CHAPTER 32

SOURCES OF DEVELOPMENT FINANCE

Introduction

During the pre-independence period, financial constraints had hampered the rapid development of industries in the country. After independence, the Government built up a network of specialised financial institutions with a fairly big capital base to provide financial assistance to all types to industries, including small-scale industries.

A growing economy needs the support of a financial structure which is responsive to the needs of development. In India, in the process of financial deepening, commercial banks had to shoulder special responsibilities for meeting the financial needs of diverse sectors of the economy, at various stages of development. In the process, they have evolved various modes and instruments of financing, fashioned various organisational innovations, moved away from traditional commercial banking and evolved into development banks, responsive to socioeconomic needs.

Finance is now made available to entrepreneurs on a totality basis by commercial banks, except in cases where the State Financial Corporations and other similar financing agencies step in to meet their medium-term requirements. An appropriate type of credit is granted for the construction of the factory building, the purchase of plant, machinery and equipment, and for working capital requirements. In deserving cases, loans are advanced for the expansion, renovation and modernisation of plant and machinery. Banks and financial institutions provide the export finance needed by small industries for letters of credit, issuance of guarantees and extension of pre-shipment and post-shipment credit facilities. The interest rate structure is generally graded on a slab basis, with a favourable bias towards the smaller loans. Institutional support and economic factors are stimulating entrepreneurial activity and thus generating more robust economic development.

Types of Industrial Finance

Depending upon the nature of the activity, the entrepreneurs require three types of finances, viz., *short-term, medium-term* and *long-term* finances. The distinctive features of these are emulated below:

Short-term Finance

Short-term finance usually refers to funds required for a period of less than one year. These funds are usually required to meet variable, seasonal or temporary working capital requirements.

Borrowing from banks is a very important source of short-term finance. Other important sources of short-term finance are trade credit, instalment credit and customer advances.

Medium-term Finance

The period of one year to five years may be regarded as a medium-term. Medium-term finance is usually required for permanent working capital, small expansions, replacements, modifications, etc.

Medium-term finance may be raised by (i) issue of shares; issue of debentures; borrowing from banks and other financial institutions; and ploughing back of profits (by existing concerns).

Long-term Finance

The period exceeding 5 years is regarded as long-term. Long-term finance is required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernisation etc.

The important sources of long-term finance are similar to the medium-term finance to industry.

TYPES OF FINANCE

Short-Term	*Medium-Term*	*Long-Term*
(i) Bank credit *(ii)* Trade credit *(iii)* Instalment credit *(iv)* Customer advances	*(i)* Issue of shares *(ii)* Issue of debentures *(iii)* Loans from banks and other financial institutions *(iv)* Public deposits (for existing concerns) *(v)* Ploughing back of profits (for existing concerns)	*(i)* Issue of shares *(ii)* Issue of debentures *(iii)* Loans from financial institutions *(iv)* Ploughing back of profits (for existing concerns)

Fig. 32. 1 Types of Finance for Entrepreneurs

Sources of Finance

A characteristic feature of small-scale units is that the personal funds of entrepreneurs form a substantial proportion of the total assets. Most of the units are not corporate entities. The owners of small units, therefore, run a considerably higher risk than those of corporate units. The sources that usually provide the working capital requirements are commercial banks, special agencies like SIICOM, GIIC, and co-operative banks. Indigenous bankers, and moneylenders also advance loans for working capital needs. The fixed capital needs are usually met by State Governments (under the State Aid to Industries Acts/Rules), SFCs, NSI which machinery on hire-purchase basis, Corporations (SSICs), (SIDCs), the State Bank of India and subsidiaries, and other commercial banks.

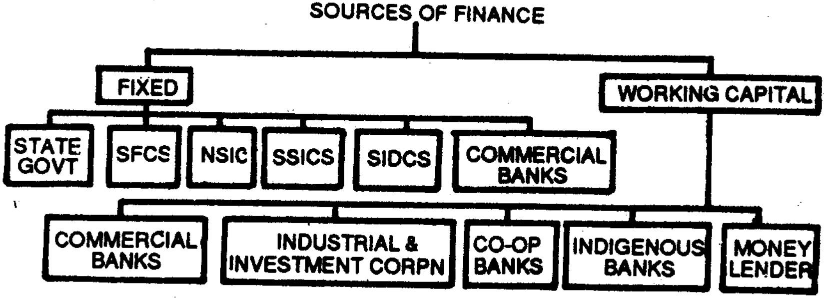

Fig. 32.2 Sources of Finance for Small-Scale Sector

Broadly speaking, the various sources from which an entrepreneur can raise funds are enumerated in its balance sheet. These sources may generally be grouped under the following heads:

I. Internal

A. Paid-up Capital

(i) Ordinary shares
(ii) Preference shares
(iii) Deferred shares
(iv) Forfeited shares

B. Reserve Surplus

(i) Capital reserve
(ii) Development rebate reserves
(iii) Others

C. Provisions

(i) Taxation (net on advance of income-tax)
(ii) Depreciation.

II. External

D. Borrowings

(i) From banks
(ii) From term-lending institutions like IDBI, IFCI, ICICI, Industrial Development Corporations, etc.
(iii) From government and semi-government agencies
(iv) Others

E. Trade Dues and Other Current Liabilities

(i) Sundry creditors
(ii) Others

The share distribution of source and of all companies and profit-making companies is as follows:

Table 32.1

Sources	*All Companies (505)%*	*Profit-making Companies (450%)*
A. Internal Sources	34.2	35.5
1. Paid-up capital	0.5	0.5
2. Reserves and surplus	17.2	18.9
3. Depreciation	16.5	16.1
B. External	65.8	64.5
4. Paid-up capital	2.1	1.8
5. Long-term Borrowings	31.0	31.1
(a) Debentures	9.6	9.8
(b) From Financial	14.8	14.6
(c) Banks	—	—
(d) Others	6.6	6.7
6. Bank borrowings for working capital	7.7	7.3
7. Trade dues and other current liabilities	21.3	20.4
8. Non-current liabilities	3.7	3.9
Total A & B	100.0	100.0

Table 32.1 indicates that the companies' dependence on financial institutions and banks is to the extent of 40 per cent of its total funds for development. Even to some extent companies depend heavily on banks to recover their trade does for development. Thus, financial institutions' involvement is nearly 60 per cent as far as finance alone is concerned. This apart, their promotional consultancy and other related services go a long way in the process of economic development. It is true that industrial development may or even the entire process of economic development is dependent on the financial institutions and their innovative assistance on an ongoing basis.

The funds which an industry can raise depend on its productive activity and the uses to which these funds are put:

(i) Gross Fixed Assets: Land, building, plant and machinery — these are by and large, met out of market borrowings or term loans from financial institutions, including banks.

(ii) Working Capital: This includes inventories — raw materials, components, finished goods, works in progress and operating expenses — wages, salaries, lighting and other running expenses. All these expenses are met out commercial bank loans in the form of hypothecation credit or pledge loans.

(iii) Funds are also required for *(a)* making loans and advances in the course of day-to-day purchase-and-sale operations; *(b)*sundry debtors — that is, for sale on credit basis; *(c)* investments; and *(d)* building up other assets.

F. Miscellaneous

All these sources of finance are not available to all the small units. Much would depend on the status, character and the period of time the units have been in operation.

For example, a new small unit has no reserves to provide for depreciation. These are built up in gradual stages out of the funds set apart in the course of current operations.

Moreover, the funds a small-scale industry can raise depends upon the character of the company, its productive activity and the substantial uses to which these funds are put — irrespective of it being a private limited or a proprietary concern. Some of the uses are:

(i) Gross Fixed Assets: Land, building, plant and machinery — these are by and large, met out of market borrowings or term loans from financial institutions, including banks.

(ii) Working Capital: This includes inventories — raw materials, components, finished goods, works in progress and operating expenses — wages, salaries, lighting and other running expenses. All these expenses are met out of commercial bank loans in the form of the hypothecation credit or pledge loans.

(iii) Funds are also required for *(a)* making loans and advances in the course of day-to-day purchase-and-sale operations; *(b)* sundry debtors — that is for sale on credit basis; *(c)* investments; and *(d)* building up other assets.

Analysis of Financial Ratios

The financial data of small units are usually worked out in terms of some of the important conventional ratios. Most of the ratios, however, do not indicate any definite relationship with credit facilities. A detailed discussion of this aspect has been undertaken in the technical volume. It will be sufficient to mention here that comparatively high inventory-to-sales ratios were recorded by units which received institutional credit facilities. The average net working capital needs of small units, which are also given, show that the units which received credit facilities need a comparatively high average working capital. A major proportion of the net working capital, however, was accounted for by inventories. The figures in the statement do not, by themselves, point to any firm conclusions regarding the place of inventories among the factors to be taken into account by banks while examining the credit proposals of small-scale units.

Balance Sheet of Institutional and Non-Institutional Borrowings

The survey also gives information on the balance sheet of both institutional and non-institutional borrowings of small units. It shows that institutional borrowings per unit varied from one unit to another, and were the highest in the case of the following categories of units:

(i) Units whose assets exceeded Rs. 10 lakh;

(ii) Units which manufactured electronic and electrical goods;

(iii) Units of 6 to 10 years standing;

(iv) Units which employed 101 and more persons;

(v) Public limited companies;

(vi) Units which were registered; and

(vii) Units located in industrial estates.

It may be pointed out here that those units which had high savings per unit institutional borrowings recorded high inventory ratios. The average non-institutional borrowings per unit in respect of respective classifications were the highest in the case of units which —

(a) Borrowed from banks/co-operatives;

(b) Whose assets were above Rs. 10 lakh and which employed 101 or more persons;

(c) Were private limited companies, registered units and located in industrial estates; and

(d) Belonged to the manufacturing group, including chemicals, dyes, etc.

It is also known that both large and small units borrow from institutional and non-institutional sources. However, the extent of reliance on non-institutional sources was lower in the case of large units than in that of small units. At the same time, even the smaller units obtained a major portion of their credit needs from institutional lenders. Further, the average non-institutional borrowings formed a major proportion of average borrowings (institutional and non-institutional) on the part of units which did not approach any commercial bank/co-operative for credit or which did not get any institutional credit even though they asked for it. It has been mentioned above. Clearly, the reliance on institutional sources was relatively high on the part of modern younger and larger small-scale industrial units.

Table 32.2

Sources and Uses of Funds of 1,125 selected small private limited companies

	(Rs. Crores)	*% share in the total*
(1)	*(2)*	*(3)*
Sources of Funds		
Internal Sources	468	22.52
A. 1. Paid-up capital	9	0.43
B. Reserves and surplus	13	0.58
2. Capital reserve	5	
3. Development rebate reserve	16	
4. Others	2	
C. Provisions	446	21.46
5. Depreciation	408	19.63
6. Taxation (net of advance of income-tax)	17	0.82
7. Other current	10	0.48
8. Non-current	11	0.53
External Sources	1,610	77.48
D. Paid-up capital	100	4.81
9. Net issues	100	4.81
10. Premium on shares	—	—
E. Borrowings	898	43.21
11. From banks	543	26.13
12. From Industrial Finance Corporation and State Financial Corporations	—	—

13. From other institutional agencies	27	1.30
14. From Government and semi-Government agencies	5	0.24
15. From others	323	15.54
F. Trade dues and other current liabilities	611	29.40
16. Sundry creditors	575	27.67
17. Others	36	1.73
G. 18. *Miscellaneous non-current liabilities*	—	—
19. Total	2,078	100.00
Uses of Funds		
H. Gross fixed assets	710	34.17
20. Land	31	1.49
21. Buildings	140	6.74
22. Plant and machinery	420	20.21
23. Capital works in progress	2	0.10
24. Others	116	5.58
I. Inventories	514	24.73
25. Raw materials, components, etc.	290	13.96
26. Finished goods	193	9.29
27. Works in progress	27	1.30
28. Others	59	2.84
J. Loans and other advances and other debtor balances	744	35.80
29. Sundry debtors	598	28.77
30. Others	146	7.02
K. 31. Investments	37	1.78
L. 32. Other assets	7	0.34
M. 33. Cash and bank Balances	80	3.85
34. Total	2,078	100.00

According to a study of small private limited companies, conducted by the Reserve Bank of India some time back, the small private limited companies relied on external sources for financing assets. Of the total resources of Rs. 2,078 crores, external sources contributed as much as Rs. 1,610 crore (77.5 per cent) to asset formation. Of this amount, borrowings constituted more than 55.8 per cent, while trade dues and other current liabilities contributed about 38.0 per cent. Bank borrowings, in particular, accounted for more than one-third of the total external resources. Among the internal resources, depreciation provision amounting to Rs. 408 crore constituted the main source. It represented 87.18% of total internal resources.

While assessing the resources of a concern, we have to bear in mind whether it is a new concern or a long-established concern; whether it is a private company or a proprietary concern; what is the nature of activity — is it manufacturing or trading; whether the purpose of raising resources is modernisation and expansion of business, or the establishment of a new concern, or increase in turnover.

The expansion or diversification of business involving an addition to plant and machinery should be met out of owned funds — that is, out of depreciation and provisions — or out of increase in capital, out of term loans. The ability of a concern to raise resources from all or some of these sources depends upon its strength, character and standing in the market. If the purpose is a mere increase in the turnover of the

business which involves a larger inventory and increased operating expenses, the additional funds should be raised by way of bank loans.

From a banker's point of view, there are well-established guidelines for assessing the credit requirements of a concern. A banker analyses the balance sheet and evaluates the turnover of funds, sales and other operating results in assessing the viability of a unit.

There are certain established ratios. For example:

(a) The debt equity ratio;
(b) Turnover to net worth;
(c) Return on capital employed;
(d) Net profit as a percentage of net worth;
(e) Dividend paid to shareholders;
(f) Ratio of current assets to current liabilities.

A banker has to go behind these figures and assess the technical and managerial competence of a management, and the integrity of the men running a concern, in order to decide whether credit should or should not be advanced.

Credit is a very important element in the process of economic development. It stimulates economic activity, particularly in countries which are short of capital and entrepreneurial talent. Because of the dearth of these two basic elements in the process of development, bankers who create credit have been assigned a vital role in stimulating the process of development.

Norms for Inventory and Receivables

For an efficient management of assets, the Tondon Committee suggested norms for raw materials, stack-in-process, finished goods and receivables. These norms represent the maximum levels of holding inventory and receivables in each industry.

Coverage: These norms are made applicable to all industrial borrowers, including small-scale industries, with aggregate limits from the banking system in excess of Rs. 10 lakhs and extended progressively to small borrowers.

Objective: The norms for the four kinds of current assets are related to consumption/cost of production/cost of sales/sales, respectively. If the carryover of any one kind of asset is higher than the relative norm level, the surplus is treated as "excess" carryover to be shed off, failing which an amount equivalent to the value thereof would be treated as excess borrowing. Again, such excess holding cannot be set off against any shortfall in the holding of other assets, for the norms represent the maximum permissible levels of holding; and they are not entitlements. Lending banks are expected to scrutinise the periodical stock and receive statements to determine whether the borrows comply with the aforesaid stipulation.

Experience shows that while norms are reckoned in sanctioning credit limits, these are not uniformly complied with subsequently through the medium of monthly stock statements. Although both Tandon Committee and the RBI had hoped, while introducing the report, that excess current asset holdings would be adjusted in two months, this has not happened. In fact, RBI itself has had to adopt a flexible approach

by permitting, *inter se,* adjustments of norm levels of different assets, raising norm levels, etc.

Given the manufacturing cycle of a borrower, starting with raw materials to stocks-in-process, and further to finished goods, it is only logical to think of a combined norm for all the three items in relation to the value of output. A lending bank ought to scrutinise the levels of each kind of current assets in the ordinary course of its vigil on the borrower's operations but to treat any of them as excess holding even as the overall level is considered reasonable and consistent with production is to make things unnecessarily complicated; and this serves no worthwhile purpose. It is said that combined norms may be developed for different industries from the RBI studies on company finances. These may be revised from time to time to meet the objectives of national economic policies and/or bring them in tune with the policy by individual industry groupings. Thus, the suggested modification of laying down a combined norm for inventories in relation to the value of output, and receivables to sales as at present, would make things pragmatic, without jeopardising the interests of lending bank and without hurting any macro economic objectives.

The suggested norms are as follows:

Suggested Norms for Inventory and Receivables

Industry	*Raw materials (including stores and other items used in the process of manufacture)*	*Stocks-in-process*	*Finished goods*	*Receivables* and bills purchased and discounted*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
(i) Cotton and Synthetic Textiles	Cotton 2 (Bombay and Ahmedabad areas) 2 Eastern areas — Bihar, Orissa, West Bengal and Assam) 2½ (Other than the above areas) 2 Other raw materials	¾ (Composite textile mills) ½ (Other mills)	- 2¼ -	
(ii) Man made Fibre	½	½	- 1¾ -	
(iii) Jute Textiles	2½	¼	1 (For domestic sales) and 1½ (For exports)	1½

(iv) Rubber Products	2	¼		- 1¾ -
(v) Fertilisers *(a)* For nitrogenous plants	¾ (Units near refinery) ½ (Units away from refinery)	Negligible	1 (where stocks are in plant site) ½ (Where stocks are also in upcountry centres)	1¼
(b) For phosphatic plants	2 (Units in port areas) 3 (Units away from port areas)	Negligible	1 (Where stocks are in plant site) 1½ (Where stocks are also in upcountry centres)	1¼
(vi) Pharmaceuticals	2¾	½	2	1¼
(vii) Dyes and Dyestuffs	2¼	1	¾	2¼
(viii) Basic Industrial Chemicals	2¾	¼	1	1¾
(ix) Vegetable and Hydrogenated Oil	1	Negligible	¾	
(x) Paper	2-6 Bamboo and Wood (to be built up in stages from November to May and thereafter to be brought drawn) 2¼ Chemicals		1 (For controlled sales) and 3/4 (for free sales)	¾
(xi) Cement	2¼ Gypsum ¼ Limestone 3/4 Coal ½ packing material	½	- 1 -	
(xii) Engineering Automobiles & ancillaries	2¼	¾	- 2½ -	
(xiii) Engineering Consumer Durables	2	¾	- 2½ -	
(xix) Engineering Ancillaries (other than Automobile ancillaries) and Component Suppliers	2	¼	- 2½ -	

(xv)	Engineering machinery manufactures Capital Equipment Suppliers (other than Heavy Engineering)**	2¾	1¼	- 3½ -

Notes:

(i) Raw materials are used in so many months.

(ii) (a) Stock-in-process are expressed as so many months' cost of production

(b) In individual cases, the bank may deviate from the norm for Stock-in-process if it is satisfied that the actual process time involved in any particular unit, say, in view of the nature of production, past experience and technology employed, is more than the suggested norm.

(iii) (a) Finished goods and receivables are expressed as so many months' cost of sales and sales respectively. These figures represent only the average levels. Individual items of finished goods and receivables may be for different periods, which may exceed the indicated norms so long as the overall average level of finished goods and receivables does not exceed the amounts as determined in terms of the norm.

*(b) The norm prescribed for receivables relates only to inland sales on short-term basis (i.e., excluding receivables arising out of deferred payment sales and exports).

(iv) Stocks of spares are not included for norms, since in financial terms they are not significant in many industries. Banks will ascertain the requirements of spares for individual units. They should, however, keep a watchful eye to ensure that spares do not exceed 5% of the total inventories.

** (vi) Heavy Engineering will include the supply of whole or substantial plants involving a long manufacturing period, i.e., sugar, cement, steel and textile plants.

Source: Report of the Study Group, RBI, 1975, pp. 20 & 21.

Illustration

ABC Industry

Estd. 1969

Manufacturer of automobile spare parts & nuts & bolts

Investment in Plant & Machinery	Rs. 15 lakhs
Bankers	Bank of Bombay
Capital	Rs. 5 lakhs
Reserves	Rs. 3 lakhs
Net Worth	Rs. 8 lakhs

(Rs. in lakhs)

Current Liabilities		*Current Assets*	
Creditors for Purchase	55	Raw Materials	120
Other Current Liabilities	25	Stock-in-progress	20
		Receivables	30
	80	Finished goods	40
		Other current assets	10
Borrowings	120		
(i) Long-term	50		
(ii) Short-term	70		
	200		220

1st Method		*2nd Method*		*3rd Method*	
Total Current assets	220	Total Current assets	220	Total Current assets	220
Less: Current Liabilities other than bank borrowing	80	25% from long-term sources	55	*Less:* Core current assets	55
Working capital gap	140		165		165
25% of above form long-term sources	35	*Less:* current liabilities other than bank	80	25% of above from long-term sources	41
Maximum bank borrowing permissible	105	Working capital gap	85	*Less:* current liabilities	80
			140	Other than bank borrowing	44
		Maximum bank borrowing permissible	85	Working capital gap	140
				Maximum bank borrowing permissible	44
Excess Borrowings	15	Excess Borrowings	35	Excess Borrowings	96
Current ratio 1.19:1		Current ratio 1.33:1		Current ratio 2.12:1	

Scientific Approach to Working Capital

A scientific approach to working capital involves a study of the factors which affect the need for working capital — the terms offered by suppliers, the terms offered to customers, the average period of lead time for various inventory items, the seasonal fluctuations in sales, the production cycle, the level of stock and other influencing factors. These factors may be used to relate the balance sheet items to sales volumes. The relationships yield measures which may serve, among other things, as tools for the prediction of future working capital needs.

For a scientific study of the working capital problem, a mathematical model may be developed to state the important quantitative relationships among different variables. In order to construct such a model, it is necessary to make an objective study of the situation. In the case of working capital, the relevant factors which should be studied are the relationship that exist between the amounts of the current assets and current liabilities, and the volume of sales.

In developing the model, the first step is to analyse the relevant factors of a company's situation. This involves an examination of the records, a study of actual procedures and a consultation with company officials.

The suggested method of forecasting working capital needs is an improvement on the methods which are currently employed by companies. The use of the model would result in a more accurate forecast, allow for improvement through observation and experience, and act as a useful tool for the assessment of the size of the working capital.

The use of the working capital model is appropriate for many types of businesses. In companies which manufacture different types of products involving different materials or different processes, separate sub-models may be constructed, and these may be combined in the final analysis. Where conditions are changing rapidly, the effects of the changes can be estimated objectively.

As long as the general pattern of the production and financial process does not change substantially, the model will hold good. When any change occurs, a re-study of the pertinent items would be sufficient.

In most cases, this type of working capital model can be developed easily. It would enable managers to forecast the level for each working capital item and ensure that the necessary resources are available. In addition, the model could establish working capital standards. A comparison of the actual with the standards would provide a measure of the efficiency of financial management.

Management

Effective financial management is based on three factors: analysis of past performance; planning for future activities; and control of current activity. Control is achieved by implementing decisions in accordance with agreed plans. Accordingly, financial planning is of crucial importance in a small unit.

An effective working capital management calls for an understanding of cash requirements at varying stages of design, development, production and marketing. The overall efficiency of the working capital is judged by the annual result it produces.

The working capital management is an integral part of overall management of small-scale industries. There is need for greater co-ordination between small-scale industries and financial institutions. Towards this direction, the Small Industries Development Bank of India (SIDBI) is shaped to provide a strong support to small-scale industries.

It is essential that financial institutions should safeguard their interests with adequate security. At the same time, small industrial concerns should not, as far as possible, be denied the assistance they deserve or need. Lack of finance is often not the cause but the result of difficulties in other areas. In such cases, what is needed are measures to set right those factors which would render financial assistance, good returns. It is common knowledge that the small-scale sector needs non-financial assistance — marketing assistance, technical guidance and training in management, etc. It has also arranged training programmes for small entrepreneurs; but the scope of operation of these need to be expanded. Above all, there is need for greater co-ordination at all levels between the financial and non-financial institutions and agencies engaged in the promotion of small-scale industries.

In the present Indian context, the socio-economic obligations of a banker include identification of project ideas, project formulation, managerial talent and provision of technical and managerial guidance to new ventures with a view to broad-basing entrepreneurial talent and assisting in the creation of more employment opportunities in the country. The banker who controls credit is a "supply leader" as opposed to his erstwhile role of a "demand follower." He is no longer a "wholesale" banker sitting

in an ivory tower. His new role as an agent of economic development is to assist in the development and growth of economic activities.

Planning and control of working capital centres round sound cash planning which includes setting of cash policies and procedures and the control over cash and credit. Cash is of course a very sensitive component of working capital. The working capital has, therefore, to be managed properly, especially by the SSIs, because over or under circulation may create volatile problems.

Financing of Industrial Estates

Financial institutions have commenced extending estimated direct assistance for financing of industrial estates. Such ventures estimated at Rs. 300 lakh are covered under the IDBI's re-finance scheme where primary lending is effected through the SFCs, SIDCs and commercial banks. Industrial estates costing beyond Rs. 300 lakh are extended direct financial assistance by the all-India financial institutions.

