation purposes for periods not exceeding seven years upon such security (of any immovable property) as may be deemed adequate by the sanctioning authority.