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2.1 INTRODUCTION

The Small-Scale Industries (SSIs) play an important role in the development of Indian economy by way of value addition, employment generation, equitable distribution of national income, regional dispersal of industries, and mobilization of capital and entrepreneurial skills and contribution to export earnings. The small scale industry has all the characterization of the decentralized sector such as small size and employment intensity, and the entire lot belongs to private sector. The contribution of SSI sector to employment is next only to agriculture. Small-Scale Industries need a shorter gestation period and relatively smaller markets to be economic; they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might other wise remain
unutilized; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location\textsuperscript{2}.

In fact, the country's economic development is usually measured in terms of rise in the living standard. The very content of rising living standard is an increase in the consumption of items of comforts and luxuries and not merely use of items meeting the barest necessities of life. Such items are normally supplied by the industrial sector, where in small industries play a very vital role\textsuperscript{3}. The small industries are ideally suited to the developing economy of India not because of any sentimental or ideological considerations but on purely economic and social grounds\textsuperscript{4}.

Having recognized the importance of SSI sector, the Governments at different levels through their sponsored agencies and institutions have been pursuing the policy of protection and promotion of this sector since independence. Government offered several incentives and concessions for their development and protection.

Since the launching of planning in the country, the SSI sector has grown at a phenomenal rate. This sector comprises 95 per cent of the total industrial units in the country, accounting for 40 per cent of industrial employment and 35 per cent of total exports\textsuperscript{5}. The SSI sector, thus constitutes an inseparable and dynamic part of the Indian economy.

2.2 \textbf{CHANGING DEFINITION OF SMALL SCALE INDUSTRY}

Although definition of the small-scale industry differs from country to country depending upon the economic, political and social environments
prevailing in that country, there are a few similarities in most of the definitions, i.e., they are based either on the quantum of investment in 'fixed assets' or on the number of persons 'employed' or on both. These limits in terms of 'investment' and 'employment' are directly related to the state of economic development of a country.

In India to begin with, the definition combined to accept i.e., investment and employment but gradually these aspects became more specific and now only one aspect i.e., investment in plant and machinery.

A small scale industry was defined initially in 1955, as a manufacturing unit employing less than 50 persons if using power and less than 100 persons without the use of power and having an investment in fixed assets not exceeding Rs. 5 lakh. The employment criterion was redefined in 1956 to make 'employment per shift' but investment ceiling remained the same. The employment criterion was completely given up in 1960.

In the interest of developing viable ancillary units in 1962, a relaxation of Rs.5 lakh limit in fixed capital has been made in respect of such small scale units, which supply parts and components to certain specified large scale industries. A limit of Rs.10 lakh has been adopted for this purpose. Thus, a new type of small scale industries was born. These units were defined as ancillary units and the investment limit was fixed at Rs.10 lakh instead of Rs.5 lakh for the small scale units. In 1966 as a consequence of devaluation of rupee, which has increased the cost of important machines, on the recommendations of the Small Scale Industries Board, the Government of
India has raised the investment limit from Rs.5 lakh to Rs.7.5 lakh for an ancillary unit. Irrespective of the number of persons employed, it retained at Rs.10 lakh for ancillaries. Capital investment for this purpose will mean investment in plant and machinery only.

In the context of rising prices of capital equipment in 1974, the small-scale and ancillary industries were redefined once again. The investment ceiling in plant and machinery has been raised from Rs.7.5 lakh to Rs.10 lakh and from Rs.10 lakh to Rs.15 lakh for small scale and ancillary units' respectively. The tiny sector was recognized by the industrial policy resolution of 1977. The tiny industries were defined as those having investment more than Rs. One lakh and situated out side the metropolitan areas.

Once again in 1980 the Government revised the definition of tiny, small and ancillary industries. Tiny units were those having investment in plant and machinery not exceeding Rs.2 lakh with population of less than 50,000. Small units were those having investment in plant and machinery not exceeding Rs.20 lakh and ancillary units were those having investment in plant and machinery not exceeding Rs.25 lakh. In 1985 the capital limit of small-scale units was raised from Rs.20 lakh to Rs.35 lakh and in case of ancillary units from Rs.25 lakh to Rs.45 lakh. In 1991, the investment ceiling was raised once again from Rs.35 lakh to Rs.60 lakh for small scale units, from Rs.45 lakh to Rs.75 lakh for ancillary units and Rs.2 lakh to Rs.5 lakh for tiny units. In July 1996, small scale sector has been defined in terms of limits in
investment in plant and machinery (original value). The SSI sector covers wide range of enterprises with diverse characteristics. There are tiny or micro enterprises on one hand and there are sophisticated, modern small-scale units on the other. The definition of the different categories for the purpose of bank finance is as follows:

- Small Scale Industrial undertakings are those, which are engaged in the manufacture, processing (or) preservation of goods and in which investment in plant and machinery (original cost) does not exceed Rs.3 crore. These would inter-alia; include units engaged in mining or quarrying servicing and repairing of machinery.

- Ancillary industrial undertakings are those which are engaged or proposed to be engaged in the manufacturing or production of parts, components, sub-assembles or intermediaries, or rendering of services and undertaking supplies or propose to supply or render not more than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in plant and machinery whether held on ownership terms or on lease or on hire purchase, does not exceed Rs.3 crore.

- Tiny enterprises are those whose investment in plant and machinery is up to Rs.25 lakh irrespective of the location of unit.

- Small-Scale Service/Business Enterprises (SSSBEs) having investment in fixed assets (excluding land and building) up to Rs.25 lakh and registered as such are classified as SSI for the purpose.
- The decentralized sector includes artisans, khadi and village industries, handlooms, sericulture, handicrafts, coir etc., which have been categorized as village industries under the Government of India's new SSI policy of August 1991.

- Artisans, village and cottage industry is defined as artisans (irrespective of location) or small industrial activities (viz., manufacturing processing, preservation and servicing) in villages and small towns with a population not exceeding 50000 involving utilization of locally available natural resources and/or human skills (where individual credit requirements do not exceed Rs. 50000).

- Women enterprises are those small-scale units where one or more women entrepreneurs have not less than 51 per cent financial holding. Of course, the investment limit for both SSI and ancillary units has been revised from time to time. This has been justified on the grounds of inflationary trends in economy and modernization of SSI units. Only units, which came under the category of small scale industry, as per the Government definition, are eligible for official assistance, incentives and concessions. Thus the definition of SSI is fundamental for the protection and promotion of small industry in India.

The investment ceiling on plant and machinery of small scale industrial undertakings were reduced from Rs.3 crore to Rs. one crore on February 18th, 1999 by the union cabinet. The limit for tiny unit however remains at Rs.25 lakh only.
2.3 SMALL SCALE INDUSTRY AND GOVERNMENT POLICY

The salient features of various industrial policy resolutions in respect of small-scale industry have been summed up so as to trace out how small industry has been protected, promoted and developed by the Government over the last four decades.

2.3.1 Industrial Policy Resolution of 1948

The importance of small-scale industries was specifically defined in the Industrial Policy Resolution [IPR] dated 6th April 1948. It was stated "cottage and small industries have a very important role in national economy, offering as they do scope for individual village or cooperative enterprises and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of local self sufficiency in respect of certain types of essential consumer goods". The Resolution added, "The healthy expansion of cottage and small scale industries depends on a number of factors, such as the provision of raw materials, cheap power, technical advice, organized markets for their products and, where necessary, safeguards against intensive competition by large scale manufactures; it also depends on the education of the workers in the use of the best available techniques'. The industrial perspective planning team set the following objectives for small scale and village industries in this policy resolution:

- to meet a substantial part of the increased demand for consumer goods and simple producer goods;
• to create large scale employment at relatively small capital costs;
• to mobilize unused resources of capital and skills;
• to ensure a more equitable distribution of national income including the spread of industry over these different regions of the country; and
• to curb tendencies towards concentration of economic power by a widening of opportunities for new entrants and for medium and small sized units.

Thus the thrust of the policy in respect of the policy was to generate employment on a very large scale with low capital costs and best utilization of capital and skills so as to ensure more equitable distribution of national income.

