CHAPTER I

INTRODUCTION
CHAPTER - 1

1. INTRODUCTION

Alleviation of poverty is a major yet elusive challenge, our country has been facing. In fact it is a challenge for all the third world countries. While there has been a steady decline in the level of poverty, the net figure of poor people all over the world remains the same due to population growth. Human resource is a major strength of the poor countries and this resource, needs to be used in a better way to channelize their efforts in increased production and thereby increasing their level of income. This human force if employed through employment intensive schemes, will facilitate reduction of poverty and accelerate growth of economy in the long run. This strategy however needs to be complemented with a focus on providing basic services for improving the quality of life of the people through State intervention, in the form of targeted anti poverty alleviation programmes. In world over, and also in our country, a number of poverty alleviating programmes have been designed by State Governments and Central Governments for the generation of self employment in rural as well as urban areas.

The Government of India formulated numerous schemes e.g. DRI (Differential Rate of Interest Scheme), IRDP (Integrated Rural Development Programme), DWCRA (Development of Women and Children in Rural Areas), SEPUP (Self
Employment Programme for Urban Poor, PMRY (Prime Minister’s Rojgar Yojana) and the latest PMEGP (Prime Minister’s Employment Generation Programme). Besides these Central Government Programmes, numerous schemes were also introduced by various states of India, at state level, to finance the rural, as well as urban poor, to start self-employment and generate income for them. The objective of these programmes pre-supposes that standard of living of the poor masses will increase only if they are provided finance at a cheaper cost. The action taken will be successful only if the benefits of development reached the lowest strata of the community. The Government has recognized this fact and hence much emphasis is given on grass root level planning or micro level planning where the focus is the development of the rural/urban poor masses.

This study takes a bird’s eye view of the Central Government sponsored loan schemes, financed through Nationalised Banks. The study takes into consideration only Central Government Schemes implemented through Nationalised Banks for the simple reason that every state has numerous schemes and the study of each scheme becomes a separate subject of research. This study has been based only on two Schemes of Central Government i.e. PMRY and PMEGP, as these are the only schemes run through nationalized banks by Central Government, as of now. In fact, PMRY was discontinued in the year 2008 and PMEGP was introduced in its place, clubbing all the central government run schemes together. Thus at present only PMEGP has been running through all
nationalized banks, formulated by Central Government. Of course, there are many other programmes run by each state at state level. The data collected though, is for Central Govt. loan schemes, operated through DIC, indirectly relates to PMRY & PMEGP.

This study reveals that the agencies involved in implementing the Govt. schemes have a lot of lacunae in operating the schemes through various phases. If the objectives of the poverty alleviation are to be achieved, the lacunae need to be removed. There has been lots of criticism on the implementation of the Govt. sponsored programmes. In implementation of these schemes, many agencies are involved, chief amongst them being were District Industries Centre and Commercial Banks. Nationalised Banks are the major agencies in implementing these schemes, though private banks and scheduled co-operative banks do assist, although their share is smaller. DICs are the recommending agency, whereas loans are granted by commercial banks only. DIC is not the agency for granting the loans to the beneficiaries of Govt. sponsored schemes.

1.2 Uniqueness of this study

Most of the studies done in Govt. Schemes, relate to a particular scheme, or are not inclusive of all concerned in operation of the scheme successfully viz. Banks, Borrowers and the Govt. agency i.e. District Industries Centre. This study reveals
that Non Performing Assets is not a result of any one factor but it is a systemic failure of all the involved agencies. Unsystematic working procedures in one system, lead to the failure in the working of other systems and ultimately the failure of the business propositions, of the borrowers, to which loans were given. This study is unique in revealing the lacunae observed in the system in deployment of the Govt. programmes, studied across six states and suggests the ways to overcome these lacunae so that the fruits of development reach the needy beneficiaries.

2 THE PROBLEM IN BRIEF

Post Nationalisation of Banks, Central Govt. went in a big way in credit disbursement to the poor masses of the country, which have failed due to several reasons. Credit extension to poor masses became the social responsibility of banks, post nationalization. Many schemes at Central, as well as state level, were formulated and executed in the country for the improvement of the standard of living of the poor by providing them funds to start self employment, so that they could generate income for their sustenance. All these schemes were aimed at, the weaker section of the society.

All these schemes were evolved and expected to generate employment opportunities in the country by establishing micro enterprises. The major
agencies who were expected to help the government of India in expansion of credit, were nationalized banks. The bank credit was expected to channelize the credit to generate employment and improve the socio-economic status of the people. However even after almost four decades of bank nationalisation, no desired results have been achieved.

For achieving these goals, District Industries Centres (DIC) were the main government agencies who were actively involved in selection of the borrowers, training of the borrowers and sending applications of the borrowers to various financing agencies. Invariably, the loans sponsored through DIC turned bad or Non Performing Assets. Whose fault is it? Is it the fault of the District Industries Centres, who were entrusted with the primary work of identification of the borrowers and sponsor their applications to the Banks, or is there fault in the style of working of the banks who had massive NPAs under the Govt. Sponsored scheme or is it the fault of the borrowers who could not pay the loans taken, in time?

