CHAPTER-III

THEORETICAL FRAME-WORK OF THE SUBJECT.

PART- I : POWERLOOM INDUSTRY.

3 A INTRODUCTION.

Powerlooms in the decentralised sector are owned and managed by private individuals. Basically the powerloom industry is a small scale or cottage industry situated in villages and small towns in rural area. It consists of units having four or fewer number of powerlooms. Mostly powerlooms are operated by owners themselves. They also employ small number of outside workers. Their methods and techniques of production are simple and involve a low capital base. They produce traditional textiles. They purchase raw materials from the local market and sell their produce in the local market itself. In a real sense, the majority of powerloom holders, are the handloom holders of yeasterdays, run these looms as a way of life rather than a commercial venture.

The powerloom industry satisfies all the essential criterias to be considered for planned development. The economic advantage of this industry lies in its small capital, low cost of production, large production, high quality of textiles and large employment potential.

The rapid growth of powerlooms particularly during the last thirty-five years helped to achieve many Socio-Economic Objectives of our plans. It is because of the growth of powerlooms that the rural people learnt the lesson of industrialisation and that small and backward villages have been transformed into busy industrial centres. Since the industry provides a ready work to all who are ready to work, the number of beggers are less as compared to the number in other industrial centres. In fact powerlooms have proved to be an effective instrument of implenting the national programme of "GARIBI HATAO".

In this connection it is necessary to consider the "Powerloom Enquiry Committee Report(1964)" which will through a light on the working of this sector. The Report reads as follows :

' During the course of our visits to Powerloom Centres, we studied the various facets of the powerloom industry, but one profound impression left on us by our on the spot observations and discussions is, that powerlooms is much more than instrument of production, it is a symbol of a vast country-side process of economic transition and techno-social change. Behind it lie deep economic urges of millions of people to break through the coil of poverty, to improve ever so little, their levels of living and to escalcate themselves to a slightly higher social layer. It seems that a sweating,toiling human mass,menanced by a grim struggle for existence, was in search of an anchor, a stand-by which would help in escaping the driff of hunger and distress. In this search thousands of persons had abandoned their ancestri homes and their traditional occupations of hand weaving and migrated to places hundreds of miles away. Savings accumulated by considerable self-

-denied and supplemented by borrowings at high rates were invested in purchasing or putting together a powerloom. Ownership of a powerloom was to many the key to which opened the door to a somewhat less burden-some and dreary life. Employment on a powerloom, even without ownership, yielded in most cases higher earnings than on handlooms.[1]

Today the decentralised powerloom sector constitutes as one of the most important segements of our textile industry and its role is particularly very important. At present there exist about 9 lakh powerlooms in India. It is estimated that they provide employment to about 27 lakhs people directly and about 135 lakhs people depend upon it for their livelihood indirectly. The production of cloth by this sector for the year 1982-83 amounted to 4684 million metres, about 44% of the total cloth production in India. They have also a good share in the country's export trade Government gets several hundreds of crores of rupees annually in the form of taxes, duties and other benefits.

Since long the powerloom sector has been suffering from many deficiencies, difficulties and problems. It is because no scientific study has been made to find out the depth and intencities of these problems. The growth of the industry has been extremely haphazard and lop sided. Almost 85% of powerloom owners are under the clutches of the master weavers and are being exploited mercilessly. Therefore these powerloom holders must be given urgent relief.

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1) Ist All India Powerloom Weaver's Convention, '81 Souvenir, - sponsored by The Ichalkaranji Powerloom Weaver's Co-operative Association Ltd, Ichalkaranji. - 1981, P - 16.

For a long time government provided no help to the development of powerloom sector, Under the pretext that it would give an unhealthy competition to the handloom sector, rather it imposed many restrictions on it by reserving a large number of textiles for handloom sector. Recently, the New Textile Policy of 1985 has gave a great set back to the industry. In that Government came forward to help mill sector and handloom sector but left the powerloom sector to ~~die~~ develop on its own. As a result a large number of powerlooms in India has stopped operating leading to an utter starvation particularly of small powerloom owners and workers. Thus the industry at present is in a state of great uncertain ty, unfavourability and confussion. There is a general cry that the industry has no protection from Government, but only controls and controls. Therefore there is an urgent need to help the industry.

3 B SOME MAJOR PROBLEMS OF POWERLOOM INDUSTRY IN INDIA.

During the past thirty-five years the decentralised powerloom industry is passing through a phase of unprecendental crisis. Whenever there exists acute as well as prolonged crisis, there also appears a large number of overwhelming short term problems to be solved only in order to survive. As such there is neither time nor inclination to deal with some of the major and long term problems of the industry for its future. In fact an objective consideration of major and long term problems is important both for eliminating short term difficulties and for ensuring steady growth and development in future. In this regard it is necessary to consider some major problems of the industry.

The major problems of the industry can be analysed and summarised as under :

1) Problem of Yarn :

Yarn consists a group of fibres or filaments, either natural or synthetic, twisted or laid together to form a continuous strand suitable for use in Weaving, Knitting or some other method of inter winning to form textile fabrics. Thus yarn is the basic raw-material for powerloom weaving industry. It forms about 70% of cost of production of manufactured fabrics. So the availability of right type of yarn in right quantity, at right time and at right prices assumes greater importance in the economics of powerlooms.

One of the most vexing problems facing the industry is the scarcity of yarn. Big composite mills take away fine quality of yarn, inferior quality of yarn is left for these small powerloom weavers for which, too, they have to pay high prices. It is also true that due to lack of adequate finance, they have been compelled to use inferior yarn. This adversely affects the efficiency of the workers and also the quality of woven cloth. Moreover the prices of yarn also widely fluctuate and thus puts the weavers in a state of great uncertain ty. It is mainly because the prices of yarn have been controlled and dictated by the yarn dealers.

2) Problem Of Finance :

Today the small powerloom holders also lack adequate financial resources. It is true that adequate and cheap credit facilitiesare not available to the powerloom owners. They do not get loans from banks as they have no security to offer. Normally, they depend upon the master-weavers and local money leaders who often charge very high rates of interest. Besides to repay the loans quickly and in time they will be compelled to sell their cloth even at unfavourable prices and at certain times to dispose off their personal wearings and other property. This resulted into Utter Social and Economic exploitation by master-weavers.

The financial assistance given by banks and other financial institutions is too inadequate. The period of credit is also very short. High rate of interest is charged and above all the procedures of granting assistance is very cumber-some and time consuming N C D C extended financial assistance to the societies of cotton growers and handloom weavers. There is no reason why powerloom weaver's societies and associations should not be given any financial assistence.

3) <u>Problem Of Marketing :</u>

In India Marketing has not been mechanised to any great extent. Due to the existence of master weavers the powerloom holders obtain the sized beams and weft yarn from them and return the woven cloth to them for which they are paid some remuneration called job charges(i.e.Majuri). Such weavers who are dependent upon master weavers, do not enjoy the real fruits of their efforts which otherwise would have been enjoyed by an out right sale in open market. Even in case of loom owners not dependent upon master weavers sell their cloth at low prices to the local cloth merchants or middlemen. These middlemen sell the same cloth at comparatively higher prices. Thus weavers in no case get the benefits of high prices. Much profits are eaten away by master weavers and middlemen. It is because the whole market is in the hands of master weavers and middlemen

Marketinghas also become difficult due to the following reasons:

i) Lack of adequate finance and credit facilities.

ii) Lack of organised sales organisations in the vacinity of weaving centres.

iii) Lack of adequate and cheap transportation and credit facilities.

iv) Unstandardised cloth.

v) Lack of adequate and up-to-date market information.

vi) They can not wait for better prices due to financial difficulties.

vii) Unability to undertake sales promotion activities.

4) <u>Problem Of Exploitation By Master-Weavers And Middlemen :</u>

About 85% powerloom holders in India depend entirely upon the master-weavers for the supply of sized beams and weft yarn. In turn they weave the cloth and return the cloth to the master-weavers for which they are paid job charges which are very low. The same cloth is processed by master-weavers and sold at higher prices. So the weavers do not get the advantage of high prices. In this way their income is very low. Moreover, these powerloom holders depend largely upon master-weavers for financial assistance. Naturally these master-weavers take undue advantage of the position of these poor weavers and start exploiting them./ It is indeed true but surprising that the weavers who invested in looms about 20,000 to 30,000 are exploited by those who only invest on these looms in the form of sized beams and weft yarn of the value of Rs.1,500/- or Rs.2,000/-. This is one of the reason why the loom holders are not economically strong. As against this the master-weavers have become very rich within a short period and build-up their fine bungalows, definitely at the cost of poor weavers. In a real sense, powerloom holders are not the real owners. They have to dance at the tune of master weavers.

Similarly the weavers not depending upon the master weavers are also exploited by middlemen in many ways.

Recently powerloom weavers Associations are coming-up to restrict the monopolistic practices of master-weavers and to protect the interest of poor weavers. However, it must be admitted that at many times these associations are falling short due to many reasons.

5) Problem Of Old Looms And Modernisation :

In the beginning years, discarded looms of composite mills were installed in this decentralised sector by effecting necessary repairs and making them fit for weaving. At present also these old discarded looms are found in large number in the powerloom sector . This has reduced the productivity leading to high cost of production and high prices of woven cloth. This is the most serious problem of the industry. Therefore, these old looms must be urgently replaced by new powerlooms.

Generally, the scheme of modernisation affords the following benefits :

a) A reduction in cost of production.

b) An increase in production.

c) An improvement in quality of cloth.

d) Diversification of production.

However, the process of modernisation is not so easy in this decentralised sector mainly because of lack of adequate financial resources. Therefore, Government must come forward to help these powerloom holders.

6) Lack Of Processing Facilities :

In rural area where the number of powerlooms does not exceed 5,000 or so do not have processing facilities. Due to this the powerloom weavers are compelled to sell their grey cloth at lower pricesto master weavers or dalals who will then process the same and sell it at higher prices. Even at places where the processing facilities are available, they are not within the reach of common weavers. It is because of the small quantity of grey cloth and that the high charges of processing. Therefore efforts must be made to establish processing units at the weaving centres so that the weavers get their grey cloth processed at even rates.

7) Problem Of Labour :

The productivity of powerloom workers is very low in India as compared to the workers in other countries e.g. In India a worker can operate two or four ordinary looms whereas in Japan a worker can operate 48 automatic looms and in America 60 automatic looms. Of course it is because of the old looms with which our workers have to work but it is also because the workers are inefficient and illiterate. Since workers are readily obsorbed in the industry there found a large labour turn-over and labour absentism. This retards the production adversely.

