

All Scheduled Commercial Banks

Dear Sir

**Report of the High Powered Committee for Examining
Bank Credit Problems of Small Scale Industries**

The Government of India had constituted a High Powered Committee under the Chairmanship of Shri I.C. Puri, Development Commissioner, Small Scale Industries, New Delhi, for examining bank credit problems of small scale industries. The committee has gone into the relevant aspects and has submitted its Report. The recommendations made by it are reproduced in the Annexure. Some of the recommendations have been examined and we advise as under :-

2. i) With a view to introducing a measure of uniformity and simplicity, the committee has evolved two sets of application and interview-cum-appraisal forms for small scale industrial borrowers whose requirements of credit facilities do not exceed Rs. 2 lakhs. One set of these forms is for advances upto Rs. 25,000/- and another for advances between Rs. 25,000/- and Rs. 2 lakhs. We commend these simplified forms for adoption by banks as early as possible. The formats have been given as Annexure I and I-A to the Report of the Working Group on co-ordination between State Financial Corporation and banks (vide our letter DBOD.No.CAS.BC.88/C.446(SFC)-78 dated the 8th July 1978).

ii) Banks should adopt a flexible approach towards margin requirements, particularly in regard to smaller of the small scale industries and the technically qualified and other entrepreneurs sponsored under special employment schemes of Central/State Governments and no viable schemes should be turned down merely for want of margins, if the proposal is otherwise in order. Further, in deserving cases, the entrepreneurs may be permitted to introduce equity contribution in stages, as and when required, without insisting that the entire equity should be brought in at the initial stage of the project itself. However, the source of additional funds required to meet margins for operating at a level beyond the breakeven level should be identified to the satisfaction of the banks at the outset itself.

iii) Banks should be largely guided by the viability of the projects while entertaining credit proposals. Collateral security by way of immovable properties or third party guarantees should not be insisted upon as a matter of routine. No worthwhile proposal should be turned down merely for want of collateral security/guarantee. Where collateral security is obtained, the creation of the charge may be, as far as possible, by way of equitable mortgage instead of registered mortgage to save stamp/registration costs to the borrowers.

iv) Banks should fix repayment programmes in respect of term loans after taking into consideration the surplus generating capacity of the unit financed, the break even point, etc. and not in an ad hoc manner. Besides, the repayment schedules fixed should be reviewed and rescheduled to the extent necessary whenever an industrial unit is unable to make payment due to

power cuts, recession or other genuine reasons. Banks should collect the interest accrued on loans during the holiday period in easy installments after the unit starts generating surplus, without any incidence of compound interest.

v) With a view to facilitating timely sanction of credit facilities, the branch managers should be vested with adequate discretionary powers for ensuring that 60 to 80 per cent of the credit decisions are taken at the branch level itself. The intention is that small credit limits upto Rs. 25,000/- and those exceeding this amount but upto Rs.2 lakhs should normally be disposed of within a period of 4 weeks and 8 to 9 weeks respectively from the date of receipt of the applications. Banks should, therefore, make a review of the discretionary powers of officials at various levels. The delegation of adequate authority should, of course, be with due regard to the experience and capabilities of the branch managers and there should be proper system of control over the exercise of such discretion by the branch managers.

3. We shall be glad if you will take immediate steps to implement the aforesaid recommendations of the committee and give suitable operating instructions to all your offices.

4. The other recommendations of the committee are being examined by us/Government of India.

5. Please acknowledge receipt and keep us informed of the steps taken in the matter.

Yours faithfully

Sd/-

(K. B. Chore)

Additional Chief Officer

ANNEXURE

Report of the High Powered Committee for Examining Bank Credit Problems of Small Scale Industries

SUMMARY OF RECOMMENDATIONS

1. Standardisation of Application and Appraisal Forms

The Committee has evolved two sets of application and interview-cum-appraisal forms for small scale industrial borrowers whose requirements of credit facilities do not exceed Rs. 2 lacs.

Category C - for advances upto Rs. 25,000/-

Category B - advances between Rs. 25,000/- and Rs. 2 lacs

The Committee recommends that these simplified application and appraisal forms be adopted by all banks, for the sake of uniformity and simplicity.

2. Margins

- i) In the case of technically qualified entrepreneurs, the minimum margin requirements should be flexible and no viable schemes should be turned down merely for want of margins, if otherwise in order.
- ii) For small units requiring financial assistance upto Rs. 25,000/- (Category C) there should be no insistence on margins; banks should not hesitate to finance upto 100% of their requirements.
- iii) In respect of the Category B units, requiring financial assistance ranging between Rs.25,000/- and Rs.2 lacs, margins should not exceed 20% to 25%.
- iv) In the case of small industrial units set up under special employment schemes of the Government, banks should not call for additional margins over and above those stipulated by the Government.
- v) Entrepreneurs should be permitted to introduce their equity contribution in stages as and when required, without insisting that the entire equity be brought in at the initial stage.
- vi) To extend to the entrepreneurs equity or quasi-equity assistance, the Committee recommends the setting up of a soft loan assistance fund or a National Equity Fund.
- vii) The investment subsidy schemes and transport subsidy schemes available to entrepreneurs in backward areas should be given adequate publicity so that they may be fully availed of by entrepreneurs.

3. Collateral Security

- i) Banks should give up the security-oriented approach in financing small industries and should depend only on the viability of the project.
- ii) The practice of obtaining third party guarantees, in a routine manner, especially in the case of small loans, should be discontinued.
- iii) When a homogeneous group of small borrowers are financed, group guarantees may be obtained to facilitate recovery.
- iv) Banks should not, normally, insist for collateral security by way of immovable properties or third party guarantees.
- v) Unencumbered industrial assets may be obtained as collateral security, without causing hardship to the borrowers by way of additional costs. Such security should also be released from the prior charge whenever legitimate need arises.
- vi) Banks should not obtain, as a rule, registered mortgages and should accept equitable mortgages where immovable properties are to be charged as security, either primary or collateral.

4. Repayment Programmes

- i) Banks should fix repayment programmes taking into account the sustenance requirements, surplus generating capacity, the break-even point and provision for contingencies and not in ad hoc manner.

- ii) Adequate start-up (holiday) period for repayment should be given, taking into account the time taken to reach the break-even point.
- iii) Interest on loans during the holiday period should be collected in easy installment after the unit starts operating surplus, without any incidence of compound interest.
- iv) In cases of power-cuts, recession, or natural calamities, the repayment programmes of all loans should be reviewed and rescheduled to the extent necessary.

5. Discretionary Powers

- i) Banks should review the discretionary powers of their branch managers and ensure that 60% to 80% of the credit decisions required by the clientele of the branch are taken at the branch level itself.
- ii) Applications for loans upto Rs.25,000/- (Category C) should be disposed of, positively, within 4 weeks after receipt. Applications for advances above Rs.25,000/- upto Rs. 2 lacs (Category B) should be disposed of within 8 to 9 weeks.

6. Rate of Interest

- i) Banks should adopt a slab system of interest rates, for SSI advances, with a positive bias towards the smaller units.
- ii) For advances to small units of Category C (advances upto Rs. 25,000/-) the interest should not exceed the minimum lending rate prescribed by RBI (at present 12 1/2% p.a.)
- iii) In the case of units with credit facilities between Rs.25,000/- and Rs. 2 lacs (Category B) the rate should be lower than in the higher slabs and, in any case, should not be much higher than the minimum lending rate itself (at present 12½% p.a.)
- iv) Banks should avoid charging penal interest rate and whenever necessary give special concessions in interest rates to sick units under rehabilitation.
- v) The concessions in interest rates for units in backward areas, recommended by Nayak Committee should be implemented by the banks.
- vi) The Committee recommends to the Government to exempt interest on advances to small industries from the interest tax, so that the banks may pass on further reduction in interest correspondingly.
- vii) Banks should not levy service charges, inspection charges, etc. on advances to small scale industries.
- viii) Banks should, normally, obtain refinance from IDBI for all eligible term loans to pass on the benefit of lower rates of interest. If a bank decides not to obtain refinance, it should, however, pass on the concessionary interest rates on such loans, on its own.

7. IDBI Refinance & Bill Rediscounting Scheme

- i) The procedures for obtaining refinance may be further simplified, in respect of term loans upto Rs. 5 lacs.
- ii) All term loans to small scale industries may be made eligible for refinance.
- iii) The stipulations relating to minimum requirements of debt/equity ratio, promoters contribution etc. may be relaxed in respect of small units.
- iv) The bills from SSI units may be accepted for rediscount without any specific limit being fixed under Bill Rediscounting Scheme.

8. Measures to be taken to Facilitate Flow of Institutional Finance

- i) To increase the coverage of financing small industries, banks should make fuller utilisation of SISIs for project evaluation, rehabilitation of sick units, recovery of dues, and marketing assistance. It is recommended that the Government could take steps to upgrade the skills available in the SISIs in the country.
- ii) To increase the flow of credit to the SSI sector, the entrepreneur should –
 - a) furnish adequate data to the bank to take credit decisions,
 - b) give adequate attention to proper planning at all stages and discuss the plans with the bank,
 - c) maintain basic records, books of accounts, stock registers, etc.,
 - d) appreciate the need for improving managerial skills, and
 - e) pay adequate attention to the aspect of quality control.

9. Conclusion

- i) The impact of the implementation of these recommendations may be reviewed by a similar Committee after a period of three years.
- ii) A small Committee under the Chairmanship of Development Commissioner (SSI) with a few bankers, Reserve Bank of India and a representative of industry be appointed to keep a vigilant watch over the implementation of the report and ironing out any problems.

DBOD.No. BP.BC.169/C.464(A)-78

**December 12, 1978
Agrahayana 21, 1900(S)**

All Commercial Banks

Dear Sir

Bank Credit for Artisans, Village & Cottage Industries and Small-Scale Industries in the Tiny Sector

Pursuant to the decision taken at the meeting the Prime Minister had with the Chief Executives of major commercial banks and financial institutions on 8th October 1978, Government of India set up a Working Group for evolving specific measures for expanding bank credit to small scale and cottage industries, artisans etc., with special reference to District Industries Centres (DICs). The Working Group, which submitted its report recently, has noted that although there has been a considerable increase in the flow of institutional finance to this sector, the orientation has mainly been, so far as term lending and commercial banks were concerned, to the modern small scale industrial units in the urban and semi-urban areas and in the case of co-operatives, principally towards the handloom industry. The thrust of the new industrial policy for this sector was, however, to generate production and employment in the rural areas. The Working Group

has accordingly made its recommendations for channelling institutional credit on an increasing scale to the tiny modern small scale industries and the village and household industries which are planned to be developed in the rural areas. Based on the suggestions made by the Working Group for the different sub-sectors under small scale industry, we advise as follows :

Institutional Credit for Artisans and Village and Cottage Industries

2. It has been recognised that this sector has the largest employment potential which can be realised only if several organisational, managerial, financial technical and marketing problems of this sector are resolved in an integrated manner. In providing credit to this sector, banks are expected to adopt the following measures :

- a) It is estimated that the total credit requirements of an individual artisan or a village or cottage unit would not normally exceed Rs. 25,000/- inclusive of both equipment finance and working capital. Credit upto Rs.25,000/- to this sub-sector should be sanctioned as a composite term loan, for equipment finance or working capital or both, with repayment period of 7 to 10 years or even more with an initial moratorium period of 12 months to 18 months both for interest and principal, considering the small amount of surpluses which can be expected to be generated and the continuous essential sustenance needs of the borrowers.
- b) There should be no insistence on margin for this category. The guarantee cover in respect of these loans is proposed to be enhanced to 90% and as such, banks should not ask for any collateral security/guarantee.
- c) The maximum rate of interest that can be charged on these loans will be the ceiling rates for primary lenders prescribed under the IDBI Automatic Refinance Scheme, viz. 9 1/2% p.a. in specified backward districts and 11% p.a. in other areas (excluding the cases which would be covered by the Differential Rate of Interest Scheme). irrespective of whether refinance is obtained or not. IDBI is making necessary arrangements to cover such composite loans under its Automatic Refinance Scheme.
- d) While sanctioning the limit or loan, the requirements of one operating cycle should be liberally assessed and a contingency of 10 to 20% should be added to this amount in the original sanction itself to be disbursed when required in any unforeseen contingency due to operational bottlenecks or for some consumption requirements. The quantum of finance extended for consumption purposes in individual cases should not exceed the ceiling indicated hereunder :-

i) General Consumption	Rs. 75/-
ii) Medical Expenses	Rs.250/-
iii) Educational needs	Rs.100/-
iv)Marriage ceremonies	Rs.250/-
v) Funerals, births, etc.	Rs. 75/-
vi)Certain religious ceremonies	Rs. 75/-

Provided, however, the aggregate of the consumption finance for two or more purposes should not exceed Rs. 500/- per borrower.

e) The loans sanctioned should be reviewed at periodic intervals (say annually) to assess whether the working capital requirement of the unit has increased either as a result of increased level of operations or increased cost and enhancements in the loans authorised wherever justified.