The main aspects considered in proposals for setting up of industrial estates are the suitability of the location, availability of power, water, raw materials, skilled and unskilled labour, transport and communication facilities, market for the products of industries to be set up in the estate and the potential for overall economic growth. Significant emphasis initially is, therefore laid on physical survey of the site and its proper designing.

Size of Industrial Estate

The size of the estate should preferably be not less than 15 acres of land where the cost is up to Rs. 300 lakhs and not less than 25 acres of land where the cost is more than Rs. 300 lakhs. This size results in individual units deriving the advantage of some economy in overhead expenses and sharing of some common facilities. However, it may not always be practical to insist on the minimum size of land and the financial institutions may, under such circumstances, relax the minimum area where the estate is in urban areas or if the estate is proposed in a multi-storeyed building.

The institutions also desire that the project acquires adequate reserve land at the beginning itself as the cost of acquiring adjacent land at a later date might become prohibitive. Twice the estimated initial capacity for sheds booked/expected to be booked is considered a fair reserve area over the present requirements. This is not, however, taken as an inflexible norm and for large estates, particularly in urban and semi-urban areas, the reserve may be less, say, equal to the area initially required.

Conclusion

To make finance available for a project there is need for prudent financial management. All along, there is need for planning the flow of funds for the smooth functioning of a project. A successful project is one which generates its own finances to a greater extent and finances its diversified activities. Internal resources will serve as a backbone of a project.

The generation of internal resources not only benefits the enterprise, but also the entrepreneur, shareholders and the society. Above all, a prudent management of internal resources may also assist the natural growth of the capital market.

Finance, which has been aptly described as the "life-blood" of industry is a pre-requisite for the mobilisation of real resources to organise production and marketing. Depending upon the nature of the activity to be financed, business requires short-term, medium-term and long-term finance.

A new chapter for business finance is being hammered out. And with it, the flexibility for the entrepreneur to design the financing mix to suit every need. To use an assortment of financial products that both lowers financing costs and minimises risks. In short, to evolve a financing strategy that dovetails with the enterprise's competitive strategy tomorrow.

With deregulation, entrepreneurs will find it cheaper to access the markets directly. The phenomenon of disintermediation is interwined with securitisation, or the tendency of enterprises to raise capital by issuing securities rather than on relying on direct loans. While short-term working capital needs can be met by the issue of commercial paper, long-term project finance requirements can be partially serviced through debenture offerings. In fact, in the more developed capital markets, funds are raised by even scrutinising the regular cash-flows generated by receivables.

Fierce competition among the lenders will transform once standard working capital or term-loans for the entrepreneurs. The lenders will be forced to assume higher credit risk. Project financing will, increasingly, be of the non-recourse variety while a rising proportion of working capital finance may be extended on an unsecured basis. Since credit risk will be transferred in full to the financial intermediary, that intermediary will be much involved in monitoring the loan. So, while securitisation moves towards more impersonal forms of financing, lending will become more intimate.

Financial management is an integral part of industry and ranks equally in importance with other key components like production and marketing. Capital and finance form the bed rock foundation of industrial development. They are provided by a number of financial institutions. The saga of industrial development in the post-independence period is the story of these core institutions as well as market participation.

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CHAPTER 33

PROJECT FINANCING

Introduction

Finance is one of the basic requirements of a project which entrepreneur needs to start within every stage of the project. Project finance is both for short-term and long-term. The sources from which the entrepreneurs can meet their financial needs for their projects are: *internal source* and *external source.* Besides, the entrepreneur raises his finance by availing of available subsidies, state aid to industries, etc. Project finance, therefore, is very crucial to the success of a project. In this chapter, the various facets of project financing are discussed.

Project Financing

Project financing, as a concept is very old. But it has gained prominence during the last two decades. There was a time when project finance was a fairly simple banking exercise. That time is now past. Of late, many changes in the economic environment have taken place. The figures for total investment in almost any major capital plant development have, by the joint action of inflation and technical innovation, reached dimensions which have become too large for an individual company to accommodate. Again high rates of inflation have made cost escalation provisions assume very large proportions, particularly in relation to the basic price of any capital plant where a long period of manufacture is required before it can be erected and start functioning on site. That brings forth the importance of a national approach to project financing.

The gamut of *'feasibility'* covers the following areas:

(a) To the idea technologically sound — Technical feasibility.

(b) Would it be commercially viable — Commercial viability.

(c) What would be its economic dimensions — Economic viability.

(d) What financial demand would it make on the promoters, the company and outside creditors. To put it differently, what is the size of funds required — Cost of the Project.

(e) What would be the probable sources that can be tapped? What sources should be selected — Financial Plan.

(f) Would the project be a paying proposition — Financial viability.

(g) How much would be the manpower requirement and what type of managerial and organisational structure will it require? — Organisational and management structure.

The *technical feasibility analysis* is an attempt to study the project basically from a technician's angle. The promoters of the project can approach the problem of preparation of technical feasibility studies in the following order:

(i) Undertaking a preliminary study of technical requirements to have a quick evaluation.

(ii) If preliminary investigations indicate favourable prospects, working out further details of the project becomes imperative. The exercise begins with engineering and technical specifications, and covers the requirement of the proposed project as to quality, quantity specifications of each type of components of plant and machinery, accessories, raw materials, labour, fuel, power, water, effluent disposal, transportation, etc.

The concept of economic and commercial feasibility of a project concerns itself with the process of sharing the total market in an efficient manner as evidenced by profits. The commercial and economic viability of a project comprises analyses of the following aspects:

(i) Getting a feel of market.

(ii) Assessment of aggregate demand — existing and future.

(iii) Determining the extent of supply to meet the expected demand and arriving at the gap.

(iv) Deciding in what way the project under consideration will have a reasonable chance to share the market.

(v) Converting the projected demand into monetary units, i.e., estimating revenues on the basis of prices assumed.

(vi) Arriving at the physical requirements of production inputs such as raw materials, power, labour, etc. at various levels of output and converting them into costs. In other words, deciding costing pattern.

(vi) Matching costs with revenues with a view to estimating the profitability of the project and the break-even point.

Financial appraisal is probably the most import aspect of project financing. It seeks to cover the following aspects:

(i) The total capital cost of the project.

(ii) The means of finance to meet the projected cost.

(iii) The projected operating costs, and revenues and prospectives.

"One of the key problems of planning, therefore, is where to strike this balance between giving enough credit for the small man to develop and not giving him so much that there have to be large write-offs every year."

Finance is one of the constant problems, and if small-scale industries are to develop according to the Government policy, they must have adequate credit. Credit is available on the basis of the creditworthiness of the entrepreneur. In regard to capital structure and working capital management, there are many differences between large, medium and small-scale industries.

Finance is the life-blood of any business. Its management is an art and merits special attention. The financial function of management is to:

(a) Ensure fair return on investment;

(b) Generate and build up surpluses and reserves for growth and expansion;

(c) Plan, direct and control the utilisation of finances so as to ensure maximum efficiency of operations and build a proper relationship with suppliers, financiers, workers and members; and

(d) Co-ordinate operations of the various departments through appropriate measures to ensure discipline in the use of financial resources.

The Paradigm Shift in Project Finance

	The Old	*The New*
Equity	■ Ordinary Shares	■ Ordinary Shares, Preference Shares, Non-Voting Shares, Deferred Shares, Global Depository Receipts, American Depository Receipts
Debt	■ Term Loans, Debentures, Eurobonds	■ Term Loans, Debentures, Non-Recourse Finance, Zero Coupon/Deep Discount Bonds, Step-Up/Step-Down Structures, Variable Rate Bonds, Eurobonds, Yankee Bonds, Samurai Bonds
Convertibles	■ Convertible Debentures	■ Convertible Debentures, Redeemable Cumulative Convertible Preference Shares, Secured Premium Convertible Bonds, Optionally-Convertible Discounted Debentures, Euro-Convertible Bonds
Leasing	■ Financial Leases	■ Financial Leases, Operating Leases, Vendor Leases, Big-Ticket Leasing, Leveraged Leases

Capital

The term *"capital"* refers to total investment of money, tangible assets like buildings, and intangible assets like goodwill. It is, in a way aggregate wealth of a unit or a company. The *"net capital"* refers to the excess of total assets over total liabilities.

Capitalisation

Capitalisation is the sum-total of all long-term securities issued by a company and the surpluses not meant for distribution; it includes only term loans and retained profits.

If a company raises more capital than is warranted by the figure of capitalisation or its earning power, it is said to be over-capitalised, but if its capital is lower than its earning power, it is said to be under-capitalised.

Evils of Over-capitalisation

As a result of over-capitalisation,

(i) There is considerable reduction in the rate of dividend on equity shares;
(ii) The market value of shares declines and investors lose confidence in the company;
(iii) The company resorts to window-dressing; and
(iv) There is loss of goodwill.

From the social angle, over-capitalisation,

(i) Is an indication of reduced efficiency;
(ii) Results in a misappropriation of society's resources;
(iii) Leads to a cut in the wages of workers with a view to raising profits; and
(iv) Makes it difficult for a company to withstand competition. The shareholders of an over-capitalised company, therefore, receive low dividends; and the depreciated shares are subject to gambling on the stock exchange, which calls for remedial measures, i.e., reorganisation.

Under-capitalisation

A company is *under-capitalised* when its capital is lower than is warranted by its earning capacity. The management should capitalise its earnings by issuing fully-paid bonus shares. Keeping the company fairly capitalised is a continuing process. Flexibility in financial planning is, therefore, quite essential if the capital structure is to be adjusted to the varying needs of a company.

Overcapitalisation vs. Undercapitalisation

Overcapitalisation	*Undercapitalisation*
1. A comany is said to be overcapitalised when it is consistently unable to earn the prevailing rate of return on the capital invested.	1. A company is said to be undercapitalised when the rate of return is exceptionaly high as compared to the rate earned by similar companies in the same industry.
2. The earning capacity of an overcapitalised company is low in comparison with the capital invested.	2. The earning capacity of an undercapitalised company is exceptionally high in comparison to the capital invested.
3. It means that capital is utilised inefficiently.	3. It suggests that capital is utilised most efficiently.
4. It indicates a weak financial position and unhealthy state of affairs of the company.	4. It indicates a strong financial position and healthy state of affairs of the company.
5. The market value of the company's shares is less than the book value.	5. The market value of the company's shares is more than the book value.
6. Overcapitalisation is undesirable and dangerous to the company, investor, and society at large.	6. Undercapitalisation is undesirable but not dangerous to the company and investors.

Capital Structure

According to Gerstenberg, the capital structure of a company is defined as the make-up of its capitalisation. Capitalisation comprises a corporation's owned capital and borrowed capital, as represented by its long-term indebtedness. "Capital structure" refers to the kind of securities that make up the capitalisation. Decisions about the amount of securities are reflected in the capitalisation; decisions as to the kind of securities are reflected in the capital structure.

The *capital structure* of a company involves a decision regarding the ratio of ownership capital to credit capital, between short-term and long-term capital, and the ratio among different sources of finance for capital, which includes loans, bonds, share issues and reserves. The various components of the capital structure of a company are indicated in Fig. 33.1.

The maintenance of proper ratios between the different types of securities is known as *"capital gearing."* The following factors generally govern the capital gearing of a company:

(a) Trading in equity;
(b) Retaining control of a company;
(c) Nature of enterprise;
(d) Elasticity of the financial plan;
(e) Legal requirements;
(f) Market sentiment; and
(g) Requirements of investors.

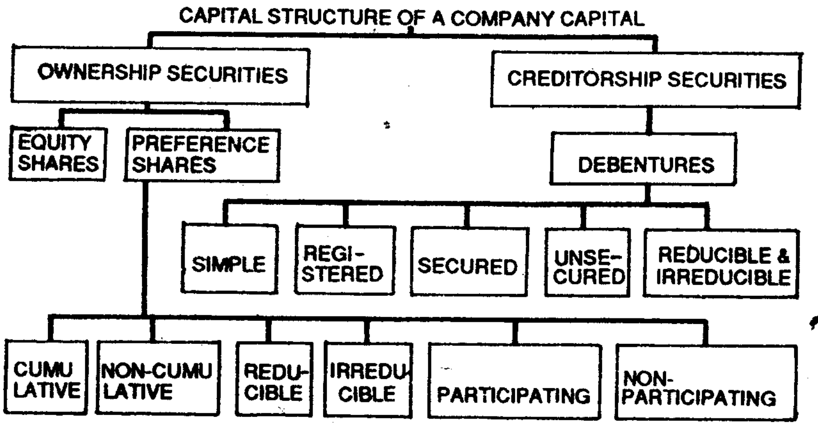


Fig. 33.1 Capital Structure of a Company

The size and pattern of a company determine its capital structure. The basic pattern of any capital structure may be broadly classified as follows:

(i) Equity shares, i.e., one type of shares;
(ii) Equity shares and preference shares, i.e., two-tier stock;
(iii) Equity shares, preference shares and debentures, three-tier stock.

The financial pattern of large-scale and medium-scale industries is quite different from that of small-scale industries. With a view to getting a proper perspective on the capital structure and working capital management of a small-scale industry, let us first briefly discuss the financial structure of large-scale industries.

Finance for Large-Scale Industries

As already mentioned, large-scale industries require long-term loans or funds to meet their fixed or block capital expenses — on the purchases of a factory site, the construction of the factory building, the purchase of machinery and equipments, and so on. Short-term loans or funds are needed to meet working expenses — payment for raw materials, wages, minor maintenance charges, and so on.

Funds needed for block or fixed capital are generally raised:

(i) By the issue of shares of different types and debentures;

(ii) By ploughing back a part of the profits made by an industry;

(iii) By inviting long-term deposits from the public — a practice which has assumed increasing importance in recent years;

(iv) By raising long-term loans from public financial institutions, which have been playing an increasingly important role in providing long-term finance to large-scale industries since 1960.

The usual methods of raising working capital are: loans from commercial banks, loans from managing agents, short-term deposits from the public, loans from indigenous bankers, and so on.

The different sources of finance for large-scale industries are analysed below.

Share and Debentures

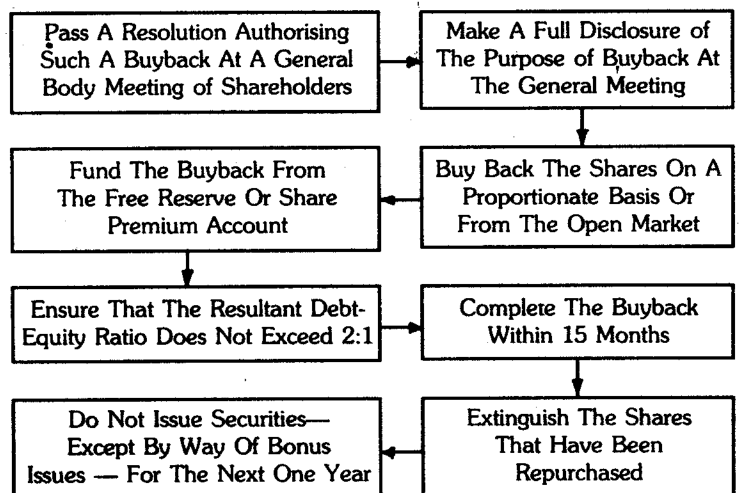
Large and well-known industries generally raise a major portion of their funds to meet their capital demands by selling shares of different types, namely, equity or ordinary shares, cumulative and non-cumulative preference shares. The trend in recent times has been to issue shares of Rs. 10, Rs. 50 and Rs. 100 to enable persons in the middle income group to subscribe to the share capital. Because of substantial money with the public, well-known industrial concerns find it quite easy to raise funds by selling equity shares, which are often oversubscribed. Restrictions on the rates of dividend had, for some time, depressed the share market. Most of these restrictions don't exist.

Another way of raising funds to meet the needs of block capital is to sell debentures to, and borrow money from the public. Since commercial banks started giving interest every month on deposits of 61 months and above, middle class people prefer fixed deposits to the purchase of debentures of large-scale industries.

SHARE BUYBACKS

THE DEFINITION

Repurchase of shares by the issuing company.
Shares bought back must be extinguished,
which will reduce the equity base.



The Advantages

- Returns surplus cash to the shareholder
- Increases underlying share value
- Supports share price during bearish periods
- Maintains a target debt-equity structure
- Inhibits unwelcome takeover bids

The Disadvantages

- Could enable promoters to use company money to raise their personal stakes
- Opens up possibilities for share price manipulation
- Could divert fnds away from productive investments

Deposits from the Public

The practice of the managing agents of textile mills in Ahmedabad to accept deposits from the public for a period of 6 months or 1 year was later adopted by the textile mills in Mumbai and Solapur. The tea-gardners of Assam also adopted this mode of raising funds, which became very popular with the public during the 1960s and the 1970s, when the Government followed a dear money policy and introduced a credit squeeze. Big industries began to raise funds from the public by paying between 10% and 15% interest instead of 18% and 20% to commercial banks. The public, too, began to deposit their money with well-known large-scale industries to get higher rates of interest instead of investing their savings in fixed deposits in commercial banks at

comparatively lower rates of interest. Later, when many industrial houses defaulted on the payment of interest and principal, the Reserve Bank placed some restrictions on the acceptance of deposits by industries in order to protect the public from some unscrupulous industrial houses.

In this connection, attention may be drawn to the latest amendment to the Companies (Acceptance of Deposits) Rules 1978, which has been effective since 1st April, 1979. According to the latest amendment, non-banking companies could accept unsecured deposits from the public only upto 10% of their aggregate paid-up capital and free reserves as compared to the original limit of 15%. If deposits of this category exceed the limit of 10%, they will have to be brought down to the specified limit on or before 1st April, 1980.

The amendment also fixed the maximum period for which companies can raise loans from the public at 3 years only.

Also, with effect from 1st April 1980, the limit of aggregate deposits of all categories covered by the amendment was brought down to 25% from the present limit of 40%. It should be noted that inter-company deposits, which were originally excluded from the overall ceiling of 40%, have now been brought within the purview of the Rules. It may also be noted that, to reduce the risk element for depositors, the amendment states that industrial companies must deposit in scheduled banks or invest in specified securities not less than 10% of the amount of their deposits maturing during the year. In order to enable the public to know the financial position of the companies which call for deposits, the form of advertisement has been enlarged.

One of the results of the amendment has been that many big and reputed companies have stopped accepting fresh deposits from the public. The investor who wants to maximise returns on his savings now had to deposit them in small companies at greater risk, or invest them in the Unit Trust of India or deposit them in commercial banks and accept lower returns. The amendment that deposits cannot be held for more than three years will also adversely affect the depositors because they have been deprived of the benefits of cumulative deposit schemes.

Government Justification

The Government on its part had several good reasons for enacting this amendment in regard to the acceptance of public deposits by companies. Company deposits are reported to be of the order of Rs. 2,000 crores which is a fairly big leakage from the monetary system under the direct control of the Reserve Bank of India.

A small-scale industrial unit requires funds before it can come into being; and it needs them for expansion, modernisation and working capital. It requires long-term finance to acquire fixed assets like land and buildings, plant and machinery, etc., and short-term working capital for the purchase of raw materials and stores and for the payment of wages. While long-term finance is given by the government and the development banks, short-term finance is provided by commercial banks. Various Government finance schemes are discussed briefly in the following pages.

Foreign Currency Term Loan Assistance

It is provided for incurring foreign currency expenditure towards import of plant, machinery and equipment as also payment of foreign technical know-how fees. The periodical liability towards interest and principal is calculated in the currency of the loan and converted into rupees at the then prevailing rate of exchange for effecting payment to the lending institution. The foreign currency term loans do not attract the convertibility stipulations.

Deferred Payment Guarantee assistance is provided in rupee and foreign currencies. Guarantee is issued on behalf of the purchaser in favour of machinery suppliers offering the facility of deferred credits. A nominal guarantee commission fee is levied by the financial institution on the assisted concern. In case of default in payment of deferred instalment, the financial institution makes the payment to the machinery supplier and later recovers the amount from the assisted concern.

Guarantee assistance is provided for foreign currency loans raised by industrial concerns from institutions and banks abroad. A nominal guarantee fee is levied on the assisted concern for the foreign currency loan guaranteed.

Underwriting assistance for issue of shares and debentures is provided as a part of the overall financial package by the participating financial institutions. In respect of non-convertible debentures, the underwriting assistance is restricted to 50 % of the issue in respect of MRTP companies and 60% of the issue in respect of non-MRTP companies.

Assistance by way of *direct subscription to shares* is extended to small issues which are not feasible for issue to the general public through prospectus. In respect of joint sector companies, capital is subscribed by the State level financial institutions as a part of the promoter's contribution.

Soft Loan assistance is a special scheme operated by the Industrial Development Bank of India, the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India Ltd. for modernisation and rehabilitation of industrial undertakings. The loans are extended on concessional terms in regard to the rate of interest, promoter's contribution, debt-equity ratio, initial moratorium and the repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have been exempted from the convertibility stipulations.

Assistance through the *Technical Development Fund* was introduced in March 1976 for the import of small value balancing equipment, technical know-how, foreign consultancy services and drawings and designs by industrial units to enable them to achieve fuller capacity utilisation, technological upgradation and higher exports. The limit for total imports under the scheme is restricted to the equivalent of Rs. 100 lakh per undertaking per year. The Industrial Development Bank of India provides rupee loans up to a maximum of Rs. 125 lakh at interest of 12.5% per annum to enable the utilisation of import licences issued under the TDF scheme. The scheme covers all industries and permits import of any inputs needed for improving the export capabilities.

Bills Rediscounting Scheme is designed to promote the sale of indigenous machinery on deferred payment basis. Under this scheme, the seller realises the sale proceeds through discount of the relative bills of exchange or promissory notes with a commercial bank which in turn rediscounts the bills or notes with the Industrial Development Bank of India (IDBI). The buyer can thus acquire machinery on deferred payment terms without going through the long procedures involved in obtaining term loans. The deferred payment spread is normally restricted to five years. In respect of sugar, jute, cotton textiles, cement and engineering industries and also certain other deserving industries, the period is extended up to seven years. The scheme is particularly helpful in respect of modernisation by existing units or for purchase of balancing equipment for expansion. An important advantage of the scheme is that it does not attract the convertibility stipulations.

Assistance through *refinance of industrial loans* is intended to strengthen the efforts of State level financial institutions and commercial banks for providing assistance to small and medium-sized industrial projects. The IDBI grants refinance facilities to these State level institutions and banks against their loans to such units. The maximum amount eligible for refinance per unit is restricted to Rs. 80 lakh from commercial banks, Rs. 90 lakh from state industrial development corporations and Rs. 60 lakh from state financial corporations. The purpose of the loan to be refinanced is limited to the acquisition of fixed assets. The credit risk is fully assumed by the primary financial institution which directly lends to the industrial concern. The IDBI refinances 60% of the original loan, depending on the nature of assistance, location of project, its cost and the status of the primary lending institution.

Assistance in the form of *suppliers line of credit* is provided to manufacturers for promoting sale of industrial equipment on deferred payment terms. This credit facility can be availed of by actual users for balancing equipment, replacement or modernisation purposes only. Under this scheme, a non-revolving line of credit is extended to a seller to be utilised within a stipulated period. This facility is very much similar to the Bills Rediscounting Scheme except that in this case, the payment is directly received by the supplier from the financial institution as compared to an intermediary commercial bank in the earlier case.

Seed Capital assistance is provided to encourage a new class of entrepreneurs so as to bring about wider dispersal of ownership and control of industrial undertakings. This special scheme has been introduced for the purposes of supplementing the resources of the entrepreneur. Assistance is provided as interest-free loans to the extent of the deficit in the required promoters' contribution. Such assistance is restricted from Rs. 15 lakh to Rs. 40 lakh per project depending on the number of applicant promoters.

Equity and Preference Capital funds can be procured from the following sources:

Promoter's Quota:

- Inter-corporate investments
- Promoters, directors, friends and relatives (including non-resident Indians)
- Foreign collaborators
- Oil exporting developing countries

— State industrial development corporations
— Shareholders of promoter companies
— Internal accruals
— Rights issue to existing shareholders.

Non-promoter's Quota:

— Public issue to Indian residents
— Public issue to non-residents of Indian origin on repatriable and non-repatriable basis.

Debenture Capital funds in the form of secured convertible or non-convertible debentures can be raised by listed public companies and public sector corporations with the objective of financing any expansion or diversification project or to augment the long-term resources of the company for working capital requirements.

The issue of debentures for financing working capital requirements cannot exceed 20% of the gross current assets, loans and advances. The issue of debentures for project financing is considered on the basis of the approval of the scheme of finance by the financial institutions and the MRTP Commission (where applicable).

The debt-equity ratio after including the proposed debenture issue should not generally exceed 2:1. This norm is relaxed for capital-intensive projects.

The shares of the company proposing to issue debentures must, however, have been listed in one or more stock exchanges and the market quotation of its equity shares must have been above par for at least six months prior to the date of application to the Controller of Capital Issues for permission to issue debentures.