Recently workers are becoming more and more aware of their rights and claims. No doubt it is a good but they are developing a feeling that they have been exploiting by loom owners. This resulted into strikes and lock outs. This feeling of workers is not good for the steady growth of industry. It may be true to some extent but generally workers in this sector are fairly treated and remunerated as compared to the workers in other industries.

Moreover minimum wages Act passed by some State Governments for powerloom workers posed a great threat to the industry. Therefore the wage policy should be revised in such a way that it is acceptable to both owners and workers. For this purpose the wage policy must incorporate both the aspects of needs of workers and production targets for owners in a fair proportion. In otherwords, the wage policy should be semi need based and semi production oriented in which case interests of both workers and owners are considered.

8) In-Adequate Housing Facilities To Workers :

The composite mills enjoy this facility. Under this scheme, if houses are to be built for workers of the mills the Central Govt. gives 30% of the cost of housing as the subsidy, 50% of the cost is extended as long term loan and the remaining 20% of the cost is tobe shared by employer and employee.[1]

The powerloom workers do not enjoy such kind of facility. Generally workers have to come from a long distances either by walk or by bicycle which is affective to the health. Moreover they tire in making updowns in which their working capacity is reduced considerably. This results into low production. Even the workers

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1. The Ichalkaranji Powerloom Weavers Association Ltd., "Memorandum", Souvenir- Ist All India Powerloom Weaver's Convention- 81, P-14..

who stay in the vacinity of powerloom factories their housing conditions are miserable. It would be difficult to expect more production from such workers who are in the state of misery. But the powerloom owners are not in a position to provide housing facilities to workers on their own. Because the owners(in a real sense they are workers) themselves live more or less in the same state of things like workers. Therefore, like mills Govt. and Banks must extend helping hands in raising housing facilities for workers as well as for the distressed owners.

9) Problem Of Fragmentation :

In the powerloom sector the owner operated looms are predominent. There are a few big factories but most of the establishments are small units. The structure of excise duty imposed has a great bearing upon the nature of ownership. When establishments having four or fewer number of looms were exempted from excise duty and some relaxation were also shown in respect of reservation, it led to the Fragmentation of the industry-- the large ones being sub-divided into smaller units of four or less looms. This kind of partitions were put up within a loom shed to show seperation of ownership. This is done by registering the different units in the names of different persons, preferably family members, relatives and friends. This kind of Fragmentation is not conducive to the long run growth and development of the industry. It also affects the working capital needs, finance for modernisation,expansion,etc. Therefore, the average size of the factory will have to become larger to ensure steady prosperity to the industry.

10) ✓ Problem Of Accommodation :

This is one of the major problem which the industry is facing today. Particularly in towns small powerloom owners, having no loom-shed of their own have to face many difficulties to accommodate their looms. Following are the difficulties that come in the way of accommodation of looms.

a) It is very difficult to get suitable loom-shed.

b) They have to pay heavy deposits.

c) They have to pay high amounts of rent.

d) As the shed is hired, the owner of the shed may insist to vacant the same within a year or two.

e) Many a time there exists a long distance between the loom-shed and the residential houses of loom owners.

f) In case of big shed where the looms of different peoples are accommodated it is possible that yarn,etc., may go in theft.

So a common shed consisting a small blocks accommodating for 12 to 16 looms will solve the problem to a great extent.

11) No Production From Government :

Government has spent considerable amount of money for the developement of handloom and mill sector. Government also supported for the establishment of some research laboratories to study the problems of mill sector. But with no help from any quarter whatsoever, the powerloom sector has expanded rapidly. Instead Government exercised so many controls in order to check and regularise the mashroom growth of powerlooms under the pretext that they would give unhealthy and unnnecessary competition to the handloom sector, which in fact not true. Therefore, there is a general cry that there is no protection by the Government to this industry but only regularisations and controls and controls only.

12) <u>In-Adequate Out-Lay For Development :</u>

Government has made adequate provisions for outlay for the development of handloom sector, mill sector and other large and small scale industries in the five year plans. Unfortunately, no adequate outlay has been made for the development of powerloom sector. In this regard 14th Report of the Estimates Committee 1977-78 strongly pointed out that the State Governments have not been utilising the funds received from the Central Government. Moreover the funds so given are merger. Obviously this has resulted into lop-sided and stunted growth of powerloom sector.

13) <u>Absence Of Reservation :</u>

So far Government reserved certain types of textiles for handloom sector. As such the powerloom sector has been compelled to face competition from the sophisticated and very aggressive mill sector. There are certain specific number of textiles which are not produced on handlooms but can be conveniently produced on powerlooms. If such items are reserved for powerloom sector it will definitely create suitable climate for the industry and that orderly growth of the industry will be ensured.

14) Absence Of Research And Technical Service Centres :

The industry is very rapidly growing. But the government has not provided so far any sort of technical assistence or guidance. As such the industry is still producing traditional items like dhoties,sarees,mulmul cambric,chadders,etc.

World is dynamic so the consumer's needs, tastes,habits and fashions are continuously changing. Hence it is necessary for the industry to deal with these changing trends. Therefore, to help the weavers in this direction the technical guidance is quite essential so as to effect necessary improvements and changes in the production patterns and designs. There is a wide scope for improving the qualities and designs of the fabrics produced on the powerlooms. Only two technical centres have been set-up by the Government-one in West-Bengal and another in Maharashtra. But these institutions are too inadequate that they can not hope to cope up with the increasing needs of the industry. Therefore efforts must be made to set-up more and more such research and technical service centres to help the industry beneficially.

15) **Lack Of Data :**

For the purpose of undertaking any development programmes for the industry sufficient and accurate data must be made available. The estimates Committee 1977-78 greatly regretted that the basic information and data were available neither with the Central Govt. nor with the Office of the Textile Commissioner. In the absence of relevent data the Committee felt that it is not possible to control and plan the growth of the powerloom industry. In fact unavailability of data is a serious problem that makes it difficult to plan the development of the industry. Therefore, efforts must be made to collect and analyse all the necessary data on the various aspects of the industry.

In view of these various problems with which the industry facing today, it becomes necessary to take proper steps. Therefore, Government must come forward and initiate necessary measures to solve these problems. So as to ensure the orderly growth and prosperity of the industry.

Problems Of Powerloom Industry At A Glance :

I. Raw Material :

1) Unavailability.
2) Inadequacy.
3) High Prices.
4) Wide Fluctuations In Yarn Prices.
5) Improper Quality Of Yarn.
6) Improper Counts Of Yarn..

II. Labour :

a) Uneducated.
b) Inefficient.
c) Low Productivity.
d) Absentism.
e) Large Turn-Over.
f) Increasing Wages Cost.
g) Strikes And Lock-Outs.
h) Inadequate Housing Facilities.

III. Finance :

i) Unavailability.

ii) Inadequacy.

iii) Unrealiable Sources.

iv) Unnecessary Delays..

v) High Rate Of Interest.

vi) Difficulties In Repayment.

IV. Marketing :

a) Lack Of Demand.

b) Competition From Mill Sector.

c) High Transportation Cost.

d) Low Prices For Cloth.

e) Difficulties In the Recovery Of Sale Proceeds.

f) Existence Of Many Intermediaries Who Grab Large Margin Of Profit Resulting Into Low Profits To Powerloom Owners.

V. Technology (Absence Of Research And Technology) :

1) Production.

2) Production And Marketing Diversification.

3) Modernisation And Expansion.

4) Absence Of Research And Technical Service Centres.

VI. Processing :

a) Inadequate Facilities.

b) High Cost Of ~~Production~~. processing

c) No Planned Targets Set-Up In Five Year Plans.

VII. Power Shortage :

i) Irregularity.

ii) Frequent Power Cut.

iii) Increasing Rates Of Power Charges.

VIII. Others :

1) Existence Of Old Looms.

2) Existence Of Small And Un-Economic Units.

3) Existence Of Too Many Government Controls.

4) Exploitation By Master Weavers And ~~Dalals~~. Middlemen

5) No Protection From Government.

6) No Reservation Of Products.

7) Inadequate Outlay For Development.

8) Inefficient ~~Absence Of~~ National Level Board.

9) Lack Of Data.

3. C) THE NEW TEXTILE POLICY AND THE DECENTRALISED POWERLOOM INDUSTRY.

The Government of India announced its new textile policy as on 6-6-1985, with the main objectives of "Cheap Cloth to the Poor Millions" and "Employment to the Unemployed Millions ". The policy also intends to boost up the exports. Keeping in view these objectives the Government reclassified the textile industry into three new sectors namely,

1) Spinning
2) Weaving, and
3) Processing,

as against the old divisions organised mill sector, decentralised handloom sector and decentralised powerloom sector.

To achieve the objectives the Government provides assistence to the organised mills, for modernisation on liberal terms. Emphasis is also laid on modernisation and improving productivity and quality of handlooms. It is also proposed to restrict the powerlooms from manufacturing the reserved items set for handlooms. The real crux of the problem is that the Government made no such special provisions or any sort of assistence to the powerloom industry. So far as powerlooms are concerned the policy states :

"The composite mills and the powerlooms have their own respective strengths and weaknesses. For the purpose of the policy, powerlooms in the organised mill sector and in the unorganised powerloom sector shall, as far as possible, be treated at par and allowed to compete on the basis of their inherent strengths and capabilities".

Thus, it is seen that the Government arbitrarily came to the conclusion that these two sectors can be treated at par. But the Govt.has not admitted the fact ~~the~~ that the powerloom sector suffers from many limitations. The policy left the powerloom sector to develop on its own. It is worth noting that Govt.treat the mill sector and powerloom sector on the same line and sked to compete on their inherent strengths and capabilities. Govt.provides financial assistence to the mill sector at cheaper rates for modernisation and conferred many benefits on it but no such provision is made for powerloom sector. On the contrary the Government provides adequate assistence to the handlooms for strengthing the competitive strength of the handlooms. It is also decided to observe strictly that the powerlooms will not produce the items of reservation kept for handlooms But the Government made no such reservation to powerlooms.

The question proposed is how the objectives are to be achieved ? In this regard it is worthwhile to consider the present position of textile industry.

The Present Position Of Textile Industry.[1] 1984-85.

Sr.No.	Sectors.	Total Number.	Employment in lacs.	% in total Production.
1.	Composite Mills.	280	9	28
2.	Powerlooms in the Composite Mills..	2,11,000		
3.	Spinning Mills...	525		
4.	Handlooms.	38,00,000	102	32
5.	Powerlooms.	10,00,000	32.19	40

1. Samajwadi Prabhodini "Charchastra Sankalan" Bharat Sarakarche Nave Arthik Dhoran,Prabhodan Prakash,Ichalkaranji-1986. Article on Nave Vastrodhyog Dhoran in Marathi by Prof.V.R.Mane,Ichalkaranji.

