CHAPTER- II
Chapter II

Financial requirements of SSI units

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2.1. **Introduction:**

The present chapter aims at analyzing the financial requirement of SSIs, capital-structure in SSIs, nature of finance, credit needs of SSIs and the changing role of commercial banks as short-term lending institution. And here, the researcher also attempts in this chapter to analyze the role of some other institutions that are engaged in providing assistance to SSI sector of the state of Manipur and Assam. "In industrially advanced countries, SSI do not experience much difficulty in obtaining working capital from commercial banks, or from special institutions. For example in Japan 56 per cent of all loans granted by the local banks and about 26 per cent of all loans granted by the city banks were made to small business. These loans amounted to about 54 per cent of the loans granted to small business by all financial institutions" \(^1\) "Credit policy for the year 1999-2000, while facilitating an adequate flow of credit to improve growth, laid stress on the consolidation of banks and financial institutions. The policy stated that the major challenge for monetary policy in 1999-2000 was the need to reconcile the conflicting objectives of restraining overall growth of liquidity in order to ensure price stability, and at the same time facilitates the flow of adequate bank credit for productive sectors of the economy in order to improve growth." \(^2\) But the state of Manipur and Assam are industrially backward states. In these two states, experience has shown that the proportion of working capital requirement in small concerns is somewhat greater than in the larger industrial concern. In fact, their principal need is working capital. Sometimes, it has been observed that due to shortage of working capital many of the small scale units of Assam and Manipur in particular and the country, in general suffer from sever sickness. Therefore, the researcher has been trying to examine the trends of working capital flow from the commercial banks to SSIs in Manipur and Assam. Although, the scope of the study is confined to the working of the commercial banks, Assam Financial Corporations and Manipur Industrial Development Corporation only, the researcher is also trying to focus the attention on IDBI,

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NSIC, ASIDC, DIC and SIDBI as these institutions have more or less link in providing assistance to SSI sector.

Co-ordination between Commercial Banks and State Financial Corporation is very important in order to uplift the SSIs in the country because the SSI units do not borrow long-term as well as short-term from a non-institutional source. Entrepreneurs borrow different types of loans from different institutions, so, reconciliation between different streams is necessary. If the unit gets inadequate working capital, the fixed capital investment will be useless and vice-versa. It may lead to industrial sickness. Therefore, it is necessary to ensure that credit given by a lending agency for a viable sick SSI units is not wasted owing to lack of supplemental credit support for other lending agencies. With a view to examine the problems of co-ordination between State Financial Corporation and Commercial Banks, the RBI appointed a number of commissions time to time.

2.2. Financial Requirement of Small-Scale Industries

Financial management is that administrative function, which relates to the arrangement of cash and credit that an organization may have the means to carry out its objectives as satisfactorily as possible. "The dictionary meaning of the term 'Capital' is wealth. Capital is the total amount invested in business and claim of the owner to the business possessions. The capital structure of an Industry involves a decision regarding the ratio of ownership capital and ratio among different sources of finance for capital."³

According to Solomon, "Financial Management is concerned with the efficient use of an important economic resource, namely Capital Funds."⁴ Phillipatus has given a more elaborate definition of the term financial management. According to him, "Financial Management is concerned with the managerial decisions that result in the

acquisition and financing of long term and short term credits for the firm. As such it deals with the situations that require selection of specific assets (or combination of assets), the selection of specific liability (or combination of liabilities) as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives.⁵

The central feature of financial management is its formulation of the firm's strategy in determining the most effective use of the funds currently at the disposal of the firm and in selecting the most favorable sources of additional funds that the firm will require in the foreseeable future. Financial management is mainly concerned with raising funds in the economic and suitable manners, using these funds as profitably as possible, planning future operations and controlling current performances and future developments through financial accounting, cost accounting, budgeting, statistics and other means. It guides investment where opportunity is the greatest, producing relatively uniform yardsticks for judging most of a firm's operations and projects investment. The adequate rate of return is necessary for survival and the attracting of new capital.

Financial management implies the designing and implementation of certain plans. Plans aim at an effective utilization of funds. Planning is an integral part of financial management. The term financial management connotes that funds are directed according to some plan. Financial management connotes responsibility for obtaining and effective utilization of funds necessary for the efficient operation of an enterprise.

It is true to say that 'finance is the life-blood' of any industry. Like other industries small-scale and tiny units also require fund for meeting various expenses. Most of the entrepreneurs or artisans in this sector are economically weak. "They are poorly placed in the matter of capital formation

as they are not in a position to plough back much into the business because of limited profits.\textsuperscript{6}  

The small-scale sector of Manipur and Assam both modern and traditional is in crying need of finance. As the backward states, capital formation is meager in Manipur and Assam. "The local people do not have the necessary capital to start any industry. Entrepreneurs from other places are not attracted to Manipur and Assam as there are sufficient investment opportunities at home, where the transport system is good, and the market is assured."\textsuperscript{7} Under the circumstances local entrepreneurs are unable to start or run a unit with their own fund and they have to look to other sources for financing their units. It is true of course, for all types of industrialists of modern days that it is almost impossible to run a unit entirely from one's own fund.

