



TOGETHER
for a sustainable future

OCCASION

This publication has been made available to the public on the occasion of the 50th anniversary of the United Nations Industrial Development Organisation.



TOGETHER
for a sustainable future

DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

CONTACT

Please contact publications@unido.org for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at www.unido.org



D 00151



United Nations Industrial Development Organization
United Nations Economic and Social Office in Beirut

Distr.
LIMITED

ID/WG.17/15
August 1968

ORIGINAL: ENGLISH

Expert Group Meeting on the Development of Small-scale
Industries in Arab Countries of the Middle East

Beirut, Lebanon, 11 - 16 November 1968

Agenda item 7

HIRE-PURCHASE LOANS FOR THE MECHANIZATION OF
SMALL-SCALE INDUSTRIES: THE EXPERIENCE OF INDIA^{1/}

^{1/} Excerpts from a paper prepared for UNIDO in 1966 by Mr. K.L. Nanjappa, Development Commissioner, Small-scale Industries, Government of India. The annex contains a critique of the hire-purchase programme by the International Perspective Planning Team of the Ford Foundation and is excerpted from its report on "Development of Small-scale Industries in India, 1963". The views and opinions expressed in this paper are those of the author and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

TABLE OF CONTENTS

	Page
I. INTRODUCTION:	
Sources of Institutional Credit and Government	
Finance for Small Industries	3
Nature of Loans and Relative Advances made to	
Small Industries	4
Advantages of Hire-Purchase System	5
II. HIRE PURCHASE SCHEME OF THE NATIONAL SMALL INDUSTRIES	
CORPORATION: PROCEDURES, TERMS AND CONDITIONS	
Agencies engaged in Hire Purchase Business	6
Financial Resources of NSIC	8
Foreign Exchange and Hire Purchase Scheme	8
Administrative Setup	9
Hire Purchase Procedure	9
Terms and Conditions	11
III. AN APPRAISAL OF THE PERFORMANCE OF HIRE PURCHASE SCHEME	
Applications received, accepted and Orders placed	13
Applications rejected	14
Machines delivered - Imported and Indigenous	14
Machines delivered: Industry-wise	14
Default in Repayment	16
Time taken in Supply of Machines	17
Quantitative Impact of the Schemes on Small Industries Growth	18
Promotional Aspect of the Scheme	21
 <u>ANNEX</u>	
A CRITIQUE OF THE HIRE PURCHASE PROGRAMME OF THE NATIONAL	
SMALL INDUSTRIES CORPORATION	25

HIRE-PURCHASE LOANS FOR THE MECHANIZATION OF SMALL-SCALE INDUSTRIES:
THE EXPERIENCE OF INDIA

I. INTRODUCTION

Productivity and efficiency of small manufacturing units does not merely depend on a single production factor, but on a combination and interaction of various 'inputs'. As a result a single factor approach or a development programme designed to improve only one of these 'inputs' will at best produce meagre results that may not be commensurate with the efforts put in. On the other hand, a comprehensive programme to improve a selected set of 'inputs' is expected to prove highly effective. The latter approach is particularly inescapable in India where small industry sector is mainly characterised by outmoded techniques of production, ineffective or less effective management and marketing practices, lack of finance etc. The resuscitation and future growth of small industries in India required modernisation of this sector as well as a net work of institutions² set up for providing finance, both for long and short term needs at reasonable business like terms. Efforts towards modernization of small industries if conceived in the absence of adequate arrangements for the supply of credit, would succeed, if at all, partially. The converse solution, where credit facilities are provided without several other aids for modernisation (such as Technical and Industrial Advisory Services) shall be equally inhibitive in its influence on small industry development. Several difficulties of small industries are attributed, indeed to lack of finance. But shortage of finance itself is largely due to low productivity and is therefore, symptom of other problems like outmoded technique of production, ineffective marketing practices, bad product designs, lack of cost accounting and proper planning etc. A purely financial solution or approach for small industry development is thus not very helpful. A combination of credit facilities along with efforts towards modernization of small industry through Technical Industrial Advisory Services and other developmental aids would better promote and accelerate small industries growth.

Sources of institutional credit and government finance for small industries.

These are as set out below:

- (1) State Directorates of Industries (State Government Departments) for loans to small industries under 'State Aid to Industries Act',
- (2) State Finance Corporations

(3) State Bank of India (4) Commercial Banks (5) National Small Industries Corporation (NSIC) and (6) State Small Industries Corporations;

Nature of loans and relative advances made to small industries

Some of these institutions extend financial assistance exclusively to small-scale units, say, State Directorates of Industries for loans given under State Aid to Industries Act, National Small Industries Corporation and State Small Industries Corporation, while others, namely, State Finance Corporations, State Bank of India and Commercial Banks handle credit advances for small industries along with their financial operations in other sectors of the economy. Some of these institutions (namely, State Directorates of Industries, State Finance Corporations, State Bank of India and Commercial Banks) make available cash loans both short and long term, to small industries while the National Small Industries Corporation and State Small Industries Corporations provide assistance, in the form of actual deliveries of machines on instalment credit basis. During 1964-65 these institutions together made available financial resources to the tune of Rs. 206.7 million (or Rs. 20 crores) to small-scale industries. Of this 39.5 per cent was supplied by the State Bank of India, 17.5 per cent by State Directorates of Industries under State Aid to Industries Act, 13 per cent by State Finance Corporations, 9 per cent by Commercial Banks, 19 per cent by N.S.I.C. under its hire purchase scheme and 4 per cent by the State Small Industries Corporations. Since it is only the last two agencies that provide assistance in the form of supply of machines on hire purchase while all other agencies make available cash loans, it seems that nearly 80 per cent of the credit has been provided in the form of cash loans while the remainder 20 per cent in the form of machines on hire purchase credit. Cash loans thus constitute a greater proportion of total advances to small industries as compared to those in the form of actual deliveries of machines and equipment. Of the cash loans a major proportion is utilized as operational funds while only a meagre part (say 10%) is utilized for financing purchases of machinery and equipment. Purchases of machinery and equipment are thus financed partly through cash advances and partly through actual deliveries of machines on hire purchase basis. Of the total institutional credit made available to small industries nearly one-third is utilized for modernizing and rationalization of plant and equipment and two-thirds for the operational funds. As in out of the former amount, one-third is provided in the form of cash loans for machinery and equipment while the rest two-thirds in the form of actual supplies of machines and equipment on instalment credit. Purchases of machinery and equipment are thus financed both by supplying

machines on hire purchase as well as by making cash advances for the purpose. Major proportion of this credit is, however, provided in the form of machines supplied on hire purchase basis.