2.3.2 Industrial Policy Resolution of 1956

On April 20th 1956, the Government of India adopted another IPR which replaced the 1948 resolution. The announcement of this industrial policy was considered essential because certain important changes and developments were witnessed during the period of last 8 years. The resolution recognized the importance of locational factors like the availability of raw materials, cheap power, water supply, transport facilities etc. It reiterates very clearly that these facilities will be provided in those regions where they are not available at present so that the unbalanced growth in the various regions may be corrected and the country as a whole may achieve higher standards of living.
The objective of social and economic policy was to establish a socialistic pattern of Society\textsuperscript{19}. The objectives for small industry specified in the policy were:

- to accelerate the rate of economic growth and speed up industrialization;
- to develop heavy industries and machine making industries;
- to expand the public sector;
- to build up a large and growing co-operative sector;
- to reduce disparities in income and wealth; and
- to prevent private monopolies and the concentration of the economic power in different fields in the hands of small members of individuals\textsuperscript{20}.

Thus the attainment of objectives is likely to provide increasing opportunities of gainful employment and improving living standards and working conditions of people.

2.3.3 Industrial Policy Resolution 1977

The statement on industrial policy laid before parliament in December 1977 aims at accelerating the pace of industrial growth, rapid increase in the levels of employment, productivity and income of industrial workers and a wide dispersal of small and village industries. The Government's broad policy objectives were:

- to provide increased employment;
- to encourage a gradual progress in the techniques of production;
in the unorganized sector of industry without causing any large-scale technological unemployment;

- to promote the production of a large variety of goods, including consumer goods, through labour intensive methods by co-relating them with the production programme of the large-scale sector, wherever necessary;

- to encourage and give support to the small industrialist, with special emphasis on the tiny sector; and

- to ensure a more equitable distribution of the national income and balanced industrial development in different regions, i.e., to lay down a basis for an essential decentralized society.

The main thrust of industrial policy 1977 was on effective promotion of cottage and small scale industries widely dispersed in rural area and small towns. It was the policy of the Government that whatever can be produced by small and cottage industries must only be so produced. It is obvious that this policy resolution demanded a shift from large sector to the small and cottage sector.

2.3.4 Industrial Policy Resolution 1980

The broad socio-economic objectives of the policy have been set out as follows:

- optimum utilization of installed capacity;
- maximizing production and achieving higher productivity;
- higher employment generation;
- correction of regional imbalances through a preferential development of industrially back ward areas;
strengthening of the agricultural base by according a preferential treatment to agro based industries, and promoting optimum inter sectoral relationship;

• faster promotion of export-oriented and import-substitution industries;

• promoting economic federalism with and equitable spread of investment and the dispersal of returns amongst widely spread small but growing units in rural as well as urban areas; and

• consumer protection against high prices and bad quality.

An important element of the new policy is the raising of the investment limits of the tiny and small scale sectors. These limits have been redefined in terms of investment in plant and machinery and have been fixed at Rs.2 lakh for tiny instead of Rs.one lakh, Rs.20 lakh for the small scale sector instead of Rs.10 lakh and Rs.25 lakh instead of Rs.15 lakh for ancillaries. This step is essentially a pragmatic one and takes into account the significant rise that has occurred in the last five years following the fixation of the investment limits for the small scale sector^{23}.

2.3.5 Industrial Policy of 1990

The policy stressed the need for the promotion of small scale and agro based industries. It also emphasized changing the procedure for grant of industrial approvals. The core decision of this policy was to ensure adequate and timely flow of credit for small-scale industries through Small Industries Development Bank of India (SIDBI), commercial banks and other financial agencies^{24}.
2.3.6 Industrial Policy of 1991

The economic reform measures initiated by the government in July 1991 changed the business environment in the country. The reforms have been pervasive involving both the domestic and external sectors. The thrust of the new policy has been to provide free access to capital, technology and markets so as to inculcate greater industrial efficiency and international competitiveness. In August 1991, the government introduced a separate set of policy measures for village and small enterprises with the primary impetus to the sector. In furtherance of this objective, the policy proposed to deregulate and de-bureaucratise the small-scale sector to remove all fetters on its growth potential.

2.3.7 Administrative Reforms

As a sequel to the policy measures, the Government has introduced a number of administrative reforms. Licensing and restricting production in small-scale sector has been removed, location restrictions have been reduced to the minimum, industry related services have been brought under small industry development programmes and given greater encouragement and registration procedure has been simplified. In addition, environmental clearance procedures for SSIs have been rationalized and simplified. In the administration of excise duty major procedural simplification has been introduced.25
2.3.8 Revision of Investment Limit of SSI

The government of India on the basis of the recommendations made by the expert committee on small scale enterprises (1997) raised the investment ceiling of small scale industries to Rs.300 lakh from the existing level of Rs.60 lakh for SSIs and Rs.75 lakh for ancillary and export-oriented units, effective from 11 December 1997. In respect of tiny enterprises, the investment ceiling was raised from Rs.5 lakh to Rs.25 lakh, effective from 24th December, 1997. This is indeed a most significant policy during 1997-98. The investment ceiling on plant and machinery of small-scale industries was reduced from Rs.3 crore to Rs.1 crore on February 18th, 1999, by the Union Cabinet. The limit for tiny unit however remains at Rs.25 lakh only26.

2.4 SMALL SCALE INDUSTRIES DURING THE PLANS- GOVERNMENT POLICY

The important measures undertaken by Government of India to promote the development of small-scale and cottage industries in the planning period can be summed up as follows:

- The number of items exclusively reserved for small-scale sector has been progressively increased and presently stands at 846.
- Procedures and conditions of financial assistance from commercial banks and other institutions have been liberalized.
- ‘Tiny’ units have been identified for granting special incentives.
- The availability of raw materials to small scale units has been increased so that they can import their requirements easily.
The value of import licenses issued to small scale units has been increased so that they can import their requirements easily.

The protective policy of retention for government purchases has been further strengthened and over 400 items have been exclusively reserved for the small-scale units under the Government store purchase programmes.

A comprehensive range of consulting services and Small Industries Development Organization (SIDO) provides technical, managerial, economic and marketing assistance to small scale units through its network of service and branch institutes.

With a view to strengthening the provision of financial assistance to small scale sector, especially to the smaller amongst the small scale industries, several schemes have been introduced in the recent past-The Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) in 1987 and the Single Window Scheme (SWS) in 1988.

For meeting the long standing demand of small scale industries for a separate Apex Bank for providing assistance to them, the Government set up the Small Industries Development Bank of India (SIDBI) in 1989. SIDBI has two funds viz., Small Industries Development Fund and Small Industries Development Assistance Fund. Financial assistance sanctioned and dispersed by SIDBI in 1991 and 1992 stood at Rs.2898 crore and Rs.2027 crore respectively.

2.4.1 Development of Small Scale Industries During the Plans

Steps for the development of small scale and cottage industries were initiated immediately after independence. An outlay of Rs.43 crore for small
scale industries was provided in the first plan. At the end of first plan, there were total six boards covering the entire field of small scale and cottage industries to assist in the formulation of the programmes for development of small scale industries. The outlay for the second plan was raised to Rs.175 crore. The programme of industrial estate was initiated in 1955. About 60 industrial estates were set up for providing factory accommodation and number of common facilities like water, transport, power etc., at one place. In the third plan, actual expenditure on small-scale and cottage industries amounted to Rs.240.76 crore. It aimed to promote the growth of industries in rural areas and in small towns. In the fourth plan, it was proposed to spend Rs.293 crore towards development of small scale industries besides Rs.500 crore expected to be invested by banking institutions and through individual sources.\(^28\)

The amount allotted to small scale and cottage industries in the sixth plan was Rs.1780.45 crore, whereas the actual expenditure during the plan amounted to Rs.1979.91 crore. The outlays for the seventh plan towards small scale and cottage industries were kept at Rs.20752.74 crore. During this plan the concept of District Industries Centre [DIC] was proposed, mainly to provide and arrange a package of assistance and facilities for credit guidance.

2.4.2 Eighth Plan

Eighth five year plan was preceded by two annual plans 1991 and 1992. The plan places greater emphasis on private initiates in industrial development since small scale and village industries are more or less based on
private initiative. Small scale sector was likely to help considerably in achieving the targets of full employment. An outlay of Rs.6334.00 crore was allotted during the eighth plan towards SSI. The plan achieved a growth rate of 6.8 per cent as against the target of 5.6 per cent. Some of the important measures taken during the 8th plan to support the SSI sector are as follows:

- No licensing for units employing less than 50/100 workers with/without power.
- The restrictions on location reduced to the minimum.
- Equity investment by large industry permitted up to 24 per cent.
- Industry related services sector brought on par with tiny/small scale industrial undertakings Act promulgated in 1993.
- Environment clearance procedures for non-polluting Industries simplified.

Labour law (Exemption from furnishing returns and maintaining registers by certain establishments) Act 1988 covers nine labour related acts and provides.