One of the major aims of the Govt. Sponsored Loan schemes was to stop the exodus from rural areas to urban areas by creating employment opportunities at the local level. And, therefore, after nationalization, all nationalized banks were on a major drive on branch expansion. In 1969 when 14 major banks were
nationalized, there were merely 8000 bank branches of commercial banks in India. Today, the total commercial bank branches in India\(^1\) comes to about 70000, of which more than 50% are from nationalized Banks. The following table gives an idea of the branch expansion that took place over the past five decades.

**Table No. 1.1**

No. of Nationalised Bank Branches as of Mar. 2010

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Branches on 31.3.2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Allahabad Bank</td>
<td>2260</td>
</tr>
<tr>
<td>2</td>
<td>Andhra Bank</td>
<td>1371</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Baroda</td>
<td>3000</td>
</tr>
<tr>
<td>4</td>
<td>Bank of India</td>
<td>2644</td>
</tr>
<tr>
<td>5</td>
<td>Bank of Maharashgtra</td>
<td>1292</td>
</tr>
<tr>
<td>6</td>
<td>Canara Bank</td>
<td>2542</td>
</tr>
<tr>
<td>7</td>
<td>Central Bank of India</td>
<td>3228</td>
</tr>
<tr>
<td>8</td>
<td>Corporation Bank</td>
<td>906</td>
</tr>
<tr>
<td>9</td>
<td>Dena Bank</td>
<td>423</td>
</tr>
<tr>
<td>10</td>
<td>Indian Bank</td>
<td>1657</td>
</tr>
<tr>
<td>11</td>
<td>Indian Overseas Bank</td>
<td>1956</td>
</tr>
<tr>
<td>12</td>
<td>Oriental Bank of Comm.</td>
<td>1148</td>
</tr>
<tr>
<td>13</td>
<td>Punjab and Sind Bank</td>
<td>813</td>
</tr>
<tr>
<td>14</td>
<td>Punjab National Bank</td>
<td>4525</td>
</tr>
</tbody>
</table>

\(^1\) Reserve Bank of India website www.rbi.gov.in
The Prime Minister’s Rojgar Yojana (PMRY) was one of the Central Govt. Schemes, which was launched throughout the country with the ambitious plan. The Scheme had targeted the setting up of 7,00,000 micro enterprises\(^1\) (G. Rozario 2004)\(^2\) to accelerate employment opportunities for 1.4 million educated unemployed youth on an average of two persons per enterprise. Banks operating in the country were asked to finance PMRY proponents. It was expected that viable projects must get bank credit and credit should not be denied by the banks on the grounds of the poor financial position of the borrowers. It was expected that the bank credit would flow in to the productive channel, to generate employment opportunities so as to enable the poor beneficiaries improve their income generating capacity and improve the socio economic status of the people. It was expected that the proponents used the credit funds for productive purposes.

\(^1\) Gilroy Rozario 2004 “An Evaluation Study of PMRY in Kerala”
and repaid it on time, from the income generated and also supported their families as well.

The PMRY Scheme was discontinued by the Govt. of India from the year 2008 and a new Scheme, almost on the same lines as PMRY came into operation namely “PRIME MINISTERS EMPLOYMENT GENERATION PROGRAMME (PMEGP)”.

PMRY Scheme was in operation for almost two decades and had not yielded the expected success, may be because of many reasons and Govt. of India has now introduced PMEGP scheme in the place of PMRY. There were many articles in various newspapers about faulty working of the PMRY scheme which had the highest number of Non Performing Assets (NPA), which hampered profitability of a Bank and also its rating, in some states like Kerala (Gilroy Rozario, 2004) .

It is of paramount importance to learn from the past mistakes to improve the reach of this new scheme and hence the relevance of the study. This study takes into consideration, working of the DIC (the sponsoring agency at the Dist. Level), working of the Nationalised Banks in implementation of the government scheme and also the problems and reasons attributed to the Borrowers.

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3 Gilroy Rozario,: “An Evaluation Study on PMRY In Kerala” 2004, p. 43
At this juncture, it is imperative to know the Prudential Norms, popularly known as Non Performing Assets (NPA) norms, as defined by the Reserve Bank of India. The RBI introduced NPA norms in 1992, the present avatar of these norms are quite different. Herein below, the researcher has reproduced the required and relevant part of the Reserve Bank of India’s latest circular on NPA norms.

2.1 PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING PERTAINING TO ADVANCES (RBI Circular No. DBOD BP.BC.21/21.04.048/2010-11 …… reproduced)

General

In line with the international practices and as per the recommendations made by the Committee (Chairman Shri. M. Narsimham), the Reserve Bank of India has introduced, in a phased manner, prudential recognition, asset classification and provisioning for the advances portfolio of the banks so as to move consistency and transparency in the published accounts.
The policy of income recognition should be objective and based on record of recovery rather than on considerations. Likewise, the classification of assets of banks has to be done on the basis of objective criteria which apply a uniform and consistent application of norms. Also the provisioning should be made on the basis of the condition of the assets based on the period for which the asset has remained non performing and the availability of security and value thereof.