Government Subsidies are extended by the Central and State Governments to projects being established in industrially low profile areas.

For purposes of capital subsidy from Central Government, areas have been divided into three categories by the Ministry of Industries. Category 'A' comprising of 134 no-industry districts and special regions are eligible for subsidy at the rate of 25% of the investment subject to a maximum of Rs 25 lakh. Category 'B' comprising of 54 districts are eligible for subsidy at the rate of 15% of the investment subject to a maximum of Rs. 15 lakh. Category 'C' comprising of 113 districts are eligible for subsidy at the rate of 10% of the investment subject to a maximum of Rs. 10 lakh. Subsidy under Category 'C' is, however, not granted to MRTP/FERA companies.

In addition to the subsidy by the Central Government, State Governments operate the state subsidy scheme in order to achieve a wide dispersal of industrialisation within the state. The rate and amount of subsidy varies from state to state, with the upper ceiling generally remaining within a maximum of Rs. 25 lakh.

The State Governments also operate the sales tax exemption and the sales tax deferment schemes. Under these schemes, industries being located in industrially backward areas get exemption/deferment of sales tax on purchases and sales for a period ranging between five to seven years. The quantum of benefit under these schemes is, however, restricted to a percentage of the fixed capital investment, subject

to a maximum upper limit. These funds can be well used for augmenting margin money requirements for working capital or for phased capital expenditure.

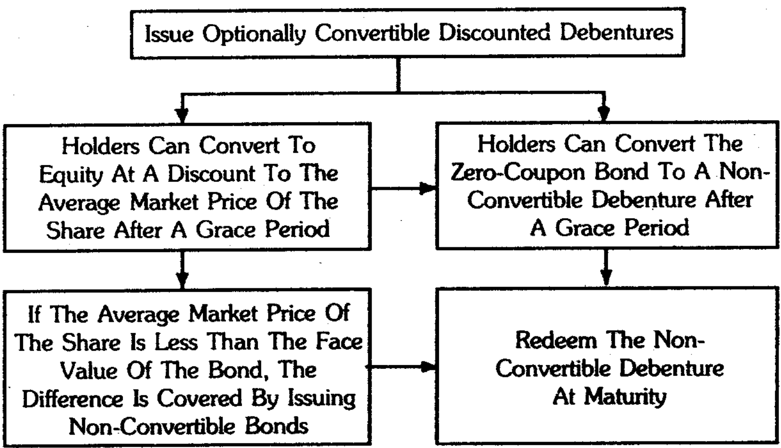
Programme for the Advancement of Commercial Technology (PACT) is the outcome of an agreement between the Governments of India and U.S.A. signed in August 1985 under which the United States Agency for International Development is providing funds for promotion and financing of Indo-US joint ventures in research and development. The Industrial Credit and Investment Corporation of India Ltd. is managing and administering the entire operations of PACT.

PACT will support selected Indo-US joint ventures in research and development by offering need-based promotional assistance and conditional grants towards meeting part of the research cost which in turn, will provide an in-built protection against risks associated with market-oriented research and development. The assistance from PACT will normally be limited to US $ 500,000 or 50% of the total estimated cost, whichever is lower.

OPTIONALLY CONVERTIBLE DISCOUNTED DEBENTURES

THE DEFINITION

A zero-coupon bond which offers the investor the option of conversion to either equity or debt after a stipulated period.



The Advantages

- Reduces the cost of debt
- Offers the investor the option of conversion
- Limits cash outflow during the gestation period
- Structuring can be tailored to the project profile

The Disadvantages

- Requires rapid profit growth
- Failure to convert may result in large outflows
- Low share prices could increase gearing ratios
- Conversion may result in an expensive dilution

Public Subscription to Capital

Equity capital, after deducting the amount to be statutorily subscribed by the promoters, may be offered to the public for subscription in cash. The public may represent resident Indians or non-resident Indians or both depending on the quantum and percentage of equity funds to be raised.

Assuming a representative project having a debt-equity ratio of 2:1 with promoters' contribution of 20%, promoters would be required to subscribe to 60% the equity capital and balance of 40% would be issued to public for subscription. Generally, to become eligible for listing on a recognised stock exchange, companies are required to issue 60% of their capital to public for subscription through a prospectus. The public issue may, however, be reduced to a minimum of 20% of the capital in certain cases depending on the specific scheme of finance and its approval by the Government of India.

Lease Financing

Lease financing is the easiest way of financing capital expenditure without going through the time-consuming process of obtaining term-loan assistance from financial institutions and banks.

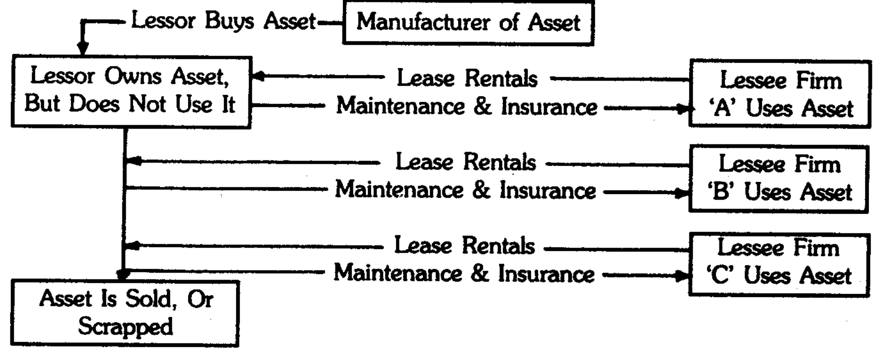
In any typical leasing transaction, there are three parties involved:

- the leasing company (lessor) which finances the equipment;
- the manufacturer or seller from whom the lessor purchases the equipment; and
- the party that requires the equipment (lessee).

OPERATING LEASES

THE DEFINITION

A short-duration, cancellable lease arrangement. The lessor bears the equipment risk, and the ease period is usually short.



The Advantages

- Transfers equipment risk to the lessor
- Minimises investment in equipment
- Reduce expenditure on maintenance
- Rentals can be tailored to project profile

The Disadvantages

- Rentals can be high
- Depreciation tax-shield is transferred to the lessor
- Requires specialised knowledge by lessors
- Scope for lessee misuse of asset

The equipment is purchased by the lessor from the manufacturer or seller and leased to the lessee. The lessee pays the lessor the predetermined rent over a specified period which usually extends between three to five years. The rent paid by the lessee represents the payment towards cost of equipment and interest thereon.

In the absence of income tax liabilities (specially for new companies), leasing is a very expensive means of financing. The built-in rate of interest varies between 20% and 22%. Further, a lease transaction allows no moratorium and the rentals immediately after its purchase.

Conclusion

More finance is needed for projects because the industrial base is getting bigger and bigger. For the entrepreneur chalking out a project financing strategy, the basic building blocks — debt and equity — will remain the same with deregulation, one can rearrange the multiplying options to create complex, yet flexible structures. The options are many. Only, one has to judiciously use them for maximum benefit. Financing will be designed to match a firm's debt-equity profile, cash flow projections, and its debt-servicing capability.

More importantly, the stress will have to be placed on prudent and efficient finance management in the coming decades. This calls for strengthening the capital market and giving fillip to savings and investment in the country as well opening her doors to foreign capital to enable a larger inflow of external funds for faster economic development here.

◆ ◆ ◆

"Industrialisation is a process which accelerates economic growth; affects structural changes in the economy, particularly in respect of resource utilisation, production functions, income generation, occupational pattern, population distribution, and foreign trade; and induces social change."

CHAPTER 34

INSTITUTIONAL FINANCE TO ENTREPRENEURS

Introduction

With the quickened pace of economic development under the impetus of the Five-Year Plans, the most striking change in the Indian economy has been the initiation of an industrial revolution and the reemergence of small-scale industries. Further, during the past decade, there has been a depending as well as a widening of the entrepreneurial structure as well as the small-scale industrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries have also come into being. During the last two decades, a boom has been seen activities in the country. Thus, in the field of capital and product goods industries, small units manufacturing such items as machine tools, electrical and engineering equipment, chemicals, etc., which provide the foundation for a self-sustained growth of the economy have been set up; amongst the consumer goods industries, small units producing such items as bicycles, swing machines, plastic products, etc. are gorging ahead.

Institutional Finance

These far-reaching developments and the scale and scope of operation of entrepreneurs, particularly in small-scale industries, have brought to the fore the importance of provision of administrative and institutional assistance at various levels.

Over the years financial institutions are playing a key role in providing finance and counselling to the entrepreneurs to start new ventures as well as modernise, diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operations of various development corporations, which have been rendering financial assistance, directly or indirectly, to entrepreneurs and their ventures.

Development being the function of capital, as the tempo of development grows, so does the requirement for capital. The need for capital is continuous and also boundless. However, capital is not only necessary for development which also

generated by development. Economic progress creates its surpluses with which further development is achieved, often at an accelerated rate. India's five Five Year Plans are a proof in themselves that substantially larger resources used in each successive plans came from the economic growth resulting from investment in the preceding plans. Only a relatively small part of the resources came from external sources though they were crucial to development.

Credit facilities granted by commercial banks and State Financial Corporations are covered under the Credit Guarantee Scheme for Small-Scale Industries, which offers protection to credit institutions against possible losses on their lending to this sector.

Institutional agencies grant financial assistance to small-scale industrial units for:

1. participation in equity capital;
2. acquisition of fixed assets by way of term loans; and
3. working capital.

Institutions that Help Entrepreneurs and Enterprises

(a) National Small Industries Corporation (NSIC), Small Industries Development Organisation (SIDO), Khadi and Village Industries Commission (KVIC), Handloom Board, Silk Board, Commodity Boards etc., have schemes to help SSI units in marketing their products. Some of them also help in promoting exports of goods manufactured by SSI units/Entrepreneurs.

(b) SIDO is one of the important agencies that help SSI units in marketing their products through consultancy, testing and marketing facilities. The SIDO functions as a model agency for formulating, coordinating and monitoring policies and programmes for promotion and development of small-scale industries in the country.

(c) SIDO also promotes ancillary units to public sector enterprises. Besides, many large industrial houses actively pursue the policy of promoting ancillary units for their purchases of stores. SSI units can take advantage of this facility and secure a regular market for their products.

(d) District Industries Centres (DICs) provide marketing and other assistance to SSI units under a single roof.

(e) State-level Small Industries Corporations (SICs) participate in tender programmes of government purchases and then sub-contract these tenders to SSI units.

(f) The Government of India has established trade centres at various places which disseminate information on market potentials and conditions. These centres also organise fairs and exhibitions where SSI units can exhibit and sell their products.

(g) Twenty-seven Small Industry Service Institutes (SISIs) have been set up by SIDO at various places for disseminating market information. Thirty-eight Exchange Centres have also been set up within some SISIs to help units in securing sub-contract jobs.

(h) The small-scale industrial sector raises term credit and working capital required by it from commercial banks, cooperative banks and State financial corporations.

(i) The SIDO has already set up 31 branch Small Industries Service Institutes, 4 Regional Testing Centres, 3 Process-cum-Product Development Centres and 20 Field Testing Stations to provide a comprehensive range of facilities to small-scale units.

(j) The specialised institutes like Central Institute of Tool Design, Hyderabad, Central Tool Room and Training Centres at Ludhiana and Calcutta, Central Institute of Hand Tools, Jalandhar, Institute of Design of Electrical Measuring Instruments (IDEMI), Mumbai, Integrated Trading Centre, Nilokheri, National Institute of Small Industry Extension Training (NISIET), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi conduct specialised courses/programmes/job-oriented training programmes for the benefit of small-scale industries.

Although such development corporations like the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corporation of India Ltd. (ICICI), and the Industrial Reconstruction Bank of India (IRBI), Small Industrial Development Bank of India (SIDBI), State Industrial Development Corporations (SIDCs) and State Financial Corporations are basically constituted to provide industrial finance, particularly to medium and large units, their role in assistance is by no means less important. These institutions, together with the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and the Unit Trust of India (UTI), play a significant role in the rapid growth of small-scale industry. The emergence of small-scale units on a sizeable scale in the last decade has given a real impetus to the industrialisation of underdeveloped areas.

Among the term-lending institutions, financial assistance to small-scale industries is mainly provided by SFCs, SSIDCs, SIDCs/SIICs and by the IDBI under its refinance of industrial loans and bills rediscounting schemes. Assistance sanctioned and disbursed by these institutions to projects ventured by entrepreneurs are discussed further.

The network of commercial banks, co-operative banks and regional rural banks, SFCs, State Industries Development Corporations (SIDCOs) and National Small Industries Corporation (NSIC) provide the framework for financial assistance to small-scale and medium-scale industries. The Industrial Development Bank of India (IDBI) provides funds to commercial banks and SFCs through its scheme of refinance of industrial loans and rediscounting of machinery bills. The commercial banks are the main source of short-term loans/advances while SFCs provide long-term loan advances to entrepreneurs. A National Bank for Agriculture and Rural Development (NABARD) has been set up for the supply of credit to entrepreneurs in Agriculture and for Small Village and Cottage Industry sector in rural areas.

State Industrial Development Corporations (SIDCs) were set up in the 1960s and 1970s to act as catalytic agents in the industrialisation of states. The SIDCs are established as wholly-owned undertakings of the State Governments under the Companies Act, 1956 or as autonomous corporations under specific State Acts. In addition to providing term assistance to industrial projects by way of loans, underwriting and guarantees, the activities of SIDCs also covered promotional functions such as formulation of project ideas through industrial potential surveys, preparation of feasibility reports and selection and training of potential entrepreneurs. Further,

activities of SIDCs extended to setting up of industrial project in the medium and large sectors either in the joint sector, i.e., in partnership with private entrepreneurs or as wholly owned subsidiaries, administering incentive schemes of Central/State Governments and providing risk capital to new generation entrepreneurs.

Designed to assist in the development of small and medium industries (SFCs) constitute an integral part of the national institutional network engaged in extending long-term finance to industrial sectors. SFCs have been playing an effective role for more than three decades in the rapid growth of small and medium scale units and through them have contributed significantly in creating employment opportunities and in achieving wider regional dispersal of industrial development.

Extension of Operation

Assistance sanctioned by financial institutions rose many fold from one plan to another. While it was Rs. 37.47 crores in the First Plan, assistance rose to Rs. 2,19,333 crore in the Eighth Plan. As against this, during the year 1997-98, financial institutions

Table 34.1

Financial Assistance Sanctioned and Disbursed by the Financial Institution

(Amount in Crores of Rs.)

Period	*Assistance Sanctioned*	*Assistance Disbursed*	*Proportion Disbursement to Sanction (%)*
Pre-plan Period (1948-1951)	8.13	5.79	71.1
First Five-Year Plan (1951-56)	37.47	15.22	40.6
Second Five-Year Plan (1956-61)	212.24	142.02	66.9
Third Five-Year Plan (1961-66)	471.91	422.84	89.6
Three Annual Plans (1966-69)	374.78	335.93	89.6
Fourth Five-Year Plan (1969-74)	1,452.61	984.20	67.7
Fifth Five-Year Plan (1974-79)	437.90	3,092.10	65.3
Sixth Five-Year Plan (1979-84)	18,153.80	12,476.40	68.7
Seventh Five-Year Plan (1985-90)	53,608.50	36,405.30	67.9
(1990-91)	19,184.50	12,684.20	66.1
Eighth Five-Year Plan (1991-96)	2,19,933.10	1,38,267.30	62.9
Ninth Five-Year Plan 1996-97	54,641.20	42,656.50	78.1
1997-98	81,589.40	53,832.00	53.8
Cumulative	4,44,874.00	3,05,520.20	69.1

sanctioned Rs. 81,589 crore and disbursed Rs. 53,832 crore. Cumulatively, upto end-March, 1998, sanctioned by AFIs aggregated to Rs. 4,44,874 crore, while disbursement amounted to Rs. 3,05,520 crore (Table 34.1). Over the years, the institutions have developed and introduced a variety of products and services to meet the growing needs of the corporate sector. Besides expanding the scope of their financing activity, the institutions have diversified into newer fee-based services offering an array of services such as banking, debenture trusteeship and forex services, etc.

The promotional activities of the bank cover a wide range of functions including identification and training of new entrepreneurs through Institutes of Entrepreneurship Development and other accredited agencies, self-employment/wage employment in industrial sector for weaker sections of society through voluntary agencies, support to Science and Technology Entrepreneurs' Parks, energy conservaton, provision of consultancy services, etc. Besides providing support to specific schemes and programmes in these areas, it has been the endeavour of the bank to strengthen and upgrade institutional infrastructure for undertaking promotional activities.

Componentwise Break-up of Cumulative Sanctions

	(upto end-March 1995)	*(upto end-March 1998)*
• Rupee loans	65.7%	63.7%
• Underwriting/direct subscriptions	19.6%	19.2%
• Foreign currency loans	10.6%	11.2%
• Guarantees	4.1%	5.9%

Share of Major Industries in Cumulative Sanctions

	(upto end-March 1995)	*(upto end-March 1998)*
• Chemicals & chemical products	13.9%	13.1%
• Textiles	11.9%	10.0%
• Services	10.9%	11.0%
• Basic metals	9.8%	8.3%
• Machinery	5%	4.0%
• Electrical & electronic equipment	5%	5.1%
• Food products	4.3%	3.9%
• Infrastructure	12.2%	13.5 %

Sector-wise Cumulative Sanctions

	(upto end-March 1995)	*(upto end-March 1998)*
• Private	81.2%	81.8%
• Public	12.7%	12.1%
• Joint	4.7%	4.8%
• Co-operative	1.4%	1.3%

Cumulative Sanctions Backward Areas, IDBI, IFCI, ICICI, SIDBI, ISI, SFCs and SIDCs

	(upto end-March 1995)	*(upto end-March 1998)*
• Backward areas	35.8%	32.7%
• Non-backward areas	64.2%	67.3%

Resources and Uses of Funds

(1997-98)

(Data relate to IDBI, IFCI, ICICI, SIDBI, IIBI, RCTC, TFCI, 17 SFCs and 18 SIDCs)

- Internal generation : 58.2 per cent
- Borrowings by way of bonds : 14.5 per cent
- Deposits etc. : 11.4 per cent
- Borrowings from Government, RBI, others : 7.8 per cent
- Increase in share capital : 0.9 per cent
- Borrowings in foreign currency : 4.2 per cent
- Others : 3.0 per cent
- Financial institutions provide financial assistance, undertake promotional and developmental activities, provide risk capital, venture capital, technology finance, and set up institution to train entrepreneurs.
- Commercial banks provide development finance, venture capital, extension work, working capital entrepreneurship development and management consultancy.
- Mutual Funds provide easy accessibility to the investing public.
- Merchant banks provide professional advice and services to industry for raising resources from the market, acquisition of assets on lease and mergers/take-overs of existing units.
- Finance companies offer the entire range of financial services to individuals and corporates.
- Leasing companies operate four types of leases: *(i)* operating lease, *(ii)* financial lease, *(iii)* sale and leaseback transaction and *(iv)* the leveraged lease.
- Technical Consultancy Organisations (TCOs) cater to the consultancy needs of small and medium industry and also for the new entrepreneur.
- Management institutes sponsored by development financial institutions are engaged in developing and upgrading the managerial ability and managerial talents of the practising managers.
- STEPS interface between Science & Technology institutes and industry.
- Entrepreneurial development institutes sponsored by financial institutions are engaged in the crucial task of entrepreneurship development and research.

Venture Capital Funds

The guidelines on 'venture capital' issued by the Reserve Bank of India towards the end of 1988, were a recognition of their role in the Indian market conditions. As the situation depicted at the end of 1989, venture capital funds still have a long way to go. The Technology Development and Investment Corporation of India, a subsidiary of ICICI, Technology Development Fund set up by IDBI, the Equity Development Scheme set by SBI Capital Markets Ltd. and Canfina which have been joined by India Investment Fund promoted by Grindlays Bank are some of the venture capital institutions set up in India at that time. The Credit Capital Venture Fund is the first private sector venture capital company to go public. More companies are exerting the field soon, with the International Finance Corporation, Washington, and the World Bank both planning venture capital joint ventures in India.

What is Venture Capital?

By definition, venture capital is thought of as a creative capital which is expected to perform economic functions different from other investment vehicles which primarily serve as expansion capital. This is something several entrepreneurs in India were ignoring over the years.

Venture capital is "equity support to fund new concepts that involves a high risk and at the same time has high growth and profit potential."

Of course, there is more to venture capital financing than just nursing start-ups. It encompasses a whole gamut of activities: from providing seed capital, and supplying funds for product development and marketing expenditure, to extending bridge finance prior to an Initial Public Offering (IPO). But, almost always, the term venture capital conjures up images of funding risky and unproven, but sophisticated, technologies.

In the US, venture capital propelled new ideas to major commercial successes. The objective of venture capital is to help professionals and small and medium entrepreneurs to launch enterprises with a specific promise. Venture capital is thus closely linked with innovation, high growth and profit. It provides the necessary dimension to convert your business idea into a commercial venture.

For instance, investments that help existing companies in expansion projects are linked to the book value of the underlying assets and rewarded primarily out of the income produced by these assets. But risk capital, according to one definition, "is the cutting edge with which entrepreneurs exploit opportunities to put together apparently neutral or sterile resources to create firms with capitalised earning power or market value well in excess of the cost of the invested funds."

The fact remains that if venture capital has been the harbinger of entrepreneurship in the West, it is because it enjoys a great deal of flexibility. In the US, for example, this form of financing enjoys considerable tax incentives. But, by and large, the industry rose to the occasion when some industrialists such as Jock Whitney and Laurence Rockefeller set aside funds to see whether a financing industry could be developed out of giving entrepreneurs an opportunity to start business.

Table 34.2
The Venture Capital Guide

	IDBI	*TDICI*	*RCTC*	*SBI Caps*	*Grindlays*	Canfina
Size of funds (Rs. crore)	NA	*(a)* Rs. 20 *(b)* Rs. 100	NA	NA	12	NA
Assistance per project (Rs. crore)	Rs. 2.50	Rs. 2	Needbase-depending on merits of each case	upto 3	—	—
Nature of assistance	Conditional loan/ Equity	Conditional loan/ Equity	Loan/Equity	Equity	Equity	Equity/ Conditional loan
Promoter's contribution		*(i)* 10% of project cost if it is < 50 *(ii)* 15% of cost if it is > 50 lakhs	To be decided on likely risk, technology & resource capability	—	—	NA
Terms of assistance	*(a)* Initially @ 6% during development period and thereafter 17% pa. Royalty on sales in some cases *(b)* Equity subscription in exceptional cases	*(a)* If equity subscribed when disinvestment made, option given to promoters to buy back at negotiated price *(b)* No int; only a change on commercial implementation of the project	Initially @ 6% pa during development period and on commercialisation @ 14%. Royalty in some cases. Repayment within 10/12 yrs. In case of equity participation buy back facility	Disinvestment after commercialisation of the project.	NA	NA
No. of projects assisted	41	46	168 (Dec. 1988)	21	16	2
Amount sanctioned (Rs. cr.)	31.44	23.17	2	10	9.6	0.34
Key industries	—	Medical applied research, polio vaccines, electronic equipment for defence applications, auto components, chemicals	Foodfeed tech, chemicals tech, chemicals & application software, biotech, diagnostics & vaccines, drug & plasma	Watches, seamless metal, ceramics, cement	MEG, colour picture tubes, drydock	NA

Note: Credit capital Venture Funds, the other private sector fund is not operational yet.

Over the years, venture capital has given birth to what are today mega corporations. Venture capital in most cases came in at the idea stage. Examples are many — Tandem Computers (non-stop computers), Genentech (bio-medical products), Apple Computers, Qume Corporation (computer printers) etc.

Creative financial engineering can find a way around this problem. To provide the lenders with an additional degree of security, a Special Purpose Vehicle (SPV) can be created, which would hold the shares bought back from the venture capital firm in trust until the firm achieves a certain targeted rate of return. Meanwhile a certain proportion of the firm's sale proceeds can be funnelled directly to the SPV to amortise the debt.

An exit via the capital market is certainly less expensive, but this option is open only to the more established firms. A listing on a stock exchange, which would enable the venture capitalist to easily offload his stake, is obviously a far more feasible proposition for a firm already in existence for a few years than for a new venture.

Package Scheme of Assistance

Financial institutions offer a package of assistance to entrepreneurs to enable them to translate their project idea into a raising operation. This package may be broadly classified into developmental and financial services. In addition, some institutions also implement a scheme of incentives to motivate and encourage entrepreneurs to set up potential revenue earning enterprises.