- Only one inspector will be responsible for various laws, excepting in the case of Factories Act and Boilers Act.
- States advised to increase the validity of factory license from one year to five years.
- Transformation of enforcement of labour laws from a regime of regulation to an era of self-discipline.
- The incidence of inspections under the Provident Fund Act and ESI Act reduced.
- Visits of excise inspectors have been limited to once a year.
- Registration procedures simplified.
• Small Scale Units to receive working capital on the basis of norm of 20 per cent of the projected turnover.

• 62 districts assigned to the designated banks for focused credit lending under the Single Window Scheme and 23 districts similarly assigned to the State Financial Corporations.

2.4.3 Highlights of the Ninth Plan Strategy for the SSI Sector

The following are main highlights of the ninth plan strategy for the SSI sector:

• The small scale and village industries will be provided incentives and support to facilitate their growth and employment. It will be ensured that foreign investment does not displace such industries.

• The investment limit for the small scale industry sector will have to be revised to take into account inflation and to enable the achievement of minimum economies of scale and upgradation of technology so as to withstand emerging competition.

• The list of items reserved for small scale industries will be reviewed with a view to achieve the benefits of economies of scale, technological upgradation, export capabilities etc.

• Credit flow to SSI will be augmented. The financial institutions will be motivated to offer factor services to SSI in addition to the present system of discounting bills.

• The coverage of programmes such as the Prime Minister's Rozgar Yojana (PMRY) will be enlarged to create new self-employment opportunities for the educated unemployed.
- The KVIC will be organizationally and financially strengthened to be able to generate more job opportunities under the 2 million jobs programme in Khadi and Village Industries.

- The technology development and upgradation in the SSI sector, especially in the case of small scale industries, handlooms, power looms, coir and handicrafts, wool etc., will receive special attention.

Economic development through national planning has been the country's practice for over 5 decades. The special feature of planning in India is that it does not stop at giving conceptual emphasis to the growth of small scale industries, but it has in particular drawn up a concrete and constructive planned programme to attain the planned objectives.

A glance at Table 2.1 reveals the outlay earmarked for SSI sector though increased in terms of absolute values has declined in percentage terms to total outlay. But it is observed that the growth rate in SSI outlay has recorded an uptrend implying the significance accorded to SSI sector.

2.5 SSI - COMMITTEES AND RECOMMENDATIONS

Over the years, the definition of SSI units (including tiny and ancillary units) has undergone changes mainly keeping in view the price escalation and the need for the technological upgradation to compete in the market with the quality products at cheaper cost of production.
Table 2.1

PLAN-WISE OUTLAY FOR SMALL SCALE INDUSTRY

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Plan Period</th>
<th>Total outlay (Rs.in Crore)</th>
<th>Outlay for small scale industry (Rs.in Crore)</th>
<th>Percentage of outlay</th>
<th>Growth Rate in SSI outlay (in per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>First Plan (1951-56)</td>
<td>2079</td>
<td>43.00</td>
<td>2.07</td>
<td>3.61</td>
</tr>
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<td>2</td>
<td>Second Plan (1956-61)</td>
<td>4800</td>
<td>175.00</td>
<td>3.65</td>
<td>4.27</td>
</tr>
<tr>
<td>3</td>
<td>Third Plan 1961-69 (Three Annual Plans)</td>
<td>10400</td>
<td>240.76</td>
<td>2.32</td>
<td>2.84</td>
</tr>
<tr>
<td>4</td>
<td>Fourth Plan (1969-74)</td>
<td>22635</td>
<td>293.00</td>
<td>1.29</td>
<td>3.30</td>
</tr>
<tr>
<td>5</td>
<td>Fifth Plan (1974-79)</td>
<td>39303</td>
<td>535.03</td>
<td>1.36</td>
<td>4.80</td>
</tr>
<tr>
<td>6</td>
<td>Sixth Plan (1980 to 85)</td>
<td>158710</td>
<td>1780.45</td>
<td>1.12</td>
<td>5.66</td>
</tr>
<tr>
<td>7</td>
<td>Seventh plan (1985-90)</td>
<td>322366</td>
<td>2752.54</td>
<td>0.85</td>
<td>6.01</td>
</tr>
<tr>
<td>8</td>
<td>Eighth Plan (1992-97)</td>
<td>798000</td>
<td>6334.00</td>
<td>0.79</td>
<td>6.80</td>
</tr>
</tbody>
</table>

Note: For 1979-80, 1990-91 and 1991-92 Annual Plans were adopted.

Sources:


The recent economic crisis witnessed by South East Asian countries leading to collapse of their currencies coupled with increased competition in the international market can no longer be viewed in isolation. Our industrial production has to face intense competition in terms of pricing and quality. To sustain the level of exports in the recessionary market environment we have to find a solution which lies not just in protecting the small scale sector but in rejuvenating the small scale units\textsuperscript{30}.

An SSI unit expects/deserves timely assistance from banks by way of adequate credit which shall be made available to them at comparatively cheaper rates and with less hassles. Non availability of adequate credit in time continues to be a major problem for small scale industry. The committee on credit namely the Nayak Committee had made a thorough review of credit needs of SSI sector in 1992 and presented a number of recommendations.

- **RECOMMENDATION OF NAYAK COMMITTEE**

  Nayak committee recommendations include provision of working capital to the extent of a minimum of 20 per cent of annual turnover by the banking sector giving preference to the credit needs of the village, tiny and small industries. Drawing up an annual credit budget for small scale sector by banks prescribing
time bound procedures to disburse the loan applications, and setting up of dedicated bank branches for SSI in places of their concentration. Opening of SSI specialized branches, easier formula of computation of working capital requirement, periodical meetings with SSI borrowers, delegating higher powers to the bank manager, conducting sample survey of SSI units, sanction of composite loans, emphasizing of training programme to branch managers, personal handling SSI loaning and simplification of formalities are the recommendations of the Nayak committee.

In pursuance to the recommendations of the Nayak committee, beginning from 1994 banks opened specialized SSI branches. Nearly 300 of them have been opened so far.

• **ABID HUSSAIN COMMITTEE ON POLICY REFORMS**

While the recommendation of Nayak committee are being adopted to ensure smooth flow of credit to small scale industries another expert committee on small enterprises was setup in December 1995 headed by professor, Abid Hussain ex-member of Planning Commission. In the light of his recommendation, the definition of SSI units in terms of investment on plant and machinery was revised substantially upwards to the level of Rs. 300 lakh for SSI units in general and to Rs. 25 lakh for tiny sector in particular.
The said revision has brought in a sizable number of units which were earlier classified as medium scale industries into SSI purview. Still there is perpetual complaint from small sector entrepreneurs about the adequacy of the credit made available to them and about the delays in sanction and disbursement by the banks and the terms of sanction.

**KAPUR COMMITTEE**

Many of the recommendations of Nayak Committee have been implemented by the RBI and the Central Government. Despite of all the initiatives, credit continues to be in short supply for the SSI and in particular for tiny and macro enterprises. Even after the implementation of the recommendation of the committee the situation has not improved much. Again in 1997 S.L. Kapur Committee was appointed by the RBI to review the progress of implementation of the Nayak committee report. The committee submitted its report to RBI in June 1998.

Banks while organizing themselves to implement the various measures suggested by Sri.Kapur Committee, for simplifying and systematizing the credit delivery to SSI sector have to deal with the following.

Out of the 126 recommendations made by the S.L. Kapur committee, 35 recommendations have been accepted by RBI for immediate implementation by commercial banks. RBI has drawn

focused attention on the following major recommendations of Shri S.L. Kapur Committee report:

- Delegation of more powers to branch managers including powers to grant adhoc limits.
- Simplification of application forms.
- Freedom to banks to decide their own norms for assessment of credit requirements.
- Opening of more specialized SSI branches.
- Enhancement of the limit for composite loans to Rs.5 lakh.
- Strengthening the recovery mechanism.
- Special programmes for training branch managers for appraising small projects.
- Making customers grievance machinery more transparent and simplifying the procedures for handling complaints and monitoring thereof.

- Modality has been suggested as detailed below for sanctioning / rejecting SSI proposals at branch level.
  - A loan committee at branch level should consider all SSI proposals.
  - The loan committee shall comprise i) Branch managers: and ii) One or two officers.
  - Loan committee shall meet at least once in a week or more frequently depending on the flow of proposals requiring consideration.
  - Appraisal of proposals should be alone initially by the credit departments, as at present and the loan
committee shall there after appraise and consider the proposals for sanction/rejection.

- Though the loan committee has the discretion to decide decisions regarding rejection of proposals should be referred to next higher authority for their concurrence before conveying to the applicant.