Banks are urged to ensure that while granting loans and advances, realistic repayment schedules may be fixed considering cash flows with borrowers. This would go long way to facilitate prompt repayment by the borrowers and thus increase of recovery in advances.

Definitions:

Non Performing Assets An asset including a leased asset, becomes non performing when it ceased to generate income for the bank. A non performing asset (NPA) is a loan or an advance where;
i. Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.

ii. The account remains ‘out of order’ as indicated at paragraph “out of order” below in respect of an Overdraft/cash credit account.

iii. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.

iv. The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops.

v. The instalment of principal or interest thereon remains overdue for one crop season for long duration crops.

vi. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction in terms of guidelines on securitization.

vii. In respect of derivative transactions, the overdue receivables representing positive mark-to-market value contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

viii. Banks should classify an account as NPA only if the interest due and charged during any quarter is not realised in 90 days from the end of the quarter.
**Out of Order Status**..... An account should be treated as “Out of Order” if the outstanding balance remains continuously in excess of the limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the limit/drawing power, but there are no credits continuously for a period of 90 days as on the date of Balance Sheet or credits cannot cover the interest debited during the same period, these accounts should be treated as “Out of Order”.

**Overdue**..... Any amount due to the bank under any credit facility is “Overdue”, if it is not paid on the due date fixed by the Bank.

**INCOME RECOGNITION**

**Income Recognition Policy**  The policy of income recognition has to be objective and based on the record of recovery. Internationally Non Performing Assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received, the banks should not charge and take to income account interest on any NPA .
However, interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies may be taken to be received on the due date, provided adequate margin is available in the accounts.

Fees and commissions earned by the banks as a result of renegotiations or rescheduling of outstanding may be recognized on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of accounts.

If government guaranteed advances become NPA, the interest on such advances should not be taken to income unless it is actually realized.

Reversal of Income

If any advance, including bills purchased and discounted, becomes NPA, the entire interest accrued and debited to the account in the past periods, should be reversed if the same is not realized. This will apply to Government Accounts also.
In respect of NPAs, fees, commission and similar income that have accrued should cease to accrue in the account and should be reversed with respect to past periods, if uncollected.

In case of leased assets, the finance charge component of finance income on the leased asset which has accrued and was credited to income account before becoming non-performing and remaining unrealized, should be reversed or provided for in the current accounting period.

**Appropriation of recovery in NPAs**

Interest realized on NPAs may be taken to income account provided the credits in the accounts towards income of fresh/additional credit facilities sanctioned to the borrower concerned.

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of NPAs (i.e. towards principal or interest due), banks should adopt an accounting principle and exercise the right of recoveries in a uniform manner.

**Interest Application**

On an account turning NPA, banks should reverse the interest
already charged and not collected by debiting account, and stop further application of interest. However, banks may continue to record such accrued interest in the account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum and be taken into account.

Computation of NPA Levels

Banks are advised to compute their Gross Advances, Net Advances, Gross NPAs and Net NPAs as per the practice.

ASSET CLASSIFICATION

Categories of NPAs

Banks are required to classify non performing assets further into the following three categories based on the period asset has remained nonperforming and the realisability of the dues:

I Substandard Assets

II Doubtful Assets

III Loss Assets
**Substandard Assets**

With effect from 31st March 2005, a substandard asset would be one, which has remained NPA for a period less than 12 months. In such cases, the current net worth of the borrower/guarantor or the current market value of the security is enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have worth weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the same may pose some loss, if deficiencies are not corrected.

**Doubtful Assets**

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as doubtful with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current asset conditions and values – highly questionable and improbable.

**Loss Assets**

A loss asset is one where loss has been identified by the bank or
internal or external auditors or the RBI in respect of a loan amount which has not been written off wholly. In other words, such an asset is considered uncollectible and of such accounts loan continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

**Guidelines for classification of assets**

Broadly speaking, classification of assets into above categories should be done taking into account the degree of well defined credit weaknesses and the extent of dependence on collateral security for realization of dues.

Banks should establish appropriate internal systems to eliminate the tendency to delay or postpone the identification of NPAs especially in respect of high value accounts. The banks may fix a minimum cut off point to decide what would constitute a high value account depending upon their respective business levels. The cut off point should be valid for the entire accounting year. Responsibility and validation levels for ensuring proper asset classification may be fixed by the banks. The system should ensure that doubts in asset classification due to any reason are settled
through specified internal channels within one month from the date
on which the account would have been classified as NPA as per
extant guidelines.

Availability of Security/Net Worth of borrower/guarantor

The availability of security or net worth of borrower/guarantor
should not be taken into account for the purpose of classifying
advance as NPA or otherwise, except to the extent that if the
realizable value of security, as assessed by the bank/approved
valuers/RBI is less than 10, then the amount outstanding in the
borrowal accounts, the existence of security should be ignored and
the asset should be straightway treated as loss asset. It may be
either written off or fully provided for by the bank.

