INSTITUTIONAL FINANCE TO SMALL SCALE INDUSTRIES IN INDIA
Small scale industries play a key role in our planned economy with their advantages of low investment, high potential for employment generation, diversification of the industrial base and dispersal of industries to rural and semiurban areas. This sector has, therefore, been appropriately given a strategic position in our planned economy. It has a vital role to play in the fulfilment of the socio-economic objectives, particularly, in achieving equitable growth. Dhar & Lydall (1961) have observed that "the promotion of small scale industries has been widely recommended as one of the most appropriate means of developing industry in over-populated, backward countries".¹

The development of small scale industries depends upon various factors like availability of raw-materials, skilled labour, advanced technical know-how adequate, easy and cheap finance and right type of management. Among these, finance is crucial in the development of small scale industries. Non availability of finance at the right time and in right quantities with low rate of interest poses a serious threat to the development of small scale industries. With the availability of adequate finance, it is easy to run the unit successfully without any hindrance.

Small scale industries main sources of finance are promoters, institutional agencies, and non-institutional agencies. Because of their poor

financial background, the capacity of the promoters to invest in their respective units is limited. Likewise, the non-institutional agencies are always reluctant to invest in these small scale industries, due to their limited earning capacity as well as poor reputation of the entrepreneurs. Hence, the institutional financial agencies have to play a greater role in financing the development of the small scale enterprises.

There are different financial institutions to cater to the financial needs of the small-scale industries. Mostly working capital financial needs are met by the commercial banks, regional rural banks and co-operative banks. Sometimes, they may also participate in the long-term financial needs along with State Financial Corporations (SFCS) but on a limited scale. Financial assistance in kind is also available to the small scale sector from the State Small Industries Development Corporations (SSIDCS) at the state level and National Small Industries Corporation (NSIC) at the national level. The Industries Development Bank of India(IDBI), the 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 grassroots level agencies for financing small scale industries. The Deposit Insurance and Credit Guarantee Corporation (DICGC) assists the small scale industries by guaranteeing advance to these industries. Moreover, the Export-Import Bank of India (EXIM) facilitates external trade by rediscounting the bills of these industries. Likewise,
the Industrial Reconstruction Bank of India (IRBI) assists in rehabilitating the sick units of these industries.

Having discussed the basic information about financing schemes being operated by various financial institutions or agencies, the details regarding these schemes are given below.

Commercial Banks

Prior to their nationalization, 14 major commercial banks had been mostly engaged in financing organized trade, commerce and industry. The commercial banks, being urban-based and profit oriented, were not responsive to the financial needs of the small scale industries. In other words, the whole banking system was built in such a way as to cater to the needs of a particular class, viz, traders and big industrialists. Moreover, the commercial bank branch network had an urban-bias with consequent inadequate coverage in the rural areas. The commercial bank deposits had increased, but the bulk, of the increase was accounted for by the organized sector and the prosperous regions.

As the commercial bank lendings were 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 beyond the reach of the vast masses of economically weaker sections of the society.
In 1967, the idea of socialization of Bank lending was introduced, under Social control over Bank. The main aim was to assist the hitherto neglected sectors of economy such as small scale industries, retail trade, small transport and agriculture. But the mere issue of guidelines did not make the desired impact on the deployment of bank credit. Consequently, the government of India took a bold step of nationalisation of 14 major banks on 19th July, 1969. Again on 15th April, 1980, six more private sector banks were further nationalised to extend the area of control over the banking system in the country.²

The main aim of nationalisation of these banks was to ensure that no viable productive endeavour should falter for lack of credit support, irrespective of the size of the borrower. Therefore, 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.³ Thus, the concept of priority sector lending is mainly intended to ensure assistance to those sectors of the economy which have been hitherto neglected by the banking systems. This system has two advantages, viz., (1) priority in allocating credit; and (2) concessions in terms and conditions, including rate of interest.


The priority sector includes the following:

i. 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.

The Reserve Bank of India, basing on the recommendations of A. Ghosh, has prescribed the following main targets in regard to lending to the priority sector:

i. Banks should aim at enhancing the proportion of their advances to priority sector to 40 per cent by 1985;

ii. Among the total advances to priority sector, minimum 40 per cent should be extended to agricultural sector;

iii. In the small scale industrial sector advances the weaker sections should constitute 12.5 per cent of the total advances to small scale industries by 1985.

iv. All small scale industrial units with limits upto Rs.25,000 are to be treated as weaker sections. This was expected to cover almost all the artisans as well as the village and cottage industries and also the tiny sector.
For the small scale industries these commercial banks grant both long-term and short-term loans. But much of the assistance rendered by them is in the form of short-term credit. They also extend credit both on easy and concessional terms with regard to rate of interest, margin, and security.

**Term Loans:**

a) **Long and Medium**

Traditionally, the commercial banks have been engaged in financing working capital requirements of the industry. Moreover, in recent years, the commercial banks have entered into the field of long term industrial finance. The term loans are for acquiring fixed assets, construction of factory buildings, and the purchase and installation of machinery and equipment. Sometimes, these loans are also granted for the purpose of expansion, modernisation and renovation. These loans can be secured against mortgage of fixed assets. The loans are repayable over a period of seven to ten years in suitable instalments. Eventhough 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 supervision of credit and effective follow up work.
Technically qualified artisans, who are desirous of starting small scale units, are provided necessary finance by these commercial banks under the scheme for financing qualified entrepreneurs. The assistance may be on an instalment basis for the purchase of the necessary 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 variance between 25 per cent of the project cost and the capital available with the entrepreneur. The commercial banks also provide the financial assistance to individuals or firms providing services like watch repairing, catering, etc and professionals such as lawyers, doctors, engineers, architects, and transport operators.