For the above purposes village and cottage industry will be 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 50,000/- involving utilisation of locally available natural resources and/or human skills (where individual credit requirements do not exceed Rs.25,000/-) “

3. Institutional Finance for the Tiny Sector

In the case of term loans to this sector the ceiling of 11% as already prescribed in Governor's letter dated 12th December 1977 will be applicable. In respect of credit limits for working capital for above Rs. 25,000 but upto Rs. 1 lakh granted to this sector, banks may charge interest at a rate not exceeding 12½% p.a. (except for small banks with aggregate demand and time liabilities of less than Rs. 25 crores which may charge interest at a rate not exceeding 13½% p.a.)

(Tiny sector includes industrial units located in villages and in towns with population not exceeding 50,000 and in which the original investment in equipment and machinery does not exceed Rs. 1 lakh).

4. Banks should not charge penal interest in respect of loans and advances to the above two sectors whether for term requirements or for working capital. Immediately on occurrence of the default in the accounts, the concerned branches should, however, take steps with the active co-operation of the DICs to restore the account to health or where this is not found possible, initiate necessary steps for recovery. No further charges should be levied by banks on such units except by way of reimbursement of reasonable out-of-pocket expenses where unavoidable, incurred by banks in respect of the relative accounts.

5. With a view to facilitating timely sanction of credit facilities to the above sectors, it should be ensured that all proposals upto Rs. 1 lakh are disposed of within a period of 30 days from the date of receipt of application. For this purpose-

a) All branch managers of banks should be vested with discretionary powers to sanction proposals upto Rs. 25,000/- without reference to any higher authority. Since the objective of setting up the DIC is to decentralise the decision-making process to the district level especially in regard to the tiny sector, the decisions in respect of these advances should also be at the district level at least upto Rs. 25,000/-. If any bank has any immediate difficulty in extending such discretionary powers to all its branches, it should create the necessary administrative machinery at least at the district level, for this purpose.

b) In respect of advances above Rs. 25,000/- and upto Rs.1 lakh, in order to ensure that the appraisal at both the DIC and the bank (and the SFC where it is involved) is taken up simultaneously, the DIC will forward a copy each of the application (in duplicate) [including the interview form prescribed by High Powered Committee for Examining Bank Credit Problems of Small-Scale Industries for such advances- (Category B)] to the bank and to SFC, (where necessary). Further, the Manager (Credit) will also have discussions with the Branch Manager of the bank and the SFC, wherever possible during the appraisal stage so that their points also can be taken care of during the first appraisal itself. The DIC, while forwarding the appraisal will make available the inputs of its different functional managers, like Raw Material, Technical and Marketing and not merely that of the Manager (Credit) so as to obviate the necessity of the bank referring it to SISI or Technical Consultancy Organisation or outside consultants. If any proposal is found to be not acceptable by banks or financial institutions, it should be returned to the DICs with the specific reasons for non-acceptance. The DICs would then be expected to rectify the defects or deficiencies so as to make it eligible.

c) All banks should initiate a feedback mechanism to ensure that the time limit fixed for disposal of proposals is adhered to and that applications are not rejected on flimsy grounds. The rejection of applications should be at a level higher than the Branch Manager in every instance.

d) Once a proper appraisal has been submitted by the DIC, banks should not reduce the limit without apprising the DIC of the reasons for reduced sanction.

6. It is not the intention that all such proposals for assistance must necessarily be routed through DICs. In fact, the Branch Managers should continue to entertain such proposals directly as at present. Regular meetings and discussions between the Officers of the DIC and the banks and SFC represented in the districts as also senior representatives from State's Industries Department should be held for closer co-ordination among the financial institutions and DIC, at least in the initial period of six months to a year.

7. Please ensure that suitable guidelines are issued to your bank's offices and that the relative circular reaches them at least within fortnight. We shall be glad if you will kindly advise us of the action taken/proposed to be taken on the above.

8. Please acknowledge receipt.

Yours faithfully

Sd/-
(A. K. Bhuchar)
Chief Officer

DBOD.No.BP.BC.170/C.464(A)-78

December 12, 1978
Agrahayana 21, 1900(S)

All Commercial Banks

Dear Sir

Bank Credit for Small-Scale Industries

Please refer to our circular letter DBOD.No.BP.BC.169/C.464(A)-78 dated the 12th December 1978 regarding bank credit for artisans, village and cottage industries and small-scale industries in the tiny sector. The Working Group on small-scale industries with special reference to District Industries Centres, has also made recommendations in respect of problems faced by larger small-scale industries as well. Based on these recommendations, we have to advise as follows :

- a) When a SSI unit needs term finance from a SFC and working capital from a bank, it often experiences considerable delay in obtaining working capital after term loans are sanctioned. While the Bhide Committee has made comprehensive recommendations in this regard, these have not been either implemented by banks or have not percolated down to the branch level. There is an urgent need to rectify this situation.
- b) In sanctioning of the quantum of credit facilities, there is a tendency to cut down the limits on an adhoc basis on the plea that the unit will require the full credit limits only when it goes into full production. There are often delays subsequently for enhancing limits and unit's operations suffer. The full working capital should, therefore, be sanctioned at the outset obviating the necessity for references to sanctioning authority subsequently.
- c) Once the unit goes into operation, temporary additional requirements of finance are often delayed as a result of which operations suffer. If there is any distortion in the operating cycle, e.g. by non-payment of certain bills, etc., the units fail to get prompt assistance. This is often the result of the need to refer such proposals to the controlling authority. In this connection, some of the banks have delegated authority to their branches to exceed the limits sanctioned by a certain percentage in cases of need. Similar procedures are recommended for adoption uniformly by all banks.
- d) The Reserve Bank of India has already directed all the commercial banks that term loan to SSI units should not carry a rate of interest exceeding 11% irrespective of whether they avail of the refinance facility from the IDBI or not. As concessionary refinance is available from IDBI for units in specified backward districts, subject to the banks charging a rate of interest not exceeding 9 1/2% p.a. banks should ensure that term finance to SSI Units in those areas become available at 9 1/2% p.a. If they are eligible for refinance from IDBI, even if refinance is not actually availed of.
- e) In the case of large SSI units with working capital limits exceeding Rs.1 lakh the penal rates charged should be in conformity with the instructions issued by the Reserve Bank of India and especially the following points should be borne in mind :
 - i) Penal rate should not be applied in a routine manner; it should be used as a deterrent only in extreme cases of financial indiscipline or wilful defaults;

ii) the decision to charge penal rate should be taken only at the controlling office, taking into account the overall position. The facts of the case should justify that such a course of action is warranted to discipline the borrower;

iii) the penal rate should be applied on the amount of default or irregularity and not on the total outstandings.

f) No further charges should be levied by banks except by way of reimbursement of reasonable out-of-pocket expenses, where unavoidable, incurred in respect of the relative accounts.

2. Please ensure that suitable guidelines are issued to your bank's offices and that the relative circular reaches them at least within a fortnight. We shall be glad if you will kindly advise us of the action taken/proposed to be taken on the above.

3. Please acknowledge receipt.

Yours faithfully

Sd/-

(A. K. Bhuchar)

Chief Officer

DBOD.No. BP.BC.78/C.464(A)-79

**June 5, 1979
Jyaistha 15, 1901(S)**

All Commercial Banks

Dear Sir,

**Bank Credit for Artisans, Village and Cottage Industries and
Small Scale Industries in the Tiny Sector**

Please refer to our circular DBOD.No.BP.BC.169/C.464(A)-78 dated the 12th December 1978 on the above subject. The maximum rates of interest to be charged in case of advances to units in the 'tiny' sector have been indicated in paragraph 3 of the letter. In this connection, we have to clarify that in the case of term loans for not less than three years granted to units in the tiny sector, banks should ensure that the rate of interest charged does not exceed 9½% for units in specified backward districts and 11% in other areas. These loans are normally eligible for refinance from Industrial Development Bank of India. However, the rates of interest specified above should be made applicable irrespective of whether or not Industrial Development Bank of India refinance is availed of.

In our circular referred to above, we have also indicated that in respect of credit limits for working capital for over Rs.25,000/- but upto Rs.1 lakh granted to units in the tiny sector, banks

may charge a maximum rate of interest of 12½% (13½% for small banks). It is expected that normally credit limits below Rs.25,000/- to the tiny sector will be granted in the form of composite term loans and charged interest accordingly. However, in cases where units in the tiny sector require only working capital limits upto Rs.25,000/-, banks should ensure that the rate of interest is as low as possible, particularly in the specified backward district, and in any case does not exceed 12½% (13½% for small banks with demand and time liabilities of less than Rs.25 crores).

For the sake of ready reference, we enclose a chart indicating the ceiling interest rate structure in case of advances to the small-scale industrial sector.

Yours faithfully,

Sd/-

(K. B. Chore)

Additional Chief Officer

Ceiling rates of interest on advances to small scale industries

Category of Borrower	Nature of advance	Maximum rate of interest to be charged p.a.
i) Artisans, village and Cottage Industries	Composite term loans upto Rs.25,000/-	9½% in specified backward districts 11% in other area
ii) Tiny Sector	a) Working Capital limits upto Rs. 1 lakh	12½% (13½% for banks with DTL of less than Rs.25 crores)
	b) Term loans for not less than three years	9½% in specified backward districts 11% in other areas
iii) Other small Scale Industries	Term loans for not less than three years	9½% in specified backward districts 11% in other areas

The above categories of advances are exempt from the minimum lending rate directive (Currently 12½%). Advances to small scale industries other than the categories specified above upto Rs.2 lakhs and covered under the Credit Guarantee Scheme for small scale industries are also exempt from the minimum lending rate directive.

NOTE :

1. The above ceiling rates should be made applicable irrespective of whether or not refinance is availed of from Industrial Development Bank of India.
2. In the case of advances covered by the Different Rate of Interest Scheme, the rate would continue to be 4% p.a.

DBOD.No.BP.BC.1/C.464(A)-80

**January 1, 1980
Pausa 11, 1901(S)**

All Scheduled Commercial Banks

Dear Sir,

**Small Scale Industries - Requirement of Insurance
against Fire and Other Risks.**

Please refer to our circular DBOD.No.BP.BC.101/C.464(A)-79 dated the 3rd July 1979 on the above subject. It has since been decided in consultation with the Guarantee Organisation (i.e. Industrial Finance Department) that there is no objection to a bank waiving the requirements of insurance cover against fire risk for securities taken in respect of its advances for limits upto Rs.25,000/- for the following three types of advances:

- i) Composite loans of Rs.25,000/- sanctioned to artisans, village and cottage industries, etc. in terms of our circular DBOD.No.BP.BC.169/C.464(A)-78 dated the 12th December 1978.
- ii) All term loans,
- iii) All working capital advances where the advances are against non-hazardous goods.

In other cases, the requirements of insurance cover may be waived to the extent of Rs.10,000/- (except where insurance of vehicles or machinery or other equipment is compulsory under the provisions of any law,) as advised in our circular dated the 3rd July 1979 referred to above.

Yours faithfully,

Sd/-
(N. D. Parameswaran)
Deputy Chief Officer

DBOD.No.BP.BC.18/C.464(A)-80

**February 6, 1980
Magha 17, 1901(S)**

All Scheduled Commercial Banks

Dear Sir,

**Advances to Organisations Undertaking Promotional
Activities for Artisans, Village and Cottage Industries**

Please refer to our circular letter DBOD.No.BP.BC.169/C.464(A)-78 dated 12th December 1978 advising banks to adopt several measures designed to increase the flow of bank credit to artisans and village and cottage industries in pursuance of the recommendations of the Working Group on Small Scale Industries with special reference to DICs.

2. As stated in paragraph 2 of the above circular, it has been recognised that the large employment potential of this sector can be realised only if several organisational, managerial, financial, technical and marketing problems of this sector are resolved in an integrated manner. The Working Group, had, therefore, recommended that institutional credit support should be available to recognized organisations providing inputs, marketing support, technical guidance and other facilities to the decentralised industrial sector viz., artisans, village and cottage industries. The Group had further recommended that these organisations should be included in the priority sector for the purposes of credit facilities.

3. The above recommendations have been examined and it has been decided that advances granted to organisations, which have been established for the purpose of developing the decentralised sector by the Central and State Governments or by recognised promotional and marketing organisations like KVIC, for the purchase and supply of inputs to and/or marketing the output of the artisans, village and cottage industries, should be treated as priority sector advances. Typically, the eligible institutions will be State Level Corporations set up exclusively for assisting handlooms, handicrafts and/or sericulture or registered societies promoted by the KVIC, etc. Advances to these institutions for the above specific purposes will have to be segregated from other advances, if any, given to them.

4. It should, however, be clearly noted that this category of advances will not qualify for the exemption from the increase in lending rates given to advances to the priority sectors as specified from time to time in terms of paragraph 3(1) of our directive DBOD. No.Dir. BC.138/C.96-97 dated the 13th September 1979. In other words, advances for new limits which may be authorised to such institutions for the aforesaid purposes may carry an appropriate rate of interest as may be determined by the banks, while interest rates on advances against existing limits may be increased in terms of the above directive dated 13th September 1979.

5. Instructions regarding the manner in which the above advances are to be incorporated in the quarterly return on priority sector advances are being issued separately. We shall be glad if you will kindly let us know the names of the institutions, the existing limits sanctioned to them and the amount outstanding (as on a recent date), which would qualify on the basis of the guidelines indicated above, for inclusion in the priority sector advances.