It is seen that the mill sector has provided employment to about 9 lacs workers and produced 28% of total cloth production. Whereas the handloom sector provided employment to 102 lacs workers but contributed to 32% of production. On the contrary the decentralised powerlooms sector provides employment to about 32.19 lacs workers and contributed 40% of cloth production in the year 1984-85. It is crystle clear that powerloom sector in terms of production ranks first in our textile industry.

If this is true, to achieve the objectives of the policy the Govt. should see that the powerloom sector becomes self-relient and stands on its own leg. But unfortunately this is not done in the policy.

To strengthen the competitive strength and to increase the productivity of the handlooms the Government provides financial assistence and other facilities. They have made responsible for producing "Janata Kaapad"i.e. controlled cloth. The question is; Can the handlooms shoulder this responsibility ? It is so because the cost of production per metre of cloth on handlooms is comparatively higher than on the powerlooms due to low scale production in the former. Similarly in order to remove the "Sickness" of mills the Government provides for financial assistence at concessional rates under the soft loan scheme of I.D.B.I. for modernisation. The liberal import of sophisticated textile machinery is also allowed. For the purpose of modernisation the policy provides for Rs.500 crores. Because of modernisation the cost of production will definitely increase considerably. If it is so how the policy objective of "Cheaper Cloth for poor millions be achieved ? Moreover the modernisation of mills involves the replacement of old looms by installing the sophisticated looms viz; uco, air-jet, water-jet, etc., This will again reduce the number of workers presently working in the mills" If this is the case how the objective "employment to unemployed millions" be achieved?

Let us consider another aspect about 40% of people in India live below poverty line. As such they can afford to buy cloth priced at Rs.4 and upto maximum Rs.8 per metre. They cannot purchase the cloth priced higher than this. The man-made fibre cloth viz.polyester produced by the mills and the costly ornamental clothes of handlooms is generally not the cloth used by the poor people. The policy intends to bring down the prices of polyester from Rs.25 to round about to Rs.15. Our poor people living below poverty line cannot dream at present to buy these cheaper polyester fabrics. The Government announced a number of concessions and tax benefits to bring down the prices of man-made fabrics. The exicise duty and taxes on the cotton yarns and the processing duties on the cotton fabrics however have been retained. The cotton cloth which can in fact be made still cheaper, therefore remains still costly. Had the Government really wanted to cloth the poor millions below the poverty line they should have abolished excise duty and taxes on the cotton yarn as well as 13% excise duty on the clot produced in the decentralised powerloom sector. This was, in fact, the way to make cotton cloth cheaper, by 20% to 5% bringing down the prices from Rs.4 per metre to Rs.3 per metre, and from Rs.8 per metre to Rs.6 per metre. But,perhaps, this was not intended to be.[1]

1. The Ichalkaranji Powerloom Weaver's Co-Operative Association Ltd., Yantramag-Dharak Samanvaya Samittee,Ichalkaranji. Article on subject: New Textile Policy and Decentralised Powerloom Sector, dated 27-1-1986, P-2 and 3.

In brief it can be stated that without considering the problems of decentralised powerloom industry, the new textile policy treated the powerlooms in the organised mill sector and the powerlooms in the decentralised sector on the same line and allowed them to compete on the basis of their ~~ive~~ respective strengths and capabilities. The Government freely allowed the mills to import sophisticated textile machinaries in the name of modernisation for which the Government provides financial assistance at cheaper rates. But the Government provides nothing to powerloom industry and left it on its own. Similarly Government provides financial assistence to strengthen the competitive strength of hand loom sector, but no such assistence is given for powerloom sector to strengthen its competitive strength to compete with mill sector. The Government decided to observe strictly that powerlooms will not produce the reserved items of handlooms. But no such reservation of fabrics is made for powerloom sector as against mill sector. Moreover the Government provides concessions like sales tax, excise duty, import duty, etc., and cheaper financial assistence to the mill sector and financial assistence, reservation of items and other facilities are given to handloom sector. But it is miserable to note that the Government provides no such assistence, concessions, reservations etc., to the powerloom sector except the facility of multifibre cloth production and asked to compete with mill sector on its own strength. All these factors have caused a great set back to the powerloom sector. The policy provides for huge exports of cotton and yarn. As a result the yarn prices for powerlooms are tremendously increasing but found a little demand for the cloth manufactured by using such high priced yarn. Consequently about 75% of powerlooms in India have stopped operating and that workers working on these looms have become unemployed. The 25% of looms operating at present are just operating on marginal lines in which case the incomes of owners and workers have gone down considerably.

Therefore, to achieve the policy objectives in a real sense the policy should be revised in the interest of powerloom sector. Government should provide duty relief and assistance in making use of multi-fibre facility to the power loom sector.

3.D) PROSPECTS OF POWERLOOM INDUSTRY IN INDIA

Prospects means the things expected to occur in future. Obviously, it is natural and important to explore the future of powerloom industry which is an important segment of our textile industry. In this regard the question is ----- What is the future of decentralised powerloom industry in India ? What is the powerloom industry going to look like, say, by 2,008 ? Futurology is the science and art of predicting the future occurances onthe basis of past experience and on the basis of wise guess about the possible changing trends in future. Forecasting the future trends and happenings as accurately as possible is of immense value in everyday life of an individual,businessmen,industrialist and even to a nation. The fore-casting may be short term or long term depending upon the relative importance of future events.

Decentralised powerloom sector being an important segment of our textile industry, it is of great importance to consider the futurity of this sector. The futurity of the powerloom industry depends mainly upon the consideration of certain assumptions and factors. They are :

A) Dress Habits Of The People In Future.

B) Increase In Total Population.

C) Per Capital Consumption Of Cloth And Total Cloth Requirements.

D) Relative Importance Of Each Sector Of Textile Industry.

E) Textile Exports.

F) Technological And Socio-Economic Changes In Powerloom Industry In Future.

Now let us study the above factors with necessary assumptions :

A) Dress Habits Of The People In Future :

In this connection the assumption is that as education expands, as urbanisation increases and as industrialisation grows; gradually there takes place long term shift from coarse to medium and fine fabrics, from grey to better finished cloth, from natural fibres to synthetics and blends and finally from traditional to cosmopolitan garments.

So far as dress habits are concerned the sari will retain its own against the cosmopolitan garments. However, the use of nine yard sarees will disappear but six yard sarees with petti-coats will become more popular. As the women prefer jobs and have to go outside the home wearing of blended sarees will increase considerably as these sarees require less ironing. Costly sarees like Benaras, Kanjeevaram,etc., will be used only on ceremonial occasions. The traditional long skirts and blouses will be replaced by short skirts and blouses. In case of men the wearing of dhoties and traditionanl shirts will decrease considerably. The finer apparel fabrics and coarser non apparel fabrics viz. towels,bed-sheets,table-cloths,etc., will definitely show a rising trend.

The use of man-made fibres particularly non-cellulosics will increase presently polyester cloths are becoming more and more famous. The same will continue in future also. At present the ratio of

Synthetics to Cotton is 1·4 in India. On the basis of what has happened in other countries and trends in India it would be reasonable to assume that by the year 2,008 A.D. Cotton will be 65% of textile consumption and man-made fibres 35%. Of these 35% non-cellulosics are expected to increase at a much faster rate than cellulosics because of their durability as well as easy care properties.[1]

B) Increase In Total Population :

In India population is increasing at 2.2% P.a. Due to family planning efforts it may come down to about 1.25% P.a. On this assumption the estimated population will be 920 millions by 2,000 A.D. and 1,000 millions by 2,008 A.D.

C) Per Capita Consumption Of Cloth And Total Cloth Requirements :

Generally increase in the average per capita income of middle and higher income groups does not necessarily increase in their per capita consumption of cloth, but an increase in the per capita income of lowest level group people may substantially increase in the per capita consumption of cloth. Assuming 20 metres as being average per capita consumption of textiles, then the total cloth consumption would be(population x per capita consumption = 920 x 20) 8400 million metres in 2000 A.D. and (1000 x 20) 20,000 million metres in 2008 A.D.

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1. Kasthuri Shreenivasan "India's Textile Industry" South India Textile Research Association,Coimbatore-1984, P-222.

D) Relative Importance Of Each Sector Of Textile Industry In Textile Production in Future :

Since the population will be 1000 millions by 2008 A.D. and the cloth required will be 20,000 million metres it would be natural to assess the contribution by each sector of textile industry to total production. In this connection it is necessary to consider the past performance ofeach sector. This can be shown by the following table :

Table 3.1.1 Production In Cotton Textile Industry.[1]
(In million metres).

Year	Cloth Production.			% Share Of	
	Mill Sector.	Decentralised Sector.	Total.	Mill Sector.	Decentralised Sector.
1950-51	3730	1010	4740	79	21
1960-61	4640	2050	6690	69	31
1970-71	4050	3550	7600	53	47
1980-81	3430	4940	8370	41	59
1981-82	2920	5060	7980	37	63

From the above table it would be seen that the production in mill sector is continuously decreasing whereas in the decentralised sector it is continuously increasing.

The average decreasing in mill sector is 12%. However, the New Textile Policy of 1985 has given a favourable consideration to

1. S.C.Gupta "Institutional Financing and Industrial Growth" Adarsh Prakashan,Jaipur-1987, P-185.

the mill sector. This may help the mill sector to increase their production. Additional mills may be established. Taking this fact into consideration and assuming that the decreasing rate will come down by 50% i.e. 6% (which is reasonable). We can estimate the future production as follows :

Table No. 3.1.2 Estimated Future Production In Cotton Textile Industry. (In million metres.)

Year.	Cloth Production.			% Share Of.	
	Mill Sector.	Decentralised Sector.	Total.	Mill Sector.	Decentralised Sector.
2000-2001	4784	13616	18400	26	74
2008-2009	4200	15800	20000	21	79

From the above table it is seen that the increased production must come from the decentralised sector. Decentralised handloom sector has given due consideration by the New Textile Policy. But by the very nature the scope for productivity increase in handloom sector is rather small. Though at certain places handlooms ma y increase but in other areas where opportunities for alternative employment are greater, no handloom weaver's son wants to succeed his father's profession. Therefore, the increased production must come from the decentralised powerloom sector. It is so because powerlooms have the advantage of productivity over handlooms and excise and labour wages over mill sector. Therefore, as was in past the powerlooms will show rapid increase in future. By 2000 A.D.

another 2,00,000 powerlooms and by 2008 A.D. additional 1,00,000 powerlooms will be installed in this sector. Moreover the larger number of employment opportunities will be created in powerloom sector.