The Financial/Development Institutions

Their package of assistance extends:

1. Equity participation in joint ventures.
2. Equity participation in private and public limited companies to the extent of shortfall in promoters' contributions.
3. Essential loans to private and public limited companies for promotion of the industry.
4. Setting up units in the public sector for optimum utilisation of the State's resources where private capital is non-existent — a pace-setter for future private investment.
5. Project identification/technical consultancy for new projects — guidance; investigation; feasibility and other studies.
6. Plant location: guidance on incentives, raw materials etc., specialised help for NRIs.
7. Industrial escort, free liaison with related government agencies; upgradation of infrastructure.
8. Merchant banking, company formation, and public issues.
9. Equipment finance.
10. Equipment leasing.
11. Priority assistance to NRIs.
12. Seed capital for technocrats.
13. Term lending.

A few institutional finances to entrepreneurs are:

Technicians Scheme: Technically qualified or experienced professionals — up to Rs. 7,50 lakhs.

Special Capital Scheme: Assistance towards equity on soft terms up to Rs. 15 lakh along with term loan for technically qualified or experienced persons.

Composite Loan Scheme: Both equipment finance and working capital upto Rs. 50,000 for artisans and rural industries.

Disabled Entrepreneurs: 100% finance upto Rs. 50,000 to disabled entrepreneurs.

Modernisation: For replacement/renovation of equipment for successful units which are in existence since 5 years — assistance up to Rs. 90 lakh.

Electro-Medical Equipment: For qualified Doctors/private nursing homes — up to Rs. 90 lakh.

Nursing Homes/Hospitals: Assistance for full-fledged nursing homes and hospitals — up to Rs. 90 lakh.

Equipment Finance: For procurement of new machinery/equipment by existing industrial units — upto Rs. 90 lakh.

Quality Control Equipment: 100% assistance for setting up quality control facility by existing and new SSI units — up to Rs. 7.50 lakh.

Assistance to Ex-Servicemen: Term loan up to Rs. 9 lakh and seed capital up to Rs. 1.80 lakh towards self-employment.

Single Window Scheme: Provision of term loan and working capital together to upcoming small-scale industrial units, upto Rs. 7.50 lakh towards term loan and upto Rs. 3.75 lakh towards working capital.

Tourism Related Facilities: Upto Rs. 9 lakh available for tourism related business ventures.

Mahila Udyam Nidhi Scheme: To set up new industrial projects in SSI sector by women entrepreneurs.

National Equity Fund Scheme: Assistance towards equity for new projects in the small-scale sector — upto Rs. 75,000.

Assistance for Marketing

(a) Maximum assistance upto Rs. 3 lakh per sales van, not exceeding six vehicles per borrower.

(b) Assistance upto Rs. 7.50 lakh for setting up new sales outlets.

This institutional assistance has helped in catalysing substantial production capacities in a large number of new industries — not merely in the traditional ones such as textiles and food processing but also in modern industries such as chemicals, fertilizers, cement, industrial machinery, transport, equipment, food products and services.

The structural transformation that is taking place in the Indian industry is mainly on account of the policy of conscious diversification adopted by the institutions. The policies and strategies of DFIs have been directed towards fulfilling the national goals

of rapid growth and diversification. Since a major part of investment in new projects is contributed by the institutions and hardly any substantial expansion/diversification project is implemented without institutional support, institutions stand assured that investment in the private sector is in line with the national priorities. Data on industrywise distribution of institutional assistance indicate that bulk of the sanctions during the Seventh Plan were for chemicals and chemical products. Industries such as textiles, electricity generation, basic metals, machinery, electrical and electronic equipment, food products, fertilizers, cement and services were incorporated for substantial assistance.

Backward Area/Development

The DFIs have also been vigorously pursuing the policy of encouraging industrial growth in backward areas in order to achieve the national objective of industrial dispersal and balanced regional development and have responded positively by formulating suitable schemes for stimulating industrial investment in backward regions.

There is considerable logic and benefits in encouraging commercial banks to float mutual funds. Mutual funds are more attractive to such among the bank depositors who are seeking either high yield or capital gains, but at the same time, want to play safe because of the low margin of their savings. Most such persons are accessible to banks, and a banker who is respected for his knowledge of the financial world and is trusted for his wisdom and integrity, can respectfully guide the depositor to invest his savings in various instruments including those issued by mutual funds. If the mutual funds are floated by banks, the branch manager of the bank need not worry much about the diversion of funds from his branch to such mutual funds, because, in the ultimate analysis, his bank would be booking the profits. Besides, there is a growing preference among savers in urban and metropolitan areas, to diversify their savings which will offer them higher yield than are available on bank deposits, as also some opportunities for making capital gains. Unless a bank taps the market for diversified savings instruments, these savings may go past them. Besides, in order to protect equity participation it is necessary to safeguard the interest of the middle-class investor against undue risks following wrong investment decisions. This role can be best played by banks as the savings and portfolio advisors to their clients. Through their wide network, serving the rural, urban and metropolitan areas, the banks can reach out to the household savers all over the country as no other institution can.

Factoring

Informal discussions with entrepreneurs reveal that relations with customers rarely end with material supply. For government and public sector unit purchases in particular, the bill may have to be closely pursued to ensure payment — a task that certainly cannot be expected of a factor. It has, however, been pointed out that the seller may still pursue the bill as before to forestall the factor from removing the buyer from his approved list.

> *"Many producers today are unable to sell their products without 'packaging' them with credit. But credit is a scarce commodity for both the seller and buyer. A factor, equipped to provide this critical input, buys receivables from the seller at low discount and waits for the buyer to pay him."*

The rising proportion of "other current liabilities", lack of bill culture, a progressively strict credit discipline imposed by commercial banks, an increasingly 'buyer dominated' market and increasing pressure on the liquidity of the smaller and newer firms, offer near-ideal conditions for factoring to take root. Our discussion with industrialists, bankers and management consultants, have confirmed this view. However, factoring is a rather generic term used for services varying from the bill discounting facilities offered by commercial banks, to a total takeover of administration of the sales ledger and credit control functions, from credit approval to collecting cash, credit insurance and provision of finance.

A study initiated recently examined the feasibility and mechanics of starting factoring organisations in the country and subsequent recommendations regarding their constitution, organisational set-up, scope of activities and related matters, as also to look into the feasibility of export factoring were given. Its recommendations have been accepted, by and large, by the Reserve Bank of India and a few public sector commercial banks are in the process of setting up factoring organisations in the respective regions allotted to them by the RBI.

Debt-collection Service

Factoring is a debt-collection service where the factor — usually a financial institution — buys out a client's (supplier's) book debts (accounts receivables). At present, only a part of the receivables are financed by banks and other financial institutions, through bill discounting. Full service factoring also involves the factor taking over the administration of a client's sales ledger, chasing debtors and evaluating credit risk.

This service has many similarities with bill discounting wherein both make available to the supplier finance against invoices. Both discount (purchase at a price lower than the face value) involves which the buyer would have otherwise paid to the supplier at the end of the credit period. It is here, however that the similarities end.

The discounted bills may be rediscounted several times before they mature for payment. The last holder of the bill receives the full bill amount. Debt purchased under factoring cannot be rediscounted, at least as of now. It can only be refinanced.

The factor buys the book debt of the client at a discount, normally 20% giving 8% of the invoice value to the client. The factor pays back the discounted 20% to the client when the latter's customer makes payment.

The commission and fees received in the course of providing his service is what the factor earns. These earnings are higher than the earnings from bill discounting. With the discounting rate at a minimum of 16.5% (bank rate), the minimum cost of factoring works out to about 19%. The responsibility for collecting debts rests with the factor who must ensure that customers pay on time, unlike in bills finance.

Factoring is also likely to help in systematising trade credit in India. During the past two decades and over, the Reserve Bank of India has been trying to systematically develop a bill market in this country. Reluctance of the trade and industry to accept the rigorous discipline of the bill culture has been one of the reasons why the bill market scheme did not strike roots here. Stamp duty on bills and the reluctance of the

Government departments and public sector industrial units to abide by the bill discipline also contributed to the indifferent success of the bill market scheme. Factoring would relieve the businesses, particularly the small industry and trade of the burden of collecting their dues from their trade debtors. In fact inability to recover the receivables in time is one of the major factors responsible for the cash-flow problems of a large number of manufacturing units, particularly in the small and medium-scale sectors. If a factoring institution takes over this responsibility and computerises its operations, it can generate enough data on the payment behaviour of a large number of domestic firms and companies. If this information can be supplied to the rating agencies, it can make or mar the business reputation of firms, who are said to be lax in honouring their commitments on trade dues. As the economy becomes diversifed and the number of units increases, manual control over trade dues will become progressively difficult and factoring, with the support of computerised accounting, can be a great help.

The commercial banks including the RRBs have played a pioneering role in providing developmental finance to SSIs. Towards this end, banks have shouldered the responsibilities of development provision of venture capital, extension work, etc., which, it could be argued, do not fall strictly within the ambit of the role of commercial banks. There are, however, a few points to be borne in mind in this behalf. First, after the nationalisation of major banks in 1969, the banks in India endeavoured to completely identify themselves with policies of the Government in the matter of promotion of these SSIs. Secondly, their developmental role has been evolving and getting enlarged over the years, in close consultation with the concerned promotional authorities. The banks provide individual unit-oriented services, as against infrastructural and generalised services provided by other governmental agencies. Thirdly, the banks have been able to cross-subsidise the "priority" sectors because of the substantial profits it has been making on its commercial and industrial advances. The developmental roles played by the banks have been financed out of the profits made on large advances, foreign exchange business and overseas operations.

The State Bank of India's experience shows that banks are able to cross-subsidise the financing of weaker sections, particularly where the commercial banks are owned by the government. When the subsidy is provided by a public sector commercial bank from its profits, the quantum of profits which would ultimately go to the exchequer gets reduced to that extent, whereas if the commercial bank does not provide any subsidy or participate in the developmental or promotional work, the later becomes the exclusive responsibility of government.

The crux of the matter is whether there are areas in which the banks can play the promotional role more effectively than the Government. Since banks' concern with the problems faced by the sectors financed by them are better, because of their close association with the day-to-day working of their borrowers, they are in a much better position to assist these sectors effectively than the government machinery. Besides there can be nothing wrong in public sector banks playing a promotional role, supplementing the services provided by government agencies.

The increase in cost as a result of the promotional role should not be used as a cover for inefficiency. On the contrary, subsidisation should not serve as a camouflage

for administrative inefficiency. As far as the cost and benefit of the various services rendered to SSIs and other priority sectors are concerned, the banks have been making a conscious effort to quantify the subsidy-element in developmental lending. This helps the banks to keep the costs and losses arising from financing these sectors under manageable proportions through a conscious process of strategic planning so that these losses can be made good from the profits generated in other business. In fact, the subsidy element, when duly quantified, can be met from the government exchequer also, if the government so decides.

The banks have over the years made a very significant contribution not only in meeting the financial needs of this vital segment of the Indian economy, but also to its quickening development by providing management consultancy, developing new skills and creating the much-needed entrepreneurial awareness. In recent years, banks have introduced innovative schemes with the support of the government and other financial institutions to foster the rapid growth of SSIs in India. The government's decision to establish a special apex bank long way in helping to plan their growth strategy has gone a SSIs.

Schemes of Assistance

Within the broad framework, the following financial assistance is offered by the SFCs, SIDCs and commercial banks:

* Financing of new projects in the small and medim size category.
* Financing of modernisation of these industries.
* Financing of rehabilitation of these industries.
* Financing of import of capital equipment.

In view of the financial constraints being faced by SFCs, SIDCs and commercial banks, it is of interest to the borrowers to know the extent of refinancing assistance being extended by IDBI for the aforesaid purposes. In terms of the currently prevailing guidelines, the following refinance assistance is extended:

Category	*% of Refinance*
* Small-scale Units	
— SFCs and SIDCs	85
— Commercial Banks	60
* Medium-size Units	
— SFCs and SIDCs	75
— Commercial Banks	60
* Foreign currency loans by SIDCs	100

Financial Assistance to Small-scale Units

Financial loans to small-scale units are granted at a concessional rate of interest. The interest charged to these units in backward areas is at the rate of 12.50 per annum. In respect of units located in non-backward areas, the interest is charged at 13.50 per cent per annum on loans upto Rs. 25 lakh and at the rate of 14 on loans in excess of Rs. 25 lakh.

No commitment charge is levied on loans up to Rs. 5 lakh to units in the small-scale sector. Commitment charge at the rate of 1% is levied on all other loans after an initial grace period of 12 months from the date of sanction. However, units located in category 'A' backward areas are totally exempted from commitment charges on these loans, and the units located in category 'B' and 'C' backward areas are eligible for 50% concession on commitment charges.

The small industrial undertakings are considered favourably and allowed a debt-equity ratio extending up to 2.5. The promoter's contribution norm varies between 12.5% to 22.50%, depending on the project site and the status of the entrepreneur.

Repayment schedule is fixed by primary lending institutions after taking into consideration the profitability and debt-servicing capacity of the assisted units. The maximum repayment period shall, however, not exceed 10 years from the date of sanction.

Financial Assistance to Medium-scale Units

The medium-scale units are also eligible for concessional interest of 12.50 per annum for units located in any industrially backward area. However, in respect of units located in non-backward areas, the applicable rate of interest shall be 14% per annum.

No commitment charge shall be levied on medium-scale units located in category 'A' backward areas. In respect of loans to units in backward areas, of the other two categories the concessional commitment charge at the rate of 0.50% per annum shall be levied after allowing the normal grace period of six months from the date of sanction. Other units located in non-backward areas shall pay commitment charges at the rate of 1%.

Similar to the repayment schedule of these units, the repayment schedule of medium-scale units shall also be determined after considering their profitability and debt servicing capacity, subject to the condition that the maximum repayment period does not exceed 10 years from the date of sanction.

Modernisation Assistance to Small and Medium-scale Units

The primary objective of this scheme is to encourage industrial units overcome the backlog of modernisation and to adopt improved and latest technology and methods of production and prevent mechanical and technological obsolescence. Modernisation may include replacement or renovation of the plant and machinery or acquisition of balancing equipment for fuller and more effective utilisation of installed capacity.

Units to be eligible for modernisation assistance should have been operational for at least 5 years. In the case of replacement or renovation, the machinery should have been in use at the unit for a period of at least 5 years.

Proposals for modernisation assistance should establish the benefits that would accrue by way of reduction in unit cost of production, technology improvement, improved productivity, both in quality and quantity, better profitability etc. The cost acquisition of technical know-how would also be eligible. The project proposals should clearly bring out these aspects. Other things being equal, export-oriented and import-substitution schemes will be accorded higher priority.

The modernisation programmes should primarily aim at:

* upgradation of process, technology and product;
* export-orientation;
* import-substitution;
* energy-saving and financial feasibility;
* anti-pollution measures;
* conservation/substitution of scarce raw materials and other inputs, including recycling/recovery of wastes and by-products;
* improvement in capacity utilisation within the existing capacity, through increase in productivity and debottlenecking; and
* improvements in materials handling.

Irrespective of the location of the unit, interest at the rate of 11.5% per annum shall be charged on all loans for their modernisation. A commitment charge at the rate of 0.5% per annum shall be levied on the undisbursed rupee loans after an initial grace period of six months from the date of sanction.

In regard to debt-equity ratio, a more flexible approach is adopted by the primary lending institutions. A reasonable equity base will, however, be required to be maintained to ensure servicing of the loans. Similarly, no fixed guidelines have been stipulated for the promoter's contribution norm. This assistance being financial assistance to existing units, internal accruals would also form a part of promoters' contribution. The exact contribution would be decided on a case-to-case basis depending on the financial status of the unit and the ability of its promoters to mobilise and induct additional resources.

Rehabilitation Assistance to Small and Medium-scale Units

This scheme covers all small and medium-sale industrial units, including ancillary units and units in cottage and village industries assisted by SFCs or SIDCs or are self-financed and which are classified as sick. It is not necessary that the past loans extended by SFCs or SIDCs should have been refinanced by IDBI. Rehabilitation loans extended by commercial banks to such units will also be eligible for refinance under the scheme. The objective is to rehabilitate sick industrial units in the portfolio of SFCs and SIDCs.

Eligibility Criteria

Under this scheme, a unit will be classified as sick if it has incurred cash losses during the previous fiscal and is likely to incur cash losses in the current year besides an erosion in its net worth to the extent of 50% or more. The unit should be capable of being revived with reasonable financial support and reliefs within a reasonable period of time. Usual norms of debt-equity ratio and promoter's contribution would not be insisted upon and would depend on merits of each case.

Rehabilitation assistance would be for the following purposes:

* margin money for additional term loan and working capital requirements under the rehabitation programme;
* working capital term loans, if any, granted by banks to meet irregularities in the unit's working capital account;

* payment of statutory liabilities, payment of pressing creditors, etc. (to the extent possible such dues should be liquidated over a period of time, in instalments);
* cash loss, if any, incurred during the implementation of the programme;
* overdue instalments not recovered from the unit, but agreed to be funded into a separate term loan account; and minimum capital expenditure required for restarting the unit on a viable level.

In order to encourage the rehabilitation of sick units, the rate of interest on rehabilitation assistance has been fixed at 11.55% per annum, irrespective of the location of the unit. Such units have also been totally exempted from any liability on account of commitment charges on undisbursed financial assistance.

Expenditure Eligible for Assistance

The cost of industrial estate for financing purposes is confined to the cost of site development, laying of roads, water supply, power transmission and electrification, construction of sheds and construction of blocks for essential amenities such as sanitation, watch and ward, canteen, compound walls, administrative building, etc.

Expenditure on housing and power generation are not included in financing of industrial estates since assistance is separately available to units from various State and Central Government Schemes for captive generation plants and housing.

Cost of improving land, laying of roads, arrangement for water supply, electrification, etc.	15%
Cost of construction of sheds	75%
Cost of essential amenities like sanitary blocks, watch and ward, compound walls, canteen, etc.	5%
Cost of administrative building	3%
Cost of stamp duty, registration charges, preliminary expenses, etc.	2%

Eligibility Criteria for Assistance

Financial assistance is given to establish both private/public industrial estates either in the corporate sector or the co-operative sector, be partnership, joint Hindu family concern, sole proprietorship or even a local body.

However, industrial estates established by State/Central Governments and financed budgetary allocations are not eligible for this assistance under this scheme.

Financing Norms

The all-India financial institutions have stipulated a promoter's contribution norm of 20% (of the total project cost) for industrial estates set up in notified less developed districts/areas and a 22.5% (of the total project cost) in other cases. In respect of estates costing less than Rs. 300 lakh, the following margins have been stipulated by IDBI to make them eligible for refinance:

(a) 15% margin for estates set up by technician entrepreneurs or unemployed engineers where the sheds are to be acquired by them on rental/hire basis.

(b) 20% to 30% margin for co-operative estates where the sheds are entirely looked by small-scale units.

(c) 30% to 35% margin for estates set up by joint-stock companies whose shareholders occupy a majority of the sheds.

(d) 40% to 50% margin for estates set up by proprietary and partnership concerns.

The prescribed debt-equity ratio for financing of industrial estates is 2:1. This is, however, relaxed up to a maximum debt equity ratio of 3:1 in respect of comparatively small estates in private sector where the total investment does not exceed Rs. 10 lakh and for estates in the co-operative sector.

Interest and commitment charges are levied on industrial estates on the same lines as applicable to other industrial projects, being dependent on the project site.

Repayment Schedule

In respect of loans being refinanced by the IDBI, a repayment period of 7 to 10 years including an initial moratorium of 2 to 3 years is prescribed. The period may be extended up to 12 years in exceptional cases. Where assistance is directly rendered by all-India financial institutions, the repayment period may extend up to 15 years, including an initial moratorium of 2 to 3 years.

Security

In determining the repayment scheme, a debt-service coverage ratio of 2:1 is generally adopted. This ratio is, however, relaxed up to 1.25:1 in respect of loans to industrial estates promoted by government assistance provided that payment of dues to these institutions by way of principal and interest will have precedence over the dues to the government against loans received from it. Government's acceptance of this condition has to be obtained in writing.

The financial institutions stipulate that the sheds constructed in the industrial estate should be allotted only on a rental basis. No hire-purchase or outright sale is permitted in order to enable mortgage of sheds with the lending institutions towards the security for the loans. Where for any reason the mortgage of land and sheds constructed in the industrial estate is not possible, an unconditional guarantee of the government/bank for repayment of loan and payment of interest is insisted upon.

Conclusion

The most important development in the post-independence period has been the growth of a number of key institutions to promote, assist and develop entrepreneurs to initiate industrial growth in the country. The financial assets of banks and financial institutions as at end March 1998 aggregated to Rs. 6,54,406 crore (64%) and Rs. 3,67,713 crore (36%). The total resources available for investment in productive enterprises aggregate to over Rs. 12,00,000 crore. A judicious use of these resources goes a long way in accelerating the pace of economic growth. These institutions have

been striving to mould new entrepreneurs to accelerate the process of the industrial economy. The country has not repaid the changes it envisaged, but it has laid a strong foundation, broad-based its infrastructure and provided the much-needed support and assistance. One may consider that there are a number of institutions to cater to the numerous needs of entrepreneurs. The need of the hour is nucleus centre in each industrial pocket/area where all these services are provided through one centre. Effective linkages will provide the necessary impetus to entrepreneurs to embark upon innovative ventures to become the prime mover of industrial development.

The accent ought to be on institutional innovation and efficiency. It is on the foundation of a strong and efficient institutional infrastructure that we can build a vibrant and dynamic industrial economy.

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CHAPTER 35

FINANCIAL INSTITUTIONS

Introduction

With the quickened pace of economic development under the impetus of the Five-Year Plans, the most striking change in the Indian economy has been the initiation of an industrial revolution and the reemergence of small-scale industries. Further, during the past decade, there has been a deepening as well as widening of the entrepreneurial structure as well as the small scale industrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries have also come into being. During the last two decades, there is a boom of entrepreneurial activities in the country. Thus, in the field of capital and product goods industries, enterprises manufacturing such items as machine tools, electrical and engineering equipment, chemicals etc., which provide the foundation for a self-sustained growth of the economy have been set-up. Amongst the consumer goods industries, small units producing such items as bicycles, sewing machines, plastic products, etc. are forgoing ahead.

These far-reaching developments and the scale and scope of operation of entrepreneurs, particularly in small-scale industries, have brought to the fore the importance of provision of administrative and institutional assistance at various levels.

Over the years, financial institutions are playing a key role in providing finance and counselling to the entrepreneurs to start new ventures as well as modernise, diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operation of various development banks (institutions) which have been rendering financial assistance, directly or indirectly, to entrepreneurs and their various ventures.

Development Function

Development being the function of capital, as the tempo of development grows, so does the requirement for capital. The need for capital is continuous and also boundless. However, capitals is not only necessary for development but capital, also generated by development. Economic progress creates its surpluses with which further

development is achieved, often at an accelerated rate. India's Five-Year Plans are a proof in themselves that substantially larger resources used in each successive plan came from the economic growth resulting from investment in the preceding plans. Only a relatively small part of the resources came from external sources though they were crucial to development. Similarly, in consonance with the development activities in the country, the development banks activities are on higher scale as well as diversified in multi-directional way.

Institutional Finance

With the launching of the Five Year Plans, in the absence of a sufficiently broad domestic capital market, there was need for adopting and enlarging the institutional structure to meet the medium and long-term credit requirements of the industrial sector. It was in this context that the RBI took the initiative in setting-up statutory corporations at the all-India and regional levels to function as specialised financial agencies purveying term credit.

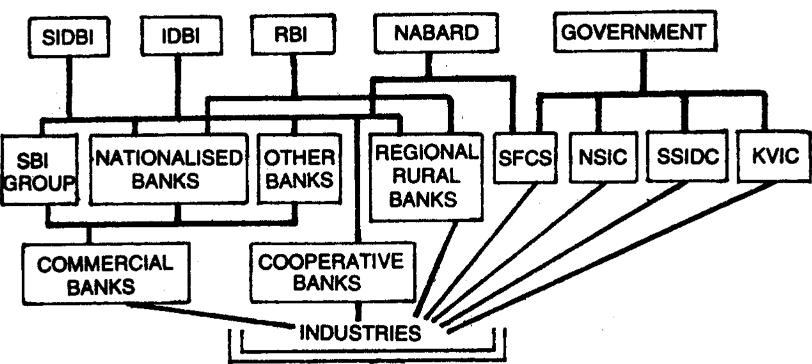


Fig. 35.1 Institutional Framework for Industry

Institutional finance for — large, medium, small and tiny industries by commercial banks — the State Bank of India group, nationalised banks, private sector banks and development corporations which have been especially established to provide industrial finance. In addition, the Reserve Bank of India gives credit guarantees and the ECGC gives export guarantees to the small-scale sector. By its refinance operations, the Industrial Development Bank of India, too, plays a significant role in the promotion of the small scale-sector, for it has enabled the SFCs SSIDC/SSIACS and commercial banks to extend a large quantum of financial assistance to this sector. The National Small Industries Corporation offers financial assistance in the form of its hire-purchase schemes.