Normally these commercial banks get refinance from the Industrial Development Bank of India (IDBI) in respect of term loans, provided the loans are sanctioned as per the terms and conditions laid down by the IDBI from time to time.

**SHORT TERM:**

Commercial banks grant short-term loans to small scale industries for maintaining necessary inventory of raw materials, finished and semi-finished goods and maintaining day-to-day expenses. These short-term loans are advance
against pledge of materials and processed goods. These 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. Here an attempt is made to discuss the different types of commercial bank credit to small scale industries of the entrepreneurs.

Cash Credit

One of the most popular modes of commercial bank credit to small scale industries is cash credit. It is a running account operated by the borrower through cheques and other instruments of credit. Daily transactions of the borrower are put through this account. Here, the account is permitted to be overdrawn upto 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 the goods pledged and/or hypothecated, subject to stipulated margins. This determines the maximum amount of advance admissible within the overall sanctioned credit limit.

Trade Bills

Commercial Banks provide credit facilities by purchasing document any demand bills or by discounting usance bills to the small scale industrialists
CREDIT AGAINST:

Government Supply Bills

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

Book Debts

Since small scale units sell their goods to a large number of buyers in small quantities on credit terms, usually it may not be possible 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 addresses of the debtors, the amounts due and the period for which the debts are outstanding. The rate of margin normally varies between 30 and 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.
Letter of Credit

The importer's bank issues a letter of credit to the exporter authorising him to draw bills, up to a particular amount at the contracted price. The different types 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 banks usually require a margin of 10 per cent on the amount mentioned in the letter of credit. If the small scale industrial units want to import machinery & equipment or raw materials and other components from abroad, they are provided through the letter of credit facilities.

Pre-shipment and Post-shipment Credit:-

To encourage exports, commercial banks provide pre-shipment and post-shipment credit to the small scale industrial units. The pre-shipment credit is of two types, 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 purchasing, processing and packaging exportable goods for shipment. The credit is given against the security of goods to be exported at concessional rate of interest. Such loans should be liquidated, within the specified time, only from the proceeds of exports made by the borrower. 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 materials stipulated in the letter of credit and the beneficiary will deliver the necessary shipping documents prior to the expiry of the date of the letter of credit.

**Advances against foreign bills**

Under this scheme 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**

Under this scheme the customs duty paid on imports used in manufacturing the goods exported, is refunded. The customs 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 customs 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. On eligible loans the Reserve Bank of India provides refinance upto 100 per cent
The credit against cash incentives

Under this 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 sometime for the exporter to receive cash incentive, the bank may grant credit against cash assistance entitlement.

Commercial Banks-Special Schemes:

Apart from conventional lending to small scale industrialists, the commercial banks have drawn up special schemes for financing target groups under the small scale sector. Though different banks have drawn up different 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 drew up 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 in easy instalments.

Special Scheme for Financing Craftsmen and Artisans

The traditional industries are also eligible to receive financial assistance under this scheme. The State Bank of India introduced a special scheme of financing artisans and craftsmen. In fact, the Bank introduced the scheme in coordination with the Government of India to cover the target group under Rural Industrial Projects. Under this 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

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

For the benefit of the small scale entrepreneurs, the State Bank of India also takes up promotional role. The Bank established in 1973 its own technical consultancy cells to provide technical and managerial guidance to small scale entrepreneurs in each of its local Head offices. 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. Moreover, with the objective of rapid growth of industrial development in the backward areas, the Bank launched a programme of entrepreneurial development in 1978. The training under the programme aims at development of entrepreneurial motivation, creating confidence through direct experience, supply of information about the region, industry potential, and economic insights and management skills. The programme also includes practical training in small scale industrial sectors 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, project report, market surveys and project validation.
Regulation of Bank Credit

In a developing country like India, Bank credit is a scarce resource. Therefore, the bank credit should be utilised optimally, and there should not be any abuse and misuse of bank credit. In order to ensure sufficient and timely flow of credit and effective utilization of credit to the needy sectors of the economy, the Government appointed Several Committees from time to time to study and recommend ways for better utilisation of the bank credit. The background, and major recommendations of such committees are also discussed in the present study.

Dehajia Committee

In October 1968, the National Credit Counsel set up a Study Group 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. In September 1969, the Study Group submitted its report to the National Credit Counsel.

The group, while reviewing the existing situation, found that the bank credit during the period 1960-1961 to 1966-67 expanded at a higher rate than the rate of 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 bank 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. In practice, there was also considerable divergence 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 this system of lending made the borrowers depend upon short-term debts.

Basing on the above mentioned findings, the Committee made the following recommendations:

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

(iii) 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.

(iv) 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.

(vi) A large sum as working capital advance, is permanently needed by the borrower to carry on the operations. So, 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 borrowers should try for long term sources of finance.

Tandon Committee

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

The Committee recommendations can be classified under the following heads:

(i) Norms for inventory and receivables;
(ii) Approach of lending;
(iii) Style of credit;
(iv) Information system; and
(v) Bill finance.

The Committee opined that 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:

(i) **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.

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

(iii) **It should be the responsibility of the borrower to supply all necessary and relevant information to the lending bank. Such information should include an operating as well as funds flow statement for the whole of 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) **Each 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.
Chore Committee

Inspite of Reserve Bank of India’s advise to the banks in implementing 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 that 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: 4

(i) 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;

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

(iii) 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 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. The Committee also felt that the advantages of the existing system of extending credit by a combination of three types of lending, viz., cash credit, loan, and bill system of finance should be retained.