- Branch must maintain record of the meetings of loan committee and the proposals considered by the committee.

- Proper entry should be made in the "proposals received" register regarding the decision of the loan committee against each proposal.

- While SSI sector as a whole would need to be given free and accelerated assistance; projects taken up by them should be ensured as eco-friendly. The compatibility with eco-parameters should be viewed as an essential element while appraising for viability.

The Reserve Bank of India has played an important role in building the requisite institutional structure to meet the financial requirements of the small-scale sector. The RBI under directed credit programmes and guidelines, issued from time to time for priority sector lending (of which the small scale sector is a key element), helped to augment the flow of credit to this sector through SFCs and working capital from the banking industry.

2.6 RECENT DEVELOPMENTS REGARDING SSIs

The Government policy of providing special incentives to the small scale units, by way of reservation of items exclusively for the manufacture of SSIs, supply of raw materials through SSIDCs, provision of finance on concessional
terms to the micro and tiny units, fiscal relieves in terms of excise duty assistance in marketing their products and provision of price preference have, no doubt, helped the rapid growth of the SSI sector. Recognizing the role of the small scale sector in providing employment, increasing production and exports, the Government has streamlined procedures for imports and reduced points of control. Import of a number of new items of raw materials components / machinery and equipments has been brought under Open General Licence [OGL]. The threshold limit for zero duty Export Promotion of Capital Goods (EPCG) scheme has been brought down from 20 crore to one crore for chemicals, plastics and textiles, enabling the sectors to upgrade themselves technologically and become globally competitive, the policy has also enabled duty free import of consumables up to certain limits for gems and jewelers, handicrafts and leather sectors.

In the budget 1998-99, the limit for working capital has been enhanced from Rs.2 crore to Rs.5 crore on the simplified basis of 20 per cent of the projected annual turnover. With a view to providing inducement for increasing production, the budget 1998-99 had raised the exemption limit on turnover for levy of excise duty on SSIs and tiny units from Rs.30 lakh to Rs.50 lakh with clearance between Rs.50 lakh and Rs.100 lakh attracting tariff at a flat rate of 5 per cent.

To accelerate further the pace of growth in the small scale sector, the Government of India initiated certain important measures through the budget 1999-2000, which include;
- Increasing in the limit of composite loan scheme from Rs.2 lakh to Rs.5 lakh to ease the operational difficulties of the small borrowers by providing term loans and working capital through a single window.

- Risk bearing of lending by the banks to non-banking financial companies or other financial intermediaries for the purpose of lending to the tiny sector as priority sector lending.

- Divining a new credit insurance scheme for small scale units to provide adequate security to banks and improve recovery.

- Enabling flow of funds to the micro enterprises, through the coverage of at least 50 thousand SHGs at the behest of SIDBI and NABARD.

The Government has also taken various steps for the promotion of the tiny enterprises. The policy stipulates that out of the total funds available to all segments of SSIs, 40 per cent should be earmarkable for units having investment in plant and machinery up to Rs.5 lakh, 20 per cent for units with such investment above Rs.5 lakh and up to Rs.25 lakh, and the remaining 40 per cent for the others. Over the years, the Government of India and the RBI have been constantly endeavoring to strengthen the credit delivery system for the SSIs. In order to increase the credit to the SSI sector, as recommended by the Nayak Committee report, 379 specialized SSI branches have been set up by the commercial banks as at the end of December, 1998. The committee appointed by the RBI under the chairmanship of Shri. S.L. Kapur, former secretary to the Government of India, in its report submitted in 1998, has
made 126 recommendations of which 40 have been accepted for implementation. Subsequently, banks were advised by the RBI to delegate more powers to the branch manager for sanctioning the adhoc limit up to 20 per cent of the sanctioned loan limit, to meticulously implement the Nayak committee recommendations on the working capital, to open more specialized SSI branches, to dispose off the loan applications up to Rs 25 thousands within a fortnight, and above Rs.25000 within 8-9 weeks, etc34.

2.6.1 Package of Measures to Strengthen the SSI by the Prime Minister

On the arrival of the new millennium many changes have been brought by the Prime Minister keeping in view the need for developing the country. One among them was a package of sops to uplift the SSIIs, which are important to develop the nation. The following are the brief points about the measures:

- Raising the ceiling on loan from Rs.10 lakh to Rs.25 lakh.
- Bringing service-oriented units into the orbit of priority lending programme.
- Excise exemption limit was raised from Rs.50 lakh to one crore while 12 per cent capital subsidy given for upgrading technology.
- A separate scheme costing Rs.447 crore was finalized for hand-loom sector.
- To encourage quality management, it was decided to continue granting Rs.75000 for each unit obtaining ISO 9000 certification for the next 6 years.
- A one-time capital grant of 50 per cent to small scale associations wishing to develop and operate testing laboratories.
• To avoid inadequate credit availability access regarding SSIs, the limit for composite loans was raised to Rs. 25 lakh. Entrepreneurs would now be able to secure term loans and working capital from the same agency.
• Industry related service and business enterprises with a maximum investment of Rs.10 lakh would qualify for priority lending.
• Instead of 37 inspections, 52 laws and 116 forms and registers for single man units, it is proposed by the Government to reduce procedural hassles and eliminate inspections; Efforts were being made to frame a single legislation.
• The growth target for the export-oriented sector was fixed at 9-10 per cent\textsuperscript{35}. 
SECTION - B

FINANCING OF SMALL SCALE INDUSTRY

Small Scale Industries constitute the key link in the process of socio economic transformation of under developed social structures. The importance of small scale industries were specifically defined in the industrial policy resolution dated 6th April 1948. It was stated, "Cottage and Small Industries have a very important role in the national economy, offering as they do scope for individual, village or cooperative enterprises and means for rehabilitation of displaced persons\(^3\). These industries are particularly suited for the better utilization of local resources and for the achievement of local self sufficiency in respect of certain types of essential consumer goods\(^3\)."

2.7 FINANCE FOR SMALL SCALE INDUSTRY

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

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

There are various financial agencies, which cater to the financial needs of small scale industries. Commercial banks, cooperative banks and regional rural banks mostly provide working capital finance to small scale industries along with State Financial Corporation but on a limited scale. Financial assistance is available to the small scale industrial sector from the National Small Industries Corporation (NSIC) at national level, and State Small Industries Development Corporation (SSIDCs) at the state level, The Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), National Bank for
Agriculture and Rural Development (NABARD), and other national level development banks provide refinance facilities to banks and other gross root level agencies for financing small scale industries. The Deposit Insurance and Credit Guarantee Corporation (DICGC) assist the small-scale sector by guaranteeing advances to small-scale industries. Similarly, the Industrial Reconstruction Bank of India (IRBI) helps in rehabilitating the sick small scale units.

2.7.1 Institutional Financial Assistance

Indian Industrial Economy continues to expand but the expansion is modest and much uneven. The accelerated growth of industries, especially small scale industries depends solely on the well-established institutional support. In order to meet the varied requirement of the rapidly expanding industrial base, Government promoted a number of institutions to faster the growth of industries on sustained basis. The role of each of these institutions is quite unique.

- National Small Industry Corporation (NSIC)

The NSIC was set up in 1955 to provide specific technical assistance to small industries by supplying indigenous and imported machinery on hire-purchase basis; distributing scarce raw materials, components and parts; and providing training to skilled workers and entrepreneurs in various trades, in the net work of prototype development and training centers. The main
function of NSIC is to counsel, and finance the small entrepreneurs in setting up industrial units. As time passed, emphasis of term lending institutions has changed from financing to development.

The equipment leasing and modernisation scheme provides 100 per cent finance and single window service for indigenous as well as imported machinery and tax rebate on full year rental. Under this scheme, NSIC provided financial assistance to the tune of Rs. 159.68 crore in 1993-94 which increased to Rs. 189.6 crores in 1994-95.

- **Industrial Development Bank of India**

  The IDBI was setup in 1964. Besides providing institutional finance for small industry by refinancing NSIC to augment its industrial machinery hire purchase service, also provides training and consultancy assistance through Technical Consultancy Organisation (TCO). IDBI created a separate fund called Small Industry Development Fund to provide refinance assistance for development, expansion and modernization of SSIs, and to provide focal point for coordinating financial assistance to them at apex level.

  Medium and small industrial projects involving capital investment below Rs.3 crores are provided financial assistance by IDBI mainly through refinancing the State Financial Corporation
(SFC), State Industrial Development Corporation (SIDCO) and commercial banks.