E) Textile Exports :

After meeting the home requirements for clothing, the next task is to boost up the exports. By 2000 A.D. expected exports will be 1500 million metres and by 2008 A.D. it is expected to go upto 2000 metres of cloth. To fulfil this target of exports, here also the increased production must also come from the powerloom sector and that there will be a very substantial increase in the number of powerlooms and a small increase in handlooms.

Knittings and garment industries will also expand considerably.

F) Technological And Socio-Economic Changes In The Powerloom Industry :

As a result of rapid growth of powerlooms many technological changes may take place to make the existing powerlooms fit for weaving cloth according to the changing fashions of the people. Polyesteer Shirtings and light Suitings e.g. S.Kumar Suitings type may also be produced on these simple powerlooms by effecting necessary techno - logical improvements to the existing looms. To the present powerlooms warp stoppers will be installed so that polyesters and light suitings can be easily woven. For this purpose additional Rs.5000 to 6000 will be required for warp stoppers and for other arrangements. This cost is very low as compared to the cost of automatic looms, the cost of which vary from Rs.1,00,000 to 1,50,000. Thus these "Improved Powerlooms" will cope up with changing needs of people. Many non-traditional and industrial fabrics will be produced on large scale on these "Improved Power Looms".

At the same time many socio-economic changes are expected to take place in the powerloom industry. Due to the increasing importance of powerlooms Government may declare the powerlooms as "Improved Handlooms" Powerloom Weaver's Associations, Powerloom Weavers Co-Operative Societies,etc., will come up in large number to restrict the monopolistic practices of Master Weavers and to safeguard the interest of weavers.

Export Houses will also be set up to boost up exports Technical Service Centres and Research Centres will be established to provide necessary technical assistence and guidance to the weavers to deal adequately with changes.

To conclude this brief summary we do hope that a type of revolution may take place in the powerloom industry and will assume greater and greater importance in meeting the internal clothing needs and increasing more and more exports.

PART-II : F I N A N C E.

T H E O R E T I C A L F R A M E-W O R K O F T H E S U B J E C T.

3.1 I N T R O D U C T I O N.

In the today's modern money-oriented economy, money has aptly been described as the soul of the economic activities of mankind. It is so because the ultimate aim of all economic activities is to achieve maximum material wefare. This is possible only when one gets sufficient money-income with the help of which wants are satisfied. In fact money forms an important subject of economics. It is also known that business is an important branch of economics concerned with production and distribution of goods and services with a view to earn profit in the form of money.

Finance is 'the science and art of money'. Because it deals with principles, procedures and methods of planning, raising, administering and utilising of money for productive purposes. Obviously the management of any business organisation requires the efficient management of finance because all business activities are directly or indirectly interlinked with finance. In fact, management functions viz. Planning, Organising, Co-ordinating, motivating, communicating, controlling, staffing, etc., can be discharged efficiently provided they are reinforced by adequate finance. From this point of view, finance is considered as one of the Basic Foundations of Business Activity. The efficient administration of business activities require appropriate decisions to be made regarding finance.

Finance is an every day and basic functional area of management requiring expert knowledge and high intelligency and so the finance function should be entrusted to competent hands. To acquire the required requisites of business viz.land,building, machinery,men,materials,etc., and the conversion of raw-materials into finished goods requires adequate finance. Similarly distribution of goods and services necessitates provision of adequate finance. Money is also needed for paying the various factors of production viz.rent, wages,interest,etc. In fact business needs money to make more money. The so-called theorum of 'Profit Maximisation' can be achieved only when the monetary or financial resources are put to maximum possible use.

Finance is regarded as the life-blood of business enterprise. The circulation of finance in the business is as important as the circulation of blood in the body. The success or otherwise of a business concern largely depends upon finance. Therefore,finance has been rightly called as 'The Golden Pin' of business enterprise.

3.2 DEFINITIONS OF FINANCE.

Finance has been defined by several eminent authorities as follows :

1) "In a Modern Money-using Economy Finance may be defined as the provision of money at the time it is wanted".

-- Paish.[1]

2) "Finance is the art of raising and spending money".

-- P.G.Hastings.[1]

3) "Business finance is defined as that business activity which is concerned with the acquisition and conversion of capital funds in meeting the financial needs and overall objectives of business enterprise".

-- Wheeler.[1]

4) "Business finance can be broadly defined as the activity concerned with the planning, raising, controlling and administering of the funds used in the business".

-- Harry Guthmann,
Herbert, Dougale.[1]

5) "Finance may be defined as that administrative area or set of administrative functions in an organisation which relate with the arrangement of cash and credit so that the organisation may have the means to carry out its objective as satisfactorily as possible".

-- cf Howard and Upton.[2]

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1. J.C.Sinha & V.N.Mugali, "Business Management" Secundarabad-Hubli R.Chand & Co., New Delhi-1976, P- 6.4.
2. S.C.Kuchal "Corporation Finance Principles & Problems", Ahmedabad, Chaitanya Publishing House, Allahabad-1982, P- 1.

6) "Finance may be said to be the circulatory system of the economic body, making possible the needed co-operation between the many units of activity. In an organism composed of a myriad of seperate enterprises, each working for its own end but simultaneously making a contribution to the system as a whole, some force is necessary to bring about a direction and co-ordination. Something must direct the flow of economic activity and facilitate its smooth operation. Finance is the agent that produces this result".

-- S.C.Kuchhal.[1]

It can be seen from the definitions that finance is an art of planning raising,controlling,administering and spending of money and credit in meeting the financial needs of fixed and working capital. It is an administrative function or an agent that brings about required co-operation and co-ordination amongst the various activities for the smooth functioning of the enterprise and greatly facilitates in the realisation of enterprising goals through the efficient management of inflow and outflow of cash.

Implications Of Business Finance :

The implications of business finance can be explained as follows :

1) The starting of business enterprise necessitates the mobilisation of money for acquiring the required requisites of business.

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1. S.C.Kuchhal 'Corporation Finance Principles & Problems'. Ahmedabad,Chaitanya Publishing Housing,Allahabad-1982, P- 1.

2) Adequate money is also needed for meeting day to day expenses.

3) Adequate money has to be provided or otherwise ear-marked for replacement of existing old assets and also for acquiring additional assets for expanding the business.

4) The inflow and outflow of cash should be arranged in such a way that the smooth functioning of the enterprise is guaranteed.

5) While financing an enterprise care must be taken to see that their exists a close relationship between the finance and the potential earning capacity of the enterprise.

6) As far as possible the cost of financing the enterprise should be minimum.

7) Reduction of costs and maximisation of profits are the ultimate aims of financing the business enterprise.

3.3 CLASSIFICATION OF FINANCE.

Finance is divided into two broad categories as public finance and private finance. The public finance is concerned with the financial requirements, recipts and disbursements of such Governmental bodies as nations, states and even municipalties. Under the present democratic set up the policy of public revenue and expenditure is associated with the welfare of society, and the money is obtained and spent in order to achieve this objective.

Private finance (i.e. business finance) can be broadly defined as the activity concerned with the planning, raising, controlling and administering of the funds that are used in the business organisations. Private finance is further subdivided into three types, namely- personal finance business finance and finance of non profit organisations.

Personal finance is mainly concerned with the fundamentals of managing one's own day to day money affairs. Business finance covers the financial management of private profit making concerns in the field of service, manufacturing, mining, financing, etc. The non-profit organisations would include private undertakings in the fields of education, religion, charity, etc., whose motto is to render the services to the Society.

In public finance the main objective is to contribute to the welfare of the Society but in private finance the main objective is to get profit with the only exceptions of non-profit organisations.

However, in both public and private finance the common object is to get maximum return with the least cost.

The subject of business finance is often studied as corporation finance. In this the attention is concentrated on the financial problems of incorporated business, business finance is a broader concept as it covers all forms of business organisations.

3.4 IMPORTANCE OF FINANCE.

Finace plays an important role in the everyday life of an individual, business organisation and in the economic system of a nation as a whole. It is so because the activities of all these groups are interlaced by finance. From the economic point of view man without money is not a man at all. What applies to an individual also applies to the business concerns and the nations. It is seen that some of the countries in the world are very rich while others are very poor. The basic reason of this is the finance. The abundance stock of financial resources helps to utilise the other resources in the nation productivity thereby leading to economic prosperity. The lack of adequate financial resources on the other hand inhibits the process of economic development. In fact finance lays down the basic foundation upon which all economic activities of man-kind rotate. The importance of finance can be well stated with reference to the following aspects :

1) Finance helps in the assessment of financial requirements of all business enterprises. It also indicates the internal and

external sources for meeting the various financial requirements and suggests the methods to be followed in raising the required resources.

2) Savings are the real source of finance, if tapped properly they will help in the productive harnishing of other factors of productioninto useful goods and services that are needed by the society. Finance measures the efficiency and effectiveness of financial institutions in the mobilisation of individual and corporate savings.

3) It suggests various ways and means for mobilising such savings into the proper investment channels for productive utilisation.

4) It brings to the light the instances of fraudulent practices of management in the misuse of financial resources and directs the attention towards the urgency of regulating and correcting such practices.

5) It brings out the defects in the relationship between the industry and the various financial institutions like banks insurance companies,investment companies,investment trusts, financial corporations,money and capital markets. It also suggests the remedial measures to correct the same.

6) It determines the role of the state for the smooth conduct of business activities in the economy. To achieve this,it guides the state in levying control over capital issues, imposition of various taxes. On the income of individuals and business organisations and utilising the same for developmental activities.

7) It helps the Govt.in raising and spending of adequate financial resources in the attainment of maximum social welfare.

8) The business objectives viz. a) earning profit on the capital invested, b) provision of employment for the society, c) provision for the adequate supply of standard quality of goods and services to the consumers, d) guaranteeing reasonable remuneration and satisfactory working conditions to the employees, e) Ensuring social stability,etc., are all achieved with the help of finance.

3.5 FINANCE FUNCTION.

The term finance function is defined in three ways.

One defines the finance function in a business as "Simply the task of providing funds needed by the enterprise on terms that are most favourable in the light of its objectives".[1]

This approach is concerned with the procurement of funds. It also takes into account the instruments,institutions and practices through which funds are obtained. This definition is very-~~very~~ narrow because it does not take into account the major task of financial decision making which has a great impact upon the business.

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1. S.C.Kuchhal "Corporation Finance- Principles and Problems" Ahmedabad,Chaitanya Publishing House, Allahabad-1982, P-6.