The Committee made the following recommendations in the light of the above, findings:

(i) **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.

(ii) 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 borrowers having working capital limits of Rs. 10 lakhs and
(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 Chore 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

In December 1991, the Reserve Bank of India appointed a committee under the chairmanship of P.R. Nayak to look into the various aspects of the credit requirements of the small scale industrial 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 small scale industrial sector; (b) the need for modifications/relations in the norms prescribed by the Tandon and

Chore Committees in so far as small scale industries are concerned; (c) revision, if any, required in the existing RBI guidelines for the rehabilitation of the sick small scale industrial units, and (d) any other aspects related to the above.

After a thorough investigation of the problem, the Committee observed that the credit support extended by the banking systems to the small scale industrial unit is inadequate. This sector 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 small scale industrial unit 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 less than Rs. 1 lakh should have the first claim on the priority sector credit to small scale industries. Besides the banking system should meet all the working capital requirements of all the units of the tiny sector with credit limits upto Rs. 10 lakhs.

The Committee further recommended that the working capital needs of other small scale units 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 the resources flowing to the medium and large industries sector at present, should be diverted to fully meet the demands of small scale industries.
As per the Tandon Committee report, the norms for inventory and receivables has little relevance to the vast majority of small scale industries. The Committee felt that these norms should not come in the way of small scale units getting at least 2 per cent of their turnover as working capital from the banks. Special norms in the north-eastern and hilly regions may also be considered for small scale sectors.

The Committee modified the definition of a sick small scale industry. A unit may be classified as sick when any of its borrowed 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 a small scale unit, the Committee recommended creation of cells in 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 sectors.

The other important recommendation of the committee, include (i) indexation of the value of investment in plant and machinery of units to ensure a uniform application of the definition of small scale unit; (ii) rationalisation 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 small scale industry clientele; (iv) abolition of the system of levying the DICGC credit guarantee fee separately for small scale industrial borrowers; (v) creation of a separate modernisation fund for small scale sectors; and (vi) setting up of factoring organisations in all parts of the nation/state and allowing the private sector to enter this field.

The Committee stressed the role of the small scale industry associations in mitigating the manifold hardships and difficulties 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.

**Commercial Banks Performance**

For a long time, the commercial banks were not inclined to finance these small scale industries as they considered that financing small industry was a risky proposition. Consequently, at the time of nationalisation of major commercial banks, the small scale sectors 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 units has been increasing tremendously ever since the nationalisation of major commercial banks in 1969. The Reserve Bank of India has instructed the
banking sector that credit to the small scale sector should be given on a priority basis. As a result of the direction of Reserve Bank of India, credit to the small sector has been tremendously increasing year after year.

A glance at the data provided in Table-II.1, makes it clear that there has been a significant 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 it increased to Rs.44,995 crores, that is about 68 fold increase in priority sector lending over the same period. With regard to small scale industrial sector advances, it was Rs.347 crores in 1969 but increased to 17,189 crores, that is about 51 fold increase in SSI sector advances for the period.
### 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>Year</th>
<th>Total Number of Accounts</th>
<th>Amount outstanding</th>
<th>Total Priority Sector Advances</th>
<th>Total Bank Credit</th>
<th>% of (3) to (4)</th>
<th>% of (3) to (5)</th>
<th>% of (4) to (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>1975</td>
<td>72</td>
<td>1,147</td>
<td>2,610</td>
<td>9,885</td>
<td>44.0</td>
<td>11.6</td>
<td>26.4</td>
</tr>
<tr>
<td>1980</td>
<td>432</td>
<td>2,154</td>
<td>6,321</td>
<td>17,543</td>
<td>34.8</td>
<td>12.28</td>
<td>36.03</td>
</tr>
<tr>
<td>1981</td>
<td>794</td>
<td>3,136</td>
<td>8,327</td>
<td>23,968</td>
<td>37.7</td>
<td>13.1</td>
<td>34.7</td>
</tr>
<tr>
<td>1982</td>
<td>961</td>
<td>3,953</td>
<td>10,803</td>
<td>29,091</td>
<td>36.6</td>
<td>13.6</td>
<td>37.1</td>
</tr>
<tr>
<td>1983</td>
<td>1,030</td>
<td>4,464</td>
<td>12,343</td>
<td>34,230</td>
<td>36.2</td>
<td>13.0</td>
<td>36.1</td>
</tr>
<tr>
<td>1984</td>
<td>1,244</td>
<td>5,386</td>
<td>14,882</td>
<td>41,292</td>
<td>36.2</td>
<td>13.1</td>
<td>36.0</td>
</tr>
<tr>
<td>1985</td>
<td>1,455</td>
<td>6,537</td>
<td>18,330</td>
<td>46,296</td>
<td>35.7</td>
<td>14.1</td>
<td>39.6</td>
</tr>
<tr>
<td>1986</td>
<td>1,642</td>
<td>7,829</td>
<td>21,631</td>
<td>52,842</td>
<td>36.2</td>
<td>14.8</td>
<td>40.9</td>
</tr>
<tr>
<td>1987</td>
<td>1,863</td>
<td>9,127</td>
<td>25,224</td>
<td>60,312</td>
<td>36.2</td>
<td>15.1</td>
<td>41.8</td>
</tr>
<tr>
<td>1988</td>
<td>2,179</td>
<td>10,785</td>
<td>29,269</td>
<td>67,855</td>
<td>36.8</td>
<td>15.9</td>
<td>43.1</td>
</tr>
<tr>
<td>1989</td>
<td>2,598</td>
<td>12,309</td>
<td>32,564</td>
<td>72,175</td>
<td>37.8</td>
<td>17.1</td>
<td>45.1</td>
</tr>
<tr>
<td>1990</td>
<td>2,707</td>
<td>13,248</td>
<td>34,874</td>
<td>78,178</td>
<td>38.0</td>
<td>16.9</td>
<td>44.6</td>
</tr>
<tr>
<td>1991</td>
<td>2,798</td>
<td>14,127</td>
<td>38,649</td>
<td>91,302</td>
<td>36.6</td>
<td>15.5</td>
<td>42.3</td>
</tr>
<tr>
<td>1992</td>
<td>2,890</td>
<td>16,590</td>
<td>42,093</td>
<td>1,02,959</td>
<td>39.4</td>
<td>16.1</td>
<td>40.9</td>
</tr>
<tr>
<td>1993</td>
<td>2,823</td>
<td>17,589</td>
<td>44,995</td>
<td>1,14,502</td>
<td>39.3</td>
<td>15.4</td>
<td>39.3</td>
</tr>
<tr>
<td>1994</td>
<td>2,987</td>
<td>20,306</td>
<td>45,375</td>
<td>1,23,101</td>
<td>44.75</td>
<td>16.49</td>
<td>36.85</td>
</tr>
<tr>
<td>1995</td>
<td>3,921</td>
<td>22,462</td>
<td>47,374</td>
<td>1,34,612</td>
<td>47.41</td>
<td>16.69</td>
<td>35.19</td>
</tr>
<tr>
<td>1996</td>
<td>3,036</td>
<td>25,711</td>
<td>49,521</td>
<td>1,52,718</td>
<td>51.92</td>
<td>16.84</td>
<td>33.43</td>
</tr>
<tr>
<td>1997</td>
<td>3247</td>
<td>21,561</td>
<td>53,632</td>
<td>1,73,272</td>
<td>40.20</td>
<td>12.44</td>
<td>30.95</td>
</tr>
<tr>
<td>1998</td>
<td>3311</td>
<td>25,843</td>
<td>55,610</td>
<td>1,91,234</td>
<td>46.47</td>
<td>13.51</td>
<td>29.08</td>
</tr>
<tr>
<td>1999</td>
<td>3216</td>
<td>29,482</td>
<td>59,269</td>
<td>2,14,576</td>
<td>49.74</td>
<td>13.74</td>
<td>27.62</td>
</tr>
</tbody>
</table>