This apart, a host of newly cropped up institutions such as mutual funds, lease companies, financial service institutions, investment companies, merchant banks, asset management companies etc. provide financial assistance and financial services to industries. Some of them go to the extent of conceiving a project and see through its progress till the end.

In India, long-term loans are provided for a host of financial institutions of the five all-India developments IDBI and SIDBI are apex banks providing refinance facilities to other institutions. Like-wise, NABARD is an apex bank for agricultural finance and Exim Bank of Export-Import trade. Then industrial development banks, special institutions, saving and investment institutions, financial service institutions and regulatory institutions. RBI, SEBI, and NSEIL are three regulatory bodies.

In the cumulative sanctions by AFIs up to end-March 1998, IDBI (including resource support to other FIs) claimed the largest share (33.6%), followed by ICICI (25.7%), IFCI (11.1%), SIDBI (8.2%) and IIBI (1.4%). UTI and LIC (including resource support to other FIs) accounted for 11.6% and 4.8% respectively, followed by GIC (1.7%). Of the state-level institutions, SFCs and SIDCs claimed 6.5% and 3.5% respectively.

Table 35.1

Institution-wise Cumulative Assistance Provided by AFIs

(upto end-March 1998)

(Rs. crore)

	Institution	*Sanctions*	*Share% in the Total*	*Disbursements*	*Share % in the Total*	*Percentage Share of Disbursement to Sanctions*
1.	IDBI	149345.2	33.6	103268.7	33.8	69.15
2.	IFCI	49226.2	11.1	30756.8	10.1	62.48
3.	ICICI	114519.5	25.7	68400.0	22.4	59.72
4.	SIDBI	36263.9	8.2	26701.8	8.7	73.63
5.	IIBI	6266.7	1.4	4106.7	1.3	65.53
6.	RCTC	149.3	—	125.3	—	83.92
7.	TDICI	299.7	0.1	278.1	0.1	92.79
8.	TFCI	1649.9	0.4	912.2	0.3	55.29
9.	LIC	21363.4	4.8	19267.9	6.3	90.19
10.	UTI	51554.5	11.6	39009.6	12.8	75.67
11.	GIC (4)	7479.8	1.7	5315.8	1.7	70.88
12.	SFCS(18)	29138.8	6.5	23258.6	7.6	73.82
13.	SIDC (28)	15565.8	3.5	11730.0	3.8	75.36
Grand Total		444874.0	100.0	305520.2	100.0	68.68

The area of operation of development almost covers all key sectors of the economy, i.e., agriculture, small industries, rural industries medium and large industries, infrastructure, housing, export and import trade, shipping, capital market stock exchange, saving, investment, insurance, credit guarantee, financial service etc. Special institutions have cropped up to foster development a special area of activities. The financial institutions have even set-up institution to rehabilitate sick enterprises.

By and large, a greater slice of domestic savings are mopped up by commercial banks (Rs. 4,75,000 crores), Unit Trusts of India (Rs. 65,000 crores), Life Insurance Corporation (Rs. 90,000 crores), General Insurance (Rs. 20,000 crores), and mutual

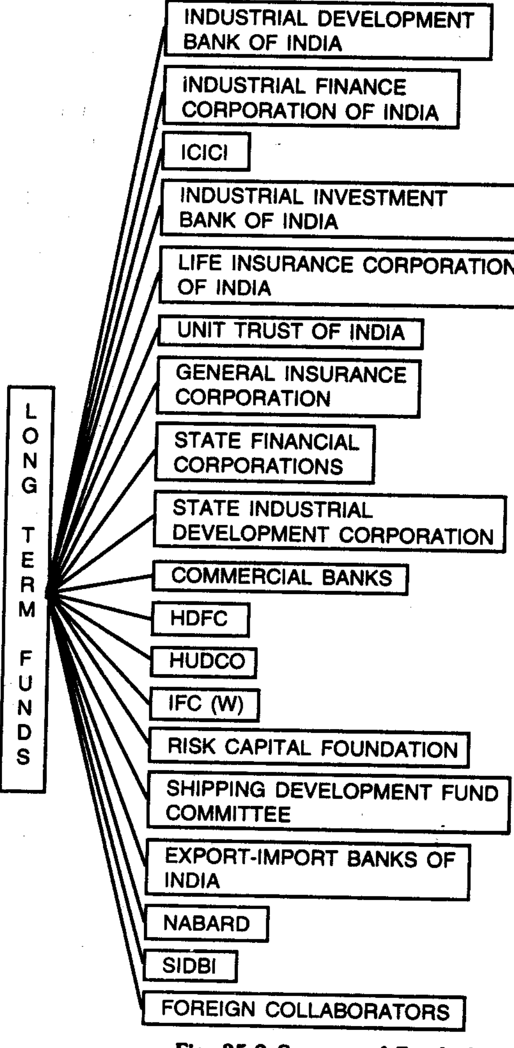


Fig. 35.2 Sources of Funds for Development

funds and other financial companies (Rs. 1,00,000 crores). Even IDBI, ICICI, SIDBI have commenced mopping up deposits from the public. The aggregate resources available for investment with financial institutions adds up to over Rs. 7,50,000 crores. Sources of funds (long-term funds) for development are given in Fig. 35.2.

Financial assistance to entrepreneurs is granted by commercial banks, State Financial Corporations, State Directorate of Industries, National Small Industries Corporation, State Small Industries Corporations, and all-India development banks.

Credit facilities granted, by commercial banks and State Financial Corporations are covered under the Credit Guarantee Scheme for Industries, which offers protection to credit institutions against possible loss on their lending to this sector.

Institutional agencies grant financial assistance to small-scale industrial units for:

(1) Participation in equity capital;

(2) Acquisition of fixed assets by way of term loans; and

(3) Working capital.

Technical Scheme: Technically qualified or experienced professionals — upto Rs. 7.50 lakh.

Equipment Finance: For procurement of new machinery/equipment by existing industrial units — up to Rs. 90 lakh.

Special Capital Scheme: Soft loan assistance up to Rs. 4 lakh is available on soft terms along with term loan for technically qualified or experienced persons.

Quality Control Equipment: 100% assistance for setting up quality control facility by existing and new SSI units — up to Rs. 7.50 lakh.

Seed Capital Scheme: Assistance towards equity on soft terms up to Rs. 15 lakh along with term loan for technically qualified or experienced persons.

Assistance to Ex-Servicemen: Term loan up to Rs. 9 lakh and seed capital up to Rs. 1.80 lakh for gaining self-employment.

Composite Loan Scheme: Both equipment finance and working capital up to Rs. 50,000 for artisans and rural industries.

Single Window Scheme: Both term loan and working capital together to new tiny and small-scale industrial units—up to Rs. 7.50 lakh towards term loan and up to Rs. 3.75 lakh towards working capital.

Disabled Entrepreneurs: 100% finance up to Rs. 50,000 to disabled entrepreneurs.

Tourism Related Facilities: Up to Rs. 90 lakhs available for tourism related business ventures.

Modernisation: For replacement/renovation of equipment for successful units which are in existence since 5 years assistance up to Rs. 90 lakh.

Mahila Udyam Nidhi Scheme: To set up new industrial projects in SSI sector by women entrepreneurs.

Electro-Medical Equipment: For qualified Doctors/private nursing homes — up to Rs. 90 lakh.

National Equity Fund Scheme: Assistance towards equity for new projects tiny and small-scale sector — up to Rs. 75,000.

Nursing Homes/Hospitals: Assistance for full fledged nursing homes and hospitals — up to Rs. 90 lakh.

Assistance for Marketing: *(a)* Maximum assistance up to Rs. 3 lakhs per sales van, not exceeding six vehicles per borrower. *(b)* Assistance up to Rs. 7.50 lakh for setting up new sales outlets.

Fig. 35.3 Schemes of Assistance to Industry.

1. INDUSTRIAL FINANCE CORPORATION OF INDIA (IFCI)

Incorporation and Purpose

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long-term credit to industrial concerns in India. IFCI transformed into a corporation from 21st May, 1993 to provide greater flexibility to respond to the needs of the rapidly changing financial system.

Management

The Board of Directors consists of a whole-time Chairman and twelve directors. The Chairman is appointed by the Central Government after consultation with the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Six Directors are elected by shareholders other than the IDBI.

Financial assistance provided by the IFCI can be in one or more of the following forms:

— Rupee and foreign currency term loans

— Underwriting of share and debenture issues

— Direct subscription to equity

— Guarantees

— Soft loans

— Equipment financing

Projects costing up to Rs. 300 lakh are financed by the State Financial Corporations, State Industrial Development Corporations and Commercial banks under the refinance scheme of the IDBI. Only projects costing in excess of Rs. 300 lakh are considered for assistance by the IFCI.

Forms of Assistance

Section 23 of the IFCI Act outlines the types of activities which the Corporation is authorised to undertake. These are indicated below with the year in which it was authorised to undertake each type of activity shown within the brackets.

(a) Granting loans on subscribing to debentures repayable within a period not exceeding 25 years. (1948)

(b) Underwriting the issue of stock, shares, bonds or debentures by industrial concerns provided that it does not retain any shares, etc., which it may have had to take up in fulfillment of its underwriting liabilities beyond a period of 7 years except with the permission of the Central Government (now the IDBI).

(c) Guaranteeing loans —

(i) raised by industrial concerns which are repayable within a period not exceeding 25 years and are floated in the market (1948)

(ii) raised by industrial concerns from scheduled banks or state cooperative banks (1960)

(d) Guaranteeing deferred payments due from any industrial concern —

(i) In connection with the import of capital goods from outside India

(ii) In connection with the purchase of capital goods within India

(e) Guaranteeing loans (with the prior approval of the Central Government) raised from, or credit managements made with, any bank or financial institution in any country outside India by Industrial concerns in foreign currency (1960)

(f) Acting as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development (IBRD) in respect of loans granted or debentures subscribed by either of them (1952)

(g) Subscribing to the stock or shares of any industrial concern (1960)

Functions and Lending Policies

Any limited company or co-operative society incorporated and registered in India which is engaged, or proposes to engage itself, in the manufacture, preservation or processing of goods, or in the shipping, mining or hotel industry, or in the generation or distribution of electricity or any other form of power, is eligible for financial assistance from the Cooperation on the same basis as industrial projects in the private and joint sectors.

Public sector projects are also eligible for financial assistance from the Corporations on the same basis as industrial projects in the private and joint sectors.

The assistance may take the form of long-term loans, both in rupees and foreign currencies, the underwriting of equity, preference and debenture issues; subscribing to equity, preference and debenture capital; guaranteeing of deferred payments in respect of machinery imported from abroad or purchased in India; and guaranteeing of loans raised in foreign currency from foreign financial institutions. Financial assistance from the Corporation is available for the setting-up of new industrial projects and for the expansion, diversification, renovation or modernisation of existing ones.

Financial assistance on concessional terms is available for the setting-up of new industrial projects in industrially less developed districts in the States/Union Territories notified by the Central Government.

Sources of Funds

The main sources of funds of the Corporation — other than its own capital, retained earnings, repayment of loans and sale of investments are borrowings from the market by the issue of bonds, loans from the Central Government and foreign credits.

In its development role, the Industrial Finance Corporation has undertaken various promotional activities. The resources for financing such activities come from the Benevolent Reserve Fund which was created in terms of an amendment of the IFC Act in 1972, and from the allocation of the Interest Differential Funds by the Government. The Interest Differential Funds are received in the form of loans and grants on a 50:50 basis under an agreement entered into by the Government of India with the Government of the Federal Republic of Germany in respect of lines of credit

from the Kreditarnstalt fur Wideraufbau allocated to the Corporation from time to time. The promotional activities undertaken by the Corporation — which are, no doubt, still modest in their — scope are in consonance with the measure which need to be taken to achieve the objectives of broadening the entrepreneurial base in the country, particularly in less developed areas. The promotional activities undertaken by the Corporation are briefly reviewed here.

The Corporation's Technical Assistance Scheme for training middle level executives of the State financial and development agencies and the senior executives of these organisations continues to elicit a good response because it has been found to be very useful. Since the inception of the scheme in 1971, 78 middle level executives from 33 state level institutions and 43 senior executives from 28 state level institutions have availed themselves of the scheme, which aims at acquainting them with the policies, procedures and practices of the Corporation.

New Promotional Schemes

In 1989, the Corporation framed two new schemes of promotional activities which encourage new entrepreneurs and technologists to set up their own industries, and which assist in the growth of indigenous technology and small industries. The scheme for encouraging the development of ancillary industries was liberalised.

The present positions is that IFCI has fourteen Promotional Schemes, of which eight are consultancy fee subsidy schemes, four interest subsidy schemes and two entrepreneurship development schemes, as per details given below:

Consultancy Fee Subsidy Schemes

- Scheme of Subsidy to Small Entrepreneurs in the Rural, Cottage, Tiny and Small Sectors for Meeting Cost of Feasibility Studies, etc.
- Scheme of Subsidy for Consultancy to Industries relating to Animal Husbandry, Dairy Farming, Poultry Farming and Fishing.
- Scheme of Subsidy for Consultancy to Industries based on or related to Agriculture, Horticulture, Sericulture and Pisciculture.
- Scheme of Subsidy for Promotion of Ancillary and Small Scale Industries.
- Scheme of Subsidy to New Entrepreneurs for Meeting Cost to Market Research/Surveys.
- Scheme of Subsidy for Providing Marketing Assistance to Small Scale Units.
- Scheme of Subsidy for Consultancy on Use of Non-Conventional Sources of Energy and Energy Conservation Measures.
- Scheme of Subsidy for Control of Pollution in the Village and Small Industries Sector.
- Own generation by way of repayment of past borrowings and plough-back of profits.

Interest Subsidy Schemes

- Scheme of Interest Subsidy for Self-Development and Self-Employment of Unemployed Young Persons.

— Scheme of Interest Subsidy for Women Entrepreneurs.
— Scheme of Interest Subsidy for Encouraging Quality Control Measures in Small Scale Sector.
— Scheme of Interest Subsidy for Encouraging the Adoption of Indigenous Technology.

Entrepreneurship Development Schemes

— Scheme for Encouraging Entrepreneurship Development in Tourism and Tourism-related Activities.
— Scheme for Encouraging Self-Employment amongst Persons Rendered Jobless due to Retrenchment or Rationalisation in a Sick Industrial Unit in the Organised Sector Undergoing a Process of Rehabilitation/Revival.

The Consultancy Fee Subsidy Schemes are aimed at providing subsidised consultancy services to industrial units, largely in Village and Small Industries (VSI) sector through Technical Consultancy Organisations (TCOs). The Interest Subsidy Schemes are intended to provide encouragement to self-development and self-employment to unemployed youths, women entrepreneurs, adoption of quality control measures, harnessing the indigenously available technology etc. The Entrepreneurship Development Schemes envisage giving impetus to self-employment in tourism related activities in the small-scale sector, and help in mitigating the sufferings of people, who have to face retrenchment due to implementation of modernisation, rehabilitation and revival plans in the case of potentially viable sick units, by process of retaining or self-employment avenues.

2. THE INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

The Industrial Development Bank of India (IDBI) was established on 1st July, 1964 under the Industrial Development Bank of India Act, as a wholly owned subsidiary of the Reserve Bank of India. In terms of the Public Financial Institutions Laws (Amendment) Act, 1975, the ownership of the IDBI has been transferred to the Central Government with effect from 16th February 1976. The most distinguishing feature of the IDBI is that it has been assigned the role of the principal financial institution for co-ordinating, in conformity with national priorities, the activities of the institutions engaged in financing, promotion or developing industry. The IDBI has been assigned a special role to play in regard to industrial development.

Objectives and Functions

(i) To serve as an apex institution for term finance for industry, to co-ordinate the working of institutions engaged in financing, promoting or developing industries and to assist in the development of these institutions.

(ii) To plan, promote and develop industries to fill gaps in the industrial structure in the country.

(iii) To provide technical and administrative assistance for promotion, management or expansion of industry.

(iv) To undertake market and investment research and surveys as also technical and economics studies in connection with development of industry.

(v) To act as lender of last resort and to finance all types of industrial concerns which are engaged, or which propose to be engaged, in the manufacture, processing or preservation of goods, or in mining, shipping, transport, hotel industries, or in the generation or distribution of power, in fishing or in providing shore fishing, or in the maintenance, repairs, testing or servicing of machinery or vehicles, vessels, etc., or for the setting-up of industrial estates. The Bank may also assist industrial concerns engaged in the research and development of any process or product or in providing special or technical knowledge or other services for the promotion of industrial growth. Besides, it provides finance or the export of engineering goods and service on deferred payment basis.

The IDBI has been playing a significant role in the promotion of small-scale industries. Its assistance has been channelled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscounting Scheme. Since its inception, the IDBI has been playing a significant role in the promotion of small-scale industries. Its assistance has been channelled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscounting Scheme. Since its inception, the IDBI has been operating a special scheme of concessional assistance to the small-scale sector. The procedure in respect of loans to the small-scale sector has been put on a semi-automatic basis under the Liberalised Refinance Scheme (LRS). As a result of the progressive liberalisation and simplification of its refinance operations, its assistance to the small-scale sector has increased substantially since 1971-72. Its assistance to small and medium industrial units flows through 18 SFCs and 28 SIDCs, commercial banks and regional rural banks.

IDBI's Schemes

IDBI is having the following schemes for the benefit of enterprises and entrepreneurs in the small and medium scale sector:

Direct Assistance

Project Finance Scheme (loans, underwriting, direct subscription and guarantees);

- Modernisation Assistance Scheme for all industries;
- Textile Modernisation Fund Scheme;
- Technical Development Fund Scheme;
- Venture Capital Fund Scheme;
- Energy Audit Subsidy Scheme;
- Equipment Finance for Energy Conservation Scheme;
- Equipment Finance Scheme;
- Foreign Currency Assistance Scheme.

Indirect Assistance

- Refinance Scheme for Industrial Loans for Small and Medium Industries;
- Refinance Schemes for Modernisation and Rehabilitation of Small and Medium Industries;

— Equipment Refinance Scheme;
— Bills Discounting/Rediscounting Scheme;
— Seed Capital Scheme;
— Scheme for Concessional Assistance for Development of No-Industry Districts and Other Backward Areas;
— Scheme for Concessional Assistance for Manufacture & Industrialisation of Renewable Energy Systems;
— Scheme for Investment Shares and Bonds of Other Financial Institutions.

Sources of Funds

— Capital Contribution from Government;
— Loan Capital from Government;
— Loan Capital from RBI out of National Industrial Credit (Long Term Operation) Fund created out of its annual profits;
— Borrowings by way of Government — guaranteed bonds from domestic market;
— Borrowings in foreign currency from international capital market;
— Deposits under Investment Deposit Account Scheme in lieu of investment allowance under Section 32-AB of Income-tax Act;
— 3-year IDBI Capital Bond Scheme.

Own generation by way of repayment of past borrowings and plough-back of profits.

Soft Loan Scheme

The IDBI extends soft loans to units in selected industry groups, namely, cotton textiles, jute, cement, sugar and specified engineering industries to enable them to overcome the backlog in modernisation, replacement and renovation of plant and machinery so that they may achieve higher and more economic levels of production and improve their competitiveness. The scheme is operated in participation with the IFCI and the ICICI, with the overall responsibility vesting in the IDBI. The IFCI is the lead institution for jute and sugar industries, the ICICI for engineering and the IDBI for cotton textiles and cement industries.

The loans under the Soft Loan Scheme are extended on concessional terms not only in regard to the interest but also in regard to the promoter's contribution, debt-equity ratio, initial moratorium and repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have been exempted from the convertibility stipulation.

3. ICICI

(The Industrial Credit and Investment Corporation of India)

The ICICI (Industrial Credit and Investment Corporation of India) was conceived as a private sector development bank in 1955 with the primary function of providing development finance to the private sector. Its objectives now include:

— assisting in the creation, expansion and modernisation of such enterprises;
— encouraging and promoting the participation of private capital, both internal and external, in ownership of industrial investment and the expansion of investment markets.

Apart from its head office at Mumbai, the ICICI has four regional offices located at Mumbai, Calcutta, Chennai and New Delhi.

Financial assistance is being provided by ICICI in the following forms:

— Rupee and foreign currency term loans
— Underwriting of share and debenture issues
— Direct subscription to equity
— Guarantees
— Soft loans
— Suppliers line of credit for promoting sale of industrial equipment on deferred payment terms
— Lease financing
— Financial Indo-US joint ventures in research and development.

In practice only such projects costing in excess of Rs. 300 lakhs are considered for financial assistance by the ICICI. However, for purpose of foreign currency loans, no minimum project cost restiction is imposed.

Finance for Industry

Over the past thirty years, the ICICI, in pursuit of its objective of promoting industrial development, has provided financial assistance in various forms, such as:

(a) Underwriting of public and private issues and offers of sale of industrial securities — ordinary shares, preference shares, bonds and debenture stock;
(b) Direct subscription to such securities;
(c) Securing loans in rupees, repayable over periods up to 15 years;
(d) Providing similar loans in foreign currencies for the payment for imported capital equipment and technical services;
(e) Guaranteeing payments for credits made by others;
(f) Providing credit facilities to manufacturers for the promotion of the sale of industrial equipment on deferred payment terms.

The primary purposes for which assistance is extended is the purchase of capital assets in the form of land, buildings and machinery. Of the alternative types of assistance provided by the ICICI, the one best calculated to assure the success of enterprises is chosen in each case.

Any company with a limited liability (or the promoter of such a company), any sole proprietary concern, partnership firm or any cooperative society may approach the ICICI for assistance in financing a sound proposal for the establishment, expansion or modernisation of an industrial enterprise.

The applicant may be an Indian or foreigner; his plans may provide for investment in any part of India; he may require assistance in any form. He must, however, be prepared to make a reasonable contribution to the resources required for the implentation of his proposal. The enterprise should have, or should undertake to obtain, experienced management and expert technical personnel and advice. Special consideration is given to projects promoted by new entrepreneurs and those who desire to set up industries in backward areas.

There are neither firm limits to the size of the enterprise the ICICI is prepared to assist, nor is there a maximum or a minimum limit to the assistance that it may offer. In practice, the lower limit of the finance provided by the ICICI is set at Rs. 5 lakh because there are other institutions which provide assistance for smaller amounts. However, to meet the requirements of industry for loans in foreign currency, the ICICI may offer assistance for smaller amounts. However, to meet the requirements of industry for loans in foreign currency, the ICICI may offer assistance below this limit. At the upper end, prudence requires that it limit the proportion of its resources which it can safely invest in a single enterprise. However, no proposal is too large for the ICICI to handle; it is prepared to enlist the co-operation of other financial institutions, in India and abroad, to share in the investment.

In promoting industrial investment, the ICICI is anxious not only to invest, but also to encourage others to invest. Accordingly, it seeks to encourage other financial institutions and individuals, both Indian and foreign, to co-operate with it in its investment and lending operations.

In order to promote new industries, to assist in the expansion and modernisation of existing industries, and to furnish technical and managerial assistance, the ICICI grants long-term and medium-term loans, subscribes to shares, underwrites new shares and debentures, guarantees loans from other private investment sources, and provides managerial and technical advice. ICICI also provides assistance by way of supplier's credit, equipment, leasing, instalment sale and venture capital and renders merchant banking services. Technology, Development and Information Company of India Ltd. (TDICI), established by ICICI in 1988, provides technological information and finances technology-intensive development activities including comercial R&D schemes. It also manages the venture capital fund of Rs. 20 crores that ICICI had established along with UTI in 1988.

4. THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

The Preamble to the National Bank for Agriculture and Rural Development Act 1981, sets out the objectives for establishing the new institution. To quote, 'An Act to establish a bank to be known as the National Bank of Agriculture and Rural Development for providing credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto.'

Establishment of the National Bank

The establishment of the National Bank for Agriculture and Rural Development (commonly known as 'NABARD' and referred as the National Bank in this book) was the outcome of the acceptance of the recommendation in this behalf contained in the Interim Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development constituted by the Bank in consultation with the Central Government in 1979. The Bill for setting up the institution was passed by the Parliament in December 1981 and the National Bank came into existence on July 12, 1982.

The Committee envisaged that the new apex bank would be an organisational service for providing undivided attention, forceful direction and pointed focus to the credit problem arising out of the integrated approach to rural development. The committee recommended that the new bank take over from the Reserve Bank the overseeing of the entire rural credit system, including credit for rural artisans and village industries, and the statutory inspection of co-operative banks and Regional Rural Banks on an agency basis, the Bank continuing to retain its essential controls. The new bank was to have organic links with the Reserve Bank by virtue of the latter contributing half of its share capital (the other half being contributed by the Central Government), and three members of the Central Board of Directors of the Reserve Bank being appointed on its board, besides a Deputy Governor of the Reserve Bank being appointed as its chairman. The Committee envisaged the role of the Reserve Bank as one of spawning, fostering and nurturing the new bank, in much the same way as it did earlier in the case of the Agricultural Refinance and Development Corporation.