Advantages of a hire-purchase system

One can hardly overstate the importance of institutional credit in the form of cash loans as a factor facilitating better utilization of installed capacity. However, the needs for renovation, rationalization and modernization of plant and equipment seem to have received less than due attention. There are pressing demands for capital to finance rationalization and modernization of existing small units so as to transform them into viable small units with adequate inbuilt ploughing back capacity. At earlier stages of small industries growth, a pattern of institutional credit where a major proportion is supplied in the form of cash loans for operational funds is quite understandable while at later stages when small industries go higher on ladder of technical maturity and their demand for modern plant and sophisticated equipment catches up momentum, it is in the fitness of things that higher weightage is attributed to schemes intended to finance purchases of plants and machinery. Moreover, arrangements for supply of long term finances are also required to afford a reasonable and business like opportunity to the class of talented artisans and craftsmen for acquiring the status of self-reliant small industrialists. A gradual rise of such a class is indeed of considerable impact to the social and economic structure of India. The twin objectives of accelerating modernization and rationalization of small units on the one hand and stimulating the growth of promotable proprietors into a class of small industrialists on the other underlines the imperative need for supply of credit to Small Industries throughout the country for financing purchases of plants and equipment.

Supply of machines and equipment on hire purchase basis has several advantages when compared to granting of cash loans for financing the purchases of machinery. Firstly, since hire purchaser does not receive cash, this obviates any chance of the loan being utilized for unauthorized purposes. Secondly, hire purchaser is not required to furnish any security or surety for receiving equipment as is often the case in respect of cash credit accommodations. In fact, this aspect of the hire purchase system enables it to be all-embracing, whereas a system of cash loans benefits primarily those who are in a fortunate position to offer tangible securities. Thirdly, even though hire purchaser receives the equipment, the legal entitlement or ownership does not pass on to him until he has paid all the instalments. Therefore, in the event of default in repayment by hire purchaser, the leasing agency can

can repossess the equipment. Fourthly, supply of machines on hire purchase basis induces mobilisation of both capital and entrepreneurial skill. Fifthly, the hire purchase system presents the hire purchaser with the fact of capital formation as a 'fait accompli'. It becomes obligatory on the part of the hire purchaser to sustain capital formation at least to the extent of the repayment of instalments during the subsequent years after procuring machines. In fact, the system of supply of machines on hire purchase basis provides a potent safeguard against the problem of ensuring sufficient savings for future expansion when production is organized on the basis of diffused small units. Sixthly, the disbursement of cash loans for financing purchases of machinery is not necessarily time saving as compared to actual supply of machines on instalment credit basis. In the former cases considerable time is taken by the borrower to find suitable sureties and securities and subsequently by the lending agencies in the valuation of securities so offered. On the other hand the time taken by the lending agency in placement of supply order and actual deliveries of machines would have been in any case involved even if the purchases were made direct by the borrowers after receiving cash loans. Finally, perhaps the most important advantage from the view point of industrial development relates to the control and orientation afforded by the hire purchase system over the investment in small industries. Through this scheme the investment can be channelized to promote the desired or priority industry groups, to help the growth of viable and optimum size of small units, to achieve spatial dispersal of small industries and to foster inter- and intra-industry integration between large and small industrial enterprises as well as between rural and urban industries through ancillary relationships that would complement and not cut across the efforts made in different sectors. In fact the system is of a proven utility for developing small industries towards their assigned developmental roles.

II. HIRE-PURCHASE SCHEME OF THE NATIONAL SMALL INDUSTRIES CORPORATION PROCEDURES, TERMS AND CONDITIONS.

Agencies engaged in Hire Purchase business

Supply of machines on hire purchase or instalment credit basis to small industries is, by and large, handled exclusively by the Government Agencies like the N.S.I.C. and State Small Industries Corporations, since private industrial and commercial houses have not evinced much interest in this activity so far. Some industrial houses, commercial establishments and banks who have entertained the idea

of supplying industrial articles on hire purchase basis, have mainly restricted it to the supply of durable consumers' goods such as refrigerators, air conditioners, sewing machines, cars and scooters, radios, household electrical appliances etc. Banks and commercial establishments continue their anti-pathy towards making advances to small industries especially in the form of machines on hire purchase basis, while a few industrial houses have recently started supplying low cost machines like industrial sewing machines, electric motors etc. for industrial uses on instalment credit basis. Nonetheless their efforts and contribution in this direction are so meagre and insignificant that it hardly merits a detailed analysis and discussion.

One major reason why many industrial houses have not felt the urge to supply their end products - industrial machines and plants - on hire purchase basis is that their products have 'seller's market' in the country. As a result, they do not feel the necessity to offer such incentives as credit accommodation in the form of hire purchase facilities for boosting up the demand for their capital goods. Besides, hire purchase terms offered by a few industrial houses are exorbitant and prohibitive. For instance industrial sewing machine supplied on hire purchase basis by a private industrial house would involve an initial payment of about 40 per cent of the value of the machine, an element of interest that works out to about 20 per cent per annum and repayment by hire purchasers in 15 equal monthly instalments.

Under these circumstances, it became necessary for the Government to make institutional arrangements for supply of machines on hire purchase basis. To this end, the Government of India introduced hire purchase scheme in 1955 to be operated by the National Small Industries Corporation for supply of machines and equipment to existing as well as to prospective small industrialists on instalment credit. Later (i.e. in the early sixties) witnessing the tremendous scope and vast need for hire purchase assistance for modernisation of small industries and the inspiring experience unfolded by the National Small Industries Corporation in running its hire purchase scheme, the State Governments also constituted State Small Industries Corporations for augmenting supply of hire purchase assistance in their respective States. Nonetheless, among them all, by far the most predominant share of hire purchase business is handled by the National Small Industries Corporation. During 1964-65 of the total supplies of machines on hire purchase valued at \$ 5.53 million (or Rs. 4.15 crores), the National Small Industries Corporation alone supplied machines of a value of \$ 5.50 million (or Rs. 4.05 crores) or about 98 per cent. In view of the fact that the major proportion of hire purchase assistance has been provided by the National Small Industries Corporation, the review and evaluation of

the role played by hire purchase activities in India towards the development of small industry, attempted below, will be restricted to the scheme run by the National Small Industries Corporation.

Financial Resources of NSIC

The NSIC -- an autonomous undertaking with Government of India as its only shareholder -- was constituted in 1955. Among its various functions, the most important one related to supply of machines to small industries on hire purchase terms. The Government subscribed the Share Capital equivalent to \$0.67 million for the hire purchase activities alone. Besides, the loan equivalent of \$ 9.3 million (equivalent in Indian currency) from the Government was outstanding with the Corporation on 31 March 1965. In addition to this the Corporation had received foreign exchange credit from friendly countries like the U.S.A., Japan and the Federal Republic of Germany. These credits along with allocations made by the Government from credits negotiated by her with friendly countries total up to about \$ 14.4 million (in foreign currencies). Thus the subscribed capital of \$ 0.67 million and a borrowed capital of \$ 23.7 million provide the capital base for hire purchase activities of the Corporation. As against this, the machines (both indigenous and imported) valued at about \$ 14.4 million were delivered since inception and by the end of March 1965. This was possible due to collection of instalments from the hire purchasers which constituted a revolving fund for financing the future hire purchase transactions. Nearly 77 % of present annual supplies of machines on hire purchase are financed by earnest money deposited and instalments collected. This points to the self-financing aspect of the hire purchase system whereby in a period of 10 years the system has started supporting a substantial proportion of its activities by itself, notwithstanding the ever growing demand for machines on hire purchase terms.