Total assistance provided by IDBI to the SSIs upto 1988 aggregated to Rs.8692 crore. Besides this, IDBI has also been providing assistance for setting up industrial estates. Total amount sanctioned by IDBI under this scheme increased from Rs.30 lakh in 1973-74, to Rs.24.8 crore in 1983-84, and to Rs.22.4 crore in 1987-88 at an annual rate of about 1.8 per cent.38

- **Industrial Finance Corporation of India**

To cater to the long and medium term credit needs of industry, IFCI was set up in 1948. To raise the technical level of SSI units, IFCI provides financial assistance for the development of technology. During 1991-92, in addition to existing schemes, IFCI introduced a financial service called installment credit scheme as an alternative option to borrowers availing of the assistance for acquiring equipment for industrial use with a view to upgrading technology.

Total financial assistance under specialized schemes of IFCI amounted to Rs.1039.7 crore during the year 1993-94, while under the equipment finance scheme alone Rs.258 crore were advanced.

- **Industrial Credit and Investment Corporation of India Limited (ICICI)**

The ICICI was established in 1955. Under its venture capital scheme launched in 1987, ICICI provides long-term financial
assistance in respect of projects involving development and/or commercialization of high-risk new technologies.

The ICICI is a member of the consortium of various financial institutions including IDBI and IFCI, providing long term loans on softer terms, particularly to engineering units, for their modernization. Since 1983, ICICI under its leasing operations has been providing assistance for computerization, rationalization, replacement and energy conservation and equipment installment schemes. During 1993-94, the share of private sector in the total project finance from ICICI amounted to Rs.6267.9 crore, i.e., 88.8 per cent of the total.

- **Small Industrial Development Bank of India (SIDBI)**

SIDBI setup as wholly owned subsidiary of the Industrial Development Bank of India (IDBI) in 1990, is the principal financial institution for promotion, financing and development of the small, tiny and cottage sectors.

SIDBI activities include refinancing of term loans granted by SFCs/ SIDCs/ commercial banks and other eligible financial institutions and direct discounting/ rediscounting of bills arising out of sale of machinery/capital equipment/components by manufacturers in the small scale sector. In order to strengthen and foster existing close relationship between Original Equipment Manufacturers (OEMs) / Sub Assembly Manufacturers (SAMs) and
their dedicated vendors in the SSI sector, SIDBI has introduced Vendor Development Scheme (VDS) under its direct assistance portfolio.

SIDBI provides pre-shipment credit in foreign currency to SSIs, direct equity investment in SSIs and financial assistance to enable well-run export-oriented units to acquire ISO 9000 series certification. Besides, it provides assistance for infrastructure development, creation of marketing channels and development of industrial areas. Under schemes like Seed Capital, National Equity Fund (NEF) Mahila Udyam Nidhi (MUN) Self-Employment – Scheme for Ex-servicemen (SEMFEX), Self Employment Scheme under Prime Minister Integrated Urban Poverty Eradication Programme (PMIUPEP) Prime Minister Rozgar Yojana (PMRY), Micro Credit Scheme (MCS), Rural Industrial Programme (RIP) SIDBI provides equity type assistance to special target to special groups like new promoters, women, ex-servicemen, etc.

Extent of refinance on loans under these schemes has been increased from 75 per cent to 100 per cent in respect of term loan and working capital components. It also provides short-term working capital loans, venture capital support and different form of resource support to banks and other institutions.
SIDBI has a portfolio of Rs.4200 crore, a network of 26 regional and branch offices spread throughout the states and union territories.

- **State Financial Corporation (SFC)**

  State Financial Corporation's have been set up under the SFCs Act 1951 to perform the function of separate state level development banks specially to cater to the financial requirements of small and medium industries. The first SFC was set up in Punjab in 1953, followed by the others. At present there are 18 SFCs in the country.

  The broad spectrum of SFCs operations covers grant of financial assistance to small and medium industry in the form of term loans, discounting of bills of exchange, direct subscription to equity/debentures and guarantees of deferred payments for purchase of plant, machinery and equipment within India and abroad. Some new schemes, like equipment finance scheme and modernization scheme out of the small industries development fund of IDBI are meant to encourage small entrepreneurs to adopt latest improved technology to facilitate mechanical and technological obsolescence.

- **State Small Industries Development Corporation (SSIDC)**

  The SSIDCs, wholly owned by the state Governments were set up under the companies Act 1956 are autonomous corporations
under specific state acts, for providing term loans or equity and debentures investment for industrial projects. SSIDCS also administer various incentive schemes of the central/state Governments. In some states they act as SFCs for the small industrial sector and are also involved in infrastructural development and other extension activities for the development of small industries.

Whereas total financial assistance sanctioned to industries by SSIDCs increased from Rs.37 lakh in 1974-75 to Rs.350.10 lakh in 1983-84 at an annual rate of over 84 percent actual disbursement increased from Rs.26.40lakh to Rs.222.47 lakh during this period. SSIDC operate the seed capital scheme on behalf of the IDBI along with the SFCs. During 1986-1987, 64 percent of the IDBI total seed capital assistance was channelised through SIDCs. Cumulatively by 1988 sanctions aggregated to Rs.65.9 crore while disbursement to Rs.51crore.

- **National Equity Fund Scheme (NEFS)**

  In August 1987, the Government of India introduced National Equity Fund Scheme aimed at providing support in the nature of equity assistance to tiny and small-scale industrial units, which are engaged in manufacturing activities. Government of India has provided Rs.5crores towards the fund and SIDBI an equal amount. The scheme is administered by SIDBI through nationalized banks,
State Bank of India and also SFCs/twin function SIDCs in the North Eastern Region and the hilly states of Himachal Pradesh, Jammu and Kashmir which act as agents of IDBI in regard to sanction and disbursement of assistance.

Assistance from the fund is provided by way of seed capital in the form of soft loan to eligible small and tiny industries located in a village or town with a population not exceeding 5 lakh. However, in case of rehabilitation proposals for sick units the project could be located in towns/villages with population not exceeding 15 lakh. With the focus on the needs of smaller among small scale units, the assistance is provided to manufacturing units having project cost not exceeding Rs.5 lakh as also potentially viable sick units in the small sector, eligible for assistance under the refinance scheme of IDBI, get support out of the fund. The assistance under the scheme is made available up to a maximum of Rs.75,000 per project at a nominal service charge of one per cent per annum. Units availing the assistance would be required to bring in a minimum cash contribution of 10 per cent of the project cost. Borrowers for the assistance under the scheme need provide no security. Assistance under the scheme enables the eligible tiny and small-scale sector units to bridge the gap in the required margin to obtain term loan assistance under various schemes.
Credit Guarantee Fund Scheme for Small Industries

The Government of India and SIDBI have jointly set up a new institution called “Credit Guarantee Fund Trust for Small Industries” (CGTSI) to guarantee loans given to small scale industries by scheduled commercial banks and specified RRBs. The trust has become operational from 1st August 2000. The salient features of the scheme are:

- The scheme is called the credit Guarantee Fund Scheme for small Industries.
- It has come into force from 1st August 2000.
- The Scheme covers eligible credit facilities extended by the lending institutions to eligible borrowers effective from 1st June, 2000.

Credit Facilities/ Borrowers eligible for cover:

- Term loan and/or fund based working capital facilities (cash credit, overdraft, Bill purchased or Discounted etc.,) extended to small-scale industrial units including IT and software industries by the banks are eligible cover under the scheme.

- Credit facilities extended in respect of a single eligible borrower should not exceed Rs.25 lakh.
- Credit facilities extended without any collateral security and/or third party guarantees will only be covered.
• Interest rate on the credit facilities sanctioned by the bank should not be more than 3 per cent over Prime Lending Rate (PLR).

• The scheme covers only the accounts for which bank apply for cover within a period of 90 days from the date of sanction.

• Provided that as on the date on which the bank applies for guarantee cover:
  
  • the dues to the bank have not become bad or doubtful of recovery; and/or
  
  • the business or activity of the borrower for which the credit facility was granted has not ceased and/or
  
  • The credit facility has not wholly or partly been utilized for adjustment of any debts deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the trust.

Thus there are certainly plenty of opportunities open in the present liberalized economy not only to finance the SSIs but also to modernize their technological standards.

2.7.2 Role of Banks

In any Programme of increasing volume of employment and raising productivity, availability of credit is crucial importance. The commercial banks, as the major financial institutions, have thus been accorded a very important role in the development process of the country. The small scale industries need adequate and timely credit on reasonable terms. In view of the vast size of
the country and dispersed nature of these activities, this is a particularly difficult task which has been rendered all the more difficult by the social backwardness, illiteracy and reluctance to change over to new methods and techniques. Even so, the banks have accepted the challenge and have been trying to play an increasingly important role in the accelerated socio-economic development of the country.