Another definition considers that finance function is concerned with cash, and that since nearly every business transaction involves cash directly or indirectly, finance is concerned with everything that takes place in the conduct of a business. Obviously such a definition is too broad to be meangful.[1]

The third approach-envisages finance function as procurement of funds and their effective utilisation in the business.[1]

This approach is more comprehensive since it considers the decision making aspect and emphsis the role of financial manager in planning, raising and effective utilisation of funds. In this sense, finance function covers planning, raising and effective utilisation of funds and also includes fore-casting of cash receipts and disbursements.

Following are the chief activities necessary for successful administration of the finance function :

1) Financial Planning :

It means estimating and planning for the future flow of cash receipts and disbursements. It is necessary to plan expenditures for equipments, other assets, stock of goods and current expenses. These expenditures must be adequate to fulfill the needs but should not be beyond, the probable means to pay. The assumption that "Something will turn up to pay dues" is dangerous.

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1. S.C.Kuchal 'Corporation Finance - Principles and Problems' Ahmedabad, Chaitanya Publishing House, Allahabad-1982, P-6.

2) Financing :

It means raising the needed funds. The day to day receipts may be inadequate to carry on the operations. Hence, it may be necessary to get finance through additional sources. It is important for this purpose to study the financial institutions through which an organisation can procure the required funds.

3) Financial Control :

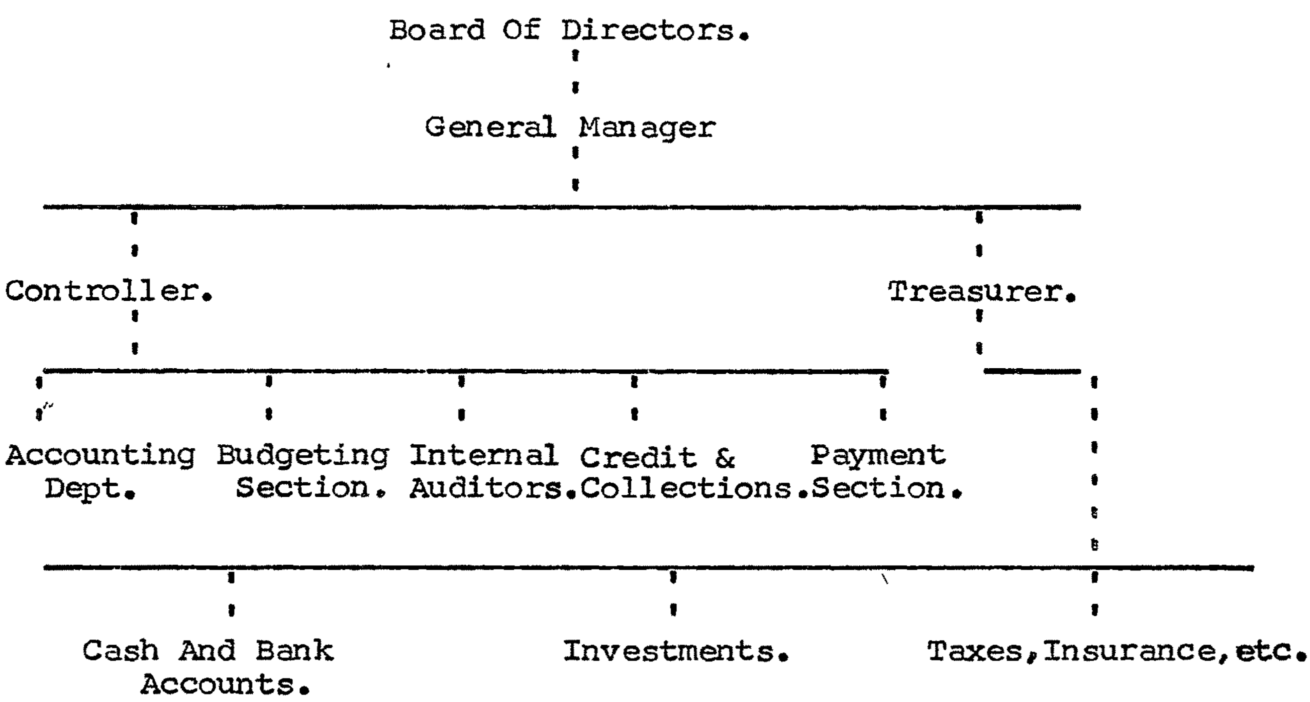
It means checking the past and current operations and disbursements so as to ensure that the cash flow is proceeding according to plan or deviations are handled in a manner compatible with continued financial health of the business. For the smooth functioning of this function, it is necessary that financial plans must be modified from time to time to suit the changing situations since business situations are dynamic in nature.

Organisation Of Finance Function.

In case of small proprietory and partnership organisations the finance function is handled by the owners themselves. However, in case of large scale undertakings the finance function is looked after generally by two important officers namely Controller and Treasurer and are responsible to the Board of Directors. The Board of Directors are Chiefly concerned with the planning, raising, utilisation and regulation of finance necessary for the over all production and selling programmes of the organisation. As such the Board has to decide about the amount of capital to be raised, the securities through which it is to be raised sources from which it is to be raised, and the procedures to be followed in raising it. The other important financial matters like investment in fixed and working assets, are also dealt with by the Board.

Routine financial matters like receipts, disbursements and custody of funds, administration of various tax affairs, recording and accounting of financial-dealings payments, collections, etc., are entrusted to the Controller and Treasurer.

The following chart shows the organisation of finance function in a typical business enterprise.



Controller :

He is the chief financial officer and exercises control over expenditures within the frame work of financial policies laid down by the Board of Directors. His sanction is essential for making payments. He supervises the collections from debtors, sanctions the expenditures and gets the transactions systematically analysed and recorded in the various account books. He is also responsible for the organisation of internal control and audit system necessary to prevent the misuse of funds in the organisation. The main task of the Controller is to co-ordinate his policies and procedures with the policies and objectives of the management.

Treasurer :

He is the main custodian of, Company's funds and deals with cash, bank account and company's investments. He receives cash and cheques on company's behalf and makes payments for the items approved by the controller.

Classification Of Finance Function.

Finance function is generally classified into groups, namely executive finance function and incidental finance function.

Executive Functions.

They include the following aspects :

1) To estimate the financial requirements for the acquisition of fixed assets viz.land and building, plant and machinery, etc., and establish proper asset-management policies.

2) To determine the allocation of net profits of the company i.e. payment of dividend, creation of general and specific reserves for expansion, modernisation,etc.

3) To ensure the constant flow of funds in the business. This requires the proper estimation and control of inflow and outflow of cash.

4) To decide upon the sources from which capital is to be raised.

5) To ensure proper checking upon financial performance within the organisation.

Incidental Functions.

They include the following :

a) Supervision of cash receipts and payments.

b) Preservation of adequate cash balances and safe-guarding the same.

c) Safe custody of securities, insurance policies, and other valuable documents.

d) Keeping upto date records of receipts and payments, preparation of profit and loss account, Balance Sheet, Cost records and other statements and reporting the same to the management..

3.6 FIXED CAPITAL

INTRODUCTION :

Every business enterprise small or big is bound to lock up its capital in the acquisition of fixed assets from which the potentiality of the business may be calculated. More amount of fixed capital may guarantee more amount of income from which the success of the business may be accounted for. Hence the business operations have the base on the fixed capital.

MEANING AND DEFINITIONS

Fixed capital refers to the money to be mobilised for buying, manufacturing, extending or replacing the fixed assets essential for a Co., at its inception and in the usual course of its business life. The term fixed capital stands for that amount of capital which is required to acquire fixed assets. Fixed assets are necessary to run the business and hence fixed capital is essential to invest in fixed assets. Fixed capital may also be described as that part of the total capitalisation of the the Co., which is sunk in fixed assets.

Shubin defines fixed capital as "the funds required for the acquisition of those assets that are to be used over and over for a long period such assets as lands, buildings, machinery, equipments and tools. The term also applies to the assets themselves ".[1]

In the words of Wheeler "Fixed Capital is invested in fixed or long-run assets. The amount of fixed capital needed, therefore,

1 J.C. Sinha & V N. Mugali " Business Management " Secunderabad - Hubli R.Chand & Co; New Delhi - 1976 - p - 6.31

varies directly with the amount of fixed, assets owned or used by a business ".[1]

Thus fixed capital represents the assets which are of a permanent nature and which a business does not intend to dispose off or that could not be disposed off without interferring with the operation of a business e.g. land and building,plant and machinery, tools and equipments. It also includes non-current assets viz. goodwill,patents, copy rights, long term investments and other intangible assets in which capital is tied up for a longer period and which are essential for the smooth running of the business.

Importance Of Fixed Capital

Fixed capital is useful to invest in acquiring the fixed assets. The fixed assets would only assure to increase the income of the business.

A new industrial concern often requires the adequate amount of fixed capital to support its working. Without any corresponding earning during the first few years. This 'gestation' period varies from one concern to another according to the degree of mechanization and specialization.

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1. J.C.Sinha & V.N.Mugali "Business Management", Secunderabad-Hubli, R.Chand & Co., New Delhi-1976, P-6.31.

An established concern also needs additional fixed capital for expanding and improving its acitivities. Growth is the normal breath of business and the established business needs an additional capital for modernisation and expansion schemes.

Moreover, in order to ensure continuous production some irreducible amount of stores and stocks must always be kept by all business enterprises. The capital that may be needed for keeping the wheels of business in constant motion is in the nature of fixed capital permantly sunk in the business.

Factors Governing The Fixed Capital Requirements :

1) Nature Of Business :

The manufacturing concerns need more amount of fixed capital. Their operations are dependent upon acquiring land, buildings, plant machinery, etc., which cost more. On the other hand commercial organisations require little of fixed capital.

2) Size Of Business :

The large sized businesses require large amount of fixed capital to build up a suitable assets-complex. Small scale industries need small amount of fixed capital. Capital intensive industriesare bound to invest a large capital in fixed assets, while labour intensive industries need less amount of fixed capital.

3) Nature Of Production:

Industries producing consumer goods require less amount of fixed capital whereas industries producing capital goods a need more amount of fixed capital.

4) Diversity Of Production Lines:

If a firm is engaged in the production and distribution of goods and services it requires more fixed capital than a firm engaged merely in the production of goods and entrusting the task of distribution to traders. Similarly, if bye products and ancillary parts are produced, more fixed capital is needed.

5) Methods Of Production :

If the firm is assembling the parts produced by other firms, its fixed capital needs will be less, than the firm which integrates all the operations of manufacturing activities.

6) Methods Of Acquiing Fixed Assets :

If the fixed assets are purchased in cash, more fixed capital is necessary. On the other hand, if the fixed assets are acquired on rent, less amount of fixed capital is required.