Accounts with temporary deficiencies

The classification of an asset as NPA should be based on the record
of recovery. Bank should not classify an asset as NPA merely due
to the existence of some deficiencies which are temporary in nature
such non availability of drawing power based on the latest
available stock statement, balance outstanding exceeding the limit
temporarily due to non submission of stock statements and non
renewal of the limits on the due date etc. In the matter of
classification of account based on deficiencies banks may follow the
following guidelines:

a. Banks shall ensure that the drawings in the working capital
accounts are covered by the drawing power, based on the current
valuation of the stock statements which are not more than 3 months
old. If the stock statement is older than 3 months on which drawing
power is calculated, the outstanding in such account will be deemed
as irregular. Such working capital account, where stock statement
is older than 3 months, will become NPA if such irregular drawings
are permitted in the account continuously for a period of 90 days
even though the unit may be working or borrower’s financial
position is satisfactory.

b. In case of regular limits, where ad-hoc limits are
sanctioned, such ad-hoc limits if not reviewed/renewed within a
period of 180 days from the due date of ad-hoc limit sanctioned,
will be treated as NPA.

**Upgradation of loan accounts classified as NPAs**

If arrears of interest and principal are paid by the borrower in the
case of loan classified as NPA, the account becomes standard and can be classified as such.

**Accounts regularized near about the balance sheet date**

If the accounts are regularized near about the balance sheet date the auditors have to be careful in classifying such accounts and must find out the source of the funds so as to decide the status of the account.

**Asset classification to be borrowerwise and not facilitywise**

Asset classification needs to be done borrowerwise and not facilitywise. In short if an account of a borrower turns NPA, all other accounts of the borrower need to be treated as NPA, unless otherwise provided by RBI in its circular no 11/74 of 11.8.2010.

**Accounts where there is erosion in the value of security/frauds committed by borrowers**

If realizable value of the assets created out of bank finance has considerably eroded or there has been frauds committed by the
borrowers, such accounts may be treated as doubtful or loss assets depending upon the % of realizable value. If realizable value is less than 10%, such accounts may be treated as Loss assets straightway and if it is more than 10% but less than 50%, such accounts may be treated as Doubtful Accounts.

**Loans with moratorium for payment of interest**

In case of bank finance given to various projects, if interest is not to be recovered in the moratorium period, interest due if not paid in moratorium period cannot be treated as overdue and such account cannot be treated as NPA.

**Agricultural Advances**

A loan granted for short duration crops will become NPA, if the instalment of principal or interest thereon remains overdue for two crop seasons. A loan granted for long duration crops will be treated as NPA, if the instalment of principal or interest thereon remains overdue for one crop season. For the purpose of long term duration the crop season which have harvesting period for more than one year and for short duration, the crops which are not
long duration crops will be treated as short duration crops. The season shall be decided by the State Level Banker’s Committee, in each State. In case of non agricultural loans the norms shall be of 90 days.

Natural Calamities

Where natural calamities impair the repaying capacity of agricultural borrowers, banks may decide on the decision of conversion of short term loans into medium/long term loans by reschedulement of loans, sanctioning of fresh short term loans as advised by RBI. The old outstandings in the rescheduled account shall not be treated as NPA. The Payment of such rescheduled accounts shall be done in five years. While considering rescheduledment, the interest and unpaid instalments may be clubbed together for deciding the instalment. For fresh loans, NPA norms as per usual guidelines, will be applicable.

PROVISIONING NORMS

Bank management and statutory auditors are the responsible officers who shall make adequate provisioning in the NPA accounts depending upon the realizable value of the security. Thus taking into account time taken by the account becoming doubtful of
recovery, its recognition as such, the realisation of the security and the erosion in the case of value of security charged to the bank, the banks are allowed to make provision against substandard assets, doubtful assets and loss assets as mentioned below:

**Loss Assets:** Loss assets are to be written off. If loss assets are permitted to be remained in the books of accounts then 100% amount outstanding should be provided for.

**Doubtful Assets:** 100% to the extent to which an advance is not covered by the realizable value of the security, which is arrived on realistic basis. In respect of the secured portion the provision may be made as under

**Table No. 1.2**
Provision required in Doubtful Assets

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Period for which the advance has remained in doubtful category</th>
<th>Provision requirement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Up to One year</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>One to three years</td>
<td>30%</td>
</tr>
<tr>
<td>3</td>
<td>More than three years</td>
<td>100%</td>
</tr>
</tbody>
</table>
**Substandard Assets:** To make a long story short it can be said that a general provision of 10% on total outstanding balance should be made without making any allowance for guarantee cover and securities available.