2.3 Capital Structure in small-Scale Sector:

It is generally said that capital structure of an SSI is quite simple. "A number of industries commence production without any capital worth mentioning. Even in cases, where there is capital, it is invariably contributed by the entrepreneurs or by money borrowed from relatives and from Marups (mutual beneficiary schemes) and shown as capital. However, this does not necessarily imply that one can run a SSI unit without capital.\textsuperscript{8}

A small-scale unit generally requires credit for i) meeting the expenses of acquisition of land and building ii) installation of plant and machinery and iii) Purchase of raw materials and to meet other current expenses such as fuel, wages, rent, marketing and production etc. These two types of requirements are commonly known as fixed capital and working capital requirements, fixed capital requirements are met by long-term loans. The

\begin{itemize}
\item \textsuperscript{6} Dawar, Ram — \textit{Institutional Finance to Small-Scale Industries} — 1986, P-33.
\item \textsuperscript{7} Goswami, P. - \textit{The Economic Development of Assam}, 2\textsuperscript{nd} Edition, 1998, P-101.
\item \textsuperscript{8} Vasant Desai; \textit{Management of a Small-Scale Industries}; Himalaya Publishing House, Seventh
\end{itemize}
working capital requirements are financed by short-term advances known as working capital loans.

2.4 **Nature of Finance:**

The constituent parts of the fixed capital can be shown as follows:

![Figure 2.1](image)

Outlays for factory buildings, plants, and machineries etc. are generally planned in advance. But, as the Banking Commission of India 1972 already observed that "many of the small-scale units do not maintain proper books of accounts, as a result, it is difficult to estimate a credit requirement for fixed and working capital purposes." Land and building is a major as well as costly component of fixed assets. Most of our small-scale entrepreneurs are unable to construct a building or purchase land. Therefore, these industries are generally run in rented buildings. Although the government has provided those units, which are not registered with the state directorate of Industries and which are not economically or financially viable, cannot get such facilities.

Due to some difficulties only a few units in the small-scale sector are eligible to attain machineries on hire-purchase scheme, which is provided by the NSIC, MANIDCO and SSIDCs etc. Generally, "financial institutions provide term loans against securities. For example, SFCs generally prescribe a margin of 25 percent and allow an initial holiday of two years for loan repayment (this period can be increased to 5 years in backward areas). The usual repayment period varies from 7 years to 10 years (to 12 years in backward districts)."  

All the fixed assets are charged to the SFC as security for these advances. Besides, they take guarantee of their loan from the promoters/partners or shareholders. Again, there is the problem of filling up of a very elaborate application form, required by the financial institutions before giving any loan. Thus, the financial institutions have scrutinized the loan proposed from various points, viz., Availability of raw material, financial, marketing division technical, economic, human, etc. so that the viability of the unit can be assessed. But, it has been found by the experiment of various financial corporations as well as Governmental agencies that SSIs are not regarded as sufficiently credit worthy because they are unable to fulfill the criteria laid down by the lending institutions or under the rules of state aid to industries. On the other hand, Small-Scale Industrial borrowers find it difficult to deal with some factors, such as rigid approach, tight security requirement viability assessment of the loan application complicated nature of questionnaire required by the financial institutions.

In-spite of these difficulties, especially with refinance facilities from the IDBI, AFC, MANIDCO, NEDFI is providing long term loans to SSI sectors of the state Manipur and Assam. But, as the State Financial Corporations do not have a wide network of branches it is suggested by some policy makers that commercial banks should also provide term loans at the same rate of interest as charged by SFCs. Observations were also

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made that the Reserve Bank of India has issued a guideline to banks on July, 1978 and December, 1986 regarding joint/simultaneous appraisal of term loan by the State Financial Corporations and banks. However, the commercial banks are generally engaged in lending working capital loan only. "The management of working capital is an integral part of overall corporate management. In simple term, working capital is the amount of funds which a small-scale industry must have to finance day-to-day operations. It may also be regarded as that portion of an industry's total capital which is employed in short-term operations

2.5 **Working capital loan as short-term loan:**

Working capital loan is required to meet the day-to-day operations of a unit. The borrowers need fund for his operations mainly to buy and stock necessary quantities of raw materials and stores and to stock necessary quantities of finished goods. If it is the market practice to give credit on sales, he would need funds for carrying his receivables too. He may also make advance payments for goods and services. All these constitute his needs for funds, to carry current assets.

In other words, it is needed to complete a working cycle of an industrial unit. The constituent parts of the working capital can be exhibited as follows:

**Figure No. 2.2**

- **Working Capital**
  - Cash
  - Raw Materials
  - Inventories
  - Receivables
  - Goods-in-process
  - Others

The different constituent parts of working capital are disclosed by the current assets and current liabilities in the balance sheet of the industrial unit. Inventories, raw-materials, work-in-progress, finished goods etc. are placed in current assets side and borrowing from banks other than those against own debentures etc. are placed in the current liabilities side. The Accounting Principles Board of the American Institute of Certified Public Accountants, U.S.A. has defined working capital as; "Working capital, sometimes called net working capital, is represented by the excess of current assets over current liabilities and identifies the relatively liquid portion of total enterprise capital which constitutes a margin of buffer for maturing obligations within the ordinary operating cycle of the business."12 Thus, working capital is classified into two categories viz. gross

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working capital and net working capital. Gross working capital refers to total current assets while the net working capital is the excess of current assets over current liabilities. The later concept is adopted by the financing bankers for assessing the requirement of the borrowers. As on going review of gross working capital is essential for efficient management of current assets. However, for a long term view, we have to concentrate on net working capital. Gross working capital gives only the quantitative information while the net working capital gives the qualitative information.