Foreign Exchange and Hire Purchase Scheme:

During the last five years almost all imports from abroad have been financed out of the credits negotiated by the Corporation and the Government with institutions like U.S.A., AID, Kreditanstalt, Japanese Export Import Bank and Japan Small Plant Committee. On account of stringent foreign exchange situation in the country, no regular foreign exchange allocation is made by the Government to the National Small Industries Corporation and as a result, the Corporation has to rely mainly on ad hoc bilateral loans from friendly foreign countries. Incidentally this restricts the sources of supply of imported equipment and in turn involves reference to hire purchasers, time and again, for changing and diverting their demand to foreign

sources for which the Corporation holds foreign exchange. In short, absence of regular foreign exchange allocation and convertible foreign credits, introduces an element of uncertainty and delay in the delivery of imported equipment. Besides it also makes difficult to procure imported equipment at competitive rates from the most suitable sources.

Administrative Set up

The Corporation has a Headquarter establishment at Delhi and four Regional Offices one each at Bombay, Calcutta, Delhi and Madras. Matters relating to screening and acceptance of applications for hire purchase assistance and placement of supply orders with the manufacturers, are attended to in the Head Office while matters concerning collection of 'earnest money' (or initial deposit), execution of agreement bonds, procurement of equipment from suppliers, actual deliveries of equipment to hire purchasers and collection of instalments are handled by the Regional Offices.

Hire Purchase Procedure:

Parties apply for machines on prescribed forms (supplied by the National Small Industries Corporation). It is only where applicants are not in a position to make provision for requisite power and premises on the receipt of machines or where end products involve processing of raw materials in critical short supply that the applications are not favourably recommended by the Directorate of Industries.

Applications not recommended by the State Directorates are rejected forthwith while those recommended are scrutinized to ensure that complete information has been furnished by the applicant. Applications for indigenous and imported equipment are then separated and placed before Indigenous Machines Acceptance Committee and Small Industries Committee respectively. The former Committee consists of officials of the Corporation and Technical Experts of the Central Small Industries Organisation, while the latter includes in addition a representative from the office of the Chief Controller of Imports and Exports. These Committees on an average meet twice a month and their decisions are conveyed to parties concerned. It is, however, open to an applicant whose application has been rejected to have his case re-examined by the 'Reviewing Committee'. This Committee consists of top officials of the Corporation and the Central Small Industries Organisation. Besides it also includes a non-official representative of small industries, i.e. the Chairman of the Federation of Associations of Small Industries.

The above arrangements help in expeditious consideration of applications on a uniform and centralized basis, and also make possible active participation by

competent technical officers. In fact to start with when the scheme was launched, the applications were required to pass through two channels - State Directorates of Industries and Small Industries Service Institutes. Of these two, the latter was required to undertake technical scrutiny and recommend only such applications where manufacturing activity is feasible on small scale and where technical know-how to operate the plant was available. To avoid delay, this arrangement was done with and it was considered advisable to associate technical experts at the time Corporation considers the applications for acceptance or rejection.

After acceptance of an application enquiries are floated to suppliers and firm quotations when received are sent to the applicants to intimate his choice and deposit the earnest money (viz. 20% of value of machines) with the Corporation's Regional Office. On hearing about the earnest money deposit the Head Office places supply orders on the selected supplier. Copies of the supply orders are then endorsed to both the applicant and the Regional Office for completion of the remaining formalities. If the machines are to be imported, the Office of the Chief Controller of Imports and Exports is simultaneously approached by the Head Office for obtaining the import licence which in turn is passed on to the Regional Office for opening the Letter of Credit.

On receipt of the copy of the supply order from the Head Office and proforma invoice from the supplier the Regional Office prepares an agreement bond to be signed by the hire purchaser. At this stage, the hire purchaser is also called upon to complete other formalities relating to the insurance of factory premises, deposit of balance earnest money or any other charge payable by him vide the proforma invoice, etc. On completion of these formalities by the hire purchaser, instructions are sent to the suppliers to despatch the consignment duly insured for transit risk to the hire purchaser, and send Railway Receipt or Goods Receipt, as the case may be, to the Regional Office. The Corporation, after ensuring that all the formalities have since been completed, releases Railway Receipt/Goods Receipt to hire purchasers for taking delivery of the machines. In case of imported machines, the procedure is slightly different in as much as a hire purchaser is asked to complete the hire purchase formalities after the Corporation has received the shipping documents and as soon as these formalities are completed, the Corporation sends the shipping documents to Clearing Agent for clearing the consignment from Customs and despatch to the hire purchaser.

As per Corporation's terms of payment, the suppliers of indigenous machines are paid 95% of the value on receipt of Railway Receipt/Goods Receipt by the Regional

Office and the balance 5% on the hire purchaser confirming that the equipment has been received in good condition. In case of imported equipment, the foreign suppliers are paid 90 per cent of the value on shipment and the remainder 10 per cent within four months after the landing date of the ship with equipment in India and after the Corporation's instructions to its bankers to the effect that the consignment has reached the consignee and the contents have been checked and found in order. In cases where machines are received in damaged or defective condition by hire purchasers, the Corporation tries to get these defects rectified by suppliers or compensated by the Insurance Companies.

Terms and Conditions

Hire Purchase Assistance under this scheme is available to small industrial units with a 'capital investment' ^{1/} of not more than \$ 66,666 (or Rs.500,000) ^{2/} irrespective of the number of persons employed. This capital ceiling has however been relaxed to \$133,332 (or Rs.1,000 000) in respect of ancillary industrial units manufacturing components, in certain industrial categories.

The value of machines supplied on hire purchase is required to be repaid in bi-annual instalments spread over a period of 7 years in case of imported and graded ^{3/} machines and 5 years in case of ungraded machines. The provision for longer period (i.e. of one year) for the repayment of first instalment has been made in view of the fact that hire purchasers have to incur other expenses towards installation and operation of the machines immediately after taking the delivery. Repayment of entire instalment amount and transfer of ownership from the Corporation to hire purchaser is usually not permitted prior to expiry of three years from the date of delivery of machines. This restrictive measure on the transfer of ownership of machine during the initial three years of procuring machines has been designed primarily to check speculative deals in machines (especially imported ones). Incidentally, this restrictive provision also sometimes blocks the transfer of general purpose machines to product lines other than those earlier approved and agreed to by the Corporation.