**Standard Assets:** The provisioning is required to be done on standard assets at the following rates

a. Direct advances to Agriculture and SME sector
   0.25%

b. Loans or Advances to Commercial Real Estate Sector
   1.00%

c. Loans not included in (a) & (b) above
   0.40%

After having studied what are the NPA norms, it follows to study the two schemes of Central Govt. viz. PMRY and PMEGP. PMRY was in operation for about two decades and was discontinued by Central Govt. by introducing a new avatar of PMRY scheme in the garb of PMEGP Scheme. Mention below is the Gist of various circulars of RBI on PMRY Scheme and PMEGP Scheme.
3. PRIME MINISTER’S ROZGAR YOJANA – AN OVERVIEW

The Prime Minister’s Rozgar Yojana is a self-employment scheme for educated unemployed youth. This government sponsored scheme was launched on 2nd October 1993. It has been in operation since then but was discontinued in March 2008.

The objective of the scheme was to provide sustainable employment to educated unemployed youth through the establishment of micro enterprises. These enterprises were to cover manufacturing, service and business ventures. The PMRY had a target of setting up seven lacs micro enterprises that were expected to generate employment for 1.4 million persons by the end of 8th Five year plan.

The scheme was intended to cover only urban areas of the country during 1993 – 94 which was extended to all the areas later on. The erstwhile SEEUY scheme was subsumed in PMRY from the year 1994-95. The salient features of the scheme were

3.1 Area:

The scheme was meant only for the Urban Centres, which later on was made available even to the Rural and Semi Urban Centres also.

3.2 Age:

The age limit for the applicants in the general category was between 18 and 35 and for SC/ST, Ex-servicemen, Physically Handicapped and Women applicants it
was between 18 – 45. For determining the cut off date for reckoning the age limit of the applicants, the date of receipt of application for loan at the concerned DIC/Directorate of Industries was required to be taken.

3.3 Family Income:

Beneficiaries having a family income of less than Rs. 24,000/- p.a. were eligible for assistance under this scheme, the level of family income was later on raised to Rs. 40,000/- during the financial year 1999-2000. Family definition for this purpose means spouse and parents of the beneficiary. Family income included, income from all sources including wages, salary, pension, agriculture, business, rent etc.

The Task Force Committee was required to scrutinize and satisfy that the applicants meet the income limit criteria. After their recommendations, it was presumed that the applicant satisfied the criteria of income, unless contrary evidence proved otherwise.

3.4 Educational Qualifications:

Minimum educational qualifications fixed for the applicants to apply for assistance under the scheme was matriculation (passed or failed), which was later on, during the financial year 1999-2000, brought down to 8th standard pass.
Beneficiaries who underwent ITI courses or Govt. Sponsored Technical courses for a minimum duration of 6 months were also eligible for assistance under PMRY scheme. Applicants with higher qualifications, or even pursuing further studies, were also eligible.

3.5 Area of Residence:

For the purpose, Area means the District. The applicant was expected to be a permanent resident for the last 3 years. If an applicant was desirous of setting up a unit at any place in the District, and if he was residing in the district for the past 3 years he was considered to be eligible for assistance under PMRY Scheme. A Ration Card was the primary proof to prove that the borrower was resident of the district. In the absence of the ration card, a Residency Certificate issued by the Dy. Commissioner/Dist. Magistrate or any other appropriate authority designated, to issue such certificate, by the State Govt. was accepted or any other document to the satisfaction of the District Committee/Sub-committee as a proof of residency.

3.6 Defaulter:

A person who has been a defaulter of a bank or a financial institution or who has a member of his family as a defaulter of a bank or a financial institution, was considered as a defaulter and was not eligible for the assistance under the scheme.
If a member of the family was assisted under any other Govt. Scheme, with or without subsidy, then in such cases, the applicant also, will not be eligible for the assistance under the scheme.

3.7 Implementation of the Scheme

This process involved

- Identification of the beneficiary
- Selection of specific vocation
- Identification of the support system required by the beneficiary
- Escort services and close liaison with the Banks and other local/Govt. agencies for recoveries

This scheme was implemented through the Development Commissioner (Small Scale Industries) at the Central Level, the State/UTI level and at the field level by the District Industries Centre (DIC). Separate PMRY committees were set up at State and District level.

3.8 ELIGIBLE ACTIVITY

3.8.1 Nature of Activity

The scope of activity was large. A borrower could approach for a loan for any economically viable activity including agriculture and allied activities but direct
agricultural operations e.g. buying manures etc. were excluded. Financing was allowed to any economically viable and bankable activity including setting up of businesses enterprises in manufacturing, service and industry sector.

3.8.2 Group Activity

Group activity has more chances of survival and hence group activities were also encouraged. If two or more entrepreneurs came together to form a partnership, they were also eligible for the loan assistance.

3.9 LOAN AMOUNT

3.9.1 Individual

An eligible entrepreneur was eligible for a loan of Rs. 1 lakh under business activity and Rs. 2 lakhs for service and industries activities.

3.9.2 Partnership

In case of partnership, the loan amount was restricted to Rs. 10 lakhs. It was also made clear that the total loan amount and subsidy did not exceed the prescribed limit.
3.9.3 Project Cost

The project cost was not to exceed the loan prescribed limit. The limit was Rs. 1 lakh when the scheme was launched, which was subsequently raised to Rs. 2 lakhs during the financial year 2000-2001.