It is very important to assess the requirement of working capital, and also essential to know the operation expenses of the unit, hence the financial statement of the earlier year is needed as the industrial unit does not require working equal to the amount of operating expenses some methods are used to determine the amount of working capital. One such method is as:

\[ \text{''Total working capital requirement''} = \frac{\text{Total Operating expenses in the last year}}{\text{No. of operating cycles in the year''}}^{13} \]

Increase or decrease in prices of inputs is duly adjusted while calculating financial requirement of the year. The requirement of working capital of small-scale industries varies from unit to unit, depending on some factors such as –

i. the nature of the SSI unit.
ii. the size of the SSI unit.
iii. the duration of production
iv. the price of raw materials and other costs
v. turn over of inventories, whether it is slow or quick, etc.

In assessing the amount of working capital requirement for each level of operating cycle, banks and financial institutions examine the above mentioned factors in classified manner. Thus, the operating cycle is very important factor in assessing the working capital needs. A manufacturing unit with a short operating cycle can manage comfortably with a relatively smaller amounts of working capital than the one having a large operating cycle and thus needing more working capital.

**Figure No. 2.3**

![Working Capital Cycle Diagram]

In a manufacturing small enterprise, the working capital cycle is as follows:-

The initial money is used for the purchase of raw materials and other overheads for conversion into finished goods. Again, finished goods are sold on credit. This will lead to blocking of funds till the money is realized, which may take from a few days to six months or more. This is the working capital cycle.
After considering the different components of the operating cycle i.e., the shortage period of raw materials, stores and spares, finished goods and the factors that affect the period, the banks or financial institutions calculate the permissible limits for each component. It may be stated here that the whole requirements of working capital of units are not met solely by banks or financial institutions. These are met both by internal as well as external sources. The industrial unit has to arrange some part of the working capital requirement by its own resources and this part is called 'the margin'. Banks generally calculate permissible limit for each item after deducting the necessary margins from the total working capital requirement. In this case, banks are guided by the Reserve Banks policy guidelines. Normally, commercial banks undertake flexible approach towards small-scale sector in financing working capital needs. But, units with working capital requirements above Rs. 10 lakhs are required to keep the norms given by the 'Tondon Committee' are 'Chore Committee' which has been accepted by the Reserve Bank of India.

Nayak Committee has also recommended that the SSI units should get a minimum of 20% of their projected turnover as working capital. However, on the whole, the SSI sector gets only about 7 % of their turnover as working capital loans.

As the Hon'ble Members of the Parliament House are aware, small-scale industries are now subject to increasing competition with the completion of trade liberalisation. A new approach to the promotion of small-scale industries therefore, has already been adopted. Finance Minister, Mr Yashwant Sinha, in his Budget speech 2002-03 has announced that "the limit for composite loans has been increased from Rs. 2 lakhs to Rs. 5 lakhs. The exception limit for collateral security has been increased from Rs. 25,000 to Rs. 5 lakhs. The project cost limit under the National Equity Fund has been increased from Rs. 25 lakhs to Rs. 50 lakhs."\(^\text{14}\)

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14. *Laghu Udyog Samachar*, Published by Development Commissioner Small Seal! Industries, Govt. of India, New Delhi - vol - P- 17
Hon'ble Minister, in his speech, also mentioned the important contribution to economic growth by the small-scale industry sector and also said that, "this sector deserves continued support. In order to enable the Small Industries Development Bank of India (SIDBI) to augment its resources and provide cheaper credit to the small-scale sector, he proposes to allow capital gains exemption under section 54EC of the Income-tax Act to amounts invested in bonds issued by SIDBI."\textsuperscript{15}

Hon'ble Minister also mentioned in his Budget 2000-01 announcement of setting up of Credit Guarantee scheme for Small-Scale Industries and accordingly, the Credit Guarantee Scheme Fund Trust for Small Industries has been constituted.

The Kapur Committee has suggested that collaterals should not be asked for loans up to Rs. 2 lakhs. For loans up to Rs. 10.00 lakhs, the value of collateral security or the net means of third party guarantee should not be more than 50% of the fund and non-fund based exposure of the bank/financing institution. For loans beyond 10.00 lakhs, banks may exercise their commercial judgment in determining the level of collateral security or third party guarantee. However, in no case the bank should obtain a collateral security or third party guarantee which is in excess of the loan amount.
SUPPORT AGENCIES AND SPECIALISED SERVICES FOR SSIS

SUPPORT AGENCIES

CENTRAL GOVERNMENT
1. SSI Board
2. SIDO
3. SISls
4. PPDCs
5. RTCs
6. CFTIs

STATE GOVERNMENT
1. DIS
2. DICS
3. SFCS
4. SSIDCS
5. TCOS

OTHERS
1. Industry Association
2. Non Governmental Organisation

Source: SIDBI Report on Small Scale Sector, 2000
Credit is one of the critical inputs and the lifeline for the sustained growth of different sectors of an economy, including the small scale industries sector. In India, Financial Institutions (FIs) and banks have been playing a significant role in the
development of small scale industries by way of providing term loans and working capital, respectively. Over a period of time, the dynamics of the development paradigm have led to a change in the perception of the role of the FIs and banks.  

In time with overall socio-economic objectives of the economy credit policy announcements by Reserve Bank of India, each period, set the tone and framework within which banks/FIs strategies their respective credit decisions. The Credit Policy for the year 1999-2000. Timely availability of adequate credit to the small scale sector, had been the thrust of various policies announced in the recent past.

Union Budget 2002-03, Finance Minister had admitted that adequate credit flow to essential for the Small Sector. In order to increase the flow of credit he reiterated that the extension of credit to SSIs has been facilitated through the Credit Guarantee Scheme and Credit Linked Capital Subsidy Scheme for Technology Upgradation. Encouraged by the Kisan Credit Card Scheme, the Finance Minister announced to introduce a scheme of Laghu Udyami Credit Card (LUCC) Scheme. It would facilitate in providing simplified and borrower friendly credit facilities to small business man, retail traders, artisans and small entrepreneurs, professionals and other self employed persons including those in the tiny sector.