- 1/ The terms 'Capital Investment' means investment in fixed assets like land building, machinery and equipment. In case of rented premises, capital valuation of such premises is taken into account, at 150 times monthly rent. Workers housing and welfare amenities are however excluded while assessing the prescribed limit. In case of machinery and equipment the original purchase price is considered relevant.
- 2/ Revised to \$100,000 (Rs.750,000), after the major devaluation of June 1966.
- 3/ Machines that are manufactured according to certain laid down specifications and standards are 'graded'.

The Corporation charges 7 per cent interest per annum and 6 per cent administrative charges on the total cost of the machine for the entire period of repayment. On this basis amount payable in equal bi-annual instalments is worked out.

The Hire Purchaser has to pay initially 20 per cent of the cost of machines and 30 per cent of that of furnaces as earnest money in one instalment before the Corporation places a supply order.

Earnest money is not refundable after the machine goes in operation and instead constitutes the hire purchaser's contribution towards the cost of the machine. In other words, though the hire purchaser pays 20 per cent of the cost of machine and the Corporation spends the rest 80 per cent, the legal entitlement or ownership of the machine belongs exclusively to the Corporation. This provision relating to the payment of earnest money is primarily intended as a safeguard against depreciation or loss in value of machines in the exigencies where the Corporation might have to repossess the machine.

Till recently the Corporation was offering concessional terms of interest, earnest money deposit, and larger periods of repayment for specific groups like industrial co-operatives auxiliaries to large industries and for the demands of value less than \$6,666 (or Rs. 50,000). These concessions have since been withdrawn as it is felt that a stage has been reached when these groups no longer need the special incentives. Moreover, after working the hire purchase scheme now for nearly a decade, it is also considered legitimate to put it on a self-supporting and business like basis.

Supply of machines on hire purchase to a single Small Scale Unit is restricted to \$ 46,700 (F.O.R.) or to \$40,000 (C.I.F.) ^{4/}

III. AN APPRAISAL OF THE PERFORMANCE OF HIRE PURCHASE SCHEME:

This has been attempted under the following headings:

(a) Applications received, accepted and orders placed (b) Applications rejected (c) Machines delivered - Imported/indigenous and industrywise (d) Default in repayment (e) Time taken in supply of machines (f) Quantitative impact of the

^{4/} Limits have been later changed to Rs 550,000 C.I.F. (\$ 73,332) for imported machines, Rs. 400,000 f.o.r. for indigenous machines and Rs. 650,000 in composite cases (Rs 7.5 = \$1).

scheme on small industries growth (g) Qualitative Impact of the scheme on small industries growth (h) Promotional aspect of the scheme in respect of ancillary small enterprises, industrial co-operatives and development of backward areas.

Applications received, accepted and orders placed

By the end of March 1966 and since the inception of Hire Purchase Scheme in 1955 the National Small Industries Corporation had received 18,812 applications for machines valuing \$ 120.8 million (for Rs. 90.58 crores).^{5/} After the initial scrutiny and detailed examination by the acceptance Committee at the Head Quarter Office, the Corporation accepted 13,552 cases for hire purchase assistance of the value of \$68.5 million (or Rs. 51.27 crores) that is, nearly 72 per cent of the number received and 57 per cent of the value applied for.

The supply orders were, however, placed to the tune of about \$38.0 million (or Rs. 28.54 crores) that is, nearly 32 per cent of the value of machines applied for and 56 per cent of what the Corporation agreed to supply. This points to quite a considerable amount of 'lost efforts' involved in delivering equipment on hire purchase terms.

The gap between applications received and accepted is somewhat unavoidable in as much as the Corporation has to adopt a selective approach for utilizing its limited foreign exchange and rupee resources in accordance with the directives laid down for small industry development. The important considerations in accepting or rejecting an application are whether it relates to a priority or nonpriority end product, whether it concerns rural or urban location of enterprises, whether it relates to the processing of indigenous materials freely available within the country or such material (imported or indigenous) as are in short supply; whether it has been organized on co-operative basis or not and whether it undertakes to foster articulation of small industry with large through ancillary relationship or "backward linkage" in the form of supply of end products.

The gap between the applications accepted and orders placed is primarily due to the withdrawal of cases at the time applicants are called upon to deposit earnest money. This indeed poses a problem of reducing applications from not too serious applicants.

^{5/} One crore = 10,000,000

Applications Rejected

Among the causes responsible for rejecting applications, the predominant ones are (i) the industry is in the banned list or of low priority (ii) adequate industrial capacity exists vis-à-vis demand for the end products (iii) the industry involves processing of scarce/imported raw materials or (iv) the project is not considered technically feasible on small scale. By the end of March 1966, the Corporation had in all rejected applications for machines valuing \$ 52.6 million. Of the applications rejected last year, nearly 40 per cent were rejected due to acute scarcity of raw materials intended to be processed, 35 per cent because already adequate industrial capacity existed in the line at the proposed location of the plant, 10 per cent since manufacturing activity was not considered technically feasible on small scale basis - and the rest 15 per cent on account of various other miscellaneous reasons.

Machines delivered - Imported and Indigenous

By the end of March 1966, machines valuing \$ 32.5 million (or Rs. 24.37 crores)^{6/} were delivered to small enterprises in the country. Imported equipment constituted nearly 56 per cent of the value of total equipment supplied on hire purchase basis during the aforementioned period of nine years. During three years (viz. 1962-63, 1964-65 and 1965-66) the proportion of imported to the respective total equipment supplied fell appreciably below 50 per cent while during the other six years, this proportion remained a little on the higher side of 50 per cent.

At initial stages of technological development, industry makes substitution of simpler low cost imported machines possible while it involves imports of new type of machines that might be many times costlier than those imported earlier (for example, one imported gear hobling machine costs nearly four times an ordinary imported lathe). As a result of these counter-pulls, the relative demand for imported equipment is likely to continue at the current proportion, for a number of years to come.

In absolute terms, however, ever expanding size of small industry sector would call for progressive increase in supplies of both imported and indigenous equipment.

Machines Delivered - (Industry-wise)

Industrywise distribution of hire purchase assistance is set out below.