* Details relate to Public Sector Banks only.

Source: Reserve Bank of India Monthly Bulletin (Relevant Issues).
In 1969, the priority sector credit accounted for 18 per cent of the total credit. 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 1981, 42 per cent by 1991 and, 41 per cent by 1992. But it declined from 45.1 per cent by June 1989 to 27.62 percent in 1999. Thus, the commercial banks have well reached the target of extending 40 per cent of the total bank credit as advances to the priority sector. Similarly, the small scale sectors share in the total bank credit was 10 per cent in 1969, but increased to 12 per cent in 1975, 13 per cent in 1981, 16 per cent in 1991 and, 16 per cent in 1992. But it declined to 15 per cent in 1993, 13.74 per cent in 1999. Besides, the share of small scale 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 1981, 37 per cent in 1991, 39 per cent in 1992 and 38 per cent in 1993, 44 per cent in 1994, 51.92 per cent in 1996, 49.74 per cent in 1999. An analysis of the present data revealed 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 of credit to other constituents of the priority sector.
Co-operative Banks

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

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

Fixed capital financing terms are dependent on the type of industry and nature of the fixed capital required. Working capital is provided either on pledge or on hypothecation of stocks. Facilities for discounting of bills are also provided especially by the state co-operative 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 obtain finance at 11 per cent. In case any unit is set up in a remote rural area whose application is routed through primary co-operative society, the interest rate on its working capital could be as low as 11 per cent. Similarly, in respect of an industrial co-operative set up in the district, the minimum rate will be 9.50 per cent.

**State Financial Corporations (SFCs)**

The State Financial Corporation's main aim is to provide the medium and long-term loans for setting up new industrial units and for expansion, diversification, renovation modernisation and rehabilitation of existing units and thus speed up the industrial development in the country.9

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

Source of Funds

The State Financial Corporation's chief sources of funds consist of bonds and debentures, deposits, share capital and reserves, borrowings from the Reserve Bank of India and the state government concerned. These corporations may also obtain funds from Industrial Development Bank of India under the refinance scheme.

Main functions

The main functions of the state financial corporations are as given below:

(i) Extending long term credit to industrial concerns, primarily for the purpose of acquiring fixed assets in the shape of land, buildings, and machinery;
(ii) Guaranteeing loans raised by industrial concerns in the capital market or from scheduled banks or state cooperative banks;

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

(iv) Subscribing to the stocks, bonds, or debentures of an industrial concern out of the funds representing the special class of share capital subscribed by the State Government or the IDBI in accordance with the provision of section 4 A of the SFCS Act 1951.

(vi) Underwriting of the issues of stocks, shares, bonds, or debentures by industrial concerns.

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

(viii) Providing foreign exchange loans under IDA line of credit.