7) Quality Of Product :

The production of superior quality products needs more amount of fixed capital and vice-versa. Standard men, machines and materials are to be acquired. The size of the factory, too, is sufficiently big and hence more fixed capital is required.

8) Provision Of Intangible Assets :

The preliminary expenses incurred in the establishment a business concern also take the form of fixed investments, e.g. a) promotion expenses, b) organisation expenses, c) goodwill, patents and copy rights, d) Cost of financing.

Thus without fixed capital no business concern can be established nor expanded. The acquisition of fixed assets is the real investment of fixed capital.

Principles Of Managing Fixed Capital :

1) Too much capital should not be locked up in unnecessary assets.

2) Only those assets that increases earning capacity of the business andbrings reasonable returns should be purchased.

3) The hired assets may also be procured, if feasible, instead of investing the huge funds in fixed assets.

4) Old, Out moded and second hand assets should not be purchased as they will not serve the purpose of the undertaking.

5) Full utilisation of existing assets must be observed instead of purchasing additional assets.

6) The assets should be maintained properly so that the life of such assets will be increased considerably. For this purpose periodical inspection, repairs, etc., are necessary.

7) Adequate depreciation should be provided out of the profits. New assets should be purchased if old assets have lost their productive capacity.

8) Fixed assets should bear the relationship with sales, profits, net worth of assets and total assets.

9) Appropriate sources of capital should be utilised for financing the fixed capital.

Thus fixed capital should be invested in suitable assets so that the productivity is maintained at all times.

3.7 WORKING CAPITAL.

INTRODUCTION :

Working capital is necessary forall types of business concerns, irrespective of their size and nature.. Some business concerns need more, while others need less amount of working capital. Working capital is useful to meet regular routine recurring expenses like payment of wages, salaries, etc.

Meaning And Definitions :

Working capital refers to the investment by a business in short term assets like cash, marketable securities, debtors and inventories. Net working capital or net current assets refers to the current assets less current liabilities. It also refers to the flow of ready funds necessary for working of the enterprise.

Some authorities argue that it is the aggregate of current assets available to meet the current liabilities. It is also called as circulating capital meaning thereby the composite of current assets.

According to Hoagland, "working capital is descriptive of that capital which is not fixed. But the more common use of the working capital is to consider it as the difference between the book value of the current assets and the current liabilities".[1]

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1. J.C.Sinha & V.N.Mugali "Business Management" Secunderabad-Hubli, R.Chand & Co., New-Delhi-1976, P-6.35.

In the words of Gerestenberg "Circulating capital means current assets of a company that are changed in the ordinary course of business from one form to another, as for example, from cash to inventories, inventories to receivables, receivables into cash".[1]

Shubin Writes "Working Capital is the amount of funds necessary to cover the cost of operating the enterprise. Working Capital in a going concern is a revolving fund, it consists of cash receipts from sales which are used to cover the cost of current operations".[1]

Thus working capital represents operating funds which are also known as circulating funds. Working Capital is described in terms of current assets and current liabilities. Current assets are those assets which in the ordinary course of business can be easily convertible into cash without any delay and difficulty. On the other hand, current liabilities are those liabilities that are intended to be paid in the ordinary course of business within a short period.

Following is the list of current assets and current liabilities:

	Current Assets.		Current Liabilities.
1)	Cash in hand.	1)	Trade creditors.
2)	Cash at bank.	2)	Bills payable.
3)	Bills receivable.	3)	Outstanding or accrued expenses.
4)	Book Debts.		
5)	Marketable Securities.	4)	Short term loans.
6)	Inventories or stock of goods.		

a) Raw materials. b) Work in progress. c) Manufactured goods.

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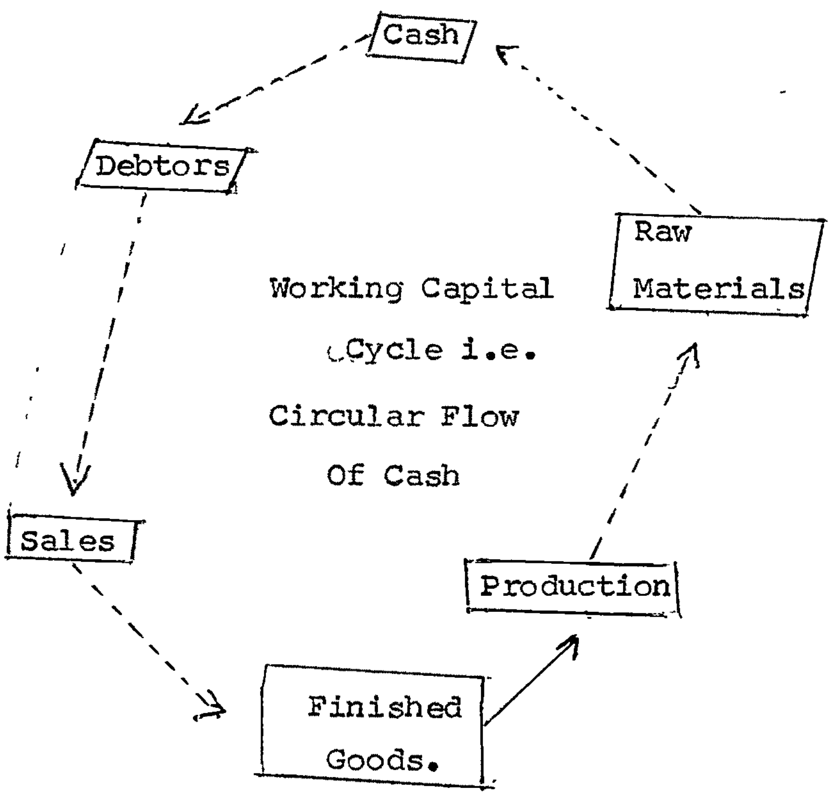
1. J.C.Sinha & V.N.Mugali "Business Management", Secunderabad-Hubli, R.Chand & Co., New-Delhi-1976, P-6.35.

Working of a business concern entails a process of conversion of cash into goods, goods into cash with intermediate stages of stocks,sales, book debts, bills receivables and realiasation of cash. This can be shown by the following cycle.



The Need Of Working Capital

The need for working capital arises because there exists a time lag between manufacturing and marketing the production,production and sales and sales and collections.

During these time-intervals, ready cash is required to keep the business in full swing. Following are the purposes for which working capital is needed.

1) To pay for the purchase of raw materials, spare parts, operating supplies, etc., required for production.

2) To pay wages and salaries to the workers and other employees of the organisation.

3) To pay the expenses like electricity charges, octroi, taxes, expenses relating to office and administration.

4) To pay for the expenses incurred on promotion of sales viz. packing, advertising, salesmanship, after sale service, delivery service, credit facilities, etc.,

Types Of Working Capital

Working capital is classified as follows :

- Working Capital
  - Permanent Working Capital
    - Initial Working Capital.
    - Regular Working Capital.
    - Reserve Working Capital.
  - Variable Working Capital
    - Seasonal Working Capital.
    - Special Working Capital

1) Permanent Working Capital :

This type of working capital is permanently looked up in the circulation of current assets and keeps them moving. It is further sub-divided as :

a) Initial Working Capital :

Every business enterprise requires a certain amount of initial working capital. It refers to the cash required to start the circulation of capital and keep it moving till the cash that returns by way ofreceipts is greater than the cash payments.

b) Regular Working Capital :

It is the amount of liquid cash required to keep up the circulation of the capital from cash to inventories to receivables and back again to cash. It refers to the excess of current assets over current liabilities.

c) Reserve Working Capital :

It refers to the cash kept aside over and above the regular working capital needs so as to provide for contingencies that arise at unstated intervals.

2) Variable Working Capital :

This capital changes with the volume of business. Most of the business organisations have to obtain additional working capital to meet seasonal and special needs. This capital is divided into two kinds :

a) Seasonal Working Capital :

Many business concerns are busy during the periods of season. During the season they need more funds over and above the initial and regular working capital to meet the demands of the seasonsl busy periods. This additional capital needed during seasonal periods is termed as seasonal working capital.

b) Special Working Capital :

This is useful for financing special operations viz., the inauguration of some executions of productions and distribution. This capital is also used to finance additional purchases, additional labour, etc., to meet unforeseen circumstances..

Factors Governing The Working Capital.

1) Nature Of Business :

The industries manufacturing capital goods need less amount of working capital. On the contrary, merchandising industries need more amount of working capital for acquiring and storing stocks to be sold at a profit.

2) Size Of Business :

The business enterprises with large size and scale of operations naturally need large amount of working capital to pay off large bills of wages, salaries, purchase of raw-materials, etc. On the other hand, small business concerns require small amount of working capital.

3) Length Of Processing Period :

If the process of production consumes longer period, larger amount of working capital is required.

4) Status Of Turn-Over :

If the turnover is very rapid less amount of working capital is required. More amount of working capital is necessary if the turnover is slow.

5) Terms And Conditions Of Purchase And Sale :

If the purchase of raw materials and other needs is on credit basis and the sale of goods is on cash basis, less amount of working capital is needed. On the contarary, if the purchase of raw materials and other needs is on cash basis and the sale of products on credit basis requires the large amount of working capital.

6) Seasonal Variations :

Some industries have to buy the raw materials in large quantities during the season and process them during the entire year. Their purchases and other payments are the heaviest during the acquisition period and hence more amount of working capital is needed. e.g. Textile Mills acquire raw cotton in a season and process of manufacturing is done throughout the year. Thus, the raw cotton purchased may remains idle in the store room for a longer period of time.

7) Cyclical Fluctuations :

Cyclical changes in the general business activity create emergency demand for working capital. During the successive periods of expansion more amount of working capital is required.

8) Other Factors :

Viz. Depreciation policy, reserve policy, dividend policy, operating efficiency, profit level, price level, taxes, expansion and modernisation programmes, etc., influence to a great extent the amount of working capital requirements.

Importance Of Working Capital.

The sufficient amount of working capital is necessary to purchase the needs and to pay off the liabilities, etc., In fact adequacy of working capital is a real source of strength and stability to the business enterprise. The importance of working can be summarised as under :

1) Security And Confidence :

The regular payment of wages, bills and other expenses creates security and confidence in the minds of workers, creditors, etc., working capital enables smooth functioning of the business. Inadequacy of working capital may generate business stagnation.

2) Increases The Solvency :

The regular payments to the vendors of raw-materials, meeting promptly day to day expenses will definitely ensure the solvency of business enterprise. A business concern is bound to collapse in the absence of ready cash balance to meet the routine expenses.