^{6/} By September 1967, machines valuing Rs 29.28 crores (Rs.292.79 within) had been supplied. (Rs 7.5 = U S \$ 1)

MACHINES SUPPLIED INDUSTRY-WISE (September 1967)

Industry Sub-Group	No. of Units	Value in Rs. (Rs 7.5 = \$ 1)
Engineering (Mechanical, electrical and metallurgical)	4136	173,110,917
Chemical	239	11,299,268
Plastic, rubber and leather based	452	27,533,095
Printing, stationery and paper products	585	21,563,865
Textiles including wearing apparel	317	7,811,474
Food Products	171	4,893,855
Timber based	659	9,410,439
Miscellaneous	866	37,156,052
Total	7425	292,708,975

Source: SMALL-SCALE INDUSTRIES IN INDIA, Development Commissioner,
Small-Scale Industries, New Delhi, India, 1968.

The most striking feature of this distribution is that about 40 per cent of the total small scale enterprises provided hire purchase assistance belong to light engineering group and they alone have received a little less than half of the total assistance rendered. Industry groups engaged in servicing or processing indigenous raw materials that are not in short supply and are freely available (namely Auto Servicing, Building Materials, Ceramics, Food Products, Foundry, Leather, Printing and Binding, Rubber Based Items, Stationery, Textiles, Timber Based Items and Wearing Apparel) among themselves received hire purchase assistance to the tune of about 27 per cent. Other industry groups (namely agricultural implements, chemicals, containers, electric goods, metal wares, miscellaneous, plastic conversion and scientific goods) requiring certain quantities of raw materials that are in critical short supply received about 26 per cent of the total assistance. This in turn was shared by about 22 per cent of the total number of units assisted.

The pattern of dispersal of hire purchase assistance indicated above points to the considerable headway that has been made during the last decade by small industry in India in the field of light engineering and also to the efforts undertaken by the Corporation in fostering the growth of simple capital goods industry (like machine tools and machine building industries) and ancillary enterprises for the supply of components and parts to the large scale engineering industries. Nearly half of the hire purchase assistance in light engineering group has gone to the Machine Tools and ancillary units.

The fact that more than a quarter of the hire purchase assistance has since been channelised for product lines relating to processing of indigenous raw materials that are not in short supply is again primarily attributable to the priority accorded by the Corporation during recent years in supply of equipment. In fact during the last three years, the Corporation has agreed to supply equipment only to those small enterprises which are concerned with processing or fabricating of raw materials that are readily available in the market or where the concerned State Directorate of Industries had guaranteed beforehand the supply of scarce items so that the equipment supplied does not remain idle or underutilized due to non-availability of raw materials.

Small enterprises in light engineering group on an average received hire purchase assistance to the tune of about \$6,250 per unit, units in groups of industries requiring certain scarce raw materials on an average received about \$6,000 while those belonging to industry groups engaged in processing materials freely available received on an average only about \$3,700.

Default in repayment

Under Hire Purchase system a constant vigil on 'instalments in default' is imperative since instalments collected from hire purchasers constitute a revolving fund for financing the future supplies of machines. Arrears of instalments have however been mounting up from month to month during the last three years. Total amount of instalments in arrears has increased from \$0.3 million (or Rs.2,229,000) in April 1963 to \$1.29 million (or Rs. 9,607,000) in January 1966. That is, these arrears have more than quadrupled in a short span of less than three years.

The following table shows the relationship between instalments in arrears and value of machines supplied on hire purchase.

Relationship between 'Instalments in Arrears' and machines supplied on hire purchase

As on last date of the month	Instalments in arrears (\$ million)	Machines supplied on hire purchase since inception (\$ million)	% of col. 2 to 3
(1)	(2)	(3)	(4)
July 63	0.345	17.33	1.9%
Jan. 64	0.458	21.64	2.1%
July 64	0.626	25.63	2.4%
January 65	0.849	28.36	3.0%
July 65	1.075	30.30	3.5%
January 66	1.290	31.90	4.0%

Time taken in supply of machines

An oft spoken shortcoming of the hire purchase scheme relates to the time taken in processing hire purchase applications and the supply of machinery.

A selective study conducted into the handling of hire purchase cases has revealed that the Corporation was able to supply machines in respect of nearly one third cases in a period of less than a year. In another one third cases between 13-18 months while in the remaining one third cases it took more than 18 months. In this context, it needs to be mentioned that but for the stringent foreign exchange position obtaining in this country, which proved to be a very serious bottleneck in the supply of imported machines, the position regarding the disposal of cases would have been far more encouraging.

An apportionment of total time taken in the disposal of hire purchase cases between the three main parties, namely, the National Small Industries Corporation, hire purchaser and suppliers has revealed that the Corporation on an average took 40% of the total time taken, the hire purchasers took another 40% and the suppliers, the remaining 20% of the total time taken.

Machines were supplied to about 10 per cent of the hire purchasers within three months of depositing earnest money, half of them within 3-12 months, to a quarter of them within one to two years and to the rest 15 per cent within 2-4 years.

Quantitative Impact of the Schemes on Small Industries Growth

A study for assessing the impact of hire purchase assistance on small industries in three states, namely Punjab, Delhi and Madhya Pradesh, has revealed that hire purchase assistance has made a spectacular contribution towards the growth of small industries in these states. As a result of this assistance employment in the assisted small enterprises had increased nearly by 140 per cent (i.e. from 4937 to 11828), output by about 170 per cent (i.e. from \$ 60.8 million to \$ 164.7 million), while potential capacity to turn out end-products recorded an increase of 255% (i.e. from \$ 83.0 million to \$ 296.0 million). These growth indices, however, relate to only 15 per cent of the total hire purchase assistance given throughout the country. Assistance channelized in other States when taken into account, would indeed reveal a proportionately higher magnitude of small industries growth.

Another important impact of hire purchase assistance relates to the mobilization of capital resources that might otherwise have remained untapped. A selective study of nearly 800 small enterprises has revealed that seed capital provided by the Corporation in form of machinery and equipment on hire purchase basis resulted in the mobilization of nearly double its amount, by the hire purchasers on their own account. No appreciable difference has, however, been noticed between the rate of mobilization of capital resources by the new small enterprises brought into existence by hire purchase assistance and old enterprises engaged in manufacturing activity even prior to the receipt of assistance.

In spite of the fact, that the capital invested in small industries is mainly 'additional capital' that would not have otherwise assumed the character of productive or developmental funds and, therefore, it is not very relevant whether large or small industries would more speedily augment their original investment, a comparison between growth rates of investments in these two industrial sectors has been, nonetheless, attempted below.

A study of 378 small enterprises who received hire purchase assistance has revealed that total gross investment (after deducting the value of equipment supplied on hire purchase but making allowance for repayments) increased at an annual average rate from 1955 to 1963 of 20 per cent. This compares very favourably with the average annual rate of gross total assets formation (1956-60) of 8.1 per cent in private limited companies and 9.9% in public limited Companies studied by the Reserve Bank of India. A sample study conducted by Central Small Industries Organization has, however, revealed a growth rate of 7.2 per cent per annum in total investment.