Eligibility for financial Assistance:

Industrial concerns under any form of ownership, whether it be a proprietary or partnership concern, registered cooperative society, private or public limited company engaged in or proposed to engage in one or more of the following activities are eligible for financial assistance.:

(i) Manufacture, preservation or processing of goods;

(ii) Mining, and development of mines;

(iii) Hotel industry;

(iv) Transport of passengers or goods by road or by water or by air or by rope way 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 continuous area of land as an industrial estate or industrial area;

(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;

(xi) Providing of weigh bridge facilities

(xii) Providing special or technical knowledge or other services for the promotion of industrial growth.

(xiii) Setting up nursing homes/hospitals and medical equipment to doctors:

(xiv) Borewell / rigs/road laying equipment/earth excavators;

(xv) Business enterprises set up by qualified professionals in management, accountancy, architecture, engineering, and medicine
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**

Generally, between Rs.10,000 and Rs.30,000,000 are given by the state finance corporation as loans. In the case of limited companies and co-operatives, the maximum limit is extended up to Rs. 60 lakhs including deferred payment guarantees and underwriting of shares. Any industrial sector 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, and Commercial banks. Recently the State Finance Corporations have also been sanctioning mini Loans of Rs. 5000 to 50000 to small scale industrial units.

**Special Schemes Operated by the State Financial Corporations**

In addition to extending term loan assistance for establishing the new industrial undertakings or for expansion/diversification of the existing industrial sectors, the state financial corporations also operate the following special schemes for the benefit of a wide range of entrepreneurs.

**Composite Loan Scheme**

Under this scheme village and cottage enterprises located in places with a population of 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.
Under this scheme, the moratorium period shall be 12-18 months. Repayment period can range from 3 to 10 years. Some sort of concessions are also given in the rate of interest for the loans sanctioned under this scheme, the margin at an interest rate of 9.25 per cent in backward areas and 11.5 per cent in non-backward areas. However, the enterprises promoted by artisans are eligible for loans throughout the state.

Scheme for physically Handicapped Entrepreneurs

A person who on account of injury, disease or congenital deformity is substantially handicapped and the degree of disability has exceeded 40 per cent as defined in Workmen Compensation Act, 1923, as amended upto 1976 can avail of financial assistance to the tune of Rs.50,000 and get 100 per cent assistance for project, 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 interest is allowed irrespective of location of the industry.

Single Window Scheme

The corporation has recently introduced this scheme. This scheme is meant for new tiny and small scale industries -- whose project cost, does not exceed Rs.20 lakhs, and the total working capital requirement does not exceed 10 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.
Assistance to Scheduled Castes / Scheduled Tribes Enterprises

Under the scheme, enterprises belonging to Scheduled Castes/Tribes are provided financial assistance at concessional terms to set up viable units. Only sole proprietorship and partnership firms are eligible under the scheme. The loan assistance can range from Rs. 50,000 to 15.00 lakhs. The rate of interest as well as margin are retained on security according to the slab of the assistance.

Women Entrepreneur Scheme

Under this scheme the women entrepreneurs are provided training and extension service support through a comprehensive package suited to their skills and socio-economic status and extended financial assistance on concessional terms for setting up industrial units in small scale sector.

The state financial corporations have specially designed some schemes for assistance to women entrepreneurs. The enterprises started by women entrepreneur (s) having a project cost of 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 with an initial moratorium period upto 2 years. are repayable over a period of 10 years.
Mahila Udyam Nidhi Scheme

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 the gap in equity. The soft loan with a moratorium period upto 5 years is repayable over a period of 10 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 this scheme. In case of scheduled caste/tribe entrepreneurs the maximum age limit is upto 45 years. Under this scheme to get assistance 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 with an initial moratorium of 2 years, is 8 years.
Self-employment Scheme for Ex-servicemen

The main objective of the scheme is to encourage and extend financial assistance to ex-servicemen, disabled service personnel, and widows of ex-servicemen to be self-employed by setting up 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 undertaking 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 the total promoter’s contribution and effective management of the project rests with the ex-servicemen.

Equipment Refinance Scheme

Under this scheme financial assistance is extended 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 at least four years and should not have defaulted in payments due to the institutions.

The assistance should not exceed Rs. 3.00 crores and the paid up capital and reserves also should not exceed Rs. 3.00 crores. The minimum contribution of promoters should be 22.5 per cent and repayment period shall not exceed 5
years with a moratorium period upto 12 months. However, the rate of interest applicable under the scheme is 14 per cent per annum.

Scheme for Modernisation

To encourage adoption of improved or updated technology and methods of production and to prevent technological obsolescence the Corporation provides financial assistance on concessional terms under its modernization scheme.

Under this scheme to get assistance, the sectors should be in existence at least for a period of atleast 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) Anti-pollution measures; (f) Conservation / substitution of scarce raw-materials and other inputs including recycling / recovery of waste and byproducts; (g) improvement in capacity utilisation within the existing capacity through increase in productivity and (h) improvement in material handling. However, the proposals for more 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.

The assistance is provided at 11 per cent rate of interest per annum, irrespective of the location of the unit and minimum promoter’s contribution of 10 per cent.
Special Capital Assistance

The corporation provides special capital assistance by way of soft loan. This is 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. Repayment period will be a maximum of 10 years with a moratorium period upto 5 years.

National equity Fund Scheme

Under the National Equity Fund Scheme, the state financial corporations 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 small scale industrial sectors can also avail of this facility for rehabilitation purposes, provided the total outlay on rehabilitation does not exceed Rs.10.00 lakhs. Under this scheme, a nominal service charge of one per cent per annum is charged on the assistance. The repayment period, with an initial moratorium period of 3 years, is generally upto 7 years.