2.6. Important Developments In The Credit And Monetary Policy

Relating to SSIs:

"With a view to providing flexibility in determining interest rates and increasing the flow of credit to the SSI sector, the rate of interest for loans upto Rs. 0.2 million has been delinked from Prime Lending Rate (PLR). This rate can now be determined without reference to PLR, in respect of the loans covered by refinancing schemes of term lending institutions, lending to intermediary agencies, discounting of bills

and advances/overdraft against domestic/Non Resident Account (NRE)/ Foreign Currency Non Resident Account (FCNR) (B) deposits.\textsuperscript{17}

The policy has further allowed banks the freedom to operate different PLRs for different maturities provided the transparency and uniformity of treatment envisaged originally in the policy continues to be maintained. Banks have been permitted to offer fixed rate loans to industry investors requiring project finance, subject to its being in conformity with Asset Liability Management (ALM) guidelines.

Suitable interest rates may be charged by banks on advances against fixed deposits, without reference to their PLR. To ensure the augmented flow of credit to microcredit institutions and to liaise with NABARD, RBI has decided to set up a special cell manned by a senior officer from the commercial banking sector.

To give a boost to micro finance activities, the creation of a Micro Finance Development Fund has been proposed in the Union Budget 2000-2001. The fund is expected to provide start-up assistance to micro finance institutions and infrastructural support for training, system management and data building. Special emphasis is proposed for the promotion of micro enterprises in rural areas that are set up by vulnerable sections including Women, Scheduled Castes, Scheduled Tribes and Other Backward Classes. "The fund is intended to be created in NABARD with a start-up contribution of RS. 1 billion from RBI, NABARD, Commercial Banks and others. SIDBI has already set up a Rs. 1 billion SIDBI Foundation for Micro Credit with the intention of up-scaling its micro finance activities. In comparison to the 50,000 self help groups targeted for assistance during 1999-2000, the current Union Budget has proposed that NABARD and SIDBI should cover an additional 1,00,000 self help groups during 2000-2001.\textsuperscript{18} The rate of interest chargeable on loans given by banks to micro credit organizations or by these

\textsuperscript{17} SIDBI Report on Small-Scale Industries Sector, 2000, P-107.
\textsuperscript{18} Abid-P. 110
organizations to their members/beneficiaries would be left to the discretion of bank/organization concerned. However, the interest rate and other terms in respect of Government-sponsored programmes would remain unchanged.

As per the credit policy 1999-2000, investments in venture capital would be treated as priority sector lending. In order to ensure the timely and adequate availability of credit for the infrastructure sector, banks/FIs have been advised to clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Banks/FIs have been advised to ensure a close coordination with each other as also with the other agencies concerned in order to avoid repetitive appraisals and delays, and to set up a mechanism for monitoring the project implementation.

Public sector banks have been advised to set up Settlement Advisory Committees (SACs) so that chronic cases, especially those relating to the small scale, could be settled in a timely and speedy manner.

"To dispense with collateral requirements for loans up to Re. 0.1 million, the RBI had already issued necessary directives to the banks. The Union Budget 2000-2001 has proposed to increase this limit further from Rs. 0.1 million to Re. 0.5 million in respect of tiny sector units. The existing composite loan scheme of SIDBI and banks helps small borrowers by providing working capital as well as term loan through a single window under which assistance is available up to a maximum of Re. 0.5 million. To promote credit flows to small borrowers, the Union Budget 2000-2001 has proposed the composite loan limit to be increased from Re. 0.5 million to Re. 1.0 million."

19. Abid-P-111
2.7. **Institutional Credit Framework:**

The Government of India and Reserve Bank of India has been instrumental in devising a multi-agency approach/system to ensure credit dispensation to SSI. The distinctive feature of the multi-agency setup is that each of the major institutions caters to the needs of a particular segment of the economy, e.g. agriculture, industry, exports, housing, etc. Prior to the setting up of the Industrial Development Bank of India (IDBI) and Small State Level Institutions such as State Financial Corporation (SFCs) and State Industrial Development Corporation (SIDCs). The RBI operates the National Industrial Credit (Long-Term Operations) Fund. In order to review the status of credit dispensation to the SSI Sector and to ascertain how to improve its availability, RBI has constituted a number of Committees from time to time. Important recommendations of various committees were covered in the SIDBI Report on Small Scale Industries Sector 1991. "In order to boost the flow of credit to SSIs public sector banks have thus far opened 391 specialized SSI branches. RBI has in March 2002, revised the minimum funding requirements to SSIs by specialized SSI branches from 80 percent to 60 percent. This would facilitate the opening of more such branches or conversion of the existing branches into specialized category."\(^{20}\)

**Apex Level Financial Institution:**

Small Industries Development Bank of India (SIDBI).

**Banks:**

- Commercial Banks (CBs)
- Regional Rural Banks (RRBs)
- Cooperative Banks (State, Central and Primary)

State Level Institutions:

- State Financial Corporations (SFCs)
- State Industrial Development Corporations (SIDCs)/State Industrial Investment Corporations (SIICs)
- State Small Industries Development Corporations (SSIDCs).

Other Agencies:

- National Bank for Agriculture and Rural Development (NABARD)
- Khadi and Village Industries Commission (KVIC)
- National Small Industries Corporation (NSIC)
- North Eastern Development Finance Corporation Ltd. (NEDFI).