In case of gross fixed assets, hire purchasers enterprises registered an annual rise of about 25 per cent while small sample enterprises (studied by Central Small Industries Organisation), private limited companies and public limited companies (studied by Reserve Bank of India) recorded rise of 6.2, 10.9, and 11.6 per cent respectively.

It is sometimes asserted that capital saving manufacturing activities organized on diffused small scale basis may save capital currently but would prove more capital expensive compared with large industries in the long run due to lower reinvestment or investment growth rate. Such an assertion is somewhat irrelevant in the context of small industries which draw primarily on additional capital or capital that would otherwise remain outside the orbit of industrial or developmental activity. Furthermore, this assertion has not been borne out by the hire purchaser's small enterprises which on the contrary, have brought to bear conspicuously higher rate of growth in gross as well as fixed assets formation compared with that in respect of large scale enterprises. Hire Purchase Scheme thus seems to have stimulated adequate inbuilt saving capacity as well as mobilization of funds from other resources kept out of industrial activity initially. Logically also, it is quite conceivable that an increment in the form of machinery and equipment, required (say) for balancing or rationalizing the industrial processes in small enterprises with out-moded equipment and technology of production, may result in a proportionately larger increase in output especially at initial stages of rationalization and thereby make larger reinvestments possible. Thus supply of equipment on hire purchase basis both for rationalization and modernization of existing small enterprises as well as for new modern viable small enterprises, not only helps in efficient production currently but also stimulates faster future growth of the enterprises by making fairly high reinvestment rate possible.

Qualitative impact of the scheme on small industries growth

Apart from mobilisation of financial resources and direct increases in production, capacity and employment, the machinery supplied by the Corporation has had a salutary impact of a qualitative nature on the growth of small industries.

Hire purchase scheme, by offering access to machinery and equipment to aspiring artisans or factoryworkers of drive and ability who have seen problems and achievements of industrial management at short range, affords them an enviable opportunity for transformation into independent self reliant owner industrialists.

Of the total 5989 enterprises supplied machines on hire purchase nearly 2500 are now enterprises belonging mainly to persons who were formerly employed as worker artisans and had managed to muster small savings for the purpose of starting industrial ventures of their own. Hire purchase scheme, as mentioned earlier, unlike other industrial credit schemes does not require any security or surety from anyone wishing to avail of the assistance offered under the scheme. It is this aspect of the scheme which has endeared it, so much to the artisans and craftsman since they are seldom in a position to offer any tangible security for credit accomodation. Hire Purchase assistance has thus been able to foster the growth of a new class of small entrepreneurs - an achievement which is both of a social and economic importance.

Further, entrance of a new class of artisans and traders in the manufacturing activity, facilitated by hire purchase scheme, has in turn resulted in the introduction of a large variety of industrial end-products. For example, manufacture of modern items like contraceptives, cycle tyres and tubes, water meters, photo flash bulbs, latex-jute fabric, nettings, polythene coated packing paper and industrial gears and hardwares, plaster of paris etc., was taken up for the first time in the small scale sector as a result of the machines supplied on hire purchase basis. Furthermore, practically every hire purchaser was enabled to take up the manufacture of certain additional ranges of end products with the help of machines procured by them on instalment credit. Thus hire purchase credit machines not only helped in the diversification of items manufactured by small scale sector, but also broadened the range of items manufactured by each hire purchaser.

Besides, hire purchase assistance, more often than not, has helped the hire purchasers by providing modern balancing equipment to reduce production costs, diversify industrial production and improve the quality of output. All this in turn has helped the small enterprises to strengthen their competitive position and has thereby instilled in their working a lot of growth potential and dynamism. Hire Purchase assistance has in fact facilitated the transformation of a good number of small scale enterprises into medium and large scale industrial enterprises.

Supply of modern precision machines on hire purchase besides creating a favourable impact on the quality of end products of the hire purchasers has also helped a number of other small enterprises getting job work done on these machines. For instance a gear hobbing machine besides fabricating accurate gears for the hire purchaser's requirements, is also used for doing job work for other small scale units. This in consequence, enables other small scale units to improve the quality of their end products and also overcome a bottleneck in their production efforts arising due to

inadequate capacity to produce gears. Similar are the efforts of 'Wood seasoning equipment' and 'Plaster of Paris making plant' (supplied on hire purchase basis) on wood based industries and crockery manufacturing small enterprises respectively.

Promotional Aspect of the Scheme

The approach of hire purchase scheme towards the development of 'ancillary enterprises', 'industrial co-operatives' and 'small enterprises in less developed areas' to start with, has been primarily promotional without being unbusinesslike. Special concessional terms relating to 'payment of earnest money', 'rate of interest', and period of repayment used to govern supply of equipment to small enterprises bearing these characteristics. In addition, enterprises belonging to these categories were also given priority consideration in supply of equipment.

(a) Development of Ancillary Industries

Development of small ancillary enterprises engaged in the manufacture and supply of parts and components to large industrial enterprises for new assemblies has received a special attention in the developmental programme for small industries. In fact, a great growth potential has been visualized for small industry in the sphere of activities complementary or ancillary to large industry. It has also been appreciated that an efficient industrial system thrives best where large and small enterprises are integrated through complementary and ancillary relationship.

In the later part of 1963 the Corporation withdrew all special concessions granted earlier to ancillary enterprises and it was considered wholesome as well as adequate that encouragement for the development of small ancillary enterprises might be provided by according priority to them in supply of equipment rather than by affording simultaneous concessions in hire purchase terms. A beginning was made in 1960 by introducing a comprehensive programme for the establishment of an Industrial Estate to house enterprises ancillary to 'Hindustan Machine Tools Ltd.' - a public sector undertaking engaged in the manufacture of machine tools at Bangalore. Facilities offered under this programme to entrepreneurs included provisions of (a) industrial shed with suitable amenities on reasonable rent (b) supply of equipment on hire purchase by the N.S.I.C. against initial deposit of 5 per cent only, (c) technical assistance to be provided by the Hindustan Machine Tools Ltd. for installation of plant and equipment as well as for the manufacture of parts and components (d) raw materials and requisite stores to be drawn by small enterprises from Hindustan Machine Tools Ltd., at cost and (e) technical supervision and assistance in advance planning of production. Of all these measures, supply of

equipment on hire purchase terms, brought to bear a gravitational pull for initiation and operation of ancillary enterprises.

Hire purchase assistance to the tune of \$ 8,000,000 (Rs. 60,000,000) was provided to 45 ancillary enterprises in Hindustan Machine Tools Industrial Estate. Forty enterprises had already gone into production and were manufacturing spares and components valuing \$ 1,133,333 (Rs. 85,000,000) annually.