6. Please acknowledge receipt.

Yours faithfully

Sd/-
(K. B. Chore)
Chief Officer

DBOD.No.BC.24/C.464(A)-80

February 14, 1980
Magha 25, 1901(S)

All Scheduled Commercial Banks

Dear Sir

Financial Assistance to Small Scale Industrial Units

The Confederation of All India Bright Bars Manufacturers, New Delhi have represented to the Government of India that since there is a ban on creation of further capacity in bright bars, the financial institutions/banks are not extending financial assistance to the existing units for **modernisation** and **renovation purposes**. The matter has been examined in detail by the Government and we have been advised that though creation of further capacity is banned, existing units may go in for modernisation by procuring modern machines, etc. This is necessary in order to avoid obsolescence in such industries. However, the modernisation should not be encouraged where it may result in increased production capacity in banned items (in terms of production capacity).

2. We shall, therefore, be glad if your bank will please ensure that requests for finance for replacement and renovation of plant and machinery from such small scale industrial units are dealt with, keeping the foregoing considerations in view.

Yours faithfully

Sd/-
(N. D. Parameswaran)
Deputy Chief Officer

DBOD. No.BP.BC.22/C.464(A)-81

February 14, 1981
Magha 25, 1902(S)

All Scheduled Commercial Banks (excluding Regional Rural Banks)

Dear Sir

Revision in the definition of SSIs - Advances by Scheduled Commercial Banks

As you are aware, Government have increased the limit of investment in plant and machinery in the case of :

- i) tiny units from Rs.1 lakhs to Rs.2 lakhs;

- ii) small-scale units from Rs.10 lakh to Rs.20 lakhs and
- iii) ancillaries from Rs.15 lakhs to Rs.25 lakhs.

The position regarding composite loans thus remains unchanged.

2. In this connection, reference may please be made to DBOD. Circular letter No.BP.BC.94/C.469(I)-80 dated August 7, 1980*. In regard to the concession in the rate of interest, so far as the tiny* units are concerned, banks have been advised not to charge more than 13.50% p.a. (14.55% for banks with demand and time liabilities of less than Rs.25 crores) in respect of their working capital limits upto Rs. 1 lakh as against the maximum rate of 16.15% p.a. (17.25% for banks with demand and time liabilities of less than Rs. 25 crores) for other small-scale industrial units. This concession will now extend to all the tiny units, including those covered under the revised definition with an enhanced limit of Rs.2 lakhs for working capital limits.

3. As regards exemption from the minimum lending rates, advances upto Rs. 2 lakhs and covered under the Credit Guarantee Scheme for small-scale industries are at present exempt from the minimum lending rate directive (currently 13.5%). This concession will continue as at present.

4. At present, for working capital advances, the ceiling on the rates of interest for advances to small-scale industries is 16.15% p.a. (17.25% for banks with demand and time liabilities of less than Rs.25 crores) as against the normal ceiling of 19.4% p.a. (20.5% for banks with demand and time liabilities of less than Rs. 25 crores). Keeping in view the revised definition of small-scale industries, it has been decided that the present ceilings on interest rates will continue to be applicable for all credit limits to SSI units upto (and inclusive of) Rs. 25 lakhs for working capital purpose. Interest applicable to limits in excess of Rs.25 lakhs will, however, be subject to the normal ceiling of 19.4% p.a.

5. All advances to small-scale units, coming under the new definition, will be treated as priority sector advances. However, for the purpose of monitoring the performance in this behalf, banks are advised to maintain and report separately the information regarding the advances to units with investment in plant and machinery above Rs.10 to Rs.20 lakhs (Rs.15 to 25 lakhs in case of ancillaries). The question of having the information regarding the investment in plant and machinery, recorded in the SSI registration letters which are issued by the State Directors of Industries is being separately considered. Pending this, the banks may arrange for the separate classification of the desired information, by ascertaining the position regarding the investment in plant and machinery from the borrowers themselves.

6. The question of amending the Credit Guarantee Scheme for small-scale industries to incorporate the revised definition is under consideration and the banks will be advised in the matter in due course.

Yours faithfully

Sd/-
(N. D. Parameswaran)

Deputy Chief Officer

* Units located in villages and towns with population not exceeding 50000 (1971 Census) and in which the original investment in equipment and machinery does not exceed Rs.1 lakh (since revised to Rs. 2 lakhs).

DBOD.No.BP.BC.75/C. 464(A)-81

**June 9, 1981
Jyaistha 19, 1903(S)**

All Commercial Banks

Dear Sir

**Bank Finance to State Level Corporations for Assisting
Artisans, Village and Cottage Industries.**

Please refer to our circular letter DBOD.No.BP.BC.18/C. 464(A)-80 dated 6th February 1980 regarding institutional credit support to organisations undertaking promotional activities for artisans, village and cottage industries. It has been indicated therein that advances to such organisations are to be treated as priority sector for the purpose of allocation of credit, however, no concessions in the rate of interest and other terms are to be extended to these institutions. We have re-examined the question of interest and it has been decided that such advances may be charged concessional rate of interest at 13.50% p.a., effective from the 1st July 1981, subject to the following:-

1. Only organisations set up by the Central/State Governments or recognised promotional and marketing organisations primarily engaged in assisting the village and cottage industries and rural artisans will be eligible for the concession.
2. The relative advances are exclusively for the purpose of purchase and supply of inputs to and/or marketing of the outputs of artisans, village and cottage industries. Since the advances extended for the above purposes alone would qualify for the concessional interest rate, in case credit limits are sanctioned to these institutions for other trading/manufacturing activities or for building up buffer stocks (which would be at normal rate of interest) it would be necessary for the banks to segregate the former category of advances eligible for concessional finance.

Please acknowledge receipt.

Yours faithfully

Sd/-
(N. D. Parameswaran)
Deputy Chief Officer

All Scheduled Commercial Banks

Dear Sir

**Small Scale Industries-Extension of Assistance to
Small Scale Service Establishments**

Government have recently decided to extend the scope of the definition of small scale industries to small scale service establishments. This has been done with a view to bringing about greater uniformity in regard to assistance to service-oriented small scale units particularly in the context of increasing self-employment opportunities arising from the growth of urbanisation and industrialisation. Thus, all service-oriented enterprises would also be eligible to be registered as small scale establishments, provided some minimum investment in fixed assets in plant and machinery is involved in setting up such establishments. These units would typically cover personal or household services required in urban, semi-urban/rural context such as laundry, zeroxing, repair and maintenance of consumer durables, etc. However, purely trading or commercial enterprises will not be qualified to be so recognised. Further, only such service establishments will be covered as are having investment in plant and machinery in each case not exceeding Rs.2 lakhs and are located in rural areas and towns with a population of 1 lakh or less. The units would be entitled to the same concessions and incentives as small scale industries and ancillary industries as per the definition contained in our circular DBOD.No.BP.BC.22/C.494(A)-81 dated the 14th February 1981. A copy of the circular letter No.SSI(1)-12(14)-82 dated the 18th May 1982 issued in this connection by the Ministry of Industry (Department of Industrial Development), Government of India, New Delhi, is enclosed, for your information.

2. The Matter relating to extension of guarantee cover to these units under small Loans (Small Scale Industries) Guarantee Scheme, 1981, has been taken up with Deposit Insurance and Credit Guarantee Corporation and you will be advised further in due course.

3. Advances to small scale service establishments now brought within the purview of small scale industries will be treated as priority sector advances. These advances may be included under Section A of Part II of the statement of advances to priority sector, a proforma of which was forwarded with our D.O.letter DBOD. No.BP.3607/C.464(M)-81 dated the 24th April 1981.

4. We shall be glad if you will please issue suitable instructions to your branches at the earliest under advice to us.

5. Please acknowledge receipt.

Yours faithfully

Sd/-

(B. K. Aggarwal)
Deputy Chief Officer

No.SSI(I)-12(14)/82
Government of India Ministry of Industry
(Department of Industrial Development)
New Delhi

dated the 18.5.1982.

The Secretary,
Department of Industries,
All States/Union Territories.

Subject : Small Scale Industries-Extension of Assistance to
Small Scale Service Establishments

As you are aware, Government is keen on enlarging the scope for self-employment opportunities on as wide a scale as possible, particularly in the small scale and village & cottage sector. As far as the small scale sector industries are concerned, their present definition is based on the Notification dated 16th February, 1973 issued in terms of Section 29(B) of the Industries (Development & Regulation) Act, which prescribes the appropriate investment ceiling in fixed assets in plant and machinery for small scale units and for ancillaries respectively. It will be noted that small scale units have so far been promoted essentially for providing goods and services relateable to manufacture or processing of services connected thereof. It has been noticed that while a number of service oriented enterprises falling under the definition of small scale units at present in force have been registered as small scale units, there are cases in which such registration has been denied, creating a somewhat anomalous situation.

Since it is clear that the scope for self-employment opportunities will increasingly form the growth of urbanisation and industrial dispersal and, in order to bring about greater uniformity in regard to assistance to service-oriented small scale units, Government have been pleased to decide that all service-oriented enterprises would also be eligible to be registered as small scale establishment, provided some minimum investment in fixed assets in plant and machinery is involved in setting up such establishments. Such small scale establishments would typically cover personal or household services required in urban, semi-urban/rural contexts such as laundry, zexing, repair and maintenance of consumer durables, hatchery, poultry farms etc. While registering such service-oriented units as small scale establishments, care will have to be taken to ensure that no enterprise engaged in a purely trading or commercial activity is included. The test to be applied in registering small service establishments would be the requirement of some minimum investment in fixed assets in plant and machinery and the fact that the unit provides services for personal or household needs to the extent that these remain the dominant activities, the unit may be registered as a small scale establishment.

Government have further decided that on being so registered, these small scale establishments would be entitled to the same concession and incentives as small scale industries and ancillary

industries as per definition contained in the Notification dated 16th February, 1973. It is clarified that purely trading or commercial enterprises will not so qualify.

In view of the fact that the investment in fixed assets in plant and machinery required by such small service establishments would not be large and also having regard to the fact that it is necessary to use the extended definition to encourage increasing dispersal of such establishments on as wide a scale as possible, Government have further decided that such small service establishment be registered, subject to a ceiling of investment in fixed assets in plant and machinery in each case not exceeding Rs.2 lakhs and subject further to such establishments being located in rural areas and towns with a population of 100,000 or less.

In respect of the framework of extension, consultancy and other dispensing services required for such small service establishments, Government have also decided that the Development Commissioner (Small Scale Industries) and associated agencies set up for the promotion of the small scale sector as a whole under the Central Government and, in case of States, the Directors of Industries and the associated promotional agencies at the State level will remain responsible for the promotion and growth of small service establishments, as in the case of small scale industries.

In so far as the National Small Industries Corporation is concerned, instructions are being issued to the Corporation to extend hire-purchase assistance to small service establishments also. Suitable instructions are being separately issued by the Ministry of Industry in regard to the applicability of the Central Investment Subsidy Scheme to small service establishments also, provided they are located in eligible areas/districts. As regards concessional credit etc., the Department of Banking is being requested to take up the matter with the Reserve Bank of India, IDBI and banks and financial institutions for issue of appropriate instructions in accordance with this decision of Government.

Yours faithfully

Sd/-
(S. K. Chakrabarti)
Deputy Secretary to the Govt. of India.

RPCD.No.PS.BC.8/C.464(A)-82

October 14, 1982
Asvina 22, 1904(S)

All Scheduled Commercial Banks

Dear Sir

Bank Credit for Artisans, Village and Cottage Industries and Small-Scale Industries in the Tiny Sector

As you are aware, the Composite Term Loan Scheme formulated by us vide our circular DBOD. No.BP.BC.169/C.464(A)-78 dated the 12th December 1978, has been in operation for more than three years. This Scheme is intended to assist the artisans, village and cottage industries located in villages and small towns with a population not exceeding 50,000 involving utilisation of locally available resources and/or human skills. However, on receipt of representations stating that the loans granted by banks under the Scheme had not actually gone to the persons for whom they were intended, we conducted a study on a sample basis covering 130 branches of banks in different States. The Study revealed that only 12 of these branches had granted composite term loans. Some of the branch Managers were not even aware of the Scheme. The period of loans varied between two and five years without any provision for initial moratorium. Most of the loans were granted against collateral security and in certain cases even third party guarantees were insisted upon. Margins were stipulated between 15% and 30% and the specified concessional rates of interest were not charged. The credit requirements of borrowers were not liberally assessed taking into account the requirements of one operating cycle and contingency of 10% to 20% as also provision for consumption expenses. In case of some of the banks, adequate discretionary powers were not vested in branch Managers to sanction the loans without reference to higher authorities. Thus, the composite loan scheme has not been implemented by banks in accordance with the instructions issued by us and as such it failed to serve the intended purpose, i.e., to generate production and employment in rural areas and small towns to the desired extent.

2. Certain difficulties have been expressed by banks in regard to composite term loans, i.e., (i) long repayment period of 7 to 10 years or even more with an initial moratorium of 12 to 18 months both for interest and principal, and (ii) want of specimen of standardized documents to be executed by borrowers.