The financing of small scale industries by commercial banks was started in the late sixties. Till then, the sector depended heavily on money lenders and indigenous bankers. Commercial banks have now evolved new schemes to meet the varied credit needs of the small sector after a careful study of its problems. In fact, the rapid growth of the sector during the last decade is mainly due to the assistance it has received from commercial banks. These banks offer a wide range of package services/assistance to small industries. The scale and scope of their assistance has increased considerably.

2.7.3 Types of Financial Assistance Provided by Commercial Banks to Small Scale Sector

A substantial portion of bank credit extended to small enterprises is in the form of term loans, cash credits, overdrafts, or bill finance to meet their working capital requirements.
• **Cash Credit**

Cash credit account is very popular mode of borrowing in the country. It is like running account operated by the borrower through cheques and other instruments of credit. Day to day transactions of the borrower is operated through this account. Before advance is allowed, drawing power is calculated on the basis of value of goods pledged or hypothecated subject to stipulated margins. Generally cash credit limits are sanctioned against security of goods by way of pledge or hypothecation.

• **Advances Against Bills**

Banks provide credit facilities to small scale entrepreneurs by purchasing documentary demand bills or by discounting usance bills where finished goods are supplied on credit to private parties or to Government departments and bills are drawn, payable on expiry of the credit period, the bank grants credit facilities against such bills to enable the unit to continue its manufacturing activities smoothly.

• **Bills Purchased and Discounted**

Documentary demand bills, which are payable on sight by drawee (Buyer of goods) are purchased by banks, whenever these are accompanied by documents, such as, an invoice, and railway
receipt or motor transport/lorry transport issued by operators approved by Indian Banks Association.

Bills discounted facilities are also available for local bills, covering local sale of goods, when the bill is accompanied by an invoice, receipted challan and acceptance of the usance bill by the drawee.

- **Credit Against Government Supply of Bills**

  Commercial Banks also extend credit to those small-scale industrial units, which supply goods to central and state Governments, public sector undertakings etc., against ad hoc or regular supply orders. The amount of advance is limited to 85 to 90 percent of the amount of the invoice, leaving a margin of 10 to 15 percent for the banks.

- **Credit Against Book Debts**

  In a buyers market, the small scale industrial units sell their goods on credit; the duration of credit varies in relation to demand and supply, competition in the industry and normal trade practice. It may vary from one month in the case of textile goods to three or even four months for certain engineering goods. Therefore, a large amount of credit given by the small scale units is in the form of book debts. Commercial banks extend credit facilities to small scale units against the book debts.
• **Clean Advances**

The banks consider clean advances to SSI units to meet shortfalls/deficits in working capital requirements as also for contingent needs on merits of each case. These advances are for short period and are meant to tide over temporary difficulty.

• **Pre-shipment and Post-shipment Credit**

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

The small scale industrial units are expected to open letter of credit when they intend to import machinery or equipment or raw materials or parts and components from abroad, provided the merchandise, particular of which are given in the later are shipped within the period specified in the letter of credit. Letter of credit is opened after issuance of an important license by competent authority.

2.7.4 Working Capital Loans

Working capital loans are short term credits given for the purchase of raw materials, stores and spare parts, for making wage payments and meeting other expenses and for holding certain stocks of raw materials/ stores/spares stocks in process of semi-finished goods and finished goods at a given point of time to ensure uninterrupted production. The amounts of loan are determined with reference to the finance required for building up current assets (such as raw materials, stores, spares, stocks in process, finished goods and receivables) for the anticipated levels of production/sales, less current liabilities (such as creditors for the purchase of raw materials, etc., advance from the customers and accrued expenses), and the margin to be met by the borrowing units out of owned funds and term loans. For industrial borrower with total limits from the banking system in excess of Rs.10 lakh,
the banks are expected to take into account the norms for levels of inventories and receivables as suggested by the Tandon Committee.

2.8 SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

Normally, the growth in bank credit increases every year. It is possible with the increasing mobilization of deposits by banks. The deposits so mobilized should be lent in order to maximize their profits. Table 2.2 presents the data relating to sectoral deployment of gross bank credit in terms of percentage increase or decrease over the previous year for the period from 1994-1999.

<table>
<thead>
<tr>
<th>Sector</th>
<th>As on 31st March</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSI</td>
<td>12.9</td>
</tr>
<tr>
<td>Priority Sector</td>
<td>8.1</td>
</tr>
<tr>
<td>Medium and Large Scale Industry</td>
<td>-1.3</td>
</tr>
<tr>
<td>Non food gross bank credit</td>
<td>4.0</td>
</tr>
<tr>
<td>Gross bank credit</td>
<td>6.6</td>
</tr>
</tbody>
</table>


Gross bank credit deployed into various sectors has ranged between the lowest of 6.6 per cent and 25.6 per cent over the
years. The rate of growth in gross bank credit deployed is marked with a mixed trend of ups and downs. The same trend is more or less visible in all the sectors. But the range of variations is lower in case of priority sector implying more or less consistent credit to this sector. Deployment of credit into SSI sector during the period from 1994-1999 is uneven.

2.8.1 SSI PRODUCTION AND BANK CREDIT

A peep into the data (Table 2.3) on production of SSI sector value and bank credit reveals a few interesting points.

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI Production</th>
<th>Credit</th>
<th>% of 3 to 2</th>
<th>Maximum credit (20% of SSI production)</th>
<th>Gap (5-3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-94</td>
<td>241648</td>
<td>21561</td>
<td>8.92</td>
<td>48329</td>
<td>26768</td>
</tr>
<tr>
<td>1994-95</td>
<td>293990</td>
<td>25843</td>
<td>8.79</td>
<td>58798</td>
<td>32955</td>
</tr>
<tr>
<td>1995-96</td>
<td>356213</td>
<td>29485</td>
<td>8.27</td>
<td>71242</td>
<td>41757</td>
</tr>
<tr>
<td>1996-97</td>
<td>412636</td>
<td>31542</td>
<td>7.64</td>
<td>82527</td>
<td>50985</td>
</tr>
<tr>
<td>1997-98</td>
<td>465178</td>
<td>38109</td>
<td>8.19</td>
<td>93034</td>
<td>54925</td>
</tr>
<tr>
<td>1998-99</td>
<td>538357</td>
<td>48483</td>
<td>9.00</td>
<td>107671</td>
<td>59188</td>
</tr>
<tr>
<td>1993-99 (Growth in percent)</td>
<td>122.78</td>
<td>113.53</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>


The production values of SSI units rose to 122.78 per cent between 1993-94 and 1998-99 whereas bank credit increased to 113.53 per cent. Similarly, the percentage of bank credit to production value
marginally increased from 8.92 per cent in 1993-94 to 9 per cent in 1998-99. In terms of the Nayak Committee lending norms, working capital finance from formal sources shall be 20 per cent of the projected turnover (production is considered as turnover). The bank credit, therefore, provided to the SSI sector is far less than the Nayak Committee norm. Banks are yet to go a long way to meet the genuine credit needs of the SSI sector.

‘t’ calculated value of credit to SSI by banks is 9.085. Critical values of ‘t’ at 5 per cent and 1 per cent level of significance are 2.015 and 3.365 respectively.

‘t’ calculated value is greater than the critical value of ‘t’ at both levels of significance [5 per cent and 1 per cent]. Hence, it is concluded that there is significant difference between the credit advanced and the 20 per cent norm suggested.