3.9.4 Margin

The borrower was expected to bring in 5% of his margin of the project cost. In case of partnership, each partner was to bring in the margin money.

3.9.5 Collateral Security/Guarantee

Borrowers were not expected to bring any additional collateral security and guarantee apart from the assets created out of the finance, to be mortgaged, pledged or hypothecated and his own margin. Banks were advised accordingly.

3.9.6 Rate of Interest

The rate of interest was as per the directives of the RBI, informed through its circulars from time to time.
3.9.7 **Scrutiny of Applications**

At every district level a Task Force Committee was set up, with the responsibility of scrutinizing the applications received from eligible persons and interviewing the candidates. Applications approved by the TFC were referred to the Banks for providing loans through DIC. Banks were expected to disburse the loans after satisfying the criteria of economic viability and bankability of the project.

3.9.8 **Disbursement of Loan**

After borrower’s completion of the required formalities, the banks were expected to disburse the loan amount in the stipulated time schedule/reasonable time.

3.9.9 **Repayment**

The repayment period was to vary between 3 and 7 years, depending upon the income generation of the project, nature of the project and profitability of the project. An initial moratorium of 6 to 18 months was required to be allowed.

3.9.10 **Subsidy**

The beneficiaries were eligible for a subsidy of 15% of the cost of the project with a ceiling of Rs. 7,500/-, from the Govt. The subsidy was to remain with the
bank in the form of a non interest bearing fixed deposit and banks were not to charge interest on the loan amount which represented the subsidy. The fixed deposit was to remain with the bank for a minimum period of 3 years and thereafter it was available for adjustment.

3.9.11 Monitoring

The monitoring of the scheme was to be done by the District PMRY committee through the DIC, formed at the District Level. The progress of this scheme was to be monitored by the District Consulting Committee (DCC) at the District Level and by the State Level Bankers committee (SLBC) at the State Level, during their periodic meetings.

3.9.12 Involvement of Non-Governmental Organisations

Non Governmental Organisations were expected to be involved in giving training to the beneficiaries. They could also help borrowers in proper management of assets, marketing of products, repayment of loan instalment etc.

3.9.13 Evaluation

The Govt. of India was to carry out concurrent evaluation on a regular basis. The
Centre was to fix targets to each state. State Govt. were to convey targets to each DIC through DCC. The applications were to be invited from the eligible persons through advertisements in local newspapers. Publicity was to be given by banks and Govt. Offices.

4. **PRIME MINISTERS EMPLOYMENT GENERATION PROGRAMME (PMEGP) ..... An Overview** (RBI Cir. No. .. ..RBI/2008-09/211 RPCD.PLNFS.BC.No.41/09.04.01/2008-2009)

*PMEGP came into existence by merging Rural Employment Generation Programme (REGP) with Prime Ministers Rozgar Yojana, that were in operation till 31st March 2008, on 10th October 2008.*

**Objectives**

Objectives of this new scheme are

1. Generating employment in rural and urban areas through setting up of new self-employment ventures/projects/micro-enterprises.
2. To bring together widely dispersed traditional artisan/rural and urban unemployed youths to give them self-employment opportunities at their places.

3. To provide continuous and sustainable employment to the abovementioned youths so as to arrest migration of rural youth to the urban areas.

4. To increase wage earning capacity of the artisans and contribute to increase in the growth rate of rural and urban unemployment.

Table No. 1.3
Quantum and Nature of Financial Assistance

<table>
<thead>
<tr>
<th>PMEGP Beneficiaries</th>
<th>contribution by beneficiary</th>
<th>Rate of Subsidy (of Project Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area (Location of Project/Unit)</td>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td>General Category</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Spl. – SC/ST/OBC/P H/Minorities/ Women/Ex-serviceman/NE R/ Hill Border</td>
<td>5%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Note: Max. Project Cost Rs. 25 lakhs under Manufacturing Sector, Rs. 10 lakhs for service and business sector and balance if any to be provided by banks as Term Loans.

Eligibility Criteria

1. Any individual above 18 years
2. No income ceiling for setting up unit under PMEGP
3. For setting up units in manufacturing sector project costs more than 10 lakhs and in other sector more than Rs. 5 lakhs, the candidate to be atleast 8th standard pass.
4. Assistance only for new projects set up under PMEGP, not for existing units.
5. SHG and BPL beneficiaries, are also eligible if they have not availed any financial assistance under any scheme.
6. Institutions registered under Societies Act 1860
7. Production co-op. societies
8. Charitable Trusts

Other Eligibility Conditions

1. Certified copy of caste and margin money
2. Certified copy of the bye-laws of the society
3. **Project cost to include capital expenditure and one cycle of working capital. Projects without capital expenditure not eligible and projects more than Rs. 5 lakhs requiring no working capital need clearance from concerned controlling office and the claims to be submitted with the approval from such authorities**

4. **Cost of land not to be included in project cost and if workshop/ready place is under lease, the same to be included in Project cost, maximum for 3 years.**

5. **Scheme applicable to all new viable micro enterprises except the negative list of village industries. No existing/old units to be financed.**

6. **Only one person from a family, family means self and spouse.**

**Implementing Agencies**

DIC at District level and KVIB and KVIC at state and national level respectively. Other agencies can be NGOs (having 5 years experience in the concerned field), PMEGP federations,
ITI/Associations and Institutions engaged in guiding setting up of business units etc.

