



REPORT OF THE COMMITTEE

ON

CREDIT FACILITIES

FOR

VILLAGE & SMALL INDUSTRIES SECTOR

**GOVERNMENT OF INDIA
PLANNING COMMISSION**



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FOREWORD

The Village and Small Industries are considered to be an important instrument for promoting rapid industrial growth in as much as they provide very substantial employment opportunities, remove economic backwardness and bring about a reduction in regional disparities.

On the recommendation made by the All India Small Scale Industries Board at its meeting held in August, 1982, the Government constituted a Committee to look into the wider policy issues and problems of lending to the village and small industries and to make appropriate recommendations.

At its first meeting held on 30th September, 1983, the Committee constituted three groups, one each under the Convenorship of Shri Harbhajan Singh, Chief Officer, SI & SB Banking Department, SBI, Bombay, Dr. S. A. Dave, Executive Director, IDBI, Bombay, and Shri D. N. Davar, Executive Director (now Chairman and Managing Director), IFCI, New Delhi. I am grateful to the Convenors and members of the three groups who undertook field visits and made an indepth study of the various problems faced by the village and small industries in respect of inadequacy of credit to this sector in the light of the terms of reference given to them and made valuable suggestions and recommendations for the consideration of the Committee.

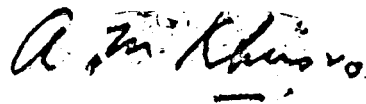
I place on record the cooperation and assistance received from the members and representatives of the Khadi and Village Industries Commission (KVIC), the Reserve Bank of India (RBI), the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the State Bank of India (SBI), the National Bank for Agriculture and Rural Development (NABARD), the Development Commissioner (Small Scale Industries) and the Planning Commission during the course of discussions in the meetings as well as in the preparation of this report. The active role played by the associations of small scale industries and several knowledgeable persons and the assistance extended by the State Governments warrants much appreciation.

I would further like to place on record the commendable work done by the Member Secretary, Shri P. P. Khanna, Additional Secretary and Development Commissioner (Small Scale Industries)

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and Shri R.P.S. Verma, Economic Adviser, Office of the DC(SS) in preparing the report and providing necessary secretariat support.

I extend my thanks also to the IDBI for rendering assistance and providing facilities for organising the meetings of the Committee.



(A. M. Khusro)

Dated the 31st December 1984.

PREFACE

The village and small industries sector comprising khadi, village industries, handlooms, handicrafts, coir, sericulture, powerlooms, small scale industries, etc., has been estimated to provide employment for 31.5 million people in 1984-85, next only to agriculture. During the Seventh Plan (1985-90) additional employment of 8.5 million persons both part time and full time, is expected to be generated. This sector also contributes about 50% value added in the manufacturing sector. Viewed against their importance and performance there has not been commensurate credit flow to this sector from the commercial and financial institutions. This has been a subject of discussion in various forums and the 36th meeting of the All India Small Scale Industries Board made a specific recommendation that a committee may be constituted to look into the wider policy issues and problems of lending to the village and small scale industries and to make appropriate recommendations. Accordingly, in August 1983, the Planning Commission constituted the committee under the chairmanship of Prof. A.M. Khusro, the then Member of the Planning Commission.

The streamlining of the procedures for lending, the coordination of efforts by lending institutions, the policies for augmentation or credit flow to this sector of industries, the examination of terms and conditions under which credit is being extended and special initiatives that are needed to promote this sector, the weaning away of this sector from middlemen financiers and the commercialisation of activities as a viable proposition had been the guiding factors in the deliberations of the committee.

The committee had made a special mention of the need for re-orienting the attitude of bank personnel as well as the promotional agencies through intensive training programme with appropriate behavioural inputs. It has also suggested weightage for the initiative taken by bank personnel for extending coverage to the village and small industries sector in adjudging their performance. Building an element of incentive in the Transfer Price Mechanism to motivate Branch Manager to give special attention to this sector has also been mentioned in the report.

The report of the committee was examined by various departments and ministries and considered at a meeting held in the Planning Commission. Following the recommendations of the committee,

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a Small Industries Development Fund (SIDF) was established in May, 1986 by the IDBI as a separate division with an Executive Director and with a adequate financial support. This division was to be the focal point for augmenting credit to the small scale industries. Several new initiatives have also been taken by IDBI/NABARD for example (i) liberalisation of credit under the composite loan programme, (ii) expansion of limits for working capital for handlooms, etc. (iii) margin money assistance at 1% interest for seed capital. (iv) special liberalised schemes for modernisation, rehabilitation, woman entrepreneurs, quality improvement, pollution control, etc.

Considerable input for the deliberations of the committee was given by the Village & Small Industries Division of the Planning Commission. Special mention may be made of Senior Research Officers—Shri D. N. Desai and Smt. Ganga Murthy, who inter alia took up the responsibility of drafting few chapters of the report.

The Planning Commission had taken a decision that all efforts may be made to release for public information, awareness and education, various reports, papers and other documents prepared from time to time and as a sequel to this decision, this report is being published for public information. I hope the report of the committee would be useful for all those interested in the development of the dispersed sector of the industries, researchers, academicians, etc.



(K. V. S. Murthi)
Consultant

Planning Commission

New Delhi
the 24th July, 1987.

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