In this connection, we have to advise as under :

i) The period of repayment of term loans is fixed taking into account the break-even point, surplus-generating capacity of the unit, etc. The artisans and village/cottage industrial units availing of the composite term loans would be able to generate small amounts of surpluses. Besides, taking into account their continuous essential sustenance needs, the period of repayment of loans will have necessarily to be kept at the above level.

ii) The banks can in consultation with their legal advisers finalised the specimen of the documents. Industrial Development Bank of India which provides full refinance in respect of composite term loans under its Refinance of Industrial Loans Scheme has agreed that refinance assistance will be allowed for such loans provided the documents executed evidence the term loan character of the assistance sanctioned.

3. The basic approach towards development of small scale industries as outlined in the Industrial Policy Resolutions and National Plans is to create immediate employment opportunities with relatively less investment and to help in raising levels of earnings and standards of living of a large number of artisans, craftsmen and entrepreneurs. In this context, the composite term loan scheme assumes special importance for extending credit facilities to artisans, village and cottage industries on soft terms with a view to providing them with

employment opportunities. It is felt that this Scheme will become popular if banks take liberal view in regard to credit proposals received by them from the aforesaid borrowers. For your ready reference, we give in the Annexure our guidelines on composite term loans as contained in circular dated 12th December 1978 referred to in paragraph 1 above. We shall be glad if you will please issue suitable instructions to your bank's offices for grant of composite term loans to artisans, village and cottage industries in accordance with these guidelines. The action taken/proposed to be taken in the matter may please be advised to us at an early date.

4. Please acknowledge receipt and let us know the officer to be contacted in your Central Office for the purpose of monitoring in this regard.

Yours faithfully

Sd/-
(B. K. Aggarwal)
Deputy Chief Officer

ANNEXURE

Guidelines Issued by the Reserve Bank in Regard to Composite Term Loan as Contained in Circular DBOD. No.BP.BC.169/C.464(A)-78 Dated the 12th December 1978.

Institutional credit for artisans, village and cottage industries

It has been recognised that this sector has the largest employment potential which can be realised only if several organisational, managerial, financial, technical and marketing problems of this sector are resolved in an integrated manner. In providing credit to this sector, banks are expected to adopt the following measures :

- a) It is estimated that the total credit requirements of an individual artisan or a village or cottage unit would not normally exceed Rs.25,000/- inclusive of both equipment finance and working capital. Credit upto Rs. 25,000/- to this sub-sector should be sanctioned as a composite term loan, for equipment finance or working capital or both, with repayment period of 7 to 10 years or even more with an initial moratorium period of 12 months to 18 months both for interest and principal, considering the small amount of surpluses which can be expected to be generated and the continuous essential sustenance needs of the borrowers.
- b) There should be no insistence on margin for this category. The guarantee cover in respect of these loans is proposed to be enhanced to 90% and as such banks should not ask for any collateral security/guarantee.
- c) The maximum rate of interest that can be charged on these loans will be the ceiling rates for primary lenders prescribed under the Industrial Development Bank of India (IDBI) Automatic Refinance Scheme, viz., 10.25%* p.a. in specified backward districts and 12.5%* p.a.

in other areas (excluding the cases which would be covered by the Differential Rate of Interest Scheme), irrespective of whether refinance is obtained or not. IDBI is making necessary arrangements to cover such composite loans under its Automatic Refinance Scheme.

d) While sanctioning the limit or loan, the requirements of one operating cycle should be liberally assessed and a contingency of 10 to 20% should be added to this amount in the original sanction itself to be disbursed when required in any unforeseen contingency due to operational bottlenecks or for some consumption requirements. The quantum of finance extended for consumption purposes in individual cases should not exceed the ceiling indicated hereunder:

(i) General Consumption	Rs. 75/-
(ii) Medical expenses	Rs. 250/-
(iii) Educational needs	Rs. 100/-
(iv) Marriage ceremonies	Rs. 250/-
(v) Funerals, Births etc.	Rs. 75/-
(vi) Certain religious ceremonies.	Rs. 75/-

* Interest rates revised with effect from the 2nd March 1981

Provided, however, the aggregate of the consumption finance for two or more purposes should not exceed Rs.500/- per borrower.

e) The loans sanctioned should be reviewed at periodical intervals (say annually) to assess whether the working capital requirement of the unit has increased either as a result of increased level of operations or increased cost and enhancements in the loan authorised wherever justified.

For the above purposes, village and cottage industry will be 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 50,000 involving utilisation of locally available natural resources and/or human skills (where individual credit requirements do not exceed Rs.25,000/-).”

2. Banks should not charge penal interest in respect of composite term loan to the above sector.

Immediately on occurrence of the default in the accounts, the concerned branches should, however, take steps with the active co-operation of the DICs to restore the account to health or where this is not found possible, initiate necessary steps for recovery. No further charges should be levied by banks on such units except by way of reimbursement of reasonable out-of pocket expenses, where unavoidable, incurred by banks in respect of the relative accounts.

3. With a view to facilitating timely sanction of credit facilities of the above sectors, it should be ensured that all composite term loan proposals are disposed of within a period of 30 days from the date of receipt of application. For this purpose :-

a) All branch managers of banks should be vested with discretionary powers to sanction proposals upto Rs. 25,000/- without reference to any higher authority. Since the objective of

setting up the DIC is to decentralise the decision-making process to the district level especially in regard to the tiny sector, the decisions in respect of these advances should also be at the district level at least upto Rs. 25,000/-. If any bank has any immediate difficulty in extending such discretionary powers to all its branches, it should create the necessary administrative machinery at least at the district level, for this purpose.

b) All Banks should initiate a feedback mechanism to ensure that the time limit fixed for disposal of proposals is adhered to and that applications are not rejected on flimsy grounds. The rejection of applications should be at a level higher than the Branch Manager in every instance.

c) Once a proper/appraisal has been submitted by the DIC, banks should not reduce the limit without apprising the DIC of the reasons for reduced sanction.

4. It is not the intention that all such proposals for assistance must necessarily be routed through DICs. In fact, the Branch Managers should continue to entertain such proposals directly as at present. Regular meetings and discussions between the Officers of the DIC and the banks and SFC represented in the districts as also senior representatives from State s Industries Department should be held for closer co-ordination among the financial institutions and DIC, at least in the initial period of six months to a year.

RPCD.No.PS.BC.13/C.464(A)-KVIC-82.

**November 13, 1982
Kartika 22, 1904(S)**

All Scheduled Commercial Banks

Dear Sir

Bank Credit to KVIC Sector

The credit requirements of KVIC Sector from financial institutions during the Sixth Plan Period have been estimated at Rs.520 crores. Of this, an amount of Rs.230 crores is proposed to be raised by KVI Sector from financial institutions under its Interest Subsidy Scheme. KVIC had reported to us that the progress in availing of institutional finance during 1980-81 and 1981- 82 has been quite low. Our Governor had convened a meeting of the Chairman of KVIC and Chairmen of certain major banks on 10 July 1982 to consider some of the practical problems faced by the KVI Sector in obtaining bank finance for KVI programmes. A summary record of the proceedings of the meeting is enclosed for your information. In the light of the deliberations of the meeting, it has been decided that banks may take action on the lines indicated below:-

a) According to KVIC, in a number of cases, banks had provided credit to the KVIC institutions for smaller amounts than recommended by KVIC in the eligibility certificates issued by it under the Interest Subsidy Scheme. The assessment made by KVIC for the purpose of issuing Interest Subsidy Eligibility Certificates should, by and large, be acceptable to banks. However, to enable the banks to verify the basis on which the assessments have been made and

with a view to ensuring uniformity as between different banks, the norms for assessment of credit to KVI sector could be discussed and agreed to at the DCC/SLBC forums.

b) A few banks, only in the public sector, have been extending credit to KVI sector. Other public sector banks as also banks in the private sector may extend credit support to the KVI sector which is extending its helping hand to artisans and other who are otherwise unorganised enabling the latter to get necessary support for their activities. The banking system should do their utmost to support the KVI sector.

c) As the credit proposals of KVI sector are generally for larger limits, the Divisional/Controlling offices of banks may directly entertain proposals and make credit assessments so that delay in sanctioning the credit limits could be avoided. In this context, you may please advise us the details of discretionary powers vested in your Branch Managers and the next higher tier (i.e. Divisional/Regional Manager) for granting advances to the priority sector borrowers.

2. Please acknowledge receipt.

Yours faithfully

Sd/-

(J. R. Prabhu)

Deputy Chief Officer

ANNEXURE

Summary Record of the Proceedings of Governor s Meeting with Chairman of KVIC and Chairmen of Banks held on the 10th July 1982

The meeting was presided over by Dr. I. G. Patel, Governor.

2. Welcoming the participants, Governor mentioned that the meeting was convened to consider some of the practical problems faced by KVIC in obtaining bank finance for its programmes. He requested Shri. Thomas, the Chairman of KVIC, to initiate the discussions. Shri. Thomas stated that Khadi and village industries activities have been given an important place in the Sixth Plan. Budgetary allocations made for the sector would not be sufficient to meet its expanding activities and the KVIC sector would have to look increasingly for finance from the financial institutions especially in the context of KVIC taking up activities in new areas. He pointed out that the progress in availing institutional finance under KVIC s sponsorship has been slow. Governor observed at this stage that there was no lack of sympathy for the KVIC sector and that finance could be extended by the banks.

3. Shri Thomas referred to some of the problems faced by KVIC institutions in obtaining finance from the banks. He mentioned that in a number of cases banks have provided credit to the institutions for smaller amounts than recommended by KVIC in the eligibility certificates issued by it under Interest Subsidy Scheme. He wanted that banks should accept the

recommendations of KVIC on the basis of the assessments made by it. It was stated by some of the banks that the basis on which the assessments were made was not indicated in the certificates. Deputy Governor (Shri. Ghosh) observed that KVI could indicate to banks the details of assessments made and KVIC and banks may sit together to resolve the differences. Shri. Sonalkar, Central Bank of India, suggested that the norms for assessment could be discussed and accepted by the District Consultative Committee through the lead bank. Concluding the discussion on this point Governor observed that by and large the assessments made by KVIC for the purpose of issuing Interest Eligibility Certificates should be acceptable to the banks, but the banks have the right to exercise their own judgement in the matter. The norms for assessment could be discussed and agreed to at the District Consultative Committee forums.

4. Shri Thomas mentioned that while Reserve Bank of India had exempted KVIC from the operation of selective credit control, a large number of individual institution sponsored by it have to approach Reserve Bank of India for such exemption. He desired that recognised and Certified KVIC institutions should automatically get exemptions from the operation of selective credit control. Governor agreed to examine the suggestions and said that prima facie he thought the suggestion was reasonable.

5. Shri Thomas observed that in case the individual artisans borrowed the money directly from banks they would be eligible for interest at 4% under the DRI Scheme. Governor pointed out that over 40% of the people lived below the poverty line and in the present situation, all the eligible borrowers could not obviously be granted loans at the differential rate of 4% within the ceiling for DRI loans.

6. Shri Thomas observed that the lending rates adopted by the co-operative banks were different from adopted by nationalised banks for the priority sector. Governor indicated that there is no reason why co-operatives should not charge 13.5% for the KVIC sector. Shri Thorat, Chairman of the Maharashtra State Co-operative Bank Ltd. agreed that the suggestion should be acceptable.

7. Another point made by Shri Thomas was that the branch managers do not possess adequate discretionary powers and the proposals had to be referred to higher authorities which results in delay. The view expressed and accepted was that as credit proposals were for larger limits. KVIC institutions should directly approach the Divisional/Controlling offices of banks to obviate such delays.

8. Shri Panditrao mentioned that there has been under-financing of the schemes covered by the Employment Guarantee Scheme of the Maharashtra Government. The representative of the Maharashtra State Co-operative Bank mentioned that the whole issue was being examined and the matter would soon be set right.

9. Shri Thomas referred to the credit squeeze and the paucity of resources for KVIC sector. Governor observed that these measures do not affect the KVIC sector.

10. Shri Thomas desired that apart from the nationalised banks, the non-nationalised banks and other credit institutions should also come forward to finance the KVIC sector. It was

observed by the Governor that the public sector banks could very well take care of the financial requirements of the KVIC sector but others could also extend assistance, if necessary. It was also mentioned that NABARD would be actively involved in the provision of financial assistance to the KVIC sector.

11. Summing up the discussions, Governor observed that KVIC sector had been doing good work. It has extended its helping hand to artisans who are otherwise unorganised enabling them to get necessary support for their activities. The banking system should do their utmost to support this activity.

RPCD. No.PS.BC.18/C. 464(A)-82

**December 24, 1982
Pausa 3, 1904(S)**

All Commercial Banks

Dear Sir

Financial Assistance for Modernisation Programme of Small Scale Industrial Units

We advise that at the fourth meeting of the Inter-Disciplinary Group held on the 21st January 1982, the matter relating to financial assistance for modernisation programme of small scale industrial units came up for discussion. It was decided at the meeting that the list of industries selected for modernisation by the Ministry of Industry would be circulated to banks for providing financial assistance. You will agree that sickness in small scale industries which have obsolete plant and machinery can be prevented by a process of modernisation. Term loans for modernisation to such units are granted by banks at a concessional rate of interest of 13.5%. The Development Commissioner (SSI) has now furnished to us a list of 20 industries selected for modernisation, a copy of which is enclosed for your information. We shall be glad if you will please circulate this list amongst your all offices/branches with instructions that need-based credit facilities for modernisation of these industries may be provided by them keeping in view the guidelines contained in circular ICD. No. CAD.19/ C.446(J)-82 dated 4th March 1982, issued by our Industrial Credit Department.