The National Small Industries Corporation also collaborated in another similar programme for the establishment of an ancillary complex for 'Unfield India Madras (P) Ltd.' - a large private industrial enterprise engaged in manufacturing Motor Cycles, Scooters, and engines for industrial and agricultural purposes. The Corporation supplied equipment valuing about \$ 910,400 (Rs. 6,828,000) to 20 ancillary enterprises and these provided employment to 404 persons and manufactured goods worth about \$ 1,200,000 (Rs. 9,000,000) annually.

By the end of 1965 the Corporation had, in all, supplied equipment valuing \$ 3.34 million (Rs. 25,000,000) to 100 small ancillary enterprises which in turn provided employment to 2,000 persons.

b) Development of less developed areas

Before proceeding to discuss the distribution of hire purchase assistance among the areas with varying level of development it may be mentioned that about 60 per cent of this assistance has gone to 10 major cities. At the first instance this may appear inconsistent with the objective concerning dispersal of small industries. But in the early stages of small industries growth, it is both unavoidable as well as desirable that industries are fostered in areas that have not only adequate economic overheads but also have absorptive capacity. Once the growth of small industries has gathered certain momentum, it is opportune to carry these industries to semi-urban and less developed areas. To this end, the Corporation on its own initiative, started undertaking 'Intensive Campaigns' for the promotion of small industries in less developed areas, whereby applications for supply of machines on hire purchase are accepted on the spot. These Intensive Campaigns are an attempt at making special efforts for encouraging development of small industries in less developed areas by short-circuiting the normal official procedure.

Besides the message of industrialization is taken to very doorsteps of potential or promotable entrepreneurs through the technique of 'Intensive Campaign'. They are apprised of the vast industrial opportunities existing in the country and

the help available to them from various institutions and agencies. The various steps adopted under 'Intensive Campaign' are as set out below:

1. Meetings in localities, small enough to guarantee personal touch are arranged and the various kinds of assistance, incentives, and facilities provided by Central and State Governments, the National Small Industries Corporation, the State Bank of India and the State Financial Corporations are explained to the attending businessmen and others;
2. Demonstrations with the assistance of mobile vans are conducted in order to show artisans and intending entrepreneurs the working of modern wood-working machines, machines for making leather footwear and smithy and machine tools;
3. Exhibition of industrial films of interest to the entrepreneurs is arranged at all places;
4. Prospects for developing particular industries in which interest is evinced are discussed in detail and the industries holding potential for development from the point of view of available local resources as well as general market demand are indicated;
5. Visits to existing local industrial enterprises are arranged and the current position and problems of the enterprises are studied and suggestion concerning measures for improvement and expansion are expressed;
6. Schemes for suggested items of manufacture to suit investment capacities of potential entrepreneurs are prepared;
7. Printed publicity pamphlets and priced Model Schemes and Analysis and Planning Reports issued by the Development Commissioner for Small Scale Industries are distributed or sold;
8. Entrepreneurs are helped in completing the forms for Hire Purchase assistance and in the making of declarations, if any, before Magistrates;
9. Necessary verifications are obtained from the Assistant Director of Industries on the spot;
10. New Industries which can utilize idle power capacity in existing units are suggested;
11. The working of existing industrial co-operatives are studied with a view to suggesting measures for development and improvement.

As a result of a campaign recently conducted by the Corporation 105 small enterprises were promoted as against 196 applications received for supply of machines valuing over \$ 1.81 million (Rs. 1,36,00,000/-). Intensive campaigns are in fact deliberate efforts made for widespread diffusion of small industry in industrially less developed small towns.

An analysis of the distribution of hire purchase cases among all districts in India according to levels of their development indicates that 60 per cent of the small units provided with hire purchase assistance outside the three metropolitan cities (Calcutta, Madras and Bombay) were located in the districts at highest level of development (i.e. Group IV) 24% in districts at lesser level of development

(Group III), 11% in districts at low level of development (i.e. Group II) and 5% in districts at the lowest level of development (Group I). This pattern of distribution of hire purchase assistance among the districts at varying levels of development can be considered as indicative of the fact that hire purchase scheme having worked during its initial period without giving weightage to the locational factors, has already started making inroads in the lesser developed areas. But for the efforts put in through 'Intensive Campaigns' and the favourable bias or the weightage given lately by various Committees, at the time of accepting applications, to the parties located in less developed areas (i.e. rural and semi-urban areas), the hire purchase assistance would not have had such noticeable inroads in these areas. Nonetheless, in the years to come this trend will have to be strengthened.

A selective study into the nature of equipment supplied in urban and rural areas has revealed that enterprises in the former areas have received a much higher proportion of imported equipment than that received by the enterprises in the latter areas. Industry in rural and semi-urban areas being at an early stage of development, requires simple but less sophisticated equipment manufactured mainly at the industrial centres within the country. Contrary to this, demand for machines emanating from industry in urban areas consists usually of sophisticated machines and automatic plants available mainly from the sources outside the country. The hire purchase scheme has thus served as an important lever for fostering a welcome link between rural and urban industry whereby industry in the former areas with simpler equipment and specializing in the manufacture of less sophisticated end products plays a complementary role to that in urban areas engaged in more sophisticated end products. Enterprises in rural and semi-urban areas on an average acquired machines valued at \$ 2,200 each, while the corresponding average for enterprises in urban areas was about \$ 5,400. It was to stimulate growth of smaller enterprises that concessional hire purchase terms were afforded to demands of value less than \$ 6,666 (Rs. 50,000/-) each. As mentioned earlier, these concessions have since been withdrawn.

ANNEX

**A CRITIQUE OF THE HIRE-PURCHASE PROGRAMME OF THE
NATIONAL SMALL INDUSTRIES CORPORATION**

(Excerpted from the Report of the International Perspective Planning Team, sponsored by the Ford Foundation, on "Development of Small Scale Industries in India: Prospects, Problems and Policies, Government of India, Ministry of Industry, 1963).

During the visits of the team to various states, both state industry officers and numerous small industry entrepreneurs called attention to the uncertainties, delays, and paper work involved in using NSIC facilities. At the same time it was known that the Corporation had instituted several administrative and procedural changes to overcome these difficulties. The working group for the international team, therefore, was asked to study the operation of the hire purchase scheme. The study consisted of 95 random sample cases drawn from a total of 2,069 accepted applications in the northern region comprising six states. Of these 95 cases studied, it was found that machines were delivered to 35 applicants, 39 applications were withdrawn, and 21 were yet to be finally disposed of. Thirty-five applicants had failed to pay the 'earnest money' deposit, ranging from 5 to 20 per cent of the value of the machines, properly required before machines are ordered. A considerable amount of lost effort was involved in delivering machines to less than 40 per cent of the applicants.

Industry-wise analysis of the applicants reveals heavy concentration in machine tools and parts, light mechanical engineering, and chemicals. This distribution reflects the deliberate policy of SCIO and the Corporation to encourage certain types of industries in preference to others. In industrialized Delhi and Punjab, two-thirds of the applications were from existing firms, but in less developed Jammu and Kashmir this proportion was reversed, and all the applications from undeveloped Himachal Pradesh were from new entrepreneurs.