2.8. Emerging Trend in the Credit Flow:

The promotion, financing, and development of SSI's took a new turn, with the launching of SIDBI in 1990. The cumulative sanctions of SIDBI since its inception in 1990 aggregated Rs. 26,700 crores. Besides refinancing of term loans extended by banks/SFCs and special refinancing schemes, to provide term loan and working capital, reshape credit, resource support to factoring companies and other institutions promoting SSIs and financial assistance to organizations marketing SSI products.

Assuming a growth rate of 12 per cent for the SSI sector, the total long-term credit requirement during the Ninth Plan (1997-2002) is likely to be estimated Rs. 36,500 crores. Around 60 percent of this requirement, amounting to about Rs. 21,900 crores has to be provided by SIDBI in addition to its funds for direct lending operations.

As far as working capital finance is concerned, this sector, being entitled to priority sector lending from proposition. Loans up to Rs 2 lakhs bear lower interest rates and above this limit, the interest rates charged by the commercial banks may be
flexible/higher than prime lending rates (PLR). Other problems faced by SSI3 are, delay in realization of their sales proceeds, inadequate marketing infrastructure, financing for technology upgradation and modernization, and non-availability of start up equity. As regards working capital credit, to achieve the prescribed target minimum of 20 percent of the projected turnover for small units. It is also necessary to do away with the distinction between working capital and term lending institutions and SFC13 should make composite loans

2.9 Commercial Banks:

"Commercial banks have indeed formed the backbone of the financial system in the country. These banks can broadly be divided into three categories, viz. public sector banks, private sector banks and foreign banks, and have been playing a dominant role in the mobilization of public savings and deployment of credit for various sectors of the economy."21 The small scale industries sector consisting the priority sector for banks lending, has been receiving direct assistance from commercial banks "The outstanding to SSIs by public, private sector and foreign banks in India as at end March 2001 was Rs.60,319 crores, as compared to Rs.55,972 crores in the previous year. This outstanding balance formed 14 and 15.2 percent share, respectively of the net bank credit (NBC) of these banks. As at end- March 2001, the outstanding portfolio of the State Financial Corporations (SFC) aggregated. 11,486 crores and SIDBI's outstanding portfolio to SSIs stood at Rs. 14,571 crore as at end march 2001."21 For improving the flow of credit to SSI sector from the public sector banks, the Reserve Banks of India accepted some of the major recommendations of the High Power Committee appointed under the chairmanship of Shri. S.L.Kapur during 1998. During 1998-99, guidelines confirmation from their medium/large industrial borrowers regarding the extent of their dues to SSIs suppliers and the action proposed to be taken by them to clear off these overdues"22 The Net Bank Credit (NBC)

21. SIDBI, Annual Report 2001-02, P-9
and the position of outstanding advanced to SSIs by Public Sector Banks indicated that the loans outstanding advances by PSBs to SSIs from 1991 to 1999 are given in the following table 2.2.

Table 2.1.

Net Bank Credit and Outstanding Advances to SSIs by PSBs

(Rs. Billion)

<table>
<thead>
<tr>
<th>As at end March</th>
<th>Net Bank Credit</th>
<th>Total SSI</th>
<th>Loans outstanding to SSI sector as % of NBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1,056.32</td>
<td>167.83</td>
<td>15.9</td>
</tr>
<tr>
<td>1992</td>
<td>1,120.60</td>
<td>173.98</td>
<td>15.5</td>
</tr>
<tr>
<td>1993</td>
<td>1,327.82</td>
<td>193.88</td>
<td>14.6</td>
</tr>
<tr>
<td>1994</td>
<td>1,407.14</td>
<td>215.61</td>
<td>15.3</td>
</tr>
<tr>
<td>1995</td>
<td>1,690.38</td>
<td>258.43</td>
<td>15.3</td>
</tr>
<tr>
<td>1996</td>
<td>1,843.91</td>
<td>294.82</td>
<td>16.0</td>
</tr>
<tr>
<td>1997</td>
<td>1,896.84</td>
<td>315.42</td>
<td>16.6</td>
</tr>
<tr>
<td>1998</td>
<td>2,182.19</td>
<td>381.09</td>
<td>17.5</td>
</tr>
<tr>
<td>1999 (P)</td>
<td>2,462.03</td>
<td>426.74</td>
<td>17.3</td>
</tr>
</tbody>
</table>

(P): Provisional.
Source: RBI Report on Trend & Progress of Banking in India.

The loan outstanding advances by Public Sector Banks to SSIs , from 1991 to 1999 are more than 15% except in the year 1993, when it was only 14.6%. The loan outstanding to SSIs in the year 1999 reaches 17.3%.
The above table can be represented with the help of bar chart.

Fig 2.5

"The outstanding bank credit to SSIs by public, private sector and foreign banks in India as at end March 2001 was Rs. 60,319 crores, as compared to Rs. 55,972 crores in the previous year. This outstanding balance formed 14 and 15.2 per cent share, respectively of the net bank credit (NBC) of these banks. As at end-March 2001, the outstanding portfolio of the State Financial Corporations (SFCs) aggregated Rs. 11,486 crore. SIDB's outstanding portfolio to SSIs stood at Rs. 14,571 crore as at end March 2001."

2.10 Banking in Manipur & Assam:

Banks can assist small units' owner-manager in several ways besides their main business of lending to them. The owner-managers of small scale units often do not have adequate knowledge of financial tools for planning and controlling their financial resources, particularly the working capital. In this matter, banks which receive the computing infrastructure and human resources. The bank managers of offices can quickly
assess the growth potential of the unit using internal finances generated and guide the unit. After all, better operational performance through systematic and efficient financial management also ensures that the amount of the unit will be regular and up-to-date. The banking services need be marketing oriented and system-based, involving a strong sales culture. The services have to be specialized for different target segments of customers.