**Financial Institutions**

1. 27 Public Sector Banks
2. All Regional Rural Banks (RRB)
3. Co-op. banks approved by Task Force Committee (TFC)
4. Private Sector Banks approved by TFC
5. Small Industries Development Bank of India (SIDBI)

**Identification of Beneficiaries**

Identification of beneficiaries to be done by TFC (comprising of Rep. of KVIB/DIC/Banks, headed by the Dist. Magistrate/Dy. Commissioner/Collector through DIC). Beneficiaries to undergo minimum 15 days vocational training, can submit application to the bank directly which will forward it to TFC through DIC. The costs have to be reasonable and procedure of selection has to be transparent.
Table No. 1.4

Availability of Bank finance

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Category</th>
<th>Bank Finance</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General/Gen Inst.</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>Special/Sp. Inst.</td>
<td>95%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Term Loans for Capital expenditure and Cash Credit Limit for Working Capital. Bank finance will be 60 – 75% of total Project Cost after deducting 15-35% subsidy and borrower’s contribution ranging from 10% to 5% from General and Special category beneficiaries respectively.

Rate of Interest and Repayment Schedule.

Normal rate of interest, and repayment to be ranged between 3 to 7 years after the initial moratorium period as decided by the banks.
**Village Industry**

It means any village industry located in rural areas which generates employment and may or may not be using power where capital investment per head is Rs. 1 lakh in plain areas and Rs. 1.5 lakh in hilly areas.

**Rural area**

Any area classified as rural area by State/Central/Union Territory Govt. irrespective of population and also a city/town where the population is less than 20000.

**Modalities of operations of the scheme**

1) The applications will be sponsored by the DIC to Banks or Banks also can send applications directly to TFC. TFC consisting of the following

   a. Dist Magistrate/Dy. Collector/Collector .... Chairman

   b. Lead Bank Manger

   ...Member
c. Representatives of KVIC/KVIB
   ...Member

d. Representatives of ITI/Polytechnic
   ...Member

e. Representatives of Panchayats
   ...Member (3)

f. DIC Gen. Manager
   ...Member Convener

Note: TFC may opt members of other lending institutions

II) The TFC will scrutinise the applications (Annexure No I – Application form) and interview the candidates separately for rural and urban areas, DIC to provide project formulation guidelines and do procedure and afterwards send their applications to the concerned banks.

III) KVIC will keep the subsidy money with the nodal branch of the banks, through DIC, as per targets and DIC will ensure that atleast 50% of subsidy is used for setting up of units in Rural areas. DIC to submit monthly utilisation report to KVIC

IV) It is expected that maximum number of projects cleared by TFC are required to be sanctioned by the Banks. DIC to assist banks and beneficiaries in getting the requirements corrected and fulfilled and do appraisal, though banks can take their own credit
decisions. Chairman of TFC to review the performance/recovery status of the banks.

V) No collaterals upto the loans of Rs. 5 lakhs. TFC to satisfy the criteria of Industry, own contribution, per capita investment, Rural areas and negative list so as to avoid delay in clearing the applications.

VI) A separate system of tracking of application is to be maintained (till e-tracking system is established). If EDP training not completed, projects are to be treated as Ineligible.

VII) Before disbursing first instalment, bank will inform DIC to arrange Mandatory, EDP training of the beneficiary if he has not undergone the same for a minimum period of 15 days. The beneficiary to deposit his own contribution with the bank and then bank to release first instalment.

VIII) The subsidy released will be kept in the name of the beneficiary with the branch as Term Deposit Receipt (TDR) for 3 years and no interest will be provided on this TDR and also no interest will be charged on the loan quantum of the beneficiary for the amount equal to the TDR.

IX) The subsidy will be credited to borrower’s loan account after 3 years. If before 3 years account of the borrower
goes bad beyond the reasons of the borrower, the subsidy to be adjusted to borrower’s account.

X) Margin money is “One Time Assistance” and no assistance will be provided to the beneficiary if loan limit is extended further.

XI) Subsidy is available only to “New” units established and not for the running units and also not for the projects where two financial institutions finance the project.

**Entrepreneurship Development Programme (EDP)**

Objective of this programme is to provide the beneficiaries, bank procedures, finance, book keeping, marketing etc. The period is 2 to 3 weeks. The training centres will be identified by KVIC through DIC and an amount of Rs. 2500/- to 4000/- per beneficiary will be reimbursed to the DIC towards training material, lodging boarding, honourarium to the guest lecturers etc.