The time between initial application to the State Director of Industries and delivery of machines by the Corporation ranged from 7 to 42 months, with 25-30 months as the most common period required. Since 1961, there has been a significant reduction in the average disposal time, both by the States and the Corporation. For example, cases disposed of by the Corporation within 12 months increased from 17 to 30 per cent.

Until the exhaustion of funds for imports in late 1962, nearly 77 per cent of the value of machinery supplied was imported, with only 23 per cent supplied from domestic

sources. It is obvious that the scheme was much more useful, given foreign exchange shortages, for the procurement of imported than domestic equipment, and that applicants for domestic equipment generally were able to find other sources of funds for their requirements.

At the end of November 1962, payments for 359 machines were in default from 145 small units, in the amount of Rs. 6.25 lakh out of a total of Rs. 309.35 lakh of machinery supplied in the Northern Region. Instalments were long overdue for 148 machines, and 171 came into default during the single month of November. The fact that payments were in default for about 15 per cent of the machines supplied in the region indicates that a serious situation is likely to develop in this regard if raw material shortages persist.

Some of the defaulters interviewed in the study blamed the Corporation for the situation for various reasons, but the majority of the delayed payments appear to be the result of lack of raw materials or proper planning. It is evident that improved co-ordination is needed among the agencies concerned, not only in assessing the economic potential and financial and management strength of the individual applicants, but also in the subsequent supply of materials, power and components. Unless special action is taken promptly to alleviate raw material problems of small industry, consideration should be given on loan applications to see whether assisted firms will have sufficient supplies to operate economically, and be able to repay hire purchase loans.

It is ironic and unfortunate that the simplified procedures, instituted in 1962, designed to shorten the period between application for and delivery of machinery, came at a time when free foreign exchange loans for this purpose were being exhausted. This has caused a virtual halt in the operation of the Corporation's activities in supplying imported machinery and raises basic questions regarding its future if further imports cannot be provided. Also, as noted elsewhere in this report, because of the present excess capacity in small units due in large part to shortages of raw materials and components, there is probably greater necessity to provide these essential materials until a better balance of capacity utilization is attained in the small scale sector. There are, though, still the important key equipment shortages of many firms, reducing priority capital needs for the economy. What appears necessary at this time is a review of the overall equipment and materials situation for the small scale sector and the formulation of policies, based on these findings, which would include the delineation of the proper role for the National Small Industries Corporation during the shortage period.

A review of the problems of small business should be undertaken to see whether small firms actually require the services of the Corporation to purchase domestic machinery for them. Also, it should be considered whether there is need for NSIC financing of such purchases or whether medium-term State or Centre loans might not serve the needs adequately. Similarly, it might be considered whether the foreign import requirements of small industry need necessarily to be tied with a compulsory loan provision. Given the shortages of foreign equipment, the granting of import licence privileges alone might suffice. A better case for further foreign exchange loan assistance from aiding countries and institutions could be made if additional equipment or supplies for small industry could be assured to flow into priority product lines, i.e., those needed for capital and defence goods production.

As a government corporation, the National Small Industries Corporation should be a model of efficiency and integrity in all its procedures and dealings. The Team recommends, along with the above considerations, the installation of the most modern accounting and control systems consistent with the Corporation's scale of operations. More suitable office space would also be in order to improve efficiency and reduce operating costs. The present system, though significantly improved, might be reviewed to delete still unnecessary cautionary checking on prices, quality, and other purchase aspects which go beyond considerations of supplying machinery. Some of these advisory services now provided at the Centre could be better delegated to state officers on the spot.

As every state has, or is contemplating, a Small Industry Corporation to perform a range of activities similar to or even greater than those of the National Small Industries Corporation, we question whether there is any longer a need for continuing the branches of the National Small Industries Corporation. Their functions could progressively be transferred to the state corporations under agreements by which they would serve as National Small Industries Corporation agencies in their respective states. This would initially require consideration of a system of training, liaison, and reporting, especially if foreign exchange functions were to be handled in the Centre with accountability to foreign lending agencies. However, it is believed that the National Small Industries Corporation schemes could thereby benefit greater numbers of small industrialists much more efficiently, and repayments would be improved, without commensurate increases in the administrative burden or undesirable duplication of facilities.

The National and State hire purchase organizations should be operated with strict profit and loss accountability. We do not believe that they should lend funds at

lower interest rates than the lending agencies must pay. The services provided should stand on their own merits. Several other interest charge practices might be reviewed. Instead of the present practice of adjusting interest rates in relation to the size of loans, the Corporation lending rates should be uniform regardless of amount and should be adjusted periodically to reflect changes in financial market conditions and national economic policies. Judged by these criteria, the present rates are too low, as has been noted by the Corporation in its presentation to the Small Industries Board in the Spring of 1963.

On the other hand, it should be noted that the present low rates do not fully reflect additional hire purchase advantages to the borrower. Interest rate savings are, despite changes made in the Corporation, still offset to a large degree by uncertainties, delays and other factors inherent in Corporation practices. This is also true in the operation of State Corporations. When such corporations hold earnest money furnished by the applicants for any period of time, the real cost of the loan to the borrower rises significantly. Equity requires that small borrowers be paid interest on such deposits at market rates until the actual date of delivery of the machines. These implicit interest payments may be deducted from the amount of the first instalment due.

It may be deemed necessary for various reasons to retain concessional rates to cooperatives at a slightly lower rate than that charged to private entrepreneurs. However, it is believed that there should be no concessions in interest rates made to ancillary firms, as noted in the section on ancillaries in this report. We do not believe that these and other concessions to ancillaries are influential in the establishment and maintenance of meaningful ancillary relationships with larger firms. These relationships depend to a much larger extent upon quality and reliability of product, definite delivery schedules, and other product and price improvements. Such special concessions are open to a host of abuses: the vagaries of ancillary contractual relationships, units being ancillaries today and not tomorrow, and captive or false ancillary firms to take advantage of these privileges. For similar reasons, capital ceiling limitations should apply equally to all individual borrowers, whether or not they are ancillaries.

The study made of operations of the Corporation indicated that much of its efforts were absorbed in dealing with less than serious applicants. We recommend that each application for hire purchase loans should be accompanied by a handling charge deposit of Rs. 100 regardless of the value of the machine desired. This would be returnable only if the Corporation could not provide the machinery desired within an

originally agreed-upon time limit. The charge would tend to weed out tentative applicants and permit the Corporation to handle its business more expeditiously. Interest would be paid to the borrowers until the machinery was delivered. The additional 5 per cent service charge would be retained.





28. I. 72