2. Please acknowledge receipt.

Yours faithfully

Sd/-

(B.K. Aggarwal)
Deputy Chief Officer

Industries selected for modernisation during the year 1976-77

1. Machine Tools
2. Automobile Components & Accessories
3. Castings
4. Domestic Electrical Appliances
5. Hosiery & Knitwears
6. Bicycle & Bicycle parts
7. Hand Tools
8. Leather & Leather Goods
9. Scientific Instruments
10. Storage Batteries & Components.

Industries Selected for modernisation during the year 1977-78

11. Steel furniture
12. Plastic Mouldings & Extrusions
13. Agricultural Implements including Tools
14. Readymade Garments
15. Domestic Utensils
16. Wires & Cables
17. Industrial Fasteners
18. Paints, Varnishes & Enamels
19. Packaging Industry
20. Builders Hardware.

RPCD. No. PS.BC.32/C.464(A)-83

**April 20, 1983
Chaitra 30, 1905(S)**

All Scheduled Commercial Banks

Dear Sir

**Small Scale Industries-Extension of Assistance to
Small Scale Service Establishments**

In continuation of our circular RPCD. No. PS. BC.1/C.464(A)-82 dated the 1st September 1982, we advise that Government have since liberalised the scope of extension of assistance to small scale service establishments by extending it further to rural areas and towns with a population of 5 lakhs or less. The ceiling on investment in plant and machinery will, however, remain the same, viz., Rs.2 lakhs. A copy of circular letter No. SSI(1)-12(14)/82 dated the 18th December 1982 issued by the Ministry of Industry (Department of Industrial Development), Government of India, New Delhi in this regard is enclosed for your information.

2. It has also been clarified by Government that the service-oriented enterprises would be eligible to be registered as small scale establishments and on being so registered they would be

entitled to the same concessions and incentives as are available to small scale and ancillary industries.

3. We shall be glad if you will please issue suitable instructions to your branches at the earliest under advice to us.

4. Please acknowledge receipt.

Yours faithfully

Sd/-
(B. K. Aggarwal)
Deputy Chief Officer

No. SSI(I)-12(14)/82
Government of India Ministry of Industry
(Department of Industrial Development)
New Delhi

Dated 18th December 1982

The Secretary,
Department of Industries,
All States/Union Territories.

Subject : Small Scale Industries-Extension of Assistance to
Small Scale Service establishments.

Sir,

I am directed to refer to this Ministry's Letter No. SSI(I)-12(14)/82 dated the 18th May, 1982 on the above mentioned subject and to state that it has been decided to liberalise the scope of extension of assistance to small scale service establishments by extending it further to rural areas and towns with a population of 5 lakhs or less. The ceiling on investment in plant and machinery will remain the same, viz Rs.2 lakhs.

Yours faithfully,

Sd/-
(S. K. Chakrabarti)
Deputy Secretary to the Government of India

RPCD. No. PS.BC.37/C.464(A)-83

June 16, 1983
Vaisakha 26, 1905(S)

All Scheduled Commercial Banks

Dear Sir

**Registration of Small Scale and Ancillary Units
Set up by Medium and Large Scale Undertakings**

As you are aware, according to existing instructions, small scale and ancillary units, which have been subsidiary of or owned or controlled by medium and large scale undertakings, are allowed to get themselves registered with the State Directorate of Industries provided they have a separate entity, but they are not entitled to avail of any of the special assistance as is available to the small scale units. Now with the addition of a proviso to the definition of small scale and ancillary industries, such industries which are subsidiary of or owned or controlled by medium and large scale undertakings have been taken out of the purview of the definition of small scale and ancillary industries and they are not to be considered for registration in the small scale sector. We enclose for your information a copy of circular No. 5(1)/82 SSI Bd dated the 26th February 1983 issued by the Development Commissioner (SSI), Ministry of Industry, Government of India, New Delhi in this regard. You may please arrange to bring to the notice of your branches the contents of this circular.

Please acknowledge receipt.

Yours faithfully

Sd/-

(B. K. Aggarwal)
Deputy Chief Officer

**No.5(1)82-SSI Bd
Government of India Ministry of Industry
Office of the Development Commissioner
(Small Scale Industries)
7th Floor, Nirman Bhavan,
New Delhi**

26th Feb 1983

The Commissioner/Directors of Industries,
All States and Union Territories.

**Subject : Registration of Small Scale and Ancillary Units
Set up by Medium and Large Scale Undertakings.**

Sir,

As you are aware hitherto the registration of small scale and ancillary units which have been subsidiary of or owned or controlled by medium and large scale undertakings was governed by the instructions contained in the Ministry of Industrial Development and Company Affairs (Deptt. of Industrial Development) Circular letter No.SSI-A-18(15)/67 dated 5th December 1968. According to the instructions contained in the said letter such units were allowed to get themselves registered with the State Directorate of Industries provided they had a separate legal entity, but they were not entitled to avail of any of the special assistance as available to the small scale units and enumerated in the said circular.

Now with the addition of a proviso to the revised definition of small scale and ancillary industries, the small scale and ancillary industries which are subsidiary of or owned or controlled by medium and large scale undertakings have been taken out of the purview of definition of small scale and ancillary industries, and are not to be considered for registration in small scale sector. In turn they have to obtain a COB licence or get themselves registered with DGID or other concerned technical authorities.

In view of the above you are, therefore, requested to see that the small scale and ancillary industries which are subsidiary of or owned or controlled by medium and large scale undertakings are not to be registered at all as small scale industries. If a unit already registered is found to be a subsidiary of or owned or controlled by a medium or large scale undertakings may be deregistered forthwith.

Please acknowledge the receipt of this letter.

Yours faithfully

Sd/-

(J. D. Varma)

Director (SSI Board) for Development Commissioner (SSI)

RPCD.No.CP. NFS. BC.20/PS.72-85/86

**October 8, 1985
Asvina 16, 1907 (S)**

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir

**Revision in the Definition of Small Scale
Industries-Advances by scheduled Commercial Banks**

As you are aware, Government of India, vide their notification dated 18 March 1985 (copy appended overleaf), have made the following changes in the definition of small scale industries and ancillaries:

- i) Small scale units will be known as Small Scale Industrial Undertakings
- ii) Ancillaries will be known as Ancillary Industrial Undertaking
- iii) The limit of investment in plant and machinery (original cost) stands increased in the case of (a) Small Scale Industrial Undertaking from Rs. 20 lakhs to Rs. 35 lakhs and (b) Ancillary Industrial Undertaking from Rs.25 lakhs to Rs. 45 lakhs.
- iv) The notification shall come into force on the date of its publication in the official gazette (i.e.18 March 1985).

2. Accordingly advances to industrial ventures covered by revised definition should be treated as priority sector advances and various criteria regarding margin, security, rate of interest, etc. as explained in our circular letter RPCD.No.BC.29/PS.22-84 dated 16 March 1984 made applicable to them.

3. Please acknowledge receipt.

Yours faithfully

Sd/-
(M. S. Pai)
Joint Chief Officer

**Notification published in Part II Section 3 Sub-Section(ii) of
Gazette of India Extra-ordinary dated 18th March 1985**

**Ministry of Industry and Company Affairs
Department of Industrial Development
New Delhi**

NOTIFICATION

March 18, 1985

S.O. 202(E) In exercise of the powers conferred by sub-section (1) of section 29 B read with Section 11 B of the Industries (Development and Regulation) Act, 1951(65 of 1951), the Central Government hereby makes the following further amendments to this Ministry's notification NO.S.O. 98(E)IDRA/298/73/1, dated the 16th February 1973, namely :
In the said notification,

i) For the heading Small Scale Units . The heading Small Scale Industrial Undertakings shall be substituted and under the heading so substituted in item No.1, for the expression Rs. 20 lakhs the expression Rs.35 lakhs shall be substituted;

ii) for the heading Ancillaries the heading Ancillary Industrial Undertaking shall be substituted and under the heading so substituted in item No.2, for the expression Rs.25 lakhs , the expression Rs. 45 lakhs shall be substituted.

2. This notification shall come into force on the date of its publication in the official Gazette.

Yours faithfully

Sd/-
(B. Sahay)
Joint Secretary to the Govt. of India.

RPCD. No. PLNFS. BC.44/PS.73-86

January 17, 1986
Pausa 27, 1907(S)

All Scheduled Commercial Banks

Dear Sir

Bank Finance to Ship-Breaking Industry

It has been represented to Government that in view of the importance being attached to scrap processing (including ship-breaking /dismantling), such units falling within the definition of small scale industrial undertaking may be included in the priority sector for the purpose of availment of bank credit. The Union Ministry of Industries have stated that generally the units engaged in ship-breaking/dismantling are composite ones which also undertake the processing of scrap thus obtained and hence the entire activity, can be covered under processing . In this connection we advise that all small scale industrial units with original cost of plant and machinery not exceeding Rs.35 lakhs and engaged in ship-breaking/dismantling activities may be considered as small scale industrial undertakings. Accordingly, bank advances to such units would qualify for classification under priority sector advances and they would also be eligible for guarantee cover under the Small Loans (SSI) Guarantee Scheme, 1981 of the Deposit Insurance and Credit Guarantee Corporation, provided the terms and conditions of the Scheme are complied with. We shall be glad if you will kindly advise your branches/controlling offices accordingly.

Please acknowledge receipt.

Yours faithfully

Sd/-
(M. S. Pai)
Joint Chief Officer

RPCD. No. PL. NFS.BC.45/PS.72-86

January 20, 1986
Pausa 30, 1907(S)

All Scheduled Commercial Banks

Dear Sir

Financing of Bought Leaf Factories for Manufacturing Tea

Reserve Bank of India had set up a Committee on Financing of Tea Industry under the Chairmanship of Shri K. B. Chore to examine the problems relating to financing of tea industry. In the light of the recommendations made by the Committee which have been accepted by Government of India, it has been decided to classify bought leaf factories for manufacturing tea as small scale industrial undertakings provided such units satisfy the investment criteria, viz., the investment in plant and machinery (original cost) does not exceed Rs. 35 lakhs. Advances sanctioned to such units may be treated as priority sector advances. We further advise that advances sanctioned by banks to such bought leaf factories for manufacturing tea are eligible for guarantee cover under Small Loans (SSI)-Guarantee Scheme 1981 of the Deposit Insurance and Credit Guarantee Corporation subject to compliance with other terms and conditions of the Scheme.

2. We shall be glad if you will please suitably advise your branches/controlling offices in the matter.

3. Please acknowledge receipt.

Yours faithfully

Sd/-
(M. S. Pai)
Joint Chief Officer

REF. RPCD. NO. PL.NFS.BC.48/SIU. 20-87

February 6, 1987
Magha 17, 1908 (S)

All Scheduled Commercial Banks

Dear Sir

Rehabilitation of Sick Small Scale Industrial Units

Please refer to circular IECD. NO. IRD.BC.132/SIU-A-85 dated 5 November 1985 addressed by our Industrial and Export Credit Department to all Scheduled Commercial Banks advising parameters for provision of reliefs/ concessions by banks under rehabilitation packages evolved for sick industrial units considered as potentially viable.

2. We have since examined the need for separate guidelines in regard to rehabilitation of sick units in the small scale industries (SSI) sector with specific reference to definition of sick SSI unit, viability norms, incipient sickness as also reliefs and concessions from banks/ financial institutions for implementation of rehabilitation Packages in the case of potentially viable units. Although sickness in the large, medium and small industrial units exhibit many common features, any approach to sickness in SSI sector has to reckon with the relative weakness of such units to withstand difficulties as also the distinction between the small scale units and tiny sector units and further that between tiny sector units and units in the decentralised sector comprising artisans, village and cottage industries units. The emphasis of the rehabilitation effort in the case of SSI units will, therefore, have to be on adequate and intensive relief measures and their speedy application rather than giving a long span of time to the units for rehabilitation. Accordingly, the following guidelines are issued in the case of rehabilitation of sick units in the SSI Sector.

Incipient Sickness

3. It is of utmost importance to take measures to ensure that sickness is arrested at the incipient stage itself. The managements of the units financed should be advised about their primary responsibility to inform the banks if they face problems which could lead to sickness and to restore the units to normal health. The branch officials, who are in constant contact with them, should develop mutual confidence between the bank and the borrowers. The organisational arrangements at branch level should also be fully geared for early detection of sickness and prompt remedial action. Banks/Financial institutions will have to identify the units showing symptoms of sickness by effective monitoring. An illustrative list of warning signals of incipient sickness that are thrown up during the scrutiny of borrowal accounts and other related records e.g. periodical financial data, stock statements, reports on inspection of factory premises and godowns etc. is given in **Annexure-I** which will serve as a useful guide to the operating personnel. The branch officials who are familiar with the day-to-day operations in the borrowal accounts should be under obligation to identify the early warning signals and initiate corrective steps promptly. Such steps may include providing timely financial assistance depending on established need, if it is within the powers of the branch manager, and an early reference to the controlling office where the reliefs required are beyond his delegated powers. The branch manager should also help the unit in sorting out difficulties which are non-financial in nature and require assistance from outside agencies like Government departments/undertakings, Electricity Boards, etc. He should also keep the term lending institutions informed about the position of the units wherever they are also involved.