There are 104 scheduled commercial banks in Manipur and 1307 in Assam respectively as on 31st March 1999. At the time of independence, availability of banking facilities was grossly inadequate in the whole North East India. Even, there was no bank to carry out the Government's monetary transaction. "The Government Treasuries were operating all monetary transactions of the Government; later on the State Bank of India took this activity."23 Against this background, the whole NE Region specially Assam has undergone a remarkable change in the field of banking in the post-nationalisation period, besides having a regional branch-office of the RBI of India at Guwahati.

2.11 Branch Expansion:

Branch expansion is one of the main policy measures to fulfill the credit needs of the weaker sections and to achieve the goal of mass banking. It is said that after nationalisation, commercial banks have registered a tremendous growth in branch expansion. Assam and Manipur have now different branches of the State Bank of India, nationalized and non-nationalised scheduled commercial banks and regional rural banks.

Table No. 2.2

NETWORK OF BANK BRANCHES
(As on March 1999)

<table>
<thead>
<tr>
<th>STATE</th>
<th>RURAL</th>
<th>SEMI-RURAL</th>
<th>URBAN</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSAM</td>
<td>857</td>
<td>285</td>
<td>165</td>
<td>1307</td>
</tr>
<tr>
<td>MANIPUR</td>
<td>59</td>
<td>18</td>
<td>27</td>
<td>104</td>
</tr>
</tbody>
</table>

Source: Basic Statistics of North Eastern Region 2000

Table 2.3

North-Eastern Region State-Wise distribution of population per bank branchy as on March 1999.

<table>
<thead>
<tr>
<th>State</th>
<th>No. of bank Offices</th>
<th>Population per bank'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arunachal Pradesh</td>
<td>198</td>
<td>17</td>
</tr>
<tr>
<td>Assam</td>
<td>1307</td>
<td>21</td>
</tr>
<tr>
<td>Manipur</td>
<td>104</td>
<td>28</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
<td>Mizoram</td>
<td>NA</td>
<td>12</td>
</tr>
<tr>
<td>Nagaland</td>
<td>95</td>
<td>22</td>
</tr>
<tr>
<td>Tripura</td>
<td>223</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>1953</td>
<td>397</td>
</tr>
</tbody>
</table>

Source: Basic Statistics of North Eastern Region 2002
2.12 Regional Rural Bank (RRB):

At present, "there are 196 Regional Rural Banks supplementing the efforts of scheduled commercial banks and cooperatives in credit dispensation for rural development in the country. With the introduction of new prudential norms and the restructuring of 139 RRBs, there has been a perceptible improvement in the performance of RRBs. In order to strengthen the financial base of RRBs, budgetary allocation of Rs. 1.53 billion was made during 1998-99 for recapitalisation. A marked shift has also been observed in the financing pattern of RRBs. The non-agricultural advances, which includes Cottage industry, retail trader, and the self-employed, etc. accounted for around 55.6 per cent of the total advances of RRBs during 1998-99. NABARD initiated a number of policy measures during 1998-99 to improve the performance of RRBs including the adoption of self-help groups for channeling credit flow on a sustainable basis. The RRBs disbursed a sum of Rs.46.34 billion during the year 1997-98, out of which Rs.1.94 billion was disbursed to rural artisans village and cottage industries".24 The All India Rural Credit Review Committee had observed that despite its speedy implementation of branch expansion programme, the nationalised banks had miserably failed to meet the credit needs of the rural people. Thus RRB is basically a scheduled commercial bank but differs from the existing commercial banks in the sense that its area of operation is limited to a specific region in any state. The rural banks provide assistances to economically weaker sections in meeting their credit requirement.

2.13 The concept of priorities sector:

"The concept of priorities came to be evolved in India in the late sixties to focus attention on the credit needs of certain neglected sectors of the economy-particularly in the rural areas and to ensure adequate credit facilities to them."25 "Priority sector consists

of agriculture, small-scale industries, road and water transport operators, retail trade and small business, professional and self-employed, education and setting up of industrial estate up to June, 1980. From June 1981 onwards it also included indirect finance to other priorities, pure consumption loans and housing loans to weavers and SC/ST. After nationalisation, the RBI had introduced various incentives in the form of refinancing to commercial banks to increase their lending to the priorities sector. In November 1974 the public sector banks were advised by the Government of India, that their priorities sector lending should reach a level not less than one-third of their outstanding credit by March 1979. The Reserve Bank of India advised the private banks also to follow the same guidelines.

The RBI set up different committees to suggest norms and guidelines for priority sector lending from time to time. One of such committee is 'Ghosh Committee', that was set up on the basis of the decisions taken by the Govt. of India in March, 1980. Accordingly the 'Ghosh Committee' suggested certain changes in the approach to the priority sector lending. It also introduced a new concept of 'weaker section' within the purview of the priority sector in the two main categories SSIs with credit limit up to and inclusive of Rs.25,000 which are to be treated as 'weaker section', the category advances the total advances to SSIs by 1985. Above all, the committee suggested that priority advances should constitute 40% of aggregate bank advances. On the basis of the recommendations of 'Pun Committee', the RBI suggested all commercial banks to make the application forms for loan available in regional languages to the priority sector.