**Marketing Support**

KVIC may provide marketing support for the products manufactured by the beneficiaries through buyer-seller meets, exhibitions, melas etc.
Bankers Review Meetings

PMEGP is a banker driven programme. DICs are expected to interact with the bankers constantly and help in recoveries. Bankers Review Meetings at the following levels shall be organised

- Lead District Manager’s Meet
- Zonal Review Meeting
- Top level Bankers Meeting

Orientation and Training under PMEGP

For all the concerned agencies involved in PMEGP, one day orientation and training workshop has to be arranged by the DIC to sensitise the concerned and 40 such programmes are to be arranged by each DIC.

Proposed Estimated Targets under PMEGP

Following estimated targets have been proposed under PMEGP during the four years from 2008 – 2012
Table No. 1.5

Targets

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (Nos.)</th>
<th>Subsidy (Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>616667</td>
<td>740.00 cr.</td>
</tr>
<tr>
<td>2009-10</td>
<td>740000</td>
<td>888.00 cr.</td>
</tr>
<tr>
<td>2010-11</td>
<td>962000</td>
<td>1154.40 cr.</td>
</tr>
<tr>
<td>2011-12</td>
<td>1418833</td>
<td>1702.60 cr.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3737500</strong></td>
<td><strong>4458.00</strong></td>
</tr>
</tbody>
</table>

Note: Additional Rs. 250 crores will be allocated as subsidy to backward areas. DIC to ensure that 50% of the subsidy allocated to them is utilised for the Rural Areas.

Rehabilitation of Sick Units

RBI guidelines issued through its circular No. RPCD No. PLNFBS.BC.57/06.04.01/2001-2002 dated 16th Jan. 2002 are to be applicable to PMEGP sick units.
Role of Private Sector/Scheduled Comm. Co-op. Banks in PMEGP

To be decided on selective basis by KVIC.

Physical Verification of PMEGP Units

100% verification to be done by DIC/state agencies/ Banks and if required the work may be outsourced. A quarterly report to be submitted to Ministry of MSME.

Evaluation of the Scheme

The scheme will be reviewed after one year from the date of its implementation. Based on the findings of the evaluation study, the scheme will be reviewed.

Negative List of Activities … (Not to be permitted under PMEGP)

Any industry connected with meat i.e. slaughtering, processing, canning or serving it as food etc.
I) Manufacturing of intoxicant items like beedi, mawa, gutka, pan, cigar etc.

II) Any dhaba/hotel serving liquor, tapping of toddy for sale

III) Any business connected with cultivation of crops/plantation like Tea, Coffee, Rubber etc. sericulture (cocoon rearing), horticulture, Floriculture, Animal Husbandary like Pisciculture, Piggery, Poultry, Harvester machines etc.

IV) Manufacturing of Polythene carry bags less than 1 microns thickness and manufacture of carry bags or containers made of recycled plastic for storing, carrying, dispensing or packaging of food stuff and any other item which causes environmental problems.

V) Industries such as processing of Pashmina Wool and such other products like hand spinning and hand weaving, taking advantage of Khadi Programme under the purview of Certification Rules and availing sales rebate.


5. APPLICATION OF THE STUDY

The Government of India, as well as various state governments are coming
out with various schemes aimed at removing poverty. The present central government is committed to the uplifting of Aam Aadmi. The general perception however, is that all these schemes have hardly benefitted the poor, the ultimate beneficiary.

Many researchers have done researches in the funding of the poor masses through Govt. Schemes. There were allegations of various types. These studies however, concentrated on only one or two aspects. The study undertaken by the researcher has studied it from three different angles i.e. from the view point of District Industries Centre, Various Nationalised Banks involved in financing the poor people whose applications have been recommended by DIC and also from the view point of the borrowers.

This research study has taken into consideration various points which other researchers have not taken into consideration. The questions were set in such a way, that the truth comes out. The researcher has about 31 years of banking experience and has dealt extensively in financing poor masses. This study, based on his actual experience and findings of the research, will prove to be helpful to the policy makers while deciding the Loan Schemes aimed at poor masses. The researcher has given his suggestions in the appendix for all the three parties involved i.e. the DIC, The Bankers and the Borrowers. The study
will be useful for the auditors auditing Govt. Sponsored Schemes in DIC offices and banks.

6. CHAPTER DESIGN

The whole research is divided in five chapters. Beginning with the introduction (Chapter No.1), it proceeds to literature review (Chapter No.2), where all the past studies, articles etc. are evaluated and notes made out of it in order to give direction to this study. The next chapter i.e. Research Methodology, in which tools and techniques which are selected and used are explained. This chapter will help in proving or disproving the hypothesis. The next chapter, Data Analysis and Interpretation (Chapter No. 4) is the core chapter which deals with the analysis of Primary and Secondary Data. This chapter deals with proving or disproving of hypothesis. This chapter also includes three live cases, which the researcher had come across while doing his research. Finally the last chapter, Findings and Conclusion (Chapter No. 5) in which summary of findings related to all the factors is written along with comments on findings related to the objectives and the scope for further research.
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