2.8.2 Public Sector Banks' Credit to SSI Sector

Working capital is mostly provided by Commercial Banks and is treated as part of the credit given to the priority sector. The year-wise credit to SSI sector by Public Sector Banks is shown in Table 2.4. There has been a continuous increase in the quantum of credit provided to the SSI sector by public sector banks. The outstanding advances of public sector banks which were at Rs.1,40,714 crore in 1993-94 have grown up to Rs.3,39,477 crore in 1999. Similarly, the share of credit to SSI in bank credit has
also gone up from 15.30 per cent in 1994 to 17.5 per cent in 1997-98. It is observed that the share of SSI credit has declined

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Bank Credit (Rs. in crore)</th>
<th>Credit to Priority sector (Rs. in crore)</th>
<th>Credit to SSI (SSI Account in lakh Nos)</th>
<th>Amount (Rs. in crore)</th>
<th>Net Bank Credit</th>
<th>Priority Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>140714</td>
<td>52945.0 (37.62)</td>
<td>30.19</td>
<td>21561</td>
<td>15.30</td>
<td>40.72</td>
</tr>
<tr>
<td>1995</td>
<td>169038</td>
<td>61794.0 (36.55)</td>
<td>32.25</td>
<td>25843</td>
<td>15.29</td>
<td>41.82</td>
</tr>
<tr>
<td>1996</td>
<td>184381</td>
<td>69809.0 (37.75)</td>
<td>33.77</td>
<td>29485</td>
<td>15.99</td>
<td>42.35</td>
</tr>
<tr>
<td>1997</td>
<td>189684</td>
<td>79131.2 (41.71)</td>
<td>31.44</td>
<td>31542</td>
<td>16.60</td>
<td>39.86</td>
</tr>
<tr>
<td>1998</td>
<td>218219</td>
<td>91318.6 (41.84)</td>
<td>29.64</td>
<td>38109</td>
<td>17.50</td>
<td>41.73</td>
</tr>
<tr>
<td>1999</td>
<td>339477</td>
<td>114611.0 (33.76)</td>
<td>NA</td>
<td>48483</td>
<td>14.28</td>
<td>42.30</td>
</tr>
</tbody>
</table>

Note: 1. Figures in parentheses represent percentage credit of priority sector to net bank credit.

2. Co-efficient of correlation is calculated from the above data


from 17.50 per cent in 1998 to 14.28 per cent in 1999 because of credit squeeze policies of RBI and also delays in sanction and disbursement of loans. Further, lendable resources of the banks are to be distributed to various other sector where profitability is assured and more.

The coefficient of correlation between the credit to priority sector and credit to SSI is 0.82. Hence, it is highly correlated implying that the credit to priority sector and credit to SSI are moving in positive direction.
SECTION - C
GROWTH OF SMALL SCALE INDUSTRIES

2.9 GROWTH OF SMALL SCALE INDUSTRIES

While the world is advancing towards the new millennium, the developing countries have to prepare themselves to meet the challenges and threats especially on the economic front. The process of economic reforms adopted during the current decade has given an impetus to the industrial environment in the country by laying more emphasis on SSI sector as a major contributor to the national economy.

Small Scale Sector has proved its performance by recording the highest ever growth in terms of production, exports and employment generation in the process of economic development of India as can be observed from Table 2.5

The industrial census of 1999 indicates the existence of 31.22 lakh SSI units employing 172 lakh persons with Rs.48,972 crore of exports out of Rs.5,43,069 crore value of production as against 19.48 lakh of industrial units employing 125.30 lakh persons with Rs.9,664 crore of exports from the production value of Rs.155340 crore in 1991. The number of SSI units though increased in percentage terms it declined from 7.98 in 1995 to 3.58 in 1999. A similar trend is observed with regard to the rate of growth in production and employment.
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units (in lakh)</th>
<th>Production at current prices (Rs. in crore)</th>
<th>Exports (Rs. in crore)</th>
<th>Employment (No. in lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>19.48</td>
<td>155340</td>
<td>9664</td>
<td>125.30</td>
</tr>
<tr>
<td></td>
<td>19.4535</td>
<td>[121621]</td>
<td>[9227.5]</td>
<td>[126.2685]</td>
</tr>
<tr>
<td>1992</td>
<td>20.82</td>
<td>178699</td>
<td>13883</td>
<td>139.80</td>
</tr>
<tr>
<td></td>
<td>[20.96]</td>
<td>[170722]</td>
<td>[14277.4]</td>
<td>(131.837)</td>
</tr>
<tr>
<td>1993</td>
<td>22.46</td>
<td>209300</td>
<td>17785</td>
<td>134.06</td>
</tr>
<tr>
<td></td>
<td>(22.4665)</td>
<td>(219823)</td>
<td>(19327.3)</td>
<td>(137.4055)</td>
</tr>
<tr>
<td>1994</td>
<td>23.81</td>
<td>241648</td>
<td>25307</td>
<td>139.38</td>
</tr>
<tr>
<td></td>
<td>(23.973)</td>
<td>(268924)</td>
<td>(24377.2)</td>
<td>(142.974)</td>
</tr>
<tr>
<td>1995</td>
<td>25.71</td>
<td>293990</td>
<td>29068</td>
<td>146.56</td>
</tr>
<tr>
<td></td>
<td>(25.4795)</td>
<td>(318025)</td>
<td>(29427.1)</td>
<td>(148.5425)</td>
</tr>
<tr>
<td>1996</td>
<td>27.24</td>
<td>358213</td>
<td>36478</td>
<td>152.61</td>
</tr>
<tr>
<td></td>
<td>(26.986)</td>
<td>(367126)</td>
<td>(34477)</td>
<td>(154.111)</td>
</tr>
<tr>
<td>1997</td>
<td>28.57</td>
<td>412636</td>
<td>39249</td>
<td>160.00</td>
</tr>
<tr>
<td></td>
<td>(28.4925)</td>
<td>(416227)</td>
<td>(39526.9)</td>
<td>(159.6795)</td>
</tr>
<tr>
<td>1998</td>
<td>30.14</td>
<td>469337</td>
<td>44437</td>
<td>167.20</td>
</tr>
<tr>
<td></td>
<td>(29.999)</td>
<td>(465328)</td>
<td>(44576.8)</td>
<td>(165.248)</td>
</tr>
<tr>
<td>1999</td>
<td>31.22</td>
<td>543069</td>
<td>48972</td>
<td>172.00</td>
</tr>
<tr>
<td></td>
<td>(31.5055)</td>
<td>(514429)</td>
<td>(49626.7)</td>
<td>(170.8165)</td>
</tr>
</tbody>
</table>

Note: Figures in the brackets represent linear trend values.

Sources:
Exports have also increased from Rs.9,664 crore in 1991 to Rs.48,972 crore in 1999 but the rate of growth is not uniform. It varies from the lowest of 7.61 per cent in 1994 to the highest of 43.66 per cent in 1997.

These achievements are particularly creditable against the backdrop of a number of constraints faced by the SSI sector like inadequate flow of incidental credit, higher cost of credit and growing competition arising out of economic liberalization and reforms.

Linear trend relating to number of units is \( y = 1.5095x + 17.947 \). The annual growth of units is 1.51. The linear trend of production at current prices is \( y = 49101x + 72520 \). The annual growth of production at current prices Rs.49101 crores. The linear trend of employment is \( y = 5.5685x + 120.7 \). The growth of employment is 5.57. The linear trend of exports is \( y = 5049.9x + 4177.6 \). Hence, the annual growth rate of exports is Rs.5049.9. [see Figure 2.1].

It is concluded that the linear growth is observed in different variables of SSIs with the help of these linear trends, the future values of these variables can be estimated.

2.9.1 TARGETS AND ACHIEVEMENTS OF SMALL SCALE INDUSTRY

The Government has been taking measures to promote growth and development of small scale enterprises in terms of providing infrastructural facilities, reservation of products for SSIs, preference in the allocation of credit,
excise duty concessions, provision of raw material, marketing support and facilities for technological upgradation.

Table 2.6 shows the targets prescribed and achievement of SSIs during 1996-97 - 1998-99.

<table>
<thead>
<tr>
<th>Variables</th>
<th>April - March</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No of units (in lakh units)</td>
<td>28.57</td>
</tr>
<tr>
<td>2. Production (Rs. in Crore at current prices)</td>
<td>3,85,454</td>
</tr>
<tr>
<td>a. Target</td>
<td>(107.05)</td>
</tr>
<tr>
<td>b. Achievement</td>
<td>4,12,636</td>
</tr>
<tr>
<td>3. Employment (lakh persons)</td>
<td>158.91</td>
</tr>
<tr>
<td>a. Target</td>
<td>(100.68)</td>
</tr>
<tr>
<td>b. Achievement</td>
<td>160.00</td>
</tr>
<tr>
<td>4. Exports (Rs crore at current prices)</td>
<td>20.207</td>
</tr>
<tr>
<td>a. Target</td>
<td>(194.23)</td>
</tr>
<tr>
<td>b. Achievement</td>
<td>39.249</td>
</tr>
</tbody>
</table>

Note: 1. Figures in brackets represent percentage of achievement over the target
2. Data pertained to modern SSI sector inclusive of power loom and traditional industry.

In 1996-97, the achievement of production, employment and exports are Rs.412636 crore, 160 lakh persons and Rs.39249 crore respectively. In all the above aspects SSIs attained the specific targets. During 1997-98, production and employment registered an achievement of 106.64 and 100.08 per cent respectively. In 1998-99, production target alone can be attained. With the achievement of 194.23 per cent of exports in 1996-97, the targets were fixed at a high side for 1997-98 and 1998-99. But the percentage of achievement in 1997-98 and 98-99 was 92.76 and 85.18 respectively. The policy of liberalization is one of the reasons for sluggish growth in exports.