Definition of Sick SSI Unit

4. A SSI unit should be considered Sick if it has (a) incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50 per cent or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly installment of interest or two half-yearly installment of principal on term loans and there are persistent irregularities in the operation of its credit limits with the bank. While both the conditions (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in the case of the tiny and decentralised sector units. The above definition may be adopted for the purpose of reporting data from the half-year ending June 1987, while for the purpose of formulating nursing programmes, banks should go by this definition with immediate effect.

Viability of Sick SSI Units

5. A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding 5 years from the commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed 7 years from the date of implementation of the package. In the case of tiny/decentralised sector units, the period of reliefs/concessions and repayment period of restructured debts will be 2 years and 3 years respectively. Based on the norms specified above, it will be for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. The viability study of the unit should be carried out and decision on rehabilitation or otherwise taken as far as possible within a period of 3 months from the date of receipt of complete information on relevant aspects from the management of the unit.

Reliefs and Concessions for Rehabilitation of Potentially Viable Units

6. It is emphasised that only those units which are considered to be potentially viable should be taken up for rehabilitation. Norms for grant of reliefs and concessions by banks/financial institutions to potentially viable sick SSI units for rehabilitation are furnished in **Annexure-II**. We may add that the reliefs/concessions to the extent indicated in the Annexure are not intended to be given as a matter of course in all cases of rehabilitation of sick SSI units, it is for the banks/financial institutions to decide on the nature and extent of concessions necessary/warranted within these parameters, depending upon the merits of each case.

Delegation of Powers

7. The delay in the implementation of agreed rehabilitation packages should be reduced. One of the factors contributing to such delay was found to be the time taken for obtaining clearance to the reliefs and concessions. As it is essential to accelerate the process of clearance, the banks and

the financial institutions may delegate sufficient powers to senior officers at various levels such as district, divisional, regional, zonal and also at head office to sanction the banks or the financial institutions commitment to its share in the rehabilitation package drawn up in conformity with the prescribed guidelines.

RBI Approval

8. Cases of concessions in interest rates beyond those specified in these guidelines should be referred to us for approval.

9. Please acknowledge receipt and advise us of the action taken by your bank in implementing the above. Your report may please be sent to us before the end of March 1987.

Yours faithfully

Sd/-

(P. K. Parthasarathy)

Chief Officer

Encls : 3 Sheets

ANNEXURE - I

Illustrative list of warning signals of incipient sickness that are thrown up during the Scrutiny of Borrowal Accounts and other Related Records (e.g. Periodical Financial Data, Stock Statements, Report on Inspection of Factory Premises and Godowns etc.)

- a) Continuous irregularities in cash credit/overdraft accounts such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits, periodical interest debited remaining unrealised;
- b) Outstanding balance in cash credit account remaining continuously at the maximum;
- c) Failure to make timely payment of installments of principal and interest on term loans;
- d) Complaints from suppliers of raw materials, water, power, etc. about non payment of bills;
- e) Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements;
- f) Attempts to divert sale proceeds through accounts with other banks;
- g) Downward trend in credit summations;
- h) Frequent return of cheques or bills;
- i) Steep decline in production figures;
- j) Downward trends in sales and fall in profits;
- k) Rising level of inventories which may include large proportion of slow or non-moving items;
- l) Larger and longer outstandings in bill accounts;

- m) Longer period of credit allowed on sale documents negotiated through the bank and frequent return by the customers of the same as also allowing large discount on sales;
- n) Failure to pay statutory liabilities;
- o) Utilisation of funds for purposes other than running the units.

ANNEXURE - II

Reliefs and concessions which can be extended by banks/financial institutions to potentially viable sick SSI units under rehabilitation

i) Interest Dues on Cash Credit and Term Loan

If penal rates of interest or damages have been charged, such charges should be waived from the accounting year of the unit in which it started incurring cash losses continuously. After this is done, the unpaid interest on term loans and cash credit during this period should be segregated from the total liability and funded. No interest may be charged on funded interest and repayment of such funded interest should be made within a period not exceeding 3 years from the date of commencement of implementation of the rehabilitation programme.

ii) Unadjusted Interest Dues

Unadjusted interest dues such as interest charged between the date upto which rehabilitation package was prepared and the date from which actually implemented, may also be funded on the same terms as at (i) above.

iii) Term Loans

The rate of interest on term loans may be reduced, where considered necessary, by not more than three per cent in the case of tiny/decentralised sector units and by not more than two per cent in other cases, the reduced rates in no case being less than the rate of interest charged under Integrated Rural Development Programme (IRDP).

iv) Principal Dues

After the unadjusted interest portion of the cash credit account is segregated as indicated at (i) and (ii) above, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power. This amount may be funded as Working Capital Term Loan (WCTL) with a repayment schedule not exceeding 5 years. Interest may be charged on this funded loan at 10 per cent per annum.

v) Cash Losses

Cash losses are likely to be incurred in the initial stages of the rehabilitation programme till the unit reaches the break-even level. Such cash losses excluding interest as may be incurred during the nursing programme may also be financed by the bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial

institution concerned should finance such cash losses. Interest may be charged on the funded amount at the rates prescribed by IDBI under its scheme for rehabilitation assistance.

vi) Working Capital

Need-based working capital should be sanctioned to the unit to enable it to carry on its operations, with interest at the minimum of the band of the prescribed interest rates during the rehabilitation period. Where the minimum of the band exceeds 15% (as for instance in the case of working capital assistance in excess of Rs. 25 lakhs, where it is 16.5%), the rate may be fixed at 15% p.a.

vii) Contingency Loan Assistance

For meeting escalations in capital expenditure to be incurred under the rehabilitation programme, banks/financial institutions may provide, where considered necessary, appropriate additional financial assistance upto 15 per cent of the estimated cost of rehabilitation by way of contingency loan assistance. Interest on this contingency assistance may be charged at the concessional rate allowed for working capital assistance.

viii) Funds for Start-up Expenses and Margin for Working Capital

There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin money for working capital in the form of long-term loans. Where a financial institution is not involved, banks may provide the loan for start-up expenses, while margin money assistance may either come from IDBI under its Refinance Scheme for Rehabilitation or should be provided by State Government where it is operating a margin money scheme. The term loan from banks will carry the same rates as the existing term loans or as prescribed by IDBI where refinance assistance is obtained from it for the purpose.

ix) Promoters Contribution

Promoters contribution towards the rehabilitation assistance may be fixed at not less than 5% of the additional long-term requirements under the package in the case of tiny sector units and at 10% of such requirements for other units. In the case of units in the decentralised sector, promoters contribution may not be insisted upon for rehabilitation.

x) Guarantee Fee

The guarantee fee payable to Deposit Insurance and Credit Guarantee Corporation (DICGC) in respect of sick SSI units should be borne by the banks/financial institutions during the period of rehabilitation programme.

Kartika 12, 1909

All Public Sector Banks

Dear Sir,

Bank Credit to State Handloom Development Corporations

We advise that in view of general sluggishness in demand and consequent build-up of higher inventories due to prevailing drought conditions, there is need for some flexibility in regard to meeting the working capital requirements of National and State Handloom Development Corporations. We shall, therefore, be glad if you will kindly consider sanctioning on merits, additional working capital limits upto 20% of the existing limits to National and State Handloom Development Corporations for holding higher than normal levels of inventories for a temporary period till end-June 1988. Proposals for such enhancements may be considered taking into account actual utilisation of credit limits as also realistic projections covering build-up of inventories. Wherever necessary, suitable application may be made to Industrial and Export Credit Department for prior authorisation under the Credit Authorisation Scheme. You may also impress upon National and Estate Handloom Development Corporations to pay increasing attention to marketing aspects with a view to ensuring satisfactory movement of stocks of all varieties of piece goods and reducing inventory-holding costs.

2. Please acknowledge receipt.

Yours faithfully

Sd/-

(P. K. Parthasarathy)
Chief Officer

RPCD.No.PLNFS.BC.60/HL.62-87

November 19, 1987
Kartika 28, 1909

All Public Sector Banks

Dear Sir,

Bank Credit to State Handloom Development Corporations

As you are aware, State Handloom Development Corporations (SHDCs) assist handloom weavers outside the co-operative fold by supplying inputs to them and marketing their output. In terms of our interest rate directive currently in force, advances granted to SHDCs for these purposes by commercial banks are required to be charged interest at the rate of 12.5 per cent per annum as applicable to advances to State Level Corporations for purchase and supply of inputs

to artisans, village and cottage industries and/or marketing their output. It has been brought to our notice that some banks are charging interest at rates higher than 12.5 per cent per annum on working capital limits sanctioned to SHDCs for these purposes. Banks concerned may, therefore, review the interest rates being charged by them to SHDCs and adhere to the prescribed rate of 12.5 per cent per annum as provided in our current directive on interest rates on advances.

2. It has also been reported that some banks are not reckoning items like credit sales to Government Departments and pending rebate claims as certified by Government for the purpose of calculating drawing power under working capital limits of SHDCs. As such items are normally included under receivables and other current assets, they are eligible for being taken into account for arriving at maximum permissible bank finance as also for the purpose of computing drawing power in the relative borrowal accounts of SHDCs.

3. Please acknowledge receipt.

Yours faithfully

Sd/-
(M. S. Pai)
Joint Chief Officer

RPCD.No.PLNFS.BC.90/C.464(A)-Spl.KVIC-87/88

March 29, 1988
Chaitra 9, 1910

All Scheduled Commercial Banks

Dear Sir,

**Bank Finance to State Level Corporations for Assisting
Artisans, Village and Cottage Industries**

Please refer to our circular letter DBOD.No.BP.BC.75/C.464(A)-81 dated 9 June 1981 regarding institutional credit support to organisations undertaking promotional activities for artisans, village and cottage industries. It has been brought to our notice that implementing agencies of KVIC/State KVI Boards are not treated as eligible organisations for concessional rate of interest of 12.5% per annum applicable to working capital limits sanctioned to State Level Corporations for purchase and supply of inputs to artisans, village and cottage industries and/or marketing their output. In this connection, we clarify that advances sanctioned to implementing agencies of KVIC/State KVI Boards exclusively for the purpose of purchase and supply of inputs to and/or marketing of the outputs of artisans, village and cottage industries and so expressly certified by KVIC/State KVI Boards will also be eligible for the concessional rate of interest of 12.5% per annum. As the advances extended for the above purposes alone would qualify for the concessional interest rate, in case credit limits are sanctioned to these agencies for other trading/manufacturing activities or for building up buffer stocks, it would be necessary for the

banks to sanction to separate credit limits in respect of the former category of advances eligible for concessional interest rate of 12.5% per annum.

2. Please acknowledge receipt

Yours faithfully

Sd/-

(M. S. Pai)

Joint Chief Officer

RPCD. No.PLNFS.BC.104/HL.62-87/88

**May 5, 1988
Vaisakha 15,1910**

All Public Sector Banks

Dear Sir,

Bank Credit to State Handloom Development Corporations

Please refer to our circular letter RPCD.No.PL.NFS.BC.57/HL.62/87 dated 3 November 1987 wherein we had advised that you may consider sanctioning on merits, additional working capital limits upto 20 per cent of the existing limits to National and State Handloom Development Corporations for holding higher than normal levels of inventories for a temporary period till end-June 1988. The Government of India have since advised us that with a view to giving further relief to drought-affected handloom weavers, they have decided to provide margin money to State Handloom Development Corporations to raise increased working capital for production of handloom cloth thereby generating higher level of employment to handloom weavers in drought-affected areas. However, as the sanction for margin money has become operational from 1 April 1988 to 30 September 1988, it is considered desirable that the enhanced working capital limits referred to in our above circular letter dated 3 November 1987 are allowed to be availed of upto 31 December 1988, as these organisations may have to carry finished stocks for some more time after the drought-relief production is completed by September 1988. We shall, therefore, be glad if you will kindly permit the State Handloom Corporations to avail of additional working capital limits as envisaged in our above circular letter upto 31 December 1988, keeping in view the other guidelines given therein.