"As at the end of March 1996, North Eastern Regions had achieved the stipulated target. The Southern and Eastern regions were closer to the target whereas western and northern regions were far behind the target. All the regions have shown deterioration in their share over March 1994. Majority of the States and Union Territories had achieved the target of 40 percent lending as at the end of March 1996 accepting

Jammu and Kashmir, Chandigarh, Delhi, West Bengal, Gujarat, Goa, Maharashtra, Karnataka, Tamil Nadu and Pondicherry. The data of state-wise share of priorities sector advances by schedule commercial banks are indicated in the table 2.5.

Table No. 2.4

State-wise share of North East Region priority sector advances relating to scheduled commercial banks in Total Bank Credit.

<table>
<thead>
<tr>
<th>State</th>
<th>Share of Priority Sector Advances in Total Bank Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-East Region</td>
<td>60.4</td>
</tr>
<tr>
<td>Assam</td>
<td>58.3</td>
</tr>
<tr>
<td>Manipur</td>
<td>81.2</td>
</tr>
<tr>
<td>India</td>
<td>33.8</td>
</tr>
</tbody>
</table>


The figure of priority sector advances in the state of Manipur and Assam shows that commercial in the states have achieved the stipulated target fixed by the Reserve Bank of India. And the basics statistics of the North-East Region 2000 published North-Eastern Council (NEC), Ministry of Home affairs, Govt. of India, Shillong reveals that the percentage of weaker sector advances to priority sector Advances of which Commercial Banks in

27. RBI Currency and Finance, 1996-97
the State of Manipur and Assam were 38.52 and 26.43 respectively as on 31st March 1999.

* Advance to Priority sector in Assam and Manipur can represent with the help of the Pie Diagram as below:

**Diagram**

![Assam Diagram](image)

**Diagram**

![Manipur Diagram](image)
2.14 **State level Institutions (SLI)**

State Financial Corporations:

"State financial corporation (SFC), the state level institutions, play an important role in the development of small and medium enterprises in their respective states with the main objectives of financing and promoting these enterprises for achieving balanced regional growth catalyze investment, generate employment and widen the ownership base of industry. In tandem with the changing business environment, SFCs have also expanded the scope of their activities and coverage of their assistance."\(^{28}\)

Under the institutional setup for credit dispensation, State Financial Corporations dispensation. State Financial Corporations extend financial assistance to small and medium industries in their respective States of operation. In the past, SFCs had been functioning predominantly within the confines of social goals determined by the Government while largely depending upon the availability of allocated funds. While this helped in social transformation and economic development, it also exposed certain inherent weaknesses among these institutions. With the onset of economic reforms, there has been an important policy shift in favour of self sustenance and long-term growth. Consequently, a number of SFCs have ventured into diversification of activities with an emphasis on investment and capital market-related operations.

There are 18 SFCs in the Country of which 17 were set up under the SFC Act 1951. Tamil Nadu Industrial Investment Corporation Ltd. established in 1949 under the companies Act as Madras Industrial investment Corporations also functions as SFCs. A list of all the State Financial Corporation in India is furnished in Annexure No. 2.1

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The year-wise position of assistance sanctioned by the SFCs to the small scale sector during 1991-99 is given in the following table.

Table-2.5

Assistance Sanctioned to Small Scale Sector as Share of Total Sanctions by SFCs

<table>
<thead>
<tr>
<th>As at end-March</th>
<th>No. of Units</th>
<th>Amount sanctioned to small scale sector</th>
<th>Sanctions to small scale sector as % of total sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>45092</td>
<td>14.92</td>
<td>80.0</td>
</tr>
<tr>
<td>1992</td>
<td>42554</td>
<td>18.72</td>
<td>85.5</td>
</tr>
<tr>
<td>1993</td>
<td>36713</td>
<td>16.86</td>
<td>83.6</td>
</tr>
<tr>
<td>1994</td>
<td>28279</td>
<td>15.61</td>
<td>81.8</td>
</tr>
<tr>
<td>1995</td>
<td>28331</td>
<td>19.20</td>
<td>71.1</td>
</tr>
<tr>
<td>1996</td>
<td>30224</td>
<td>25.13</td>
<td>60.0</td>
</tr>
<tr>
<td>1997</td>
<td>26473</td>
<td>21.15</td>
<td>59.7</td>
</tr>
<tr>
<td>1998</td>
<td>NA</td>
<td>17.68</td>
<td>67.3</td>
</tr>
<tr>
<td>1999(P)</td>
<td>NA</td>
<td>13.65</td>
<td>73.2</td>
</tr>
</tbody>
</table>

(P): provisional (NA): Not available

Source: IDBI Report on Development Banking in India (Various Issues).

"AFC as an SFC being a development bank and at the same time public financial corporation, acts not only as a purveyor of direct assistance in the form of loans and advances but it also acts as an agent of the state Government and the other developmental concern such as the Industrial Development Bank of India" 29 There will be a detail discussion about the AFC in relation to SSIs of Manipur and Assam in Chapter V.

29. Abid. P-77
The main thrust of AFC is to finance to SSI sector. The following table proves the statement. 96% of the total amount sanctioned by AFC goes to SSI sector whereas ASFC sanctioned only 50.23% to SSI sector out of the total sanctioned.