Financial Performance

In our country, the state financial corporations have been assisting the industrial sector since the early 1950s. Cumulatively, from their inception till
1995-96, 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.

In Table -II.2, the year wise sanctions and disbursements of SFCs are shown. 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 1986-87, 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 1992-93, 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 1998-99 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 1986-87, disbursements to the small scale industries accounted for 70 per cent of the sanctioned amount; in 1992-93 it was 67 per cent and in 1998-99 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 1986-87 to 33,582 in 1998-99. In other
words, there is about four fold increase in the number of units assisted over a period of twelve years, 1986-87 to 1998-99.

Table-II.2

Deployment of Credit by State Financial Corporations in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Small Scale Industries (SSIs)</th>
<th>Total (SSIs and Others)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of units Assisted</td>
<td>Sanctions</td>
</tr>
<tr>
<td>1986-87</td>
<td>7,248</td>
<td>118.31</td>
</tr>
<tr>
<td>1987-88</td>
<td>15,411</td>
<td>170.36</td>
</tr>
<tr>
<td>1988-89</td>
<td>26,866</td>
<td>275.60</td>
</tr>
<tr>
<td>1989-90</td>
<td>28,178</td>
<td>363.47</td>
</tr>
<tr>
<td>1990-91</td>
<td>28,682</td>
<td>459.66</td>
</tr>
<tr>
<td>1991-92</td>
<td>24,776</td>
<td>461.02</td>
</tr>
<tr>
<td>1992-93</td>
<td>24,447</td>
<td>553.15</td>
</tr>
<tr>
<td>1993-94</td>
<td>23,036</td>
<td>763.45</td>
</tr>
<tr>
<td>1994-95</td>
<td>23,339</td>
<td>919.67</td>
</tr>
<tr>
<td>1995-96</td>
<td>27,005</td>
<td>891.58</td>
</tr>
<tr>
<td>1996-97</td>
<td>25,625</td>
<td>999.18</td>
</tr>
<tr>
<td>1997-98</td>
<td>27,933</td>
<td>1,113.96</td>
</tr>
<tr>
<td>1998-99</td>
<td>33,582</td>
<td>1,301.90</td>
</tr>
<tr>
<td>Cumulative upto end March 99</td>
<td>3,26,487</td>
<td>8,121.30</td>
</tr>
</tbody>
</table>

National Small Industries Corporation (NSIC)

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

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

In March 1956 the hire purchase scheme was launched. 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.
Till 1988-89 the Corporation assisted 749 small scale industrial units under the hire purchase scheme and the value of machinery supplied was Rs.831.32 lakhs. But over a period of time, the Corporation increased its quantum of assistance. As it can be observed from Table-II.3, the number of units assisted increased to 1195 in 1991-92 and to 1,530 in 1995-96. However, in 1997-98, the number of units assisted declined to 985. The value of machinery supplied under the scheme also increased to Rs.1,754.25 lakhs in 1990-81 and further to Rs.2,186.60 lakhs in 1995-96. However, in 1998-99, the value of machinery supplied was only Rs.1,740 lakhs.

Industrial Development Bank of India (IDBI)

Under the Industrial Development Bank of India Act, 1964, this bank was established in July 1964. The IDBI is an apex financial institution for coordinating, in conformity with national priorities, the activities of the institutions engaged in financing and promoting industrial development in the country.¹¹

Table -II.3

VALUE OF MACHINERY SUPPLIED BY NSIC ON HIRE PURCHASE BASIS TO SSI UNITS IN INDIA

<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>1988-89</td>
<td>748</td>
<td>1,940</td>
<td>831.32</td>
</tr>
<tr>
<td>1989-90</td>
<td>950</td>
<td>2,70</td>
<td>1,151.76</td>
</tr>
<tr>
<td>1990-91</td>
<td>1,124</td>
<td>2,757</td>
<td>1,754.25</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,195</td>
<td>3,025</td>
<td>1,330.80</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,000</td>
<td>2,503</td>
<td>1,019.70</td>
</tr>
<tr>
<td>1993-94</td>
<td>1,120</td>
<td>2,836</td>
<td>1,298.50</td>
</tr>
<tr>
<td>1994-95</td>
<td>1,345</td>
<td>3,625</td>
<td>1,656.80</td>
</tr>
<tr>
<td>1995-96</td>
<td>1,530</td>
<td>4,767</td>
<td>2,186.60</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,060</td>
<td>4,460</td>
<td>1,759.60</td>
</tr>
<tr>
<td>1997-98</td>
<td>985</td>
<td>2,595</td>
<td>1,680.56</td>
</tr>
<tr>
<td>1998-99</td>
<td>N.A</td>
<td>N.A</td>
<td>1740.00</td>
</tr>
</tbody>
</table>

Source: Report on Development Banking in India, (Relevant Issues).

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

**Refinance Scheme**

Small and Medium size units can avail of IDBI's refinance assistance through the eligible institutions viz., commercial banks, cooperative banks, regional rural banks, state financial corporations (SFCs), state industrial development corporations or state industrial investment corporations (SIDC.SIIC). In other words, the IDBI provides assistance to small scale industries through grass root level institutions as it is not possible for the IDBI to reach directly a large number of small industrial units scattered all over the country.\(^\text{12}\)

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 of loans for refinance is 3 years. The maximum period of loans given by commercial banks

---

and state cooperative banks may be up to 7 years; but for other term lending institutions the period is up to 10 years. The IDBI normally refinances up to 90 per cent of the eligible loans. However, refinance is provided up to 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 has constituted a Technical Assistance Fund for financing a wide range of development activities. The fund could be utilized for financing 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 and medium scale industries and refinance scheme for scheduled castes/scheduled tribes entrepreneurs and physically handicapped entrepreneurs. This fund is also utilized for any activities which in the opinion of IDBI are essential for promoting industrial development.
Bills Rediscounting Assistance

IDBI rediscounts bills or promissory notes arising out of the sale of indigenous machinery on deferred payment basis. Bills or 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 or promissory notes.