2. Please acknowledge receipt.

Yours faithfully

Sd/-

(M. S. Pai)

Chief Officer

RPCD.No.PLNFS. BC.2/C.464(A)-Spl.KVIC/88-89

12 July 1988 21

All Scheduled Commercial Banks

Dear Sir

Bank Credit to Khadi and Village Industries (KVI) Sector

Please refer to our circular RPCD.No.PS.BC.13/C. 464(A)-KVIC-82 dated 13 November 1982 advising banks regarding the steps to be taken to ensure smooth flow of credit to the KVI sector. There has been a significant increase in the activities of the Khadi and Village Industries Sector during the last few years. With the recent enlargement of the scope of village industries that can be assisted by KVIC, the need for a further step up of institutional credit flow to the sector has assumed added urgency. In this context KVIC had brought to out notice the persisting practical problems faced by it in obtaining adequate bank credit for KVI programmes. These issues were discussed at a meeting Governor had with KVIC Chairman on 8 June 1988. In the light of the deliberations of the meeting, it has been decided that banks should take action on the lines indicated below :

- i) It was indicated in our circular dated 13 November 1982 referred to above that the assessment of credit requirements of the various KVIBs at the state level and other associate/implementing institutions (societies) by KVIC under its Interest Subsidy Scheme should, by and large, be acceptable to banks. KVIC has informed that in a number of cases, the banks are still not following these instructions and are allowing only limits for much lower amounts. In this connection we are advised that KVIC assesses the credit requirements of its implementing agencies after taking into account various relevant aspects, including the assistance to be provided by KVIC itself. It should, therefore, be feasible for banks to be generally guided by the assessment of KVIC. Cases where banks have a divergent view should be settled expeditiously by mutual consultation.
 - ii) It is also reported that there is undue delay in sanctioning credit limits by banks to the KVIC s units and very often the applications for credit limits take upto 9 months or even more for disposal. Banks are advised to ensure that credit proposals from the KVIBs and other associate/ implementing agencies of KVIC are disposed of within 8-9 weeks in any case.
 - iii) KVIC has complained that banks insist that the borrowing units under KVI sector should deposit the original title deeds of their properties as security. It was explained by the KVIC officials that these documents are deposited by the implementing agencies with KVIC which is willing to execute a letter of disclaimer of prior rights and that such a letter is tantamount to conceding first charge on the properties. They also stated that some of the banks have accepted such letters of disclaimer in lieu of deposit of original title deeds. We advise that other banks may also examine the matter and accept the letter of disclaimer if they are satisfied after looking into the legal aspects.
2. We shall be glad if you will please issue necessary instructions in this regard to your controlling offices and branches urgently.

3. Please acknowledge receipt.

Yours faithfully

Sd/-

(P. K. Parthasarathy)

Chief Officer

RPCD. No.PLNFS.BC.6/PS.72/88-89

**July 30, 1988
Sravana 8, 1910**

All Scheduled Commercial Banks

Dear Sir

Credit Assistance to Small Scale Industries (SSI) Sector

As you are aware, there has been progressive increase in banks assistance to SSI sector over the years. However, reports continue to flow regarding delay in sanction/inadequacy of working capital, lack of effective co-ordination between commercial banks and State Financial Corporations, etc. The Chairmen/Chief Executives of banks are requested to pay special attention to the credit requirements of small scale industries and take immediate action on the following aspects in particular.

2. Timely Sanction of Working Capital limits

With a view to facilitating timely sanction of adequate credit facilities, it is essential that branch managers are vested with sufficient discretionary powers so that most of the credit decisions are taken at the branch level itself. For this purpose, banks may review the existing delegation of powers at branch and regional levels and also ensure that officers with requisite background and adequate delegated powers are posted to branches located in areas having potential for growth and development of small scale industries or with concentration of small scale units. It is necessary to enforce strict time discipline in dealing with all priority sector credit proposals, including those received from SSI sector. The practice of issuing an acknowledgement with date of receipt for all loan applications received should be enforced in all branches. After the receipt of the application, a definite date may be indicated to the applicant for discussion, clarifications, etc. if considered necessary. The banks decision regarding credit assistance should be communicated to the applicant within the prescribed period (8-9 weeks) from the date of receipt of the application, as per guidelines already issued. For monitoring the timely disposal of cases, banks should introduce an appropriate system. The Regional Managers should review the cases every month. Further, credit proposals of small scale units not decided within three months from the date of receipt should be reported on a quarterly basis to the Boards of Directors for review and effective follow up action. It should be ensured that all branches maintain the prescribed

registers for recording the dates of receipt and disposal of loan applications, with full details in proper manner.

3. Adequacy of Working Capital Sanctioned by Banks

It is reported that often the branch officials reduce the working capital levels, presumably on the ground that the new unit will require full credit limits only when it begins operating at its full capacity. However, undue delays are reported in subsequently enhancing the credit limits to support the increasing level of operations, causing avoidable hardship to the units. Banks are, therefore, advised that the full working capital limits determined on the basis of need related to the rated capacity of the unit, may be sanctioned at the commencement itself, adding a contingency provision of say 10 per cent to take care of unforeseen circumstances due to operational bottlenecks etc. The branches should be flexible and realistic in permitting operations on the limits sanctioned. As drawals on working capital limits are ordinarily related to drawing power based on value of stocks/receivables, etc. it should be possible for branches to regulate the operations in the accounts consistent with the actual requirements and the contingencies which may arise. Within the limits sanctioned, drawals should be allowed automatically to match the increasing levels of operations, if the conduct of account is satisfactory. Requests for increase in limits should be considered expeditiously and decisions taken promptly, and in any case, within 6 weeks.

Banks are aware that Reserve Bank has prescribed simplified formats for application to be filled in by intending borrowers as also interview-cum-appraisal forms for assessing term loan and working capital needs of small scale units, tiny units etc. The functionaries at the branch level may be advised to extend necessary assistance to the intending borrowers in completing the forms and related aspects.

To ensure that rejections or reduction of limits are done after due consideration, the following procedure should be adhered to :

- a) rejection of applications for fresh limits/enhancement of existing limits should not be done without the approval of the next higher authority.
- b) sanction of reduced limits should be reported to the next higher authority immediately with full details for review and confirmation.

4. Co-ordination Between Commercial Banks and State Financial Corporations (SFCs)

Reserve Bank of India has issued detailed guidelines regarding joint/simultaneous appraisal of projects by commercial banks and State Financial Corporations, or acceptance of the SFCs appraisal by the commercial banks wherever joint appraisal has not been possible. The guidelines also require that working capital assistance should be sanctioned by banks at least 4 months before a unit goes on stream. In this connection, we refer to Governor's D.O. letter No.DBOD.MC.52/C.808/88 dated 15 March 1988 addressed to the Chairmen of all public sector banks and DBOD Chief Officer's D.O. Letter No. DBOD. MC.55/C.808/88 dated 19 March 1988 addressed to Chairmen of all private sector banks and advise that banks are required to

formulate effective monitoring system for ensuring that projects approved by State level financial institutions are sanctioned the needed working capital finance well in time. All the banks are required to incorporate the systems devised by them for this purpose in their Annual Action Plans. In the guidelines issued in IECD circular letter No.PMS.150/ C.446(PL)-86/87 dated 8 December 1986 banks have been advised that they should establish necessary rapport with the State level financial institutions and associate themselves with the meetings convened by the latter to resolve the cases of delay in sanction of working capital.

We further advise that the State Level Inter- Institutional Committees (SLIICs) which are required to meet once in 3 months, should also include as a regular item on the agenda, the particulars of cases where SFC-assisted units are not able to get working capital finance from commercial banks. SFCs are also being advised in this regard. The concerned banks whose cases will be taken up for discussion would be invited to attend the meetings of the SLIICs even if they are not regular members of the forum.

5. Rehabilitation of Sick SSI Units

It is of the utmost importance to monitor closely the working of tiny and small scale units and to take timely remedial action when signs of incipient sickness are found (vide paragraph 3 of our circular letter RPCD.No.PLNFS.BC.48/SIU.20-87 dated 6 February 1987). Banks are advised that in respect of all SSI units classified as sick as on 30 June 1988, viability studies should be completed before 31 October 1988 and in the case of all units considered as potentially viable, nursing programmes should be formulated and implemented before 31 December 1988. The banks should submit brief reports in this regard to Rural Planning and Credit Department, Central office before 30 November 1988 regarding the completion of viability studies, and before 31 January 1989 in respect of initiating nursing programmes for potentially viable units. These brief progress reports are not intended to replace the half-yearly returns prescribed for monitoring the progress of rehabilitation of sick SSI units (State-wise and Industry-wise).

6. Periodical Reports to the Boards of Banks with Respect to Credit Assistance to SSI Sector

Under the current guidelines, banks are required to apprise their Boards of Directors of the position of credit assistance to priority sector at least on a half-yearly basis. Banks are now advised that they should, in addition, put up separate half-yearly reports to the Boards reviewing the position of application for financial assistance from the SSI sector, assistance granted to the SSI sector, comprehensively covering, among others, overall progress, State-wise and industry-wise details, position of sick units and follow-up action taken, complaints and grievances redresal, delays in sanction, etc.

7. You will agree that it is a matter of serious concern that complaints are continuously being received from important quarters regarding non-observance and non-compliance, at the field level, of the various guidelines issued. It should be made the responsibility of the controlling offices (Zonal/ Regional Offices) to ensure compliance with the guidelines by the offices in their jurisdiction. The non-observance of the guidelines/instructions at the field level should be seriously viewed and appropriate action taken in cases of dereliction. We look to the

Chairmen/Chief Executives of the banks to ensure effective compliance with directives and guidelines issued in this behalf.

8. Please acknowledge receipt of this letter to the Chief Officer, Rural Planning & Credit Department at the address given above.

Yours faithfully

Sd/-

(P. D. Ojha)

Deputy Governor

RPCD.No.PLNFS.BC.22/SIU-20/88-89

September 12, 1988

Bhadra 21, 1910

All Scheduled Commercial Banks

Dear Sir

Rehabilitation of Sick Small Scale Industrial (SSI)
Units-Eligibility of Retrenchment Compensation

Please refer to our circular RPCD.No.PLNFS. BC,48/SIU.20-87 dated 6 February 1987 advising guidelines in regard to rehabilitation of sick SSI units. It has been brought to our notice that banks are receiving requests from sick SSI units for inclusion of retrenchment compensation also as an eligible component of rehabilitation loan to sick SSI units. We advise that retrenchment compensation where such payment becomes a statutory liability can be included as an eligible item forming part of the rehabilitation packages of sick SSI units. However, this is subject to the viability norms stipulated in paragraph 5 of our circular referred to above. Assistance for this purpose may be shared by all the lending banks/financial institutions prorata to their outstanding assistance to the unit.

Yours faithfully

Sd/-

(B.A. Prabhu)

Joint Chief Officer

RPCD.No.PLNFS.BC.44/SSI-70/88/89

November 15, 1988

Kartika 24, 1910

All Public Sector Banks
(Excluding Associate Banks of State Bank of India)

Dear Sir

National Equity Fund Scheme

Please refer to circular letter No.111/SIDF.NEF(1) dated 11 August 1987 on the above subject addressed to you by Industrial Development Bank of India. The operations under the National Equity Fund (NEF) Schemes were reviewed recently by the Ministry of Finance, Government of India and it was observed that the availment of assistance under the Scheme by industrial units was not to the expected level. Following this, certain modifications to the Scheme have been made with a view to making it more helpful to entrepreneurs and these have been advised to you vide Industrial Development Bank of India's D.O. letter No. 154/SIDF.NEF(1) dated 14 July 1988.

2. We would like the banks to make earnest efforts to ensure that the limits allocated to them by Industrial Development Bank of India under the Scheme are fully utilised. For this purpose you may please impress upon your field level offices especially those in whose area there is a concentration of SSI units, the need to popularise the National Equity Fund Scheme. They may be advised to give priority to financing units seeking assistance from the National Equity Fund. You may also consider fixing sub-targets for the major branches or circles/zones in such areas for providing assistance under the Scheme.

3. The action taken by you in this regard may be reported to us by 31 December 1988.

4. Please acknowledge receipt.

Yours faithfully

Sd/-
(P. K. Parthasarathy)
Chief Officer

RPCD.No.PLNFS.BC.52/PS.72/88-89

December 9, 1988
Agrahayana, 18, 1910

All Scheduled Commercial Banks

Dear Sir

Inclusion of Salt Industry Under Priority Sector

The question whether manufacture of common salt can be considered as an industrial activity came up for our consideration recently. The matter has been examined by us in consultation with Industrial Development Bank of India and Deposit Insurance and Credit Guarantee Corporation and it is clarified that manufacture of common salt through any process including manual operation (involving solar evaporation) may be considered as an industrial activity.

Accordingly, credit provided by banks to units engaged in the manufacture of common salt which satisfy the norms for small scale industrial unit as laid down by the Government of India may be classified under Advances to small scale industry and reported as part of priority sector lending of banks. Such advances are eligible for guarantee cover under the Small loans (Small Scale Industries) Guarantee Scheme, 1981 of Deposit Insurance and Credit Guarantee Corporation.

Yours faithfully

Sd/-

(S. Sankar)

Deputy Chief Officer

RPCD.No.PLNFS.BC.62/SSI.78/88-89

January 11,1989

Pausa 21,1910

All Scheduled Commercial Banks

Dear Sir

IDBI s Single Window Scheme for Financing of Fixed Assets and Working Capital to Tiny and SSI Units through SFCs and Twin Function SIDCs

The Industrial Development Bank of India in consultation with Reserve Bank of India has introduced, in May 1988, a Single Window Scheme for providing term loan and working capital to tiny and SSI units. A copy of the relevant circular letter No.F1.27/87-88 dated 13 may 1988 addressed by IDBI to the Managing Director of SFCs/twin function Small Industrial Development Corporations (SIDCs) is enclosed for your information and guidance.