3) Creation Of Goodwill :

Working Capital enables the business to make prompt payment to creditors, workers and others. This increases the goodwill of the business.

4) Concessions :

An enterprise with sufficient working capital is able to take the advantage of cash discounts and other concessions.

5) Steady Work And Efficiency Of Workers :

The adequacy of working capital helps to maintain the regular supply of materials from which steady work to workers is ensured. Regular payment of wages increases the loyalty and morale of workers. Thus the workers increase their efficiency.

6) Easy Availability Of Bank Loan :

A business with sound working capital arrangement is able to obtain bank loans. It is so because banks advances are governed by the liquidity of the enterprise. The adequacy of working capital is an indication of high liquidity and soundness of the business. Therefore banks advance easily to such high liquidity enterprises.

7) Purchase Of Requisites Even At Off Seasons :

The availability of sufficient amount of working capital enables the business to acquire the required requisites that are available at lower prices during off seasons.

8) Prosperity And Progress :

Sound working capital position of the business concern ensures the continued progress and prosperity. It makes the managers self confident themselves and infuse the same in others. It will create a wholesome psychological climate for efficiency, solvency, goodwill and general morale.

Management Of Working Capital.

Working capital is essential to maintain the liquidity and solvency of the business enterprise. Working Capital management involves deciding the amount and composition of assets and liabilities. These decisions are related with trade offs between risk and profitability elements. On the one hand the greater the relative proportion of liquid assets, the less the risk of running out of cash, all other things being equal. On the other hand the lower the proportion of liquid assets to total assets, the more the risk of running out of cash, all other things being equal. However, profitability is also more.

The considerations of liquidity and profitability are opposite. Liquidity is the ability to realise cash. Higher liquidity has a number of benefits like solvency of the business, continuity of production, availability of cash discounts, availability of bank loans, etc.

On the contrary the profitability aspect of working capital should not beneglected . The holding of idle cash balances would have undersirable effects. viz. unnecessary locking up of stocks, under-utilisation of funds, etc.

Therefore, the management of working capital involves striking out a proper balance between liquidity and profitability taking into account the aspect of solvency.

Sources Of Working Capital.

1) Issue of shares.
2) Issue of Debentures.
3) Retained Earnings.

4) Capital and Revenue Reserves.

5) Indigenous Bankers.

6) Creditors and Customers.

7) Public Deposits.

8) Commercial Banks.

9) Financial Institutions.

3.8 INDUSTRIAL FINANCING IN INDIA.

Finance plays very significant role in the establishment and development of industries because it helps to acquire the required requisites for industrial organisations. Pooling together of factors of production namely land,labour,capital and organisation and conversion of these factors into finished goods and services essentially involve finance.

3.8 A MEANING AND IMPORTANCE OF INDUSTRIAL FINANCE.

Meaning :

The term 'Industrial Finance' is used to convey the organisation of various types of finance needed by industries for their activities connected with the production of goods and services.[1] For the purpose of production of goods and services industries require mainly three types of finance. viz. i) long term

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1. S.C.Gupta "Institutional Financing and Industrial Growth", Adarsh Prakashan, Jaipur-1987, P-132.

finance, ii) Medium term finance and iii) Short term finance. Industries may provide finance to some extent themselves. But they have to depend upon others to a great extent for financing their activities. Thus, industrial finance refers to the adequate provision of finance necessary for the organisation of factors of production and conversion of these factors into real goods and services. The provision of finance is mainly done by the owners of the organisation and through other agencies like indigenous bankers, commercial banks, financial institutions, money and capital markets.

Importance :

Industrial Finance plays a vital role in under-developed countries and developing countries like ours. The development of various industries require the acquire of real requisites and finance is the means by which these requisites are acquired, organised and harnished. Therefore, organisation of industrial finance in our country was felt necessary due to the following reasons :

1) For a long time, till independence indigenous bankers and commercial banks facilitated only the buying and selling activities of traders. These agencies have not financed for meeting out all the needs of industrial concerns. Therefore, it became essential that such institutions as capital market for buying and selling of securities, industrial banks for financing the various needs, of industries, etc., be organised to provide industrial finance so that the financial resources in the country can be flowed into industries.

2) Small savings of the people should be mobilised and made available to the industries in which these resources are productively used. This is possible only if there exist sufficient number of institutions to encourage the people to save more and invest more.

3) India has a mixed economy in which public sector, private sector, joint sector and co-operative sectors work togetherly. In order that financial resources from all these sectors is fully mobilised and allocated among these sectors according to the plan-priorities, the existance of adequate and sound financial institutions is quite essential.

3.8 B FINANCING LARGE-SCALE INDUSTRIES.

The main sources of finance for large scale industries are as follows :

1) Shares and Debentures.
2) Retained Earnings.
3) Indigenous Bankers.
4) Public Deposits.
5) Commercial Banks.
6) Specialised Financial Institutions.

1) Shares and Debentures :

Any corporation for its legal incorporation needs equity share capital. It forms the ownership capital and provides financial foundation to the undertaking. Besides, the necessary finance is also raised by the issue of various types of perference shares and debentures.

2) Retained Earnings :

This is the most suitable source of financing for an established concern. This source is generally used to finance replacement, modernisation and expansion plans. Because of tight conditions in the capital market, business enterprises find it difficult to create response to their capital issues. The curbs placed on bank lendings and the high cost of borrowing have also compelled the industries to retain and utilise their own profits.

3) Indigenous Bankers :

In case of financial emergencies, industrialists seek the help of indigenous bankers. These bankers provide loan for a short term but charge a very high rates of interest. Hence the financing by these bankers is very costly.

4) Public Deposits :

Thisis the traditional source of finance in India. Generally, trading and manufacturing concerns accept public deposits in which case people keep their money as deposits with these concerns for a period of a year or so. Depositors receive a fixed rate of interest on the money deposited. This system prevails particularly in Ahmedabad, Bombay,Assam and West Bengal.

Industries prefer this source of finance due to the following reasons :

i) the cost of such deposits is lower than the rate of interest charged by commercial banks.

ii) they are unsecured.

iii) no restrictions are laid on the use of such finance.

iv) they are readily available without much difficulty..

However with the growth of banking habits in the people and other financial institutions the importance of public deposits as a source of finance is slowly decreasing.

5) Commercial Banks :

Generally Commercial Banks provide finance for working capital needs for short periods to industrial concerns. These banks generally do not provide long term finance and also hesitate to invest their funds in industrial securities. With the increased tempo of industrial development commercial banks are meeting short term credit requirements, a certain portion of long term credit and indirectly purchasing shares and debentures of industrial concerns and under write the shares and debentures to some extent. The following table shows the industrywise deployment of bank credit..

TABLE NO.3.II.1

Industry Wise Deployment Of Bank Credit As In June-1979.[1]

	Industries.	Amounts (Crores Of Rs.)	%.
1.	All Engineering.	2534	13.1
2.	Chemicals, Dyes, Paints, Drugs And Pharmaceuticals.	1034	5.3
3.	Cotton Textiles.	959	5.0
4.	Iron & Steel.	500	2.6
5.	Other Textiles.	492	2.5
6.	Sugar.	400	2.1
7.	Other Metals And Metal Products.	319	1.6
8.	Paper And Paper Products.	212	1.1
9.	Rubber And Rubber Products.	188	1.0
10.	Other Industries.	2905	15.0
	Total Credit to Industry.	9543	49.3
	Total Gross Bank Credit..	19343	100.0

From the above table it is seen that banks advanced credit to the extent of 49% to the various industries of the total credit, Engineerings,Chemicals,Dyés,Paints,Drugs,Pharmaceuticals and Cotton Textiles received the top consideration i.e. 23.4%. Iron & Steel, other textiles and sugar industries were also given fair assistence.

1. S.C.Kuchhal 'Corporation Finance-Principles & Problems' Chaitanya Publishing House, Allahabad-1982, P-348.

6) Specialised Financial Institutions :

These institutions are also known as 'Industrial Banks'or 'Development Banks'. The establishment of these banks paved a way for rapid industrialisation in our country. They provide finance to small scale,medium scale and large scale industries to meet the short term,medium term and long term financial needs of industrial concerns.

The institutions providing industrial finance are :

1. The Industrial Development Bank of India.(IDBI).
2. The Industrial Finance Corporation Of India.(IFCI).
3. The Industrial Credit And Investment Corporation Of India. (ICICI).
4. The Industrial Reconstruction Corporation Of India. (IRCI).
5. The National Industrial Development Corporation.(NIDC).
6. The Unit Trust Of India. (UTI).
7. The Life Insurance Corporation Of India.(LIC).
8. The General Insurance Corporation Of India. (GIC).
9. State Financial Corporations.(SFCs.).

These financial institutions usually perform the following functions :

a) To provide long term loans to industrial concerns.
b) To underwrite industrial securities.
c) To provide guarantees to long term loans raised by industrial concerns.
d) To refinance the loans granted by other financial institutions.

e) To provide rediscounting facilities for bills and promissory notes of industrial concerns.

f) To grant loans in foreign currencies to industrial concerns.

g) To undertake promotional activities like investigation, survey, industrial research, etc., with a view to explore productive avenues of business promotion and

h) To provide consultancy service to the management of industrial concerns at national and state level.

The following table reveal the assistence sanctioned by various financial institutions namely- IDBI, IFCI, ICICI, IRCI, LIC, UTI, SFCs, SIDCs to various industries in our country.

TABLE NO.3.II.2.

Industry-Wise Assistance Sanctioned By Financial Institutions.[1]

(Rs. in Crores.)

	Industry.	1980-81	1981-82	Cumalative Upto End March-1982.
1.	Textiles	386.19	460.71	2220.14
2.	Food.	141.61	197.48	1051.52
3.	Paper.	150.91	291.67	877.15
4.	Miscellaneous Chemicals.	151.65	206.90	1082.92
5.	Basic Metal Industries..	108.24	125.47	841.81
6.	Machinery.	224.93	343.86	1427.82
7.	Services..	264.60	310.23	1248.41
	Total-	2310.65	2885.96	14128.79

1. S.C.Gupta "Industrial Financing And Industrial Growth", Adarsh Prakashan, Jaipur-1987, P-121.

The above table indicates that textiles, machinery and service industries received the top consideration. However, considerable finance was also provided to food, miscellaneous chemicals, paper and basic metal industries. It is conclusive that financial institutions are greatly financing to textile industry, financing by financial institutions to cotton textile industry since 1973 can be detailed out by another table as given below :

TABLE NO.3.II.3.

Financing Of Cotton Textile Industry By Financial Institutions+ [1]

(Rs. in Crores).