Assistance is given at concessional rates to seller-manufacturers/purchaser-users for the purchase of chassis or 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 permission to banks for the exclusive use of seller-manufacturers and purchaser-user in the small scale industry.
Seed Capital Assistance Scheme

To assist entrepreneurs who have skills but lack finance to put in the requisite promoters contribution, IDBI operates three Seed Capital Schemes (i) special capital scheme operated by SIFCs and SIDCs; (ii) seed capital scheme operated by SIDCs and SFCs as agent of IDBI and in exceptional cases, directly by IDBI itself; (iii) 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 both the schemes is interest-free and service charge of one 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 moratorium is available upto 5 year for repayment of loan.
The Industrial Development Bank of India also provides resource support to National Small Industries Corporation for lending to small 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 small scale industries.

Performance

The assistance of IDBI to small scale industries under the refinance, bills rediscouning and other schemes increased from Rs. 309.95 crores in 1989-90 to Rs.1,699.40 crores in 1998-99. As it can be observed from Table-II.4, the disbursements increased to Rs. 1158.60 crores in 1998-99.
## Table II.4
ASSISTANCE TO SMALL SCALE INDUSTRIES BY INDUSTRIAL DEVELOPMENT BANK OF INDIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Assistance under Refinance Scheme</th>
<th>Assistance under Bills Rediscounting 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. 278.92</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 6.07</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 20.90</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 14.0</td>
<td>D. 553.55</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 1,506.40</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. 160.94 crores in 1980-81 to Rs. 839.00 crores in 1989-90. During 1989-90, assistance sanctioned under bills rediscounthing 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)

To ensure larger flow of both financial and non-financial assistance to the small scale industries, it was decided to set up Small Industries Development Bank of India (SIDBI) as a subsidiary of Industrial Development Bank of India. The basic idea of starting the SIDBI was to establish a principal financial institution for financing and developing 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:\(^{11}\):

(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, hirepurchase and marketing support to small scale industries.

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 of branches all over India.

Performance

SIDBI assistance to small scale industries is presented in Table-II.5. It can be observed from the table that the total sanctions increased from Rs. 2,823.8 crores in 1997-98 to Rs. 3,458.8 crores in 1998-99, 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 1997-98 to Rs. 2,588.1 crores in 1998-99. It can be further observed from the table that indirect assistance forms the major and substantial segment of total assistance by the SIDBI. Of the total sanctions in 1997-98, about 96 per cent constitute the indirect assistance. In 1998-99, the indirect assistance formed 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.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sanctions</td>
<td>Disbursements</td>
<td>Sanctions</td>
</tr>
<tr>
<td>1.</td>
<td>Direct Assistance (a to g)</td>
<td>34.5</td>
<td>20.8</td>
<td>231.7</td>
</tr>
<tr>
<td></td>
<td>a. Direct Discounting</td>
<td>26.0</td>
<td>20.1</td>
<td>185.3</td>
</tr>
<tr>
<td></td>
<td>b. Marketing Scheme</td>
<td>0.9</td>
<td>-</td>
<td>10.7</td>
</tr>
<tr>
<td></td>
<td>c. Assistance to leasing companies</td>
<td>5.5</td>
<td>0.7</td>
<td>26.0</td>
</tr>
<tr>
<td></td>
<td>d. Quality testing</td>
<td>0.1</td>
<td>-</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>e. Infrastructural Development</td>
<td>2.0</td>
<td>-</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>f. Factoring services</td>
<td>-</td>
<td>-</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>g. Others</td>
<td>-</td>
<td>-</td>
<td>0.5</td>
</tr>
<tr>
<td>2.</td>
<td>Indirect Assistance (h to j)</td>
<td>2,707.2</td>
<td>2,155.1</td>
<td>3,189.6</td>
</tr>
<tr>
<td></td>
<td>h. Refinance</td>
<td>2,052.2</td>
<td>1,561.5</td>
<td>2,351.0</td>
</tr>
<tr>
<td></td>
<td>i. Bills rediscouting</td>
<td>240.0</td>
<td>178.6</td>
<td>277.9</td>
</tr>
<tr>
<td></td>
<td>j. Short-term bills</td>
<td>415.0</td>
<td>415.0</td>
<td>560.7</td>
</tr>
<tr>
<td>3.</td>
<td>Equity support (k to n)</td>
<td>7.1</td>
<td>5.5</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>k. Seed capital</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>l. National equity fund (NEP)</td>
<td>1.6</td>
<td>1.3</td>
<td>2.1</td>
</tr>
<tr>
<td></td>
<td>m. Special schemes for Ex-servicemen (SEMFI)X</td>
<td>4.3</td>
<td>3.6</td>
<td>7.2</td>
</tr>
<tr>
<td></td>
<td>n. Mahila Udyama Nidhi scheme (MUN)</td>
<td>0.9</td>
<td>0.4</td>
<td>2.1</td>
</tr>
<tr>
<td>4.</td>
<td>Resource Support (o to q)</td>
<td>75.0</td>
<td>72.1</td>
<td>25.8</td>
</tr>
<tr>
<td></td>
<td>o. NSIC Ltd. (NSIC)</td>
<td>22.0</td>
<td>20.6</td>
<td>5.0</td>
</tr>
<tr>
<td>P.</td>
<td>State Small Industries Development Corporations</td>
<td>14.5</td>
<td>18.0</td>
<td>20.8</td>
</tr>
<tr>
<td>q.</td>
<td>New Debt Instrument</td>
<td>38.5</td>
<td>33.5</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total (1 to 4)</td>
<td>2,823.8</td>
<td>2,253.5</td>
<td>3,456.8</td>
</tr>
</tbody>
</table>

**Source:** Report on Currency and Finance.
**Deposit Insurance and Credit Guarantee Corporation (DICGC)**

The Deposit Insurance and credit Guarantee Corporation was formed by the integration of the Deposit Insurance Corporation and Credit Guarantee Corporation of India Limited.