2. This Scheme is intended to overcome the difficulties and delays experienced by tiny and small scale industrial units assisted by SFCs/twin function SIDCs in securing timely and adequate working capital finance from banks. It would enable SFCs and twin function SIDCs to provide, through a single window, both term loan for acquisition of fixed assets and working capital for inventory to new tiny and small scale units, whose project cost does not exceed Rs. 5 lakhs and total working capital requirement at the normal level of operations is upto Rs. 2.5 lakhs. The facility would enable SSI units to start commercial production expeditiously. Besides providing term loan for acquiring fixed assets, SFCs/SIDCs will also now simultaneously provide working capital facility upto Rs.2.5 lakhs in such cases.

3. Item 15 of the Annexure to the IDBI circular explains the mechanism through which the Single Window Scheme is to be operated by SFCs/SIDCs. It has been envisaged that the assisted units would open a current account with a designated bank branch to which the proceeds of the working capital loan would be credited as and when disbursed by SFC/SIDC. In this connection commercial banks may please follow the undernoted guidelines :

- a) The designated branch will maintain the current account of the unit and forward a copy of the monthly statement of account to the borrower as also to the SFC/SIDC concerned. The responsibility for monitoring the value of stocks, scrutiny of stock statements, inspection, recoveries, etc. would rest with the concerned SFC/SIDC. The banks could recover their usual charges from the borrower for maintaining the current account and related items of work.
- b) The borrower under the Scheme has the option to approach the designated bank for meeting the existing and/or additional working capital requirement at any time after availing of the initial working capital assistance under Single Window Scheme. In case the bank agrees to the proposal, it will have to meet the unit's entire working capital needs including the working capital assistance provided by SFC under the Single Window Scheme which will be immediately extinguished out of the assistance so provided by the bank. To enable the bank to consider the unit's request for assistance, the SFCs/SIDCs have already been advised by IDBI to send a copy of their appraisal note to the designated bank as soon as possible, after sanction of assistance by them. We advise that the commercial banks may sanction, on merits, need-based working capital assistance to such units in consultation with and with the consent of the concerned SFC/SIDC.
- c) Units availing both term loan and working capital finance under the Single Window Scheme from SFCs/SIDCs may also require facilities like opening of Letters of Credit, Bills/Cheques discounting, etc. which are normally not provided by SFCs/SIDCs. Hence these units may approach banks for such facilities. Banks may consider such requests for these types of facilities, as and when received from units and/or SFCs/SIDCs, taking such precautions and security as they think necessary in each case, subject to the existing guidelines for priority sector advances. In this connection, we are advised by IDBI that the SFC/SIDC concerned would have no objection to the borrowing units creating a charge on the book debts or the current assets financed under such facilities in favour of the commercial banks and that the security envisaged for the working capital loan by the SFC/SIDC already excludes book debts from its charge.

Yours faithfully

Sd/-

(P. K. Parthasarathy)

Chief Officer

**INDUSTRIAL DEVELOPMENT BANK OF INDIA DEVELOPMENT FINANCING
INSTITUTIONS DEPARTMENT NEW INDIA CENTRE, 17,
COOPERAGE, BOMBAY 400 039**

May 13, 1988

No. 10510/DFID.REF(1)

MDs of SFCs and Twin function SIDCs

Circular No. FI.27/87-88

Dear Sir

Single Window Scheme for Financing of Fixed Assets and Working Capital to Tiny and SSI Units

As you are aware, the Hon ble Union Minister for Finance while presenting the budget for 1988-89 had, inter alia, announced the introduction of a Single Window Scheme for grant of term loan and working capital to new tiny and small scale units whose requirements of working capital are upto Rs.2.5 lakhs and whose project cost does not exceed Rs. 5 lakhs. In pursuance of the above announcement, IDBI has finalised the Single Window Scheme as per particulars given in the Annexure. The Scheme comes into force with immediate effect.

2. The salient features of the Scheme are as follows :

- i) New tiny and small units whose cost of project (excluding working capital margin) does not exceed Rs. 5 lakhs and total working capital requirement at the normal level of operations is upto Rs. 2.5 lakhs would be eligible for assistance under the Scheme, provided the unit has been sanctioned term loan for fixed assets and loan for working capital by the same SFC/twin function SIDC.
- ii) The repayment period of the working capital loan would be upto 10 years including initial moratorium upto 3 years.
- iii) IDBI would provide 100% refinance in respect of such loans under ARS, and outside the annual BPRF limits.
- iv) The spread available to SFCs/twin function SIDCs in respect of such loans would be higher at 4.5%.

3. The Scheme, which has been finalised in consultation with RBI, is intended to overcome the difficulties and delays presently experienced by tiny and small scale units assisted by SFCs/twin function SIDCs in securing timely and adequate working capital finance from banks. As SFCs/twin function SIDCs themselves can, under the Single Window Scheme, now also provide working capital assistance to the eligible units, it is expected that such units would be able to start commercial production on a viable basis expeditiously.

4. We may further add that with the introduction of the above Scheme, the existing Integrated Term Loan Scheme stands withdrawn. At the same time the Composite Loan Scheme, presently being operated through SFCs/SIDCs and banks under which loans upto Rs. 50,000 are provided to units in the tiny and decentralised sectors covering their needs of fixed assets and/or working capital will continue to remain in force.

5. Looking to the liberal facilities provided under the Single Window Scheme, we are sure that SFCs/twin function SIDCs would take maximum advantage of the Scheme in the interest of healthy and viable growth of tiny and small industries.

Yours faithfully

Sd/-
(R. S. Agrawal)
General Manager

ANNEXURE

Refinance Scheme for Working Capital Loan under Single Window to Tiny and SSI Units by SFCs/twin-Function IDCs

- | | |
|--|--|
| 1. Eligible financing institutions | : SFCs and twin-function IDCs. |
| 2. Eligible units | : New tiny and small scale units whose cost of project(excluding working capital margin) does not exceed Rs. 5 lakhs and the total working capital requirement at the normal level of operations is upto Rs. 2.5 lakhs provided the unit has been sanctioned term loan for fixed assets and loan for working capital by the same institution |
| 3. Nature and amount of assistance | : Working capital loan upto Rs. 2.5 lakhs per unit for meeting the working capital requirement of tiny and small scale units. |
| 4. Rate of interest on working capital | : a)14% if the working capital loan is upto loan Rs.2 lakhs.
b) 15.5% if the working capital loan exceeds Rs. 2 lakhs but not Rs.2.5 lakhs. |
| 5. Rate of interest on Refinance | : a) 9.5% in cases covered by item 4(a) above.
b) 11.0% p.a. in cases covered by item 4(b)above. |
| 6. Commitment charges | : Nil. |
| 7. Extent of Refinance | : 100% |
| 8. Repayment period | : Not exceeding 10 years including initial moratorium upto 3 years. |
| 9. Security | : First charge on fixed assets (ranking pari-passu with the charge for term loan) and hypothecation of current assets. |
| 10.DICGC cover | : Working capital loan will be covered under DICGC scheme and the guarantee fee shall be borne by the SFC. |
| 11.Debt-equity ratio | : The debt-equity ratio will be 3:1 for the total venture outlay (i.e. cost of the project and total working capital requirement as mentioned at item 2 above). |

- | | |
|--|--|
| 12.Promoters contribution | : As may be required to arrive at the debt-quity ratio of 3:1, after taking into account the amount of investment subsidy/ incentive available for the project. |
| 13.Procedure for availing of refinance | : All proposals will be covered under ARS procedure. |
| 14.Time limit for availing of | : In suitable installment within one year from assistance the date of commencement of production. |
| 15.Mechanism | <p>: a) The working capital loan should be released by SFC/ IDC in suitable installments for building up of inventories of facilitate timely commencement of production and adequate build-up of capacity.</p> <p>b) Assisted units should open Current Account with a designated bank (which could be a bank of the borrower s choice or the district lead bank) to which the proceeds of the loan will be credited as and when disbursed by SFC/IDC. The unit should route its entire banking transactions relating to the business including all receipts and payments through this account.</p> <p>c) Assisted unit may approach the bank for meeting its existing working capital requirement or for additional working capital requirement at any time during the currency of the loan. In the former case, as and when the assistance is sanctioned, the working capital loan from the SFC should be repaid out of the proceeds of the loan sanctioned by the bank. The SFC in turn should immediately thereafter release its charge on current assets and also concede second charge on fixed assets if so insisted upon by the bank.</p> <p>d) To facilitate smooth interaction between the SFC/IDC and the designated bank as also to enable the bank to consider borrowing unit s request for assistance, the SFC/IDC should forward a copy of its appraisal to the bank soon after the loans are sanctioned by it.</p> <p>e) SFC/IDC should monitor the operations in working capital account by obtaining monthly statements from the bank for operations in the current account as well as monthly stock statements from the assisted units showing the position of inventory level.</p> |

RPCD.No.PLNFS.BC.76/PS.72/88-89

February 25, 1989

Phalguna 6, 1910

All Scheduled Commercial Banks

Dear Sir

Ownership of Units - Two or more Undertakings Under the Same Ownership-Status of the Unit

As you are aware, the criterion for classifying an industrial unit under small scale category is its investment in plant and machinery. Government of India, Ministry of Industry has now advised that if an industrial undertaking/proprietor/partner sets up two or more units within the same State or outside, whether manufacturing similar or different items, the fixed investment in plant and machinery of all such units is to be clubbed together for determining the SSI status of the units. It has also been clarified by Government, that investment of the industrial undertaking as a whole is to be clubbed and not to the extent of the share of a partner. We, therefore, advise that where the aggregate investment in plant and machinery of such related units exceeds the prescribed limit they should not be treated as small scale industrial undertakings.

2. We also invite a reference to our circular RPCD.No.PS.BC.37/C.464(A)-83 dated 16 June 1983 wherein banks were advised that industrial units which are subsidiaries of or owned or controlled by medium and large scale undertakings have been taken out of the purview of the definition of small scale and ancillary industries. Such units also will not be considered as small scale units for the purposes of bank credit. Consequently, advances granted to the units in two categories referred to above should be immediately taken out of the purview of SSI sector. They will also not be eligible to be classified as priority sector advances.

3. The guidelines for priority sector including margins, rates of interest and norms for rehabilitation of sick SSI units will not be applicable to these units.

4. We shall be glad if you will please take steps to implement the above instructions with immediate effect.

Yours faithfully

Sd/-

(S. Sankar)

Deputy Chief Officer

RPCD.No.PLNFS.BC86/SSI-70/88-89

March 13, 1989

Phalguna 22,1910

All Associate Banks of State Banks of India

Dear Sir

National Equity Fund Scheme

Please refer to circular letter D.O. No. 131/SIDF.NEF(1) dated 11 January 1989* on the above subject addressed to you by Industrial Development Bank of India extending the above scheme to your bank. A copy of circular letter RPCD.No.PLNFS.BC.44/SSI.70-88/89 dated 15 November 1988@ addressed by us to all public sector banks (excluding the Associate Banks of State Bank of India) referred to in the above letter is enclosed for your ready reference.

2. In this connection, we invite your attention to paragraph 2 of our circular dated 15 November 1988 ibid and advise you to take action on the lines indicated therein to ensure maximum and expeditious utilization of the facilities under the National Equity Fund Scheme extended to you by the Industrial Development Bank of India.

3. The action taken by you in this regard may be reported to us by 31 March 1989.

4. Please acknowledge receipt.

Yours faithfully

Sd/-

(S. Sankar)

Deputy Chief Officer

* This Circular is reproduced on page 66.

**INDUSTRIAL DEVELOPMENT BANK OF INDIA
MITTAL COURT, B WING, NARIMAN POINT, BOMBAY-400 021**

D.O. No. 131/SIDF.NEF (1)

January 11, 1989

Managing Directors of Associate Banks of SBI

National Equity Fund Scheme (NEF)

As you may be aware, IDBI, in association with the Government of India, had constituted National Equity Fund for providing equity type assistance to small entrepreneurs for setting up manufacturing units as also for rehabilitation of potentially viable sick units. The benefits under the Scheme will be available to small and tiny units with projects costing not more than Rs. 5

lakhs and located at places with population not exceeding 5 lakhs (15 lakhs in rehabilitation cases). A copy of the Scheme is enclosed.

2. The coverage of the Scheme, which was originally operated through the agency of nationalised banks, was extended in July 1988 to State Bank of India and specified State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs) in the North Eastern Region and Hilly States of Jammu & Kashmir and Himachal Pradesh. In this connection, I enclose a copy of letter No. RPCD.PLNFS.BC.44/SSI-70-88/89 dated November 15, 1988 addressed by Reserve Bank of India to all public sector banks. In consultation with the Government of India, we have since decided to extend the Scheme to Associate Banks of SBI as well. They would be functioning as operating agency under the Scheme. A copy of the format for execution of the agency agreement with IDBI is enclosed. I would request your bank to kindly approach the nearest Regional/Branch office of IDBI for this purpose.

3. It is envisaged under the Scheme that the banks while providing assistance from out of NEF should simultaneously sanction requisite term loan and working capital facilities so as to ensure that the entire financial requirements of the borrowers are met from a single source. You may bring this aspect specifically to the notice of the Offices which would be operating the Scheme at the regional/ branch level. We are allocating an annual limit of Rs.50 lakhs (Rs. Fifty lakhs) from out of NEF for your bank.

4. I shall be grateful if you will please issue necessary instructions in this regard to your regional/ branch offices at your earliest.

With warm regards,

Yours sincerely

Sd/-

(K. U. Mada)