On its establishment, the National Bank has taken over the entire undertaking of the Agricultural Refinance and Development Corporation and has taken over from the Reserve Bank its refinancing functions in relation to the State Co-operative Rural Banks. This Bank is now the coordinating agency in relation to the Central Government, Planning Commission, State Governments and institutions at all-India level and State-level engaged in the development of small-scale industries, village and cottage industries, rural crafts, etc., for giving effect to the various policies and programmes relating to rural credit.

Capital and Management

The capital of the National Bank is Rs. 500 crores, subscribed by the Central Government and the Reserve Bank in equal proportions. In terms of the Act, the Board of Directors will consist of fifteen members to be appointed by the Central Government in consultations with the Reserve Bank may maintain and will comprise, besides the chairman and the managing director, three directors from the Central Board of the Reserve Bank, three officials of the Central Government, two officials of the State Governments and five directors from among experts in rural economics, rural development, handicrafts and village and cottage industries, etc., and persons with experience in the working of co-operative banks and commercial banks. The Act provides for constitution by the Board of an Advisory Council consisting of the directors of the National Bank and other persons having special knowledge of subjects which

is considered useful to the bank, to tender advice and discharge many functions allotted to it. In effect, the Advisory Council will perform functions similar to those entrusted to the Agricultural Credit Board set up by the Reserve Bank.

Operations

The National Bank is empowered to provide short-term refinance assistance for periods not exceeding 18 months to State co-operative banks, Regional Rural Banks and any financial institutions approved by the Reserve Bank in this behalf, for a wide range of purposes, including marketing and trading, relating to rural economy. These short-term loans granted to State co-operative banks and Regional Rural Banks, in so far as they relate to the financing of agricultural operations or marketing of crops, can be converted by the National Bank into medium term loans for periods not exceeding seven years under conditions of drought, famine or other financing of agricultural operations or marketing of crops, can be converted by the National Bank into medium-term loans for periods not exceeding seven years under conditions of drought, famine or other natural clamities, military operations or enemy action. Likewise, the National Bank may also provide assistance by way of loans and advances up to seven years to the financing institutions where it is satisfied that owing to unforeseen circumstances the rescheduling of any short-term loans and advances made to artisans, small-scale industries, village and cottage industries etc., by the financing institutions is necessary. The National Bank can grant medium-term loans to the State co-operative banks and Regional Rural Banks for periods extending from 18 months to 7 years for agriculture and rural development and such other purposes as may be determined by it from time to time subject, in the case of loans to State co-operative banks, to their being fully guaranteed by the State Governments as to the repayment of principal and payment of interest. Such guarantees can, however, be waived by the National Bank in certain circumstances.

The National Bank is empowered to provide by way of refinance assistance, long-term loans extending up to a maximum period of 25 years including the period of rescheduling of such loans, to the State land development banks, Regional Rural Banks, scheduled commercial banks, State co-operative banks or any other financial institutions approved by the Reserve Banks, for the purpose of making investment loans, as well as for giving loans to artisans, small-scale industries, village and cottage industries, etc. It may also give short-term loans along with long-term loans where such composite ioans are considered necessary. Loans for periods not exceeding 20 years can be made to the State Governments to enable them to subscribe directly or indirectly to the share capital of co-operative credit societies. Moreover, the new bank can contribute to the share capital or invest in the securities of any institution concerned with agriculture and rural development.

The outstanding amounts, as on the date of transfer of business to the National Bank, in respect of loans and advances granted by the Reserve Bank to the State co-operative banks and Regional Rural Banks under Section 17 of the Reserve Bank of India Act [except under sub-Section (4) (a) thereof] have been transferred to that bank. Consequently, these loans and advances are repayable by the National Bank to the Reserve Bank (see also Chapter 9). The outstanding loans and advances granted by

the Reserve Bank out of the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund to the State Governments, State co-operative banks and the Agricultural Refinance and Development Corporation have been transferred to the National Bank.

Resources

For its short-term operations, the National Bank will borrow funds from the Reserve Bank in the form of a line of credit under Section 17 (4E) of the Reserve bank of India Act which permitted the Reserve Bank to grant short-term loans to the Agricultural Refinance and Development Corporation earlier, and which has now been amended suitably by the National Bank for Agriculture and Rural Development Act. For its term loan operations, the National Bank will draw funds, as the Corporation was doing earlier, from the Central Government, the World Bank/IDA and other multilateral and bilateral aid agencies, the market and the National Rural Credit (Long Term Operations) Fund that it has established. To this Fund has been transferred the balance in the National Agricultural Credit (Long Term Operations). Fund maintained by the Reserve Bank. Further contributions would be made annually to the new Fund by the Reserve Bank, in addition to the contributions by the National Bank itself. Provision has been made also for the Central Government and the State Governments to contribute to this Fund from time to time. The balance in the National Agriculture Credit (Stabilisation) Fund has been similarly transferred by the Reserve Bank to the National Bank for credit to the newly established National Rural Credit (Stabilisation). Fund which will be maintained by annual contributions by both the Reserve Bank and the National Bank as well as by contributions from the Central and State Governments from time to time.

The methods of raising funds include sale of bonds and debentures, direct borrowing, acceptance of deposits, and receipt of gifts, grants, etc. The National Bank may borrow foreign currency from any bank or financial institution in India or abroad with the approval of the Central Government which will guarantee such loans.

5. THE SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long-standing demand from the small scale sector as an apex-level national institution for promotion, financing and development of industries in the small scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small scale industries in the country. As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) in 1986 exclusively for refinancing, bills rediscounting and equity support to the small scale sector. The outstanding portfolio of the order of Rs. 4200 crore from IDBI was transferred to SIDBI in March 1990. SIDBI started off from a strong base: percentage of IDBI, backing of a special statute — the Small Industries Development Bank of India Act of 1989, a large capital base of Rs. 450 crore, availability of experienced manpower endowed with development banking skills carved out of IDBI's professional staff and ready availability of a vast network of institutional infrastructure and enduring financial linkages with State Financial Corporations (SFCs), commercial banks and other

institutions; all these augured well for the growth of the nascent institution. SIDBI became operational on April 2, 1990.

The Environment

Indian economy has been in transition for most part of the last five years: the industrial policy, fiscal policy, public sector policy, foreign investment policy, trade policy and monetary and credit policies have been in various stages of liberalisation. Decontrol, deregulation and delicensing have given enormous scope for private initiative and market forces to come to play. New relationships within and between different sectors in the economy are being evolved; the small scale sector has been an important constituent of such a liberalisation in the country, Government of India formulated a set of new policies aimed at harnessing the potential of the small scale sector in August 1991 — a-year-and-half after the establishment of SIDBI. The prescriptions of the policy focused at removal of impediments affecting the growth of small scale sector together with consolidation of the strengths, in the context of the emerging economic order. SIDBI has been refining its strategies and business policies in alignment with the policy changes which have been taking place at the national level.

Operational Strategy

Stepping up of flow of credit to the units in the small scale sector through direct and indirect financing mechanisms and ensuring speedy disbursement have remained the main plank of the operational strategy of SIDBI. Over the years, the share of direct assistance in the total assistance has steadily gone up.

Table 35.2
SHIFT IN BUSINESS MIX

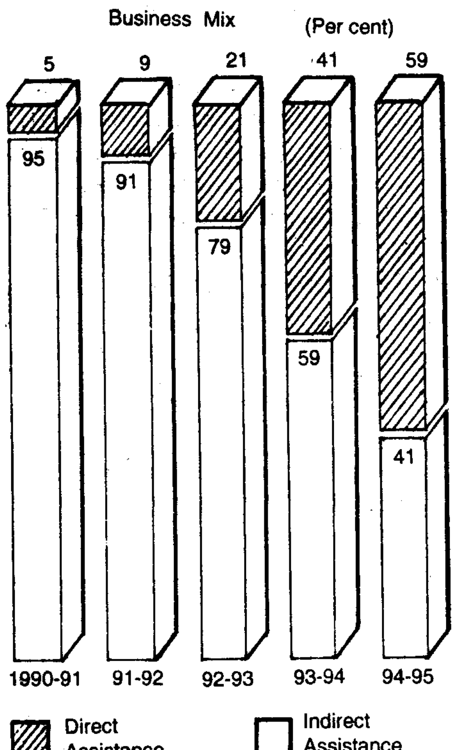
Share: %

	1990-91	*1991-92*	*1992-93*	*1993-94*	*1994-95*	*1995-96*	*1996-97*	*1997-98*
Indirect Assistance	95	91	79	59	41	66	64	64
Direct Assistance	5	9	21	41	59	34	36	36

The new schemes designed and implemented were directed at filling the gaps in the existing credit delivery system focussing on new target groups and activities. These are targeted at addressing some of the major problems of SSIs, in areas such as marketing, infrastructure development, delayed realisation of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalised based on an ongoing review process. The procedures have been simplified with gradual decentralisation and progressive delegation of powers aimed at higher levels of operational efficiency and better customer service.

To mitigate the difficulties faced by SSIs on account of delayed payments, two factoring companies, viz., SBI Factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd. have been established with SIDBI as a partner with 20% shareholding, SIDBI has enlarged the list of institutions eligible for refinance in order to widen its reach. It enrolled itself as an institutional member of Over The Counter Exchange of India (OTCEI). This facilitates SSIs to access capital market through the route of OTCEI in

raising resources in a cost-effective manner. SIDBI has also been granted the status of Category I Merchant Banker by Securities and Exchange Board of India. SIDBI extends resource support to Non-Banking Finance Companies by way of lines of credit against their assistance to units in the small scale sector by way of leasing, hire-purchase and bought-out deals.



The operational priorities of SIDBI, therefore, were to build up a financial portfolio reflecting a high order of health and strength based on quality of assets. SIDBI maintains an organisational structure which is lean, functional and capable of adapting to the state-of-the-art technology to remain efficient and competitive. The strength of SIDBI is reflected in the quality of its portfolio; over 97% of its portfolio consists of standard assets. SIDBI has obtained a high investment grade rating 'AAA' by The Credit Rating Information Services of India Ltd. for its unsecured bonds. There has been consistent growth in the gross income and profits of SIDBI in the last five years. Though of a modest scale, SIDBI has been transferring to IDBI surplus of its profits after appropriations as return on capital. SIDBI is one of the development financial insitutions in the country with a high capital adequacy ratio. It is a matter of satisfaction that in respect of resource mobilisation efforts during the last 5 years, leading international aid giving and lending agencies have lent considerable resource support to SIDBI. There has been a significant shift in approach with regard to the working relationship with commercial banks. Besides using the branch network of banks to reach ultimate beneficiaries, SIDBI now focuses on a collaborative effort so as to facilitate timely flow of credit both by way of term loans and working capital to the small scale units. To reinforce such a relationship on a lasting basis. Memoranda of Understanding have been signed by SIDBI with many leading banks.

Growing Operations

From a predominantly refinancing and bills rediscounting institution, SIDBI has emerged as a major purveyor of a wide variety of financial services to the small scale sector. At present, financial assistance being provided by SIDBI covers direct equity participation, equity type loan on soft terms, term loan, working capital — both rupee finance and foreign currencies, bills discounting, venture capital support and different forms of resource support to banks and other institutions. The proportion of direct assistance in the total portfolio of SIDBI has increased significantly. Cumulative

financial assistance has aggregated to Rs. 36,264 crore by way of sanctions and Rs. 26,702 crore by way of disbursements during its 8 years operations.

Table 35.3

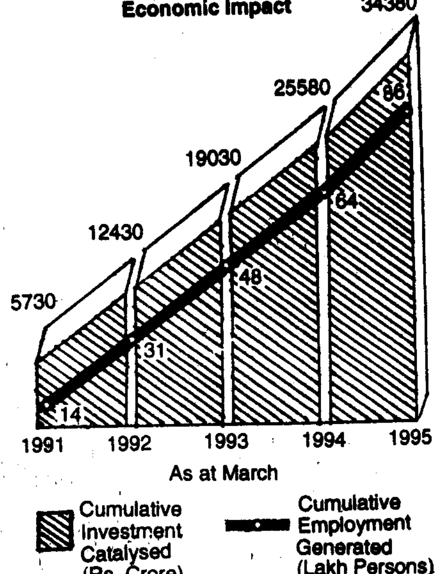
ASSISTANCE SANCTIONED AND DISBURSED BY SIDBI

(Rs. crore)

Year	*Sanctions*	*Growth rate %*	*Disburse-ments %*	*Growth rate*
1990-91	2408.7		1838.5	
1991-92	2846.0	18.2	2027.4	10.3
1992-93	2909.2	2.2	2146.3	5.9
1993-94	3356.3	15.4	2672.7	24.5
1994-95	4706.3	40.2	3389.8	26.8
1995-96	6065.6	28.9	4800.8	41.6
1996-97	6485.3	6.9	4584.7	(-) 4.5
1997-98	7484.2	15.4	5240.7	14.3
Cumulative up to end-March 1998	36263.9		26701.8	

Support Services

Over the years, the scope of promotional and developmental activities has been enlarged to encompass several new activities. Technology adoption, technology exchange, transfer and upgradation, quality promotion, enlarging marketing capabilities — both domestic and international, entrepreneurship development, management development, environment management, rural industrialisation, support to self-help groups, information dissemination through publication of project profiles for tiny and hi-tech small industrial units are now covered under promotional and developmental services. In such activities, SIDBI operates in collaboration with voluntary organisations, non-government organisations, technology firms, consultancy organisations and multilateral/ international agencies to enhance the level of overall impact of such activities on the sector.



The Impact

The overall economic impact of SIDBI's operations during the last 5 years has been in terms of cumulative investment catalysed of the order of Rs. 34,380 crore and fresh employment opportunities for about 86 lakh persons. The visible impact of promotional and developmental activities of SIDBI in select clusters of SSIs such as lock, leather, glass, brass and readymade garments has been noticeable with commensurate improvement in

overall productivity, product quality levels and process standards in such clusters. Significant achievements made in these spheres will be buttressed with new initiatives in the years to come.

6. INDUSTRIAL INVESTMENT BANK OF INDIA

The Industrial Investment Bank of India (IIBI) was established in 1985 under the IRBI Act, 1984 on reconstitution of the erstwhile Industrial Reconstruction Corporation of India as the principal credit and reconstruction agency to undertake reconstruction and rehabilitation of sick and closed industrial units in the country. IRBI was converted into a full-fledged all-purpose development institution as IIBI on 17.03.97. The scope of IIBI's financing activities has widened with the withdrawal of the Government stipulation that 60% of its portfolio should consist of sick companies; IIBI now finances all industrial projects like any other financial institution.

IIBI extends loans and advances to industrial concerns, underwrites stocks, shares, bonds, debentures and provides guarantees for loans/deferred payments. It provides finance for acquisition of equipment and makes available machinery and other equipment on lease or hire purchase basis. It also provide infrastructure facilities, consultancy, managerial and merchant banking services. During 1993-94, as a part of its merchant banking services, IRBI ventured into issue management activities for the first time. It also took several steps to re-orient its business strategy in response to the emerging environment and ongoing changes in the financial sector by introducing newer products for financing. IIBI has envisaged the setting up of a Special Fund, viz., Reconstruction Assistance Fund to meet special financial needs of assisted medium and large-scale units for their revival and rehabilitation which cannot be met from banks and financial institutions under normal conditions.

7. LIFE INSURANCE CORPORATION OF INDIA

The Life Insurance Corporation of India (LIC) was set up under the LIC Act in 1956, as a wholly-owned Corporation of the Government of India, on nationalisation of the life insurance business in the country. LIC took over the life insurance business from private companies to carry on the business and deploy the funds in accordance with the Plan priorities. LIC operates a variety of schemes so as to extend social security to various segments of society and for the benefit of individuals and groups from the urban and rural areas. The Committee on Reforms in the Insurance Sector set up by the Government has recommended privatisation and restructuring of LIC with Government retaining 50% stake. The Committee has also suggested that foreign companies be allowed to conduct life insurance business in the country through joint ventures with Indian partners.

According to the investment policy of LIC, out of the accretion to its Controlled Fund, not less than 75% has to be invested in Central and State Government securities including Government-guaranteed marketable securities in the form of shares, bonds and debentures. LIC extends loans for the development of socially-oriented sectors and infrastructure facilities like housing, rural electrification, water supply, sewerage and provides financial assistance to the corporate sector by way of term loans and

underwriting/direct subscription to shares and debentures. LIC also extends resource support to other financial institutions by way of subscription to their shares and bonds and also by way of term loans.

8. GENERAL INSURANCE CORPORATION OF INDIA

The General Insurance Corporation of India (GIC) was established in January 1973 on nationalisation of general insurance companies in the country. GIC has four subsidiaries, viz., National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Fire & General Insurance Co. Ltd. and United India Insurance Co. Ltd. GIC and its subsidiaries operate a number of insurance schemes to meet the diverse and emerging needs of various segments of society. In the recent past, GIC and its subsidiaries devised several need-based covers to keep pace with the new liberalised economic environment. The investment policies of GIC and its subsidiaries have been evolved within the ambit of the provision 27(B) of the Insurance Act 1938 and guidelines issued by the Government from time to time. According to Government guidelines, 70% of the annual accretions to their investible funds are required to be invested in socially-oriented sectors of the economy. Since April 1976, GIC has been participating with other financial institutions in extending term loans to industrial undertakings and providing facilities for underwriting/direct subscription to their shares and debentures.

9. EXPORT-IMPORT BANK OF INDIA

The Export Import Bank of India (Exim Bank) was set up on January 1, 1982 by an Act of Parliament as the principal financial institution for promotion and financing of India's international trade. Exim Bank finances exporters and importers, co-ordinates the working of institutions engaged in financing export and import of goods and services, finances export-oriented units and undertakes promotional activities necessary for international trade. It has a menu of 23 major programmes to meet the needs of different customer groups, viz., Indian exporters, overseas entities and commercial banks. Exporters can avail of pre-shipment credit, supplier's credit, overseas investment finance, export product development loans, loans for export marketing, bulk import finance and investment vendors development finance. Foreign Governments and agencies are offered buyers' credit and lines of credit. To commercial banks in India, Exim Bank offers export bills rediscounting facility, refinance of suppliers' credit and refinance of term loans in respect of export-oriented units. It also participates in guarantees issued by commercial banks on behalf of Indian project exporters.

Besides providing finance, EXIM Bank promotes exports through advisory and information services to exporters on procurement practices and bidding procedures of multilateral institutions, country risk analysis, merchant banking and marketing focussed on catalysing exports of non-traditional products to developed countries.

10. KHADI & VILLAGE INDUSTRIES COMMISSION

The Khadi and Village Industries Commission (KVIC), established by an Act of Parliament in 1956, is engaged in the development of khadi and village industries in rural areas. It has under its purview 26 village industries besides khadi. After

amendment to the KVIC Act in July 1987, the scope for coverage of activities was widened and as a consequence 70 more new village industries were identified and brought under its fold for implementation. The main objectives of the KVIC are providing employment in rural areas, skill improvement, transfer of technology, building up of strong rural community base and rural industrialisation. The significant characteristics of khadi and village industries under the purview of KVIC lie in their ability to use locally available raw materials, local skills, local markets, low per capita investment, simple techniques of production, which can be easily adopted by the rural people, short gestation period and above all production of consumer goods. KVI activities serve the poorest of the poor comprising scheduled castes, scheduled tribes, women, physically handicapped and minority communities in difficult, inaccessible hill and border areas.

The development programmes of khadi and villages industries are implemented through 30 State Khadi and Village Industries Boards which are statutory organisations set-up under State legislation, 2,320 institutions registered under Societies Registration Act, 1860 and 29,813 Cooperative Societies registered under State Co-operative Societies Act. KVIC also assists individuals through State KVI Boards. KVI programmes now cover more than 2.1 lakh villages in the country.

Some of the notable developments in KVI activities during 1991-92 are — extension of special programme aimed at intensive development of KVI through area approach under tie up with District Rural Development Authority (DRDA) to more number of districts, improvement and upgradation of KVI technology and quality of products, establishment of linkage with an export company for exporting KVI technology on hand-made paper and gur khandsari on turn-key basis, initiation of steps for tapping distribution network of big business houses for marketing KVI products, introduction of fabric-painted khadi ready-made garments, development of modified version of new model charkha by replacing all its metal parts with high quality nylon and reinforced fibre material and development of mini honey processing unit.

11. NATIONAL SMALL INDUSTRIES CORPORATION LTD.

The National Small Industries Corporation Ltd. (NSIC) was set-up by the Government of India in 1955 with the objective of promoting and developing small-scale industries in the country. Various activities undertaken by NSIC include supply of indigenous and imported machines on easy hire-purchase and lease terms, marketing of the products of small industries on consortia basis, export marketing of small industries products, developing export worthiness of small-scale units, enlistment of small-scale units for participation in Government stores purchase programme, development and modernisation of prototypes of machines, equipment and tools, supply and distribution of indigenous and imported raw materials, training in various technical trades and co-operation with other developing countries in setting-up of small-scale projects on turn-key basis.

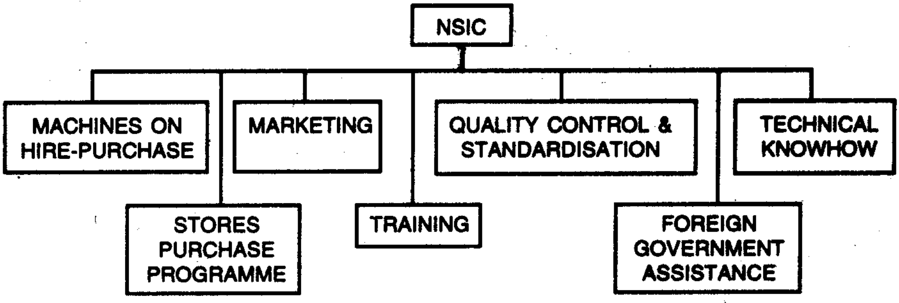


Fig. 35.4 Activities of National Small Industries Corporation (NSIC)

Formerly, the Corporation had four subsidiary corporations at Delhi, Mumbai, Calcutta and Chennai. However, since 1961, all the subsidiary corporations have been amalgamated with the main Corporation, and three Branch Offices have been set-up at Mumbai, Calcutta and Chennai. The Delhi subsidiary corporation has been merged with the parent Corporation, and its work is looked after by a separate Delhi Cell set-up in it. The National Small Industries Corporation provides a complete package of financial assistance and support in the following areas:

- Supply of both indigenous and imported machines on easy hire-purchase terms. Special concessional terms have been introduced for units promoted by entrepreneurs from weaker sections of the society, women entrepreneurs, ex-servicemen and those units located in the backward areas.
- Marketing of Small Industries products within the country.
- Export of Small Industries products and developing export worthiness of Small-Scale Units.
- Enlisting competent units and facilitating their participation in Government Stores Purchase Programme.
- Developing prototypes of machines, equipment and tools which are then passed on to Small-Scale Units for commercial production.
- Technical training in several industrial trades, with a view to create technical culture in the young entrepreneurs.
- Development and upgradation of technology and implementation of modernisation programmes.
- Supply and distribution of indigenous and improved raw materials.
- Supply of both indigenous and imported machines on easy lease terms to existing units for diversification and modernisation.
- Providing of Common Facilities through Prototype Development & Training Centres.
- Setting-up Small-Scale Industries in other developing countries on turnkey basis.

With a view to giving a fillip to development efforts and to supplement the activities of State Small Industries Corporations and District Industries Service Institutes, the NSIC has opened its offices in some of the States in which the (NSIC) Corporation has been hitherto under-represented. In the central region, offices have been opened in Bhopal and Raipur in Madhya Pradesh. Four development executives and six field inspectors have been recently posted in the backward areas of the western region to serve as "contact points" and to work in close co-operation with DICs and other developmental agencies in the area. Of these, three field inspectors have been posted in Raigad, Ratnagiri, Satara, Yeotmal, Chandrapur, Bhandara, Buldhana, Aurangabad, Nanded, Beed, Osmanabad, etc. — all backward districts in Maharashtra.