Table no 2.6
AFC-wise Assistance Sanctioned-Total and to SSIs AFC
(Rs. In billion) ASFC

<table>
<thead>
<tr>
<th>Year</th>
<th>AFC Total</th>
<th>SSI %</th>
<th>ASFC Total</th>
<th>SSI %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>0.14</td>
<td>0.13</td>
<td>93</td>
<td>19.24</td>
</tr>
<tr>
<td>1992</td>
<td>0.12</td>
<td>0.12</td>
<td>100</td>
<td>22.61</td>
</tr>
<tr>
<td>1993</td>
<td>0.09</td>
<td>0.08</td>
<td>90</td>
<td>21.25</td>
</tr>
<tr>
<td>1994</td>
<td>0.05</td>
<td>0.04</td>
<td>90</td>
<td>19.91</td>
</tr>
<tr>
<td>1995</td>
<td>0.06</td>
<td>0.06</td>
<td>100</td>
<td>28.41</td>
</tr>
<tr>
<td>1996</td>
<td>0.02</td>
<td>0.02</td>
<td>100</td>
<td>40.12</td>
</tr>
<tr>
<td>1997</td>
<td>0.02</td>
<td>0.02</td>
<td>100</td>
<td>34.22</td>
</tr>
<tr>
<td>1998</td>
<td>0.04</td>
<td>0.03</td>
<td>90</td>
<td>26.41</td>
</tr>
<tr>
<td>1999</td>
<td>0.4</td>
<td>0.4</td>
<td>100</td>
<td>18.97</td>
</tr>
<tr>
<td>Total</td>
<td>0.94</td>
<td>0.90</td>
<td>96</td>
<td>320.17</td>
</tr>
</tbody>
</table>

Source: Various IDBI Reports

2.15 State Industrial Development Corporations/ State Industrial Investment Corporations (SIDCs)/(SIICs):

Out of 28 SIDCs, a number of SIDCs in the State/ UTs of Sikkim, Arunachal Pradesh, Goa, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Pondicherry and Andaman & Nicobar Islands perform twin functions, both as SIDCs and SFCs, to provide assistance to small scale enterprises. In tune with the changes in business environment, SIDCs are adopting new operational strategies by venturing into areas like
merchant banking, venture capital and mutual funds to consolidate their position. An year-
wise position of assistance extended in terms of sanctions and disbursements by SIDCs is
furnished in the Table 2.7.

### Table 2.7
Sanction and Disbursements of Term Loan by SIDCs/SIICs

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions</th>
<th></th>
<th></th>
<th>Disbursement</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SSI</td>
<td>Non SSI</td>
<td>Others</td>
<td>Total</td>
<td>SSI</td>
<td>Non SSI</td>
</tr>
<tr>
<td>1995-96</td>
<td>3.07</td>
<td>11.51</td>
<td>8.55</td>
<td>23.13</td>
<td>1.12</td>
<td>7.39</td>
</tr>
<tr>
<td>1996-97</td>
<td>3.79</td>
<td>9.13</td>
<td>89.59</td>
<td>21.51</td>
<td>1.60</td>
<td>89.86</td>
</tr>
<tr>
<td>Total</td>
<td>10.74</td>
<td>29.63</td>
<td>26.81</td>
<td>67.18</td>
<td>4.94</td>
<td>22.97</td>
</tr>
</tbody>
</table>

Source: SIDBI Report on Small Scale Industries Sector, 2000

During the year 1995-96, the total sanction and disbursement of term loan
by SIDCs were Rs 23.13 billion and Rs 15.84 billion respectively. Out of these total
sanction and disbursement 3.07 or 13.3% and Rs. 1.12 billion or 7.1% were for SSI sector.
And during the year 1996-97. The total sanctioned and disbursement were Rs. 21.51
billion and Rs. 18.26 billion respectively. Out of the total amount only Rs. 3.79 billion or
17.6% and Rs. 1.60 billion or 8.8% were for SSI sector. Again during the year 1997-98
Rs.3.88 billion or 17.2% and Rs. 2.22 billion or 12.4% are for SSI sector out of the total
sanctioned of Rs. 22.54 billion and Rs. 17.92 billion of disbursement. Thus, from the
above table it can be said that there is an increasing trend of sanctioned of disbursement to
SSI sector from the term loan given by SIDCs during the year 1995-98.
2.16 State Small Industries Development Corporations:

State Small Industries Development Corporations have been set up by State and UT Governments, under the Companies Act, 1956, as developmental agencies to cater to the needs of the small, cottage and jurisdictions, SSIDCs extend assistance to small scale industries in the form of procurement and distribution of scarce raw materials, supply of machinery on a hire purchase basis, providing assistance for the marketing of products, construction of industrial estates, provision of allied infrastructure facilities and their maintenance, extending seed capital assistance on behalf of the States Government and providing management and support services, SSIDCs, over the years, have been largely dependent on State funds. In the post-liberalization period, as the State Governments' financial support to various institutions is slowly drying up, a number of SSIDCs are facing a financial crunch.

Among the State level institutions, Assam State Industrial Development Corporations (ASIDC) is playing a significant role in the field of small-scale and tiny units. ASIDC was establish in 1962 with the main objective of promoting SSI in the State. The corporation has formulated a no. of schemes for the development of SSI sector. Like other SSIDCs of the country, it provides raw materials, marketing, infrastructure, training facilities etc. to the SSI entrepreneurs. It also provides machineries on hire purchase basis. Indigenous machineries and equipments of value up to Rs. 1 lakh are supplied on easy hire-purchase terms, in case of degree holders in technology or engineering the value is up to Rs. 2 lakhs. Under this scheme, the entrepreneur has to pay 10% of the cost of the plant and machinery as earnest money. ASIDC also provides seed money as long term loan at an interest rate of 6% per annum. Such assistance is arranged for the payment of half or whole of the margin money required for availing of Bank finance. Besides, ASIDC participates in the venture by taking equity share to the extent of 15% of the capital cost the technical entrepreneurs.