The Deposit Insurance Corporation was established in 1962 following certain bank failures, with a view to restore the confidence of the depositing public in the banking system by safeguarding their interests. The Credit Guarantee Corporation of India Limited a public limited company promoted by the Reserve Bank 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 risky fields of lending, were encountered. Therefore, the idea of setting up the 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, guaranteeing credit given to small scale industries.
Small Loans (Small Scale Industries) Guarantee Scheme, 1981.

Under this scheme, credit facilities are granted by commercial banks, State Financial Corporations and state agencies to assist 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 requirement 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, at the end of June 1982 to 555 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 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 number of advances guaranteed by the DICGC. At the end of June 1990, the total guaranteed advances under various credit Guarantee schemes were Rs. 8,662 crores, but increased to 413.95 per cent over the period. In the case of assistance for small scale industries under Small Loans (Small Scale Industries) Guarantee Scheme, it was Rs. 3,822.1 crores in 1990, but increased to Rs. 16,826.2 crores by the end of March 1998, 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 1990 and 37.80 per cent in the year 1998. 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.
Table-II.6
ASSISTANCE TO SMALL SCALE INDUSTRIES BY DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(Amount in Rs. crores)

<table>
<thead>
<tr>
<th>As at the end of June</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>1990</td>
<td>3,822.1</td>
<td>4,839.9</td>
<td>8,662.0</td>
<td>44.12</td>
</tr>
<tr>
<td>1991</td>
<td>4,153.7</td>
<td>5,773.8</td>
<td>9,927.5</td>
<td>42.84</td>
</tr>
<tr>
<td>1992</td>
<td>4,890.9</td>
<td>7,104.3</td>
<td>11,995.2</td>
<td>40.77</td>
</tr>
<tr>
<td>1993</td>
<td>5,834.7</td>
<td>8,923.0</td>
<td>14,766.7</td>
<td>39.57</td>
</tr>
<tr>
<td>1994</td>
<td>7,497.5</td>
<td>10,446.0</td>
<td>17,943.5</td>
<td>41.78</td>
</tr>
<tr>
<td>1995</td>
<td>7,738.0</td>
<td>11,116.2</td>
<td>18,856.1</td>
<td>42.27</td>
</tr>
<tr>
<td>1996</td>
<td>10,464.7</td>
<td>14,291.2</td>
<td>24,756.1</td>
<td>42.27</td>
</tr>
<tr>
<td>1997</td>
<td>14,094.0</td>
<td>25,586.3</td>
<td>39,680.3</td>
<td>36.52</td>
</tr>
<tr>
<td>1998</td>
<td>16,826.2</td>
<td>27,692.3</td>
<td>44,518.5</td>
<td>37.80</td>
</tr>
<tr>
<td>1999</td>
<td>N.A</td>
<td>N.A</td>
<td>46,543.0</td>
<td>N.A</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Monthly Bulletin (Relevant Issues).

Industrial Reconstruction Bank of India (IRBI)

The Industrial Reconstruction Corporation of India (IRCI), which was established in 1971 with the main objective of assisting the revival of sick units, was replaced by the Industrial Reconstruction Bank of India (IRBI) 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.

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

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

(iii) 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 following facilities are made available to cover the loan assistance:

(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 the 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 123 units with the disbursement of Rs. 2.98 crores till 1985. However, the number of units assisted increased to 229 by March 1990 and the amount disbursed to 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 1999 (Table-II.8). It can be observed from the table that the number of units sanctioned by IRBI under term loans increased to 84 units in 1999 from 69 units in 1996. However, the disbursements were made to 79 units in 1999 as against 63 units in 1995. The amount sanctioned by IRBI to small scale industries under term loans increased from Rs. 11.04 crores in 1995 to Rs. 21.68 crores in 1999, an increase of 96.38 per cent over the period.
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 March</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 IRBI (Relevant Issues).
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.

Table-11.8
CUMULATIVE ASSISTANCE (DIRECT) SANCTIONED AND DISBURSED TO SMALL SCALE INDUSTRIES BY INDUSTRIAL RECONSTRUCTION BANK OF INDIA

<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 Amount</td>
<td>No. of units Amount</td>
</tr>
<tr>
<td>June 1995</td>
<td>69</td>
<td>11.04</td>
</tr>
<tr>
<td>June 1996</td>
<td>75</td>
<td>14.34</td>
</tr>
<tr>
<td>June 1997</td>
<td>78</td>
<td>17.15</td>
</tr>
<tr>
<td>March 1998</td>
<td>81</td>
<td>20.20</td>
</tr>
<tr>
<td>March 1999</td>
<td>84</td>
<td>21.68</td>
</tr>
</tbody>
</table>

Source: Annual Reports of IRBI (Relevant Issues).