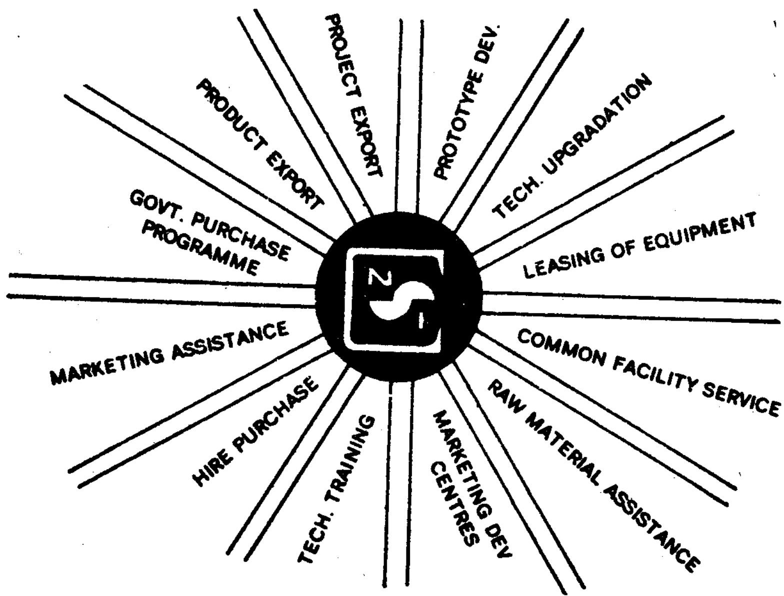


Fig. 35.5 A Unique Package of Assistance for Small Entrepreneurs.

The NSIC has taken up the challenging task of promoting and developing small industries almost from the scratch and has adopted an "integrated approach" to achieve its socio-economic objectives. It has created a proper "industrial" atmosphere and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment for purposes of modernisation and/ or diversification. The small unit, because it is small, is always short of resources. The NSIC, therefore, supplies machinery and equipment, marketing inputs and technical support to small units. And so the seedling comes up as a "factory" which provides jobs for the unemployed or underemployed.

Over the years and particularly during this decade, the NSIC, with its deliberate and concentrated efforts, has developed an unsurpassed reputation of an effective and efficient nodal agency for providing assistance to the vibrant Small-Scale sector. All these years, through its dynamic approach and the package of assistance, it has been

significantly contributing to the development of entrepreneurs, building up of strong industrial base, spreading of technical culture, promoting balanced regional growth, development of rural and backward areas, etc. as well as in employment generation, in all parts of the country.

12. STATE INDUSTRIAL DEVELOPMENT CORPORATIONS

The State Industrial Development Corporations (SIDCs) were established under the Company Act, 1956 in the sixties and early seventies as wholly-owned State Government undertakings for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription to shares/debentures and guarantees. They undertake a variety of promotional activities such as preparation of feasibility reports, industrial potential surveys, entrepreneurship development programmes and developing industrial areas/estates. SIDCs' are also involved in setting up of medium an large industrial projects in the joint sector in collaboration with private entrepreneurs or as wholly owned subsidiaries. The SIDC's activities have now widened to include equipment leasing, providing tax benefits under State Government's Package Scheme of Incentives, merchant banking services and setting-up of mutual funds. Some of the SIDCs also offer a package of developmental services such as technical guidance, assistance in plant location and coordination with other agencies.

Of the 28 SIDCs operating in the country, nine are twin-function SDICs functioning also as SFCs to provide assistance to small scale units as well as act as promotional agencies. The twin-function SIDCs are in Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Goa, Pondicherry and Sikkim. Seven SIDCs are also involved in infrastructure development and other extensions services for the small sector.

The SIDCs are agent of IDBI and SIDBI for operating its seed capital scheme. Under the scheme, equity type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

The major functions of these Corporations include:

- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance;
- Grant of financial assistance to industrial units by way of loans, guarantees and of late, lease finance by some Corporations;
- Administering incentive schemes of Central/State Governments;
- Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs; and
- Developing industrial areas/estates by providing infrastructure facilities.

Since the actual range of activities being undertaken by individual SIDC depends upon the specific responsibilities entrusted by the respective State/Union Territory, there is considerable diversity in activities among the different SIDCs.

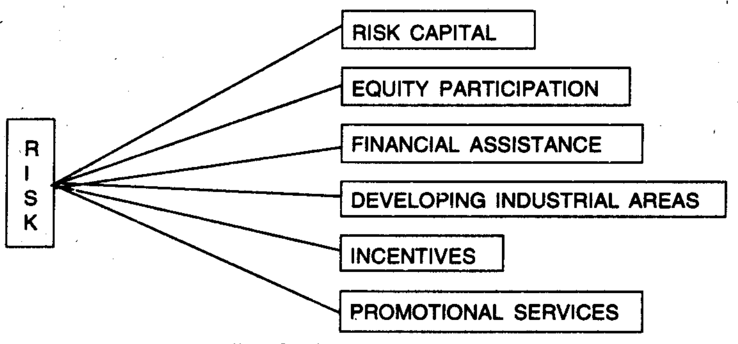


Fig. 35.6 Functions of SIDCs

13. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS

The State Small Industries Development Corporations (SSIDCs) established under the Companies Act, 1956, are State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the State/Union Territories under their justification. SSIDCs enjoy operational flexibility and can undertake a variety of activities for development of the small sector. As at present, 18 SSIDCs are in operation.

Some of the important activities undertaken by SSIDCs includes: *(i)* procurement and distribution of scarce raw materials, *(ii)* supply of machinery on hire-purchase basis, *(iii)* providing assistance for marketing of the products of small scale units, *(iv)* construction of industrial estates/sheds, providing allied infrastructure facilities and their maintenance, *(v)* extending seed capital assistance on behalf of the State Governments, and *(vi)* providing management assistance to production units.

A change in the role of SSIDCs has been prompted by the new Industrial Policy. SSIDCs are gearing up to change themselves from raw material distributors to organisations that will take care of various aspects of small industry development, especially marketing. SSIDCs would, thus, help the tiny and small industries increase their market share. The new policy calls for establishment of counselling and common testing facilities and provision of a mechanism to allow corporation of the latest technology in the small sector. SSIDCs are also planning to set-up centres for display of/and information dissemination on SSI products, and for providing small office spaces for SSIs in need.

Information for the analysis/discussion that follows, pertains to 11 SSIDCs located in Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Jammu & Kashmir, Himachal Pradesh, Kerala, Punjab, Rajasthan and Tamil Nadu.

14. STATE FINANCIAL CORPORATIONS

State Financial Corporations (SFCs), operating at the State-level, form an integral part of the development financing system in the country. They function with the

objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth, catalysing higher investment, generating greater employment opportunities and widening the ownership base of industry.

At present, there are 18 SFCs in the country, 17 of which were set up under the SFCs Act, 1951. Tamil Nadu Industrial Investment Corporation Ltd., set up in 1949 under the Companies Act as Madras Industrial Investment Corporation also functions as a full-fledged SFC. SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees, and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, special target groups like SC/ST, women, ex-servicemen, physical handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc. Over the years, the SFCs have extended their activities and coverage of assistance.

Concerns Eligible for Assistance

Industrial concerns eligible for financial accommodation under the State Financial Corporation Act, 1951 are those which are engaged in the following activities: *(a)* Manufacture of goods; *(b)* preservation of goods; *(c)* processing of goods; *(d)* mining; *(e)* generation of distribution of electricity or any other form of power; *(f)* hotel industry; *(g)* transport of passenger or goods by road or by water or by air; *(h)* maintenance, repair, testing or servicing of machinery of any description of vehicles or vessels or motor boats or, trawlers or tractors; *(i)* assembling, repairing or packing any article with the aid of machinery or power; *(j)* the development of any contiguous area of land as an industrial estate; *(k)* fishing or providing shore facilities for fishing or maintenance thereof; *(l)* providing special or technical knowledge or other services for the promotion of industrial growth.

SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/SIDBI which include schemes for artisans, social target groups like SC/ST, women, ex-servicemen, physically handicapped, etc. and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc.

Objectives and Functions

- The main function is to provide term loans for the acquisition of land, building, plant and machinery, pre-ops and other assets.
- Promotion of self-employment.
- To encourage new and technically/professionally qualified women entrepreneurs in setting up industrial projects.
- To finance expansion, modernisation and upgradation of technology in the existing units.
- To provide financial assistance for the rehabilitation of sick units financed by the Delhi Financial Corporation.

Table 35.4
ASSISTANCE SANCTIONED AND DISBURSED TO SMALL SECTOR BY SFCS

(Rs. crore)

Year	Sanctions					Disbursements				
	Total assistance	SSIs	SRTOs	Sub-total (3) + (4)	Percentage (5) to (2)	Total assistance	SSIs	SRTOs	Sub total (8) + (9)	Percentage (10) to (7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1990-91	1863.9	1281.5	210.3	1491.8	80.0	1270.8	924.3	163.1	1087.4	85.6
	(49186)	(3,3582)	(11510)	(45092)	(91.7)					
1991-92	2190.3	1634.6	237.3	1871.9	85.5	1536.8	1107.9	211.3	1319.2	85.8
	(43981)	(30224)	(12330)	(42554)	(96.8)					
1992-93	2015.3	1509.9	175.8	1685.7	83.6	1557.4	1163.9	167.3	1331.2	85.5
	(38040)	(27567)	(9146)	(36713)	(96.5)					
1993-94	1908.8	1419.4	141.7	1561.1	81.8	1563.4	1175.2	129.2	1304.4	83.4
	(29641)	(18852)	(9427)	(28279)	(95.4)					
1994-95	2702.4	1742.8	177.6	1920.4	71.1	1880.9	1314.5	122.5	1437.0	76.4
1995-96	4188.5	2280.4	232.9	2513.3	60.0	2961.1	1675.4	212.1	1887.5	63.7
1996-97	3544.8	1873.9	241.1	2115.0	59.7	2782.7	1529.6	221.3	1750.9	62.9
1997-98	2628.6	1604.9	163.0	1767.9	67.3	2117.6	1220.0	142.1	1362.1	64.3
Cumulative up to end-March 1998	29138.8	18216.2	2329.5	20545.7	70.5	23258.6	15536.3	2044.8	1758.1	75.6

Note: Figures in brackets in columns 2, 3, 4 & 5 indicate number of assistance and under column 6 percentage share in respect of number of units.

- To assist for the promotion or expansion of industry by the rural and urban artisans.
- To provide financial assistance for transport vehicles strictly for captive use, depending on the requirement of the projects.
- Providing seed capital assistance under the scheme of Industrial Development Bank of India.
- Providing soft-term loan to cover the equity gap to help small-scale industrial units.
- Undertaking the various promotional activities, including the organisation of entrepreneurial development programmes and seminars etc.
- Interest subsidy for self-development, self-employment of young persons, adoption of indigenous technology in small and medium sector and encouraging quality control measures in small-scale industry is also admissible to the extent of Rs. 5 lakhs.
- To promote development institutions in the state/region which will accelerate the process of socio-economic growth.

Assistance

The state financial institutions offer a package of assistance to entrepreneurs to enable them to translate their project idea into a reality. The package of assistance may be broadly classified into two types of services, developmental and financial. In addition, some SFCs also implement package schemes of incentives to motivate and encourage entrepreneurs.

Commercial Banks

The Scheduled Commercial Banks (SCBs) in the country (299) comprise State Bank of India and its associate banks (8), nationalised banks (19), private sector banks (34), regional rural banks (196) and foreign banks (42). During 1994-95, ten more banks were given the status of SCBs and one, viz., Bank of Karad which was taken over by Bank of India was excluded. The SCB status entitles the banks to avail of certain facilities from RBI such as refinance, loans and advances as also grant of authorised dealers licence to handle foreign exchange business. Correspondingly, banks also have certain obligations such as maintenance of Cash Reserve Ratio, Statutory Liquidity Ratio and follow various banking regulations. As on March 31, 1998, the total number of branches of SCBs stood at 64,267; of these 32,890 (51.1%) of the total) were in rural areas.

Total outstanding gross bank credit (food and non-food) at Rs. 3,24,079 crore on March 31, 1998 was higher by 16.4% over the outstanding credit of Rs. 2,78,402 crore as on March 18, 1997 mainly due to marked expansion in non-food credit which rose by 15.1% to Rs. 3,11,594 crore forming 96.1% of total outstanding gross bank credit as against 93.4% on March 18, 1994. Outstanding investments of banks in Government and other approved securities stood at Rs. 2,18,705 crore as on March 31, 1998.

The outstanding gross bank credit to industrial sector at Rs. 1,61,038 crore as on March 31, 1998 was higher by 16.2% over Rs. 1,38,548 crore on March 18, 1997.

The outstanding bank credit to small-scale industries increased by 22.0% to Rs. 43,508 crore on March 31, 1998, whereas credit to medium and large industries increased by 14.5% to Rs. 1,17,530 crore. The medium and large industries claimed 73.0% of the total outstanding credit to industrial sector as on March 31, 1998. Industries which accounted for bulk of the outstanding credit as on March 31, 1998 were engineering (14.2%), textiles (13.1%) and chemicals, dyes, paints, etc. (11.3%).

Table 35.5
INDUSTRY-WISE DEPLOYMENT OF GROSS BANK CREDIT

(Rs. crore)

Industry	*Outstanding as on*		
	March 18, 1994	*March 29, 1996*	*March 27, 1998*
Engineering	17,127	25,621	22,833
Chemicals, dyes, paints, etc.	10,034	16,450	18,120
Textiles	10,128	15,999	21,071
Iron & Steel	4,528	8,482	15,767
Other metals & metal products	3,199	3,977	5,193
Gems & jewellery	1,975	2,785	3,530
Total (including others)	80,482	1,24,937	1,61,038

Conclusion

Over the years, a well-knit structure of development financial institutions (DFIs) has evolved in the country providing financial underwritings/direct subscription to shares/debentures and guarantees. These institutions have developed and introduced a variety of new products and services. DFIs and commercial banks have provided assistance of over Rs. 6 lakh crore to entrepreneurs. Over 82 per cent of their assistance was for fostering private enterprise.

DFIs face competition from commercial banks, leasing companies, and other sources of long-term and equity finance. The procedures of other institutions are often speedier and less bureaucratic. Moreover, commercial banks offer much more than just long-term loans. If DFIs were to charge market rates for their services, many would soon lose their customers. Where other institutions offer competing services and the existing DFIs are financially and institutionally weak, the best course is to close the DFIs or merge them with sounder institutions. There is no reason to close DFIs that can mobilize their own funds and are profitable at market interest rates — although it might be sensible to merge them with commercial banks, which thereby would gain expertise in long-term financing.

Monitoring and control of borrowers has posed particular problems for DFIs. because they provide mostly long-term loans, they do not have the same day-to-day contact with customers as commercial banks. And the narrow specialization for DFIs has made it difficult for them to diversify their risks; they have been particularly vulnerable to fluctuations in the business cycle. Merger with commercial banks would help to solve both problems. Alternatively, DFIs might expand their range of services within the constraints of their institutional capabilities and professional skills. Activities potentially suitable for DFIs include consulting and easing; the skills involved are similar to those required by DFIs' existing activities. The operations of DFIs and commercial banks need to be strengthened to remain financially viable.

ANNEXURE

Main Functions of Development Banks Abroad

Country Name of the Bank	Established in	Main functions
I. Advanced Countries		
United Kingdom		
Industrial and Commercial Finance Corporation	1945	Providing financial assistance for development and expansion of small & medium enterprises.
Finance Corporation for Industry (FCI)	1945	Providing long-term finance for big industrial concerns.
Commercial Development Corporation	1948	Providing financial assistance for economic development.
Finance Company (CDFC)	1953	Financing sound industrial development in commonwealth countries on commercial basis.
United States of America		
Reconstruction Finance Corporation (RFC)	1932	To help the growth of agriculture, commerce and indusry and to induce the small units to maintain economic stability and accelerate output and employment in the U.S.A. (This was dissolved in 1954).
Small Business Administration (SBA)	1954	Providing financial and developmental assistance to small units.
Development Credit Corporations (DCC)		Channelising small-savings into the small enterprises.
Canada		
Industrial Development Bank (IDB)	1944	Providing financial assistance to small and medium-scale industrial concerns.
Australia		
Commonwealth Development Bank of Australia (CDBA)	1959	Providing financial assistance for the development of small and medium-scale industries.
Development Refinance Corporation (DRC)	1967	Providing refinance facilities to trading banks.
Japan		
The Industrial Bank of Japan	1951	Providing long-term finance to industry
The Long-term Credit Bank of Japan The Nippon Credit Bank	1952	The long-term credit bank system was created to substitute the underdeveloped capital market in Japan.
Germany		
The Kreditanstalt fur Widerefban (K.W.) (Reconstruction Loan Corpn.)	1948	Taking care of the financial requirements of German credit institution and of German capital aid to underdeveloped countries.
Industrikredibank AG	1949	Providing medium and long-term finance to small and medium-size enterprise in Germany.

German Development Company (GDC)	1962	Providing financial assistance to private enterprises, especially those which are floated/run with German collaboration.
II. Developing Countries		
Burma		
The Industrial Development Corporation (IDC) The Industrial Development Bank (IDB) of Burma	1952	Setting up and encouraging the growth of industries. Promotion of private enterprises in Burma, mobilisation of internal/external capital for private industrial development and stimulation of investment, share and security markets.
Sri Lanka		
The Agricultural & Industrial Credit Corporation (AICC)	1943	Providing term loans for the development of agricultural and industrial ventures.
Development Finance Corporation of Sri Lanka	1952	Assist the growth of private enterprise in Sri Lanka.
Taiwan		
China Development Corporation	1959	Providing development finance in the form of term loans, equity, underwriting, guarantees, etc. to industries.
Iran		
The Industrial and Mining Development Bank of Iran (IMDBI)	1959	To accelerate the investment of local and foreign capital in industry, mining, transportation etc.
Iraq		
The Industrial Bank of Iraq (IBI)	1946	Providing loans, equity capital and developmental services to industry.
Indonesia		
Bank Pambangunan Indonesia (Development Bank of Indonesia)	1960	To promote and finance such projects in Indonesia as would lead to overall economic growth. It provides finance for agriculture, industry & mining.
Korea		
The Korean Reconstruction Bank (KRB)	1954	Providing financial as well as managerial/technical assistance to industry.
Laos		
Credit National Lao (CNL)	1956	To accelerate social and economic growth of Laos through the development of private/public industries, agriculture, crafts, etc.
Malaysia		
Malaysian Industrial Development Finance Ltd. (MIDFL)	1960	To induce the growth of the Malaysian economy's private industrial sector through the provision of loans, underwriting facilities, guarantees, equity participation and developmental services.

Institution	Year	Purpose
Nepal		
The Nepal Industrial Development Bank (NIDB)	1959	Providing financial assistance for the growth of Nepalese Industry.
Pakistan		
The Industrial Development Bank of Pakistan (IDBP)	1961	To cater to the credit requirements of medium and creation of a class of entrepreneurs.
Pakistan Industrial Credit & Investment Corpn. Ltd. (PICIC)	1957	To accelerate the growth of the industrial sector through the provision of financial assistance to new and existing industries in the private sector.
Pakistan Industrial Development Corporation (PIDC)	1952	To ensure planned and proper growth of large and medium-sized industrial enterprises.
Small Industries Corporation (SIC)	1955	To provide financial and developmental services to small industries in Pakistan.
Philippines		
The Development Bank of the Philippines (DBP)	1958	To provide financial and developmental services to enterprises in the public and private sectors. It assists, agricultural, industrial, mining, public utilities, fisheries enterprises.
National Investment and Development Corporation (NIDC)	1963	To extend assistance to industrial, agricultural and commercial projects.
Private Development Corporation of the Philippines (PDCP)	1963	To assist the growth of private industry through its financial and developmental services. It plays a significant role in the metamorphosis of Philippines economy.
Singapore		
Economic Development Board of Singapore (EDB)	1961	To assist the economic and industrial growth of Singapore through the financing, management and setting up of industries. EDB has played a major role in providing the industrial infrastructure for industries and in the establishment of heavy industries. Light Industries Services section of EDB has been instrumental in the growth of small industries in Singapore.
Thailand		
The Industrial Finance Corporation of Thailand (IFCT)	1959	To help the growth of private industry in Thailand.
Vietnam		
Societe Financiere Pour Le Development De'L Industries Au Vietnam (SOFIDIV)	1961	Providing long-term finance to big and medium-sized private industries.

Ryukyu The Ryukyu Development Loan Corporation (RDCC)	1959	It is a loan corporation. It provides long-term loan only to private sector covering industry, agriculture, fisheries, housing, tourism, small industry, etc. It also grants "Disaster Loans" on humanitarian grounds.
Cyprus The Crypus Development Corporation Ltd. (CDC)	1959	Developing, encouraging and stimulating productive enterprises in Cyprus, particularly in the fields of manufacturing and industrial processing, mining and tourism.
Ethiopia The Development Bank of Ethiopia (DBE)	1951	Providing finance to industry and agriculture.
Ghana The National Investment Bank (NIB)	1959	Designed for the growth of Ghanian industry, agriculture, commerce, etc. It caters to the needs of the both the two sectors.
Nigeria The Nigerian Industrial Development Bank Ltd. (NIDB)	1959	Is an instrument for the growth of private sector industry and mining in Nigeria. It provides financial and developmental services to sectors.
Uganda The Uganda Development Corpn. Ltd. (UDC)	1952	Providing financial and developmental assistance to industry, mining, agriculture, tourism, etc. except transport & power.
Mexico The National Financier of Mexico (NF)	1934	It has created and financed enterprises, stimulated domestic and foreign capital, regulated the stock market and has acted as an agent of the government.

CHAPTER 36

ROLE OF CONSULTANCY ORGANISATIONS

Introduction

In competitive and constantly changing marketing conditions, the production of quality goods at a minimum cost depends solely on the availability and fusion of the latest technical know-how. Modernisation for higher productivity also depends on this technical know-how, essential for the healthy growth of the small-scale industry. This technical know-how, however, depends on industrial research, particularly in the small-scale sector, which not only ensures stability in marketing and profits, but is essential for the very survival of a unit.

A consultant sells advice and counsel for a fee. You not only have the right, but also the responsibility to charge for what you know. Similarly, as a consultant, you must generate enough revenues to underwrite your venture and make it worth your time and effort.

You can make it happen.

Consulting Model

In the competitive post liberalisation environment characterised by rapid technological innovations on one hand, and the prospect of an increasing number of highly experienced international giants entering the domestic market, on the other, the very future of organisations seems rather foggy and endangered. The free market, being ruthless, strictly adheres to the principle of survival of the fittest.

To ensure this future, our observations and consulting experience indicates that organisations must meet the following conditions:

— The vision to provide the direction and driving fuel;

— Appropriate business strategy, based on correct environmental scan or distinctive advantage (or the capacity to develop it soon);

— The appropriate organisational structure (with coordination processes);

— The means and ways of synergising the efforts of people to achieve the business goals.

Very often one reads these days about the various modern forms of organisational structures, about business strategies and process reengineering. But unless there is an

alignment or congruence between all these, i.e., the strategy, the structure and the processes or system, the enterprise just does not benefit.

Identifying vision, environmental scanning, identifying distinctive capabilities, leading to determination of business portfolios, thrust areas, business goals and the
Strategic Plan

Organisational Structure and Systems
Organisation diagnosis and restructuring, process of coordination, functional systems and structures

People's Systems and Synergies
Leadership partners, evaluating and developing potential and commitment of people. Synergising their efforts to achieve corporate goals

Fig. 36.1 MHB Counsel's Consulting Model for Business and Organisational Transformation

Franchising

Have you ever felt like quitting your job and starting on your own? Chances are that you have. But, before examining the option of going into any business, you may want to ask yourself a few questions like whether you are suited for business.

Is there a congenial business opportunity available? Do you have the resources to set up a business? If you conclude that business is what you want to do, you could either set up on your own or better still franchise.

Franchising as defined by the International Franchise Association is a continuous relationship in which a franchiser provides a licensed privilege to conduct business in addition to providing assistance in organising, training and merchandising. In return for these services the franchiser receives a certain amount from the franchisee. To elucidate, a franchiser could be an organisation which provides the busines package while the franchisee, an entity which adopts the business package.

There are three kinds of franchising. Product Franchising, one of the oldest forms of franchising, is when a dealer signs up to sell a product and uses the manufacturer's name to do. For instance, vehicle dealers from Maruti or Bajaj are product franchisees.

Tradename Franchising, the second form of franchising, allow a franchisee to use an organisation's name without using a particular product. For example, department or retail stores like Mark & Spencers or Wall Mart.

The most commonly recognised form of franchising is known as Business Format Franchising.

Consultancy Matrix

Management, according to Drucker, is what tradition is used to call a liberal art: 'liberal' because it deals with the fundamentals of knowledge, self-knowledge, wisdom, and leadership; 'art' because it is practice and application. Managers draw on all the knowledge and insights of the humanities and social sciences — on psychology and philosophy, on economics and history, on the physical sciences and on ethics. But they

have to focus this knowledge on effectiveness and results — on healing a sick patient, teaching a student, building a bridge, designing and selling a 'user-friendly' software programme. For these reasons, management will increasingly be the discipline and the practice through which the 'humanities' will again acquire recognition, impact and relevance.