It clearly denotes that an impressive and overall growth in small-scale sector is possible through the incentives provided by the Government to increase small-scale industrial sector's production and exports.

2.9.2 Production Growth Rate at Constant Prices

An analysis of production growth rate of SSI sector, vis-à-vis over all industry and manufacturing sector points out the intensity of growth and development of small scale industry. The details of growth rates of production at constant prices relating to these sectors are furnished in Table 2.7.

There has been a steady increase in the growth rates of SSI sector during the period from 1991-92 to 1998-99, with the exception of 1997-98.
The growth rates of SSI sector have surpassed that of industry and manufacturing sectors. The growth rates of industry and manufacturing sectors are marked with volatility but a study increase is observed in SSI sector excepting 1997-98. Liberalisation policies initiated by the government are responsible for volatility in industry and manufacturing sectors. Even during the era of liberalization, it may be inferred that the government policy is favourably directed towards SSI sector.

### Table 2.7

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI</th>
<th>Industry</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>3.1</td>
<td>0.6</td>
<td>(-) 0.8</td>
</tr>
<tr>
<td>1992-93</td>
<td>5.6</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>7.1</td>
<td>6.0</td>
<td>6.1</td>
</tr>
<tr>
<td>1994-95</td>
<td>10.1</td>
<td>8.4</td>
<td>8.5</td>
</tr>
<tr>
<td>1995-96</td>
<td>11.4</td>
<td>10.8</td>
<td>13.8</td>
</tr>
<tr>
<td>1996-97</td>
<td>11.8</td>
<td>5.6</td>
<td>6.7</td>
</tr>
<tr>
<td>1997-98</td>
<td>8.4</td>
<td>6.6</td>
<td>6.7</td>
</tr>
<tr>
<td>1998-99</td>
<td>11.4</td>
<td>4.0</td>
<td>4.4</td>
</tr>
</tbody>
</table>


Since 1991, the economy is gradually opened and integrated with the global economy and the stress is on the qualitative upgradation of the industrial structure and improving international competitiveness of manufactured goods and services.
The total exports by major product groups and the share of SSI sector during 1991-92 to 1998-99 are shown in Table 2.8. The value of total exports and that of the SSI sector registered an uptrend in absolute terms. The exports from SSI sector which stood at Rs.13,833 crore reached to Rs.49,481 crore. But the percentage share of exports from SSI sector to total exports remained static but for marginal variations. During the period under reference the percentage share of SSI exports fluctuated from the lowest of 31.52 to the highest of 36.28. The rate of growth in exports is volatile not only in total exports but also that of SSI sector. The growth rates fell sharply in both the segments from 1996-97 onwards. Liberalisation policies in force world wide led to quality consciousness among the global consumers. As regards quality, Indian industry is still a long way to go in catching the race. Further, global common recession is also another reason for the slow down of Indian exports.

2.10 Growth of SSIs in Andhra Pradesh

The growth of small-scale industries in Andhra Pradesh in terms of units, investment and employment is detailed in Table 2.9. The number of small scale units in the state increased from 25376 in 1979 to 139041 in 2000 representing a five-fold increase over a period of two decades. The investment rose from Rs.117.53 crore in 1979 to Rs.3753.35 crore in 1999-2000. The employment generated by these units has been progressively increasing over the years. The phenomenal increase in the number of units, their investment and employment is indicative of impressive growth of SSI sector in Andhra Pradesh. The principal reason for this phenomenon is that the small scale
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>44042</td>
<td>53688</td>
<td>69751</td>
<td>82674</td>
<td>106353</td>
<td>118817</td>
<td>129516</td>
<td>141604</td>
</tr>
<tr>
<td>Exports from SSI sector</td>
<td>13883</td>
<td>17785</td>
<td>25307</td>
<td>29068</td>
<td>36470</td>
<td>39249</td>
<td>44437</td>
<td>49481</td>
</tr>
<tr>
<td>Exports-SSI to total (%)</td>
<td>31.52</td>
<td>33.13</td>
<td>36.28</td>
<td>35.16</td>
<td>34.29</td>
<td>33.03</td>
<td>34.31</td>
<td>34.94</td>
</tr>
<tr>
<td>Growth of total exports (%)</td>
<td>35.29</td>
<td>21.90</td>
<td>29.92</td>
<td>18.53</td>
<td>28.64</td>
<td>11.72</td>
<td>9.04</td>
<td>9.33</td>
</tr>
<tr>
<td>Growth of SSI exports (%)</td>
<td>43.66</td>
<td>28.11</td>
<td>42.29</td>
<td>14.86</td>
<td>25.46</td>
<td>7.62</td>
<td>13.21</td>
<td>11.35</td>
</tr>
</tbody>
</table>

Table 2.9

GROWTH OF SMALL SCALE INDUSTRIES IN ANDHRA PRADESH

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of units</td>
<td>25376</td>
<td>42670</td>
<td>58531</td>
<td>95495</td>
<td>118197</td>
<td>139041</td>
</tr>
<tr>
<td>Investment [Rs. In Crore]</td>
<td>117.53</td>
<td>264.25</td>
<td>428.48</td>
<td>1299.28</td>
<td>1877.02</td>
<td>3753.35</td>
</tr>
<tr>
<td>Employment [in persons]</td>
<td>274915</td>
<td>387611</td>
<td>510854</td>
<td>837874</td>
<td>1021418</td>
<td>1220542</td>
</tr>
</tbody>
</table>


units were encouraged under different plans through various concessions, incentives and reservations.

2.11 GROWTH OF SSI units IN CUDDAPAH DISTRICT

Cuddapah District is endowed with rich mineral, horticulture and agricultural resources and hence vast scope for setting up industries. The backwardness of the district can be reduced through the promotion of industrial development. District Industries Centre [DIC] also provides necessary information and guides the entrepreneurs in establishing industrial units.

Table 2.10 explains the year-wise SSI units established, the investment thereon and number of persons employed.

The year-wise number of SSI units established steadily progressed from 503 units in 1990-91 to 910 units in 1998-99 but declined marginally to 890 units in 1999-2000. But the year-wise investment made in SSI units had
varied significantly from the lowest of Rs.338.75 lakh in 1994-95 to the highest of Rs.1,111.25 lakh in 1998-99. The employment potential has progressed upto 1993-94 which thereafter registered a declining trend. The slow down in employment potential is due to upgradation of technical know-how used in SSI sector.

**Table 2.10**

YEAR-WISE SSI UNITS ESTABLISHED IN CUDDAPAH DISTRICT

<table>
<thead>
<tr>
<th>S.No</th>
<th>Year</th>
<th>No.of Units</th>
<th>Investment (Rs. in lakh)</th>
<th>Employment (No of persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1990-91</td>
<td>503</td>
<td>380.82</td>
<td>6067</td>
</tr>
<tr>
<td>2.</td>
<td>1991-92</td>
<td>514</td>
<td>360.50</td>
<td>6915</td>
</tr>
<tr>
<td>3.</td>
<td>1992-93</td>
<td>505</td>
<td>537.09</td>
<td>7665</td>
</tr>
<tr>
<td>4.</td>
<td>1993-94</td>
<td>551</td>
<td>370.83</td>
<td>8321</td>
</tr>
<tr>
<td>5.</td>
<td>1994-95</td>
<td>560</td>
<td>338.75</td>
<td>6819</td>
</tr>
<tr>
<td>6.</td>
<td>1995-96</td>
<td>656</td>
<td>603.23</td>
<td>2212</td>
</tr>
<tr>
<td>7.</td>
<td>1996-97</td>
<td>742</td>
<td>596.19</td>
<td>3208</td>
</tr>
<tr>
<td>8.</td>
<td>1997-98</td>
<td>834</td>
<td>377.19</td>
<td>2653</td>
</tr>
<tr>
<td>9.</td>
<td>1998-99</td>
<td>910</td>
<td>1111.25</td>
<td>2963</td>
</tr>
<tr>
<td>10.</td>
<td>1999-2000</td>
<td>890</td>
<td>380.93</td>
<td>2814</td>
</tr>
</tbody>
</table>

Source: District Industries Centre, Cuddapah; Government of Andhra Pradesh.
REFERENCE


4. Ibid., p.2.


11. Ministry of India, Guidelines for Industries (1979), New Delhi: Sec.11, p.1


29. Ibid., pp.15-25.