Consultancy Cooperation Matrix

	Countries	
Characteristics	*Developed*	*Developing*
Strengths	Rigour in data handling Sophistication in techniques	Understanding of dynamics of the local situation and effective communication Inexpensive
	Unfamiliar with local needs	Lack of courage of conviction to put forth ideas
Limitations	Tendency to transplant solutions	Low acceptance due to their being taken for granted

Two Key Roles

In facilitating practising managers to apply this knowledge, consultants have two important roles to play:

(1) bringing new knowledge to the visible proximity of the practising manager.

(2) acting as 'information carriers' on examples of knowledge application — from industry to industry and from sector to sector.

In short, consultants must be good conceptualisers and communicators. The traditional concept views a consultant as a problem solver and if a problem is posed to him, he will find a solution and make a report to the client. This is not true, as the resources for solving a problem are invariably available within the organisations. It is the consultant's ability to help them use effective tools and techniques: to find their own unique solutions to their own special problems which is the more important aspect.

Production

As regards production, product research and research in equipment and processes are important.

(a) Product Research: It is the study of a product's design, colour brand, etc. which enriches the management's knowledge of the product and helps it to stabilise and expand which sales. It also evolves the necessary technical know-how of a product.

(b) Equipment and Process Research: It is the study of industrial processes and methods, tools and equipment and handling devices to produce a product on a commercial basis at the minimum cost. The development of new methods and mechanisms for increasing the safety processes are fertile fields for this type of study.

With a view to increasing production and employment and stimulating the development of industrial co-operatives, the small-scale Industries Board has constituted a working group, which has laid emphasis on technical assistance.

Technical Assistance Suggests —

(a) Survey both economic and technical viabilities to develop small-scale industries;

(b) Present schemes for the purpose of starting production throughout common service facilities and demonstration;

(c) Distribute improved tools and equipment; and

(d) Encourage design and research.

The emphasis on technical assistance aims at ensuring a rapid growth of small industrial units and making them more efficient rather than protecting them against competition from the organised sector of industry. This activity may be provided in the form of systematic techniques, standardisation and improved designs. In other words, technical know-how is the bedlock of the small-scale industry.

Role of the State

The Government of India has been encouraging the growth and development of small industries because of their important contribution to the nation's economy. The Small Industries Service Institute and the Development rendering valuable assistance and advice to small industrialists because the latter, unlike the big industrialists, cannot afford the financial cost of their own staff of qualified specialists. In order to make this service as complete and comprehensive as possible, a Design Cell was set up in each of the four Regional Institutes at Calcutta, Delhi, Mumbai and Chennai. The object of setting up of these cells was to study and improve the designs of the products of small industries. In August 1959, in order to improve its services, the Design Cell was centralised in one office at New Delhi because common workshop facilities were available there for purposes of experiment and building with attached workshops consisting of a tool room, a machine shop, a heat-treatment shop, a ceramic shop and laboratories for chemical and electrical research and a reading room and library containing many books on industrial designs.

The Industrial Design Cell

Since the setting-up of the Industrial Design Cell, the small-scale industry in India has reportedly made tremendous progress in the field of technology and marketing.

To cope with the constant demand for improvement in the products, the Industrial Design Cell has been engaged in evolving new designs which are suitable for production in the small-scale sector with its limited resources and mechanical and technical ability.

The principal function of an industrial design is to create product which is functionally perfect and has a strong aesthetic appeal, besides being economical and convenient in terms of production. The designer studies the capacity of the manufacturer in order to determine how a product should be designed. He also considers the total personality of the product in such a way that the product acquires a form which clearly expresses its function.

From the manufacturer's point of view, the most important purpose of industrial designing is to render the production of his products economical and convenient. A

good design means significant savings in skilled labour, reduction in the number of production operations and better utilisation of raw materials. These savings cannot be brought about at the cost of the utility and function of a product; this can best be accomplished when the designer has a good understanding of the machines, workers and the existing production methods of the manufacturer.

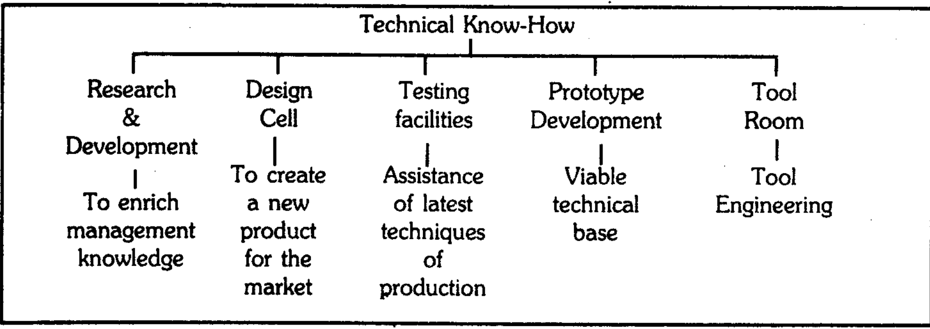


Fig. 36.2 Areas of Technical Know-how to Industry

Some of the percepts of a modern industrial design and what it tries to accomplish may be summarized here.

A modern design should fulfil the practical needs of modern life. It should express the spirit of our times and should also take advantage of new materials and techniques and develop utilitarian products. It should develop the forms, textures and colours that spring from the direct fulfilment of requirements in appropriate materials and techniques and should express the purpose of an object and techniques, and should also indicate as handicraft or simulating a technique which has also not been used. At the same time, it should be simple; its structure evident in its appearance and it should avoid extraneous enrichment.

A modern design should muster the machine for the service of man and should serve as wide a public as possible, considering the modest of needs and limited costs on less challenging than the requirements of pomp and luxury.

The Industrial Design Cell has played a vital and significant role in helping the small-scale sector in product designs. Till recently, most of the products manufactured in the small-scale sector were either imitations of imported products, irrespective of any consideration of suitability of Indian conditions, or were functionally bad. The Industrial Design Cell has made efforts to overcome these shortcomings and has helped the small-scale sector to improve its product design and its viability. At present, the Industrial Design Cell specialises in designs for the following industries:

(i) Cutlery and Domestic Utensils;
(ii) Domestic Electrical Appliances;
(iii) Furniture and Woodwork;
(iv) Ceramics;
(v) Leather Goods;
(vi) Builder's Hardware; and
(vii) Plastic Goods.

It also conducts studies and developmental work in some of the newer subjects and has contributed significantly to the development of small industries.

A considerable number of the designs developed by the Industrial Design Cell have been commercially manufactured. However, the use of the designs which have been developed is a continuing process, and it takes several months before a design can be fully used for production purposes. This is so because its use involves different stages, such as the manufacture of prototype, the designing of dyes, jigs, tools and fixtures for full-scale production.

National Institute of Design

> *"It is essential that at least the more advanced of the developing countries should establish design institutions as an integral part of their domestic technology delivery system. Until this is done organised production of indigenous industrial technologies is not likely to take place."*

This extract from one of the key reports prepared by UNIDO for its 1979 New Delhi conference has been significant in the recognition and support which it suggested to the growing profession of industrial design in the developing world, a recognition which owed much to the experimentation and innovation in Indian design training and practice over the past twenty years. The Indian experience is unique, and awareness of its significance can now help to ensure that this profession sees substantial expansion and is put to work as an essential element in the achievement of national planning goals.

The Indian experience was limited to the development and improvement of products and systems devised for organised production by the industry in the post-independence era. It was an experience inspired by the Bauhaus school of pre-war Germany and its successors in the West, and one that sought relevance to a society with heritage of traditional design unparalleled outside some of our neighbouring Asian civilizations. This particular search for identity began in the early years following Independence, when rapid changes had begun to take place in production processes and within the Indian environment.

New technologies were beginning to enter the remote corners of India and they represented a change in kind, not merely in degree. The integral understanding of form and function that was the foundation of India's traditional production processes now began to fragment and decay. It was in this setting that in the late 1950s the Government of India invited Charles and Ray Eames, the celebrated design team of Los Angeles, to recommend *"a programme of design to serve as an aid to small industry."* Looking back on the enormous problems which pre-occupied India's administration in those years, it was fortunate indeed that there were at that time, minds sufficiently aware that the nature of the development process demanded a reinvestigation of the postulates and resources that determine a design structure and philosophy. The India Report of 1958 by the Eame had recommended *a sober investigation into those values and qualities* that Indians held important to a good life and that there be a scrutiny of the elements that go to make up a standard of living. To assist this process of renewal and discovery, Charles and Ray Eames suggested an

autonomous national institution for research, service and training in industrial and visual communication. This suggestion led to the establishment in 1961 of the National Institute of Design (NID) at Ahmedabad. Eighteen years later, the first United Nations Design Conference, hosted by NID, proclaimed the Ahmedabad Declaration on Industrial Design for Development, a seminal document in the history of a very old activity and a growing profession.

What is the Indian experience in Industrial design? The history of professional training in industrial design in India began at Ahmedabad at the NID. Its early years were spent in developing potential future designers, through advanced level programmes, tailor-made to the needs of candidates selected from backgrounds in engineering, architecture and applied art as well as from international design schools. In 1970, nine years after its founding, NID had commended its undergraduate professional Education Programme, drawing in students immediately after secondary school for a programme which extends to 5½ years. In 1969 the Indian Institute of Technology at Powai had commenced the Industrial Design Centre (IDC) which established post-graduate design courses to suit the requirements of engineering students and as an extension to engineering learning. These pioneering attempts at NID and IDC created the beginning of a national awareness of design as a professional discipline, and of what the industrial designer can do to help resolve Indian problems.

A unique contribution of the NID experiment has been the integration of real-life, professional situations within its curriculum. This stress on the reality of the market-place is a challenge to both student and teacher, introducing uncertainties and risks quite outside the attitudes and experiences generated in the Indian education scenario. Yet it is this participation in the real world which has enabled NID to pursue its mandate to seek relevance through sustained experimentation. Graduates of its 5½ year programmes have since 1975 moved out in the vanguard of a new cadre of fully-trained Indian designers.

A process to gear design training and consultancy at NID more firmly to national objectives began in 1974 through the report of the Review Committee on NID appointed by the Government under the chairmanship of Romesh Thapar. The "Thapar Report" was a strong reaffirmation of the institute's catalytic role and provided the basis of NID's present direction at a time when administrative problems and impatience for quantifiable results threatened the earlier faith in NID's purpose, expressed so eloquently by Charles and Ray Eames. Three years later, NID had received the 1977 ICSID-Philips Award, the first international award for design in developing countries and another powerful reinforcement for the validity of the years of patient learning through trial and error at NID. It was this honour which stimulated the United Nations to request India and NID to host the first UN Conference on Design, held in India, in January 1979 under the sponsorship of the International Council Societies of Industrial Design (ICSID). The UNIDO-ICSID-India Meeting, held in Ahmedabad and Mumbai, served to provide an atmosphere more conducive to the intelligent understanding of industrial design and its application to Indian circumstances. It has led to a seachange in government's attitude towards the profession (although a similar response from private industry is still awaited) and a greater sense

of confidence within India's small fraternity of trained designers, perhaps the most important ingredient in the future growth of their profession.

The enormous stimulus of the UNIDO-ICSID meeting and its exchange of ideas, led NID to a careful review of industrial objectives reflected in the Draft Sixth Plan documents. Through the study of these objectives, NID designers worked to locate the strategic points for design intervention over the coming years. Simultaneously, the Institute worked on its own future plans devised to reflect national priorities as well as the implementation in India of the Ahmedabad Declaration and the Major Recommendations.

Despite the progress of the last two decades, industrial design has touched only the surface of national need. As the NID Review Committee observed in 1974, *"Although design is a real need in our society, it is not yet a sufficiently felt need. Those who most need design seem least aware of its significance."* It is an activity frequently confused with pattern making, styling or fine art, or misunderstood as engineering design and plant layout. National economic objectives, most of which presume design intervention, never mention the profession in their listing of resources, activities or targets. In the Indian context, the events of the past few years have led to a situation where recognition overtook awareness, and the major task for the industrial designers in the country today is to spread an awareness of their roles beyond the confines of classrooms, conference auditoria and government offices.

The blueprint developed for NID suggests a pattern of development for design as an Indian profession. The emphasis is inevitably on services to the small-scale, craft and rural sectors as well as such larger programmes of extension activities which can take design training and awareness to practising professionals, craftsmen, engineers, small-scale entrepreneurs, scientists, and teachers as the *priority audience* who must be reached with design programmes tailor-made to suit specific needs. Advanced level programmes were therefore been rectivated at NID to supplement its existing professional education programmes, which will be strengthened with the introduction of new materials, skills and facilities. These additions will include materials such as cane, bamboo leather, glass bell-metal and wider range of plastics. *Ergonomics,* an essential element which relates all design solutions to the user and to the environment within which such solutions must function, requires urgent development not merely for design training but for effective client service. Garment design, extending beyond fashion to aid industry, education and the needs of lower income groups, were among the new disciplines introduced at the Institute. The need to understand the broader implications of all design decisions and to improve the quality of each human environment to which the designer is exposed called for emphasis on the environmental aspects of design. Reflecting its review of national priorities, NID needed to innovate programmes to assist sectors relatively untouched: design for a vast range of agriculture needs, for health and social welfare (including the design for handicapped) and design services directed to the needs of education, improved communications, transportation and energy conservation. Research priorities included documentation of craft skills and resources, services to the khadi sector, research into Indian habitats and into the traditions of product design related to these environments, into contemporary communication needs

including the development of typography in the major Indian languages to suit new requirements of mechanical and photographic reproduction. Underlying all these design activities must be a renewed awareness and emphasis on cost-reduction, material saving and improved productivity and on the need to generate employment, particularly in the decentralised sectors.

An interesting aspect of these recent development was the growing pressure on India to provide assistance to other countries, particularly Third World nations, which are now considering the introduction or strengthening of design activities within their own economies. There is dilemma here for the Indian profession is still small and vast domestic needs lie waiting. There is the ever-present danger of spreading available design skills and resources too thinly, not merely over domestic needs but in response to international pressures. The answer lies in the documentation and publication of training resources innovated in India and in the strengthening of design training facilities within the country. This infrastructure would help meet major national needs; and also provide an infrastructure of services which India could offer to assist its partners in development.

If there is one fundamental truth of design, it is probably that all design is teamwork, an inter-disciplinary activity *"to embrace all the aspects of human environment which are conditioned by industrial production."* It is, therefore, ultimately most concerned with people — their hopes, needs and aspirations. There is a national responsibility to ensure that the industrial designer not only achieves recognition, but is responsibly placed on those terms where he or she can make an important contribution. For this, India needs a national design policy, and the Ahmedabad Declaration provided the basis for such a national approach. Plan targets required the strengthening of industrial designs services in key sectors, and this in turn required significant changes in the pattern of support from Government and industry to design training and practice. Only a much more vigorous awareness provided the support so essential to programmes of design education, research and training in India, and ensure that designers are placed where they are most needed, and that their clients utilise and remunerate them with responsibility.

Institutional Arrangement

Provision of appropriate and inexpensive consultancy services to small and new entrepreneurs has always been a pre-requisite for achieving wider geographical dispersal of small and medium enterprises. This triggered the need for creating adequate institutional arrangements. Technical Consultancy Organisations (TCOs) were set up in the early seventies/eighties to meet this need. The IDBI, IFCI and ICICI, in collaboration with state-level financial development institutions and commercial banks, established a network of TCOs. The IDBI took the initiative for setting up the first TCO in Kerala in 1972. At that time, there were 17 COTCOs in the country, some of them Overing more than one state.

Of the total 17 TCOs, 9 were under the IDBI lead, 5 under the IFCI and 3 under the ICICI. They catered to the needs of small and medium enterprises all over the country.

Table 36.1
TCOs According to Sponsored Institutions

IDBI	*IFCI*	*ICICI*
1. KITCO, 1972	1. HIMCON, 1977	1. GITCO, 1978
2. NEITCO, 1973	2. RAJCON, 1978	2. ITCOT, 1979
3. BITCO, 1974	3. MPCON, 1979	3. MITCON, 1982
4. UPICO, 1974	4. NITCON, 1984	
5. APITCO, 1976	5. HARDICON, 1985	
6. ORITCO, 1976		
7. J & KITCO, 1977		
8. WEBCON, 1979		
9. NECON, 1987		

* Restructed on the lines of other TCOs in August, 1976.

Objectives

The TCOs were set up to provide under a single roof a package of total consultancy services covering all stages in the project cycle. TCOs also provided consultancy to State Goverments, state level development financing institutions and banks. The main thrust of TCOs' operations was in the area of preparation of project reports and feasibility studies. Having gained experience over the years, TCOs diversified into areas of identification of potential entrepreneurs and their training, project implementation, rehabilitation, management consultancy, detailed design engineering and turn-key services, besides energy audit and conservation.

Activities of TCOs

The primary objective of the TCOs was to provide, under a single roof, a total package of services to small and medium industries. They also provided consultancy services to various state-level development institutions.

The major activities of TCOs are:

(i) Carrying out industrial potential surveys, identification of project ideas, project formulation;

(ii) Evaluation of projects referred to them;

(iii) Preparation of project profiles, feasibility studies;

(iv) Preparation of project reports and where called upon, to render turn-key services in project implementation;

(v) Conduct area development and marketing surveys;

(vi) Assist entrepreneurs in their modernisation, technical upgradation programme, etc.;

(vii) Revival of sick units right from the stage of carrying out diagnostic studies to the actual implementation of rehabilitation schemes;

(viii) Provide technical, management and administrative assistance;

(ix) Conduct special studies as assigned by the entrepreneurs and entrepreneurship;

(x) Conduct entrepreneurship development programmes, entrepreneurship awareness camps, SEEUY training programmes;

(xi) Identify the potential entrepreneurs and provide them with technical and management assistance;

(xii) Offering merchant banking services;

(xiii) Undertaking market research and surveys, for specific products;

(xiv) Undertaking energy audit and energy conservation assignments;

(xv) Project supervision;

(xvi) Undertaking export consultancy and export oriented projects based on modern technology.

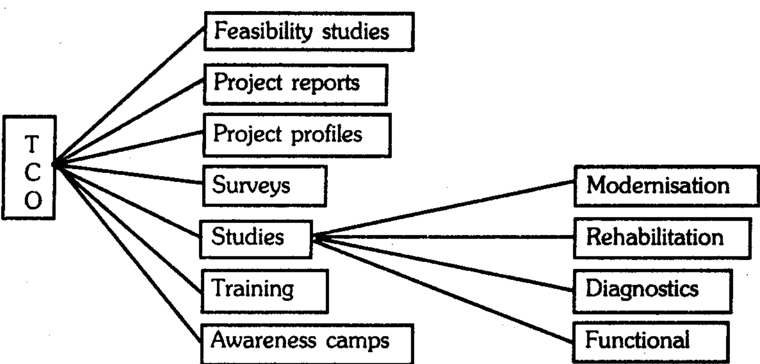


Fig. 36.3 Functions of TCOs

Some of the TCOs felt that the work of extending consultancy services to the small sector has, by and large, proved unremunerative. Tardy settlement of bills by clients, especially Government departments and institutions, was another constraint on their smooth functioning. Coupled with this were the frequent changes in the top management of Government agencies which are the clients of the TCOs rendering infructuous negotiated business and creating a communication gap between the user and the provider of services.

Science and Technology Entrepreneurship Parks

IDBI has been reviewing jointly with other participating institutions, the progress in the implementation of Science and Technology Entrepreneurship Parks (STEP) projects. Of the seven parks supported so far, Tiruchirapalli Regional Engineering College — STEP completed construction of the necessary infrastructure, including a central workshop and seven nursery sheds. The sheds were already been allotted to the prospective entrepreneurs. Besides, two EDPs were conducted and consultancy in computer software development and in non-ferrous machining provided. Units were also set up by 23 entrepreneurs of this park.

Harcourt Butler Technological Institute — STEP (Kanpur) developed special grades of vinyl ester resins and fibre reinforced spun pipes made out of cement. Projects and processes under development at this Park included special grades of printing inks, fatty alcohols and metal recovery agents. Construction work was in progress at Sri Jayachamarajendra College of Engineering — STEP (Mysore). EDPs for working professionals and first generation entrepreneurs and also a short-term course on computer aided design were conducted by this Park, apart from setting up a database and information centre providing requisite information to entrepreneurs and industries.

The Guru Nanak Engineering College — STEP (Ludhiana) started construction of its administrative and research and development (R & D) blocks. Meanwhile, it conducted an EDP and initiated action along with other agencies for joint efforts in R & D. Maulana Azad College of Technology — STEP (Bhopal) conducted an EDP; six of its trainees set up units. It also set up an Institute-Industry Linkage Cell. Jawaharlal Nehru Engineering Chemical Park (Bombay), conducted a workshop on *'Modern developments in the use of polymers as aids to crop production in dry climates'* and a training course on *'R & D in chemical industry.'*

Table 36.2

List of Technical Consultancy Organisation

Sr. No.	*Name of TCO*	*Year establishment*	*Area Operations*	*Paid up share capital (Rs. in lakh)*	*Lead sponsoring financial institution*
1.	Andhra Pradesh Industrial & Technical Consultancy Organisation Ltd. (APITCO)	1976	Andhra Pradesh	10	IDBI
2.	Bihar Industrial & Technical Consultancy Organisation Ltd. (BITCO)	1974	Bihar	15	IDBI
3.	Gujarat Industrial & Technical Consultancy Organisation Ltd. (GITCO)	1978	Gujarat	15	ICICI
4.	Haryana-Delhi Industrial Consultants Ltd. (HARDICON)	1985	Haryana & Delhi	10	IFCI
5.	Himachal Consultancy Organisation Ltd. (HIMCON)	1977	Himachal Pradesh	15	IFCI
6.	Industrial & Technical Consultancy Organisation of Tamil Nadu Ltd. (ITCOT)	1979	Tamil Nadu	10	ICICI
7.	Jammu & Kashmir Industrial & Technical Consultancy Organisation Ltd. (J & KITCO)	1977	Jammu & Kashmir	15	IDBI
8.	Kerala Industrial & Technical Consultancy Organisation Ltd. (KITCO)	1972	Kerala	15	IDBI
9.	Madhya Pradesh Consultancy Organisation Ltd. (MPCON)	1979	Madhya Pradesh	15	IFCI

10. Maharashtra Industrial & Technical Consultancy Organisation Ltd. (MITCON)	1982	Maharashtra, Goa, Daman & Diu	10	ICICI
11. North-Eastern Industrial & Technical Consultancy Organisation Ltd. (NEITCO)	1973	North-Eastern Region	15	IDBI
12. North-Eastern Industrial Consultants Ltd. (NECON)	1987	Nagaland, Manipur Tripura & Mizoram	15	IDBI
13. North India Technical Consultancy Organisation Ltd. (NITCON)	1984	Punjab & Chandigarh	10	IFCI
14. Orissa Industrial & Technical Consultancy Organisation Ltd. (ORITCO)	1976	Orissa	15	IDBI
15. Rajasthan Consultancy Organisation Ltd. (RAJCON)	1978	Rajasthan	10	IFCI
16. Uttar Pradesh Industrial Consultants Ltd. (UPICO)	1974*	Uttar Pradesh	15	IDBI
17. West Bengal Consultancy Organisation Ltd. (WEBCON)	1979	West Bengal, Sikkim, Andaman & Nicobar Islands	15	IDBI
18. Technical Consultancy Organisation of Karnataka (TECSOK)	1977	Karnataka	25	Sponsored by Govt. of Karnataka

* Restructured on the lines of other TCOs in August 1976.

Conclusion

In a developing country, it is natural to seek consultancy from abroad in the initial stages of its growth. As it gathers experience in economic development, there is knowledge formation akin to capital formation. Consultancy expertise becomes increasingly available within the country. At the same time, since many development projects are carried out with help from developed countries or international agencies like the World Bank, it is commonplace to see the consultants from developed countries being entrusted with the task of project implementation. Naturally they are more expensive and, not being familiar with the local situation, tend to come up with unworkable solutions.

However, it is being increasingly realised by aid agencies that the best course of action is neither total reliance on foreign consultants nor for that matter, Indian consultants. Given the local situation, each has its strengths and limitations. What is needed is a combination of strengths of these two, as indicated in the diagram. However, for this to happen, the learning ability of Indian consultants is important. In a selection exercise of Indian consultants to work with Swedes in a development project, an important criterion applied by the Swedes was whether the Indian consultants had preconceived notions, or were willing to learn and modify their approach as the situation demanded. In another case, the Germans after identifying Indian talent went about encouraging the development of their expertise in applying a new German problem solving approach in India.

The Nineties are witnessing a new phenomenon. Young management graduates are entering the profession substantially. They welcome the challenge and variety of the assignments. But there is no formal course to develop them as consultants except for the Institute of Management Consultants of India, a recently metamorphosed body of the erstwhile Management Consultants Association of India. An important objective of this Institute is to test, by examination or otherwise, the competence of persons engaged in the profession and to incorporate its members only those who satisfy the Council in this regard. This approach aims to increase the confidence of the community in employing consultants. A college of consulting firms is also to be formed which will concentrate on furthering the interests of management consultancy.

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