Year.	No.of Mills.	Paid Up Capital.	Sanctioned By All India Financial Institutions to CTI.	% of Sanctioned to paid up capital.	Disbursed by All India Financial Institutions to CTI.	% Of Disbursed to paid up capital.
1973	600	235.31	10.87	4.62	12.11	5.15
1974	615	277.98	24.08	8.66	12.64	4.55
1975	617	306.38	20.03	6.54	19.45	6.35
1976	618	306.42	28.15	9.19	20.01	6.53
1977	627	329.19	125.24	38.04	73.74	22.40
1978	637	360.24	179.58	49.85	98.88	27.45
1979	648	403.62	223.84	55.46	119.98	29.73
1980	661	411.72	306.42	74.42	175.73	42.68
1981	691	430.40	374.61	87.04	237.30	55.13
1982	723	450.33	419.91	93.33	352.28	78.22
			1712.73		1122.12	

+ Covered are IDBI, IFCI, ICICI, IRCI, LIC, UTI, SFCs and SIDCs.

1 S.C. Gupta "Institutional Financing and Industrial Growth", Printwell Prakashan - Jaipur - 1987, P - 19.

From the above table it is clear that financial institutions have been playing a significant role in supplying finance to cotton textile industry. The sanctioned and disbursed amount showed a rising trend. In 1973 the contribution of these institutions was 5.15% of paid up capital but it rapidly rose to 78.22% of paid up capital in 1982. This is indicative that these financial institutions are giving much more importance to cotton textile industry which is the second largest industry in our country.

\+ Covered are IDBI, IFCI.

3.8 C FINANCING SMALL-SCALE INDUSTRIES.

Mahatma Gandhiji said "the solvatin of India lies in the salvation of small scale and cottage industries". It is so because these small scale and cottage industries plays a dominent role in India's overall economic development. Obviously, the growth and development of these industries assumes national importance not only in our country but also in other undeveloped and developing countries. Even in industrially advanced countries like U.S.A., U.K., Japan, etc., small scale industries occupy an important place. These industries account for 92.5% of business establishment, 45% of workers and 34% of business volume in U.S.A. and 29% of employment and 19% of output in U.K. In Japan these industries account for 84% of all the total employees, 56% of industrial production and 52% of aggregate exports. They function as feeders to bigger industries.[1]

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1. K.K.Dewett and J.D.Varma "Indian Economics", Shyam Lal Charitable Trust, New Delhi, P-242.

Meaning And Definition :

Cottage industries are those which are carried on in the homes of artisans with the help of their family members. Their tools and equipments are simple and they do not use power. They produce traditional products. Generally they are located in rural areas. They purchase raw materials in the local market and sell their products in the local market itself. Thus they are rural, household, localised and technically backward. Handloom weaving, rope making, Gur-making, Toy-making, Bee keeping, Pottery, Poultry, Bidi-making, Shoe-making,etc., are some examples of cottage industries.

Small scale industries are somewhat different from cottage industries. They mostly use power and small machines and also employ small number of workers. They are located in small and big towns and cities. They are thus small modern enterprises which employ modern techniques and produce modern products. They produce goods like tools, blades, baskets, electric goods, spectacle frames, sewing machines, bicycles and their spare parts and other modern products.

According to the Govt.of India's present classification (Industrial Policy Statement 1980) small industries include factory type industries whose investment in plant and machinery does not exceed Rs.20 lakhs. They also include those small ancillary units whose investment in plant and machinery does not exceed Rs.25 lakhs. Ancillary industries are those which manufactures parts,components or intermediate products or render service like repairs.[1]

1. K.K.Dewett and J.D.Varma "Indian Economics", Shayam Lal Charitable Trust, New Delhi, P-242.

Tiny Industries :

Recently within the small scale industries, the Government has given recognition to a new category to which they have given the name "tiny industries". That small scale industrial unit in which investment in plant and machinery is worth below in Rs.2 lakhs and which is situated in towns with a population less than 50,000 is now called tiny industry. Such units are now given special assistence[1].

Financial Requirements :

Financial needs of small scale industries can be divided into two parts :

A) Equity or Risk or Own Capital.

B) Borrowed or Loan Capital.

Loan Capital consists of two types :

i) Long Term Loans, ii) Short Term Loans.

A) Equity Or Own Capital :

Sufficiency of this capital is the pre-condition for the establishment of small scale industries. Accordingly initial capital must come from the proprietor himself. Adequacy of this capital ensures the smooth functioning of the enterprise.

B) Borrowed Or Loan Capital :

Owners of small scale industries also raise short term and long term loans for meeting additional financial requirements.

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1. K.K.Dewett and J.D.Varma, "Indian Economics", Shyam Lal Charitable Trust, New Delhi; P-242.

Generally short term loans are obtained for meeting current expenses viz.purchase of raw materials,payments to creditors,etc., where as long term loans are secured for the acquisition of fixed assets,viz; land and buildings, plant and machinery,etc. However, it should be noted that in no case the loan capital should exceed 50% of own capital.

Sources Of Finance.

The usual sources of finance for small scale industries are:

1) Indigenous Bankers,
2) Public Deposits,
3) Credit Customer Fund,
4) Commercial Banks,
5) State Financial Corporations,
6) Industrial Co-Operatives,
7) Central and State Governments.

1) Indigenous Bankers :

These bankers are spread in all parts of India. They are called as Sahukars,Chttiyars,Mahajans,Baniyas,Shroffs,Sheths,Pathans, etc. They provide finance for working capital needs of small scale industries. Small Scale Industries generally prefer the lendings of indigenous bankers because they provide prompt finance against personal security of the borrower. The main defect is that they charge a very high rate of interest.

2) Public Deposits :

Financing by public deposits prevails only at certain places like Bombay, Ahmedabad, etc. Small industries found it difficult to meet their financial needs because of uncertain. ty of obtaining public deposits and payment of high rates of interest on such deposits.

3) Credit Customer Fund :

This is a recent source of finance developed alongwith the development of credit sale system. In this case industries selling their products mainly on credit basis insist the customers to contribute to this fund certain sum of fixed amount periodically say weekly, forthnightly or monthly. The amount varies from Rs.50, Rs 100 or so depending upon the probable volume of credit given to the customer.

As and when the contributions are received towards this fund they are generally utilised to meet working capital needs. At the year end the balance on the accumulated fund is transferred to the respective customers credit account.

This source has the following advantages :

i) Recovery of debt is guaranteed to the extent of contribution made towards this fund.

ii) There exists some kind of certainity and continuity of getting finance through this source.

iii) Generally interest is not given on such funds. If interest is given the rate of interest is negligible say hardly 1 or 2 percent on the accumulated funds at the year end.

4) Commercial Banks :

Commercial banks are the important source of providing financial assistence to small scale industries. The financial assistence extended by these banks can be seen from the table given below :

TABLE NO.3.II.4.

Bank Credit to Small Scale Industries.[1]

(Rs. in Crores).

	June-1968.			December-1978.		
	No.of Units.	Limits in Force.	Balance Outstand-ing.	No.of Units.	Limits in Force.	Balance Outstand-ing.
State Bank of India and its subsidiaries.	18715	124.6	66.8	276906	926.9	768.0
14 other Nationalised Banks.	15652	207.0	100.1	258175	1509.8	1139.8
Others.	4560	43.7	22.9	22575	329.0	248.5
Total-	38927	375.3	189.8	557656	2765.7	2156.3

It is observed that in 1968 scheduled commercial banks have provided finance of Rs.189.8 crores to 38927 small scale industries. The assistence raised steadily to Rs.2156.3 crores at the end of December-1978 covering 557656 units. About 50% of small industries were financed by State Bank of India and its subsidiaries. Financing

1. S.C.Kuchhal "Corporation Finance-Principles and Problems", Chaitanya Publishing House, Allahabad-1982, P-496.

by scheduled commercial banks is insignificant since they met only 4% of total small units by the end of December-1978. Assistence by scheduled commercial banks to small scale industries form only 6% of their total bank advances by the end of 1978.

However, commercial banks show their reluctance to finance small scale industries due to the following reasons.

i) Small Industries can not provide adequate security for the loans.

ii) Small Industries earnings are inadequate and uncertain.

iii) Banks follow conservative policy.

iv) The resources of banks are limited as compared to the actual demands.

v) Some banks which have invested substantial amounts in small industries have failed in West Bengal. This made other banks to be aware of dangers in financing small industries.

5) State Financial Corporations :

SFCs have established mainly to finance medium and small scale industries. Accordingly, they are playing very important role in the creation and expansion of small scale units. The major part of its loan assistence has been given to the small scale sector.

SFCs are authorised to :

i) grant loans and advances,

ii) subscribe to the debentures of industrial concerns,

iii) guarantee loans raised by small units,

iv) guarantee deffered payments for the purpose of capital goods bought within India,

v) underwrite the issues of shares and debentures of industrial concerns..

The financial assistence provided by SFCs to small and medium scale units can be explained by the following table :

TABLE NO.3.II.5.

Analysis Of Financial Assistence By The State Financial Corporations.[1]

(in Crores of Rs.)

Year.	No.of Operating Corporations.	Loans Sanctioned.	Loans Disbursed.	Loans Outstanding.
1955-56	12	4.05	1.87	4.03
1960-61	15	9.49	4.88	17.12
1965-66	15	23.10	16.08	59.56
1969-70	18	35.81	21.65	102.89
1974-75	18	137.63	79.87	279.24
1977-78	18	166.10	107.40	539.35
1978-79	18	200.73	134.98	643.99
1979-80	18	263.82	184.75	790.80

There has been a rapid increase in the financial assistence during the last few years. Before 1966 the SFCs were greatly financed medium sale units. But now the trend has been reversed in favour of small scale industries. The total amounts of loans

1. S.C.Kuchhal "Corporation Finance-Principles and Problems", Chaitanya Publishing House,Allahabad-1982, P-421.

outstanding of small scale industries of 18 SFCs was Rs.643 Crores by the end of March-1979.

6) Industrial Co-Operatives :

In these days industrial co-operatives have been playing an important role in financing the village and cottage scale industries. The establishment of industrial co-operatives enables small scale industries to obtain the financial assistence from the government and other institutions. Among the co-operatives weaver's societies have become very popular. In this regard the working of Handloom Board is very encouraging. The Handloom Board has provided assistence in setting up the co-operatives in the form of both share capital and working capital. About 75 % to 87 1/2 % of the share capital is provided by Government as loan and the balance is contributed by the weavers.

However, it is an ill to the growth of co-operatives that the members of the co-operatives feels that the organisation belongs to Government and not to them. This tendency inhibits the growth of co-operatives. Therefore remedial measures must be initiated so that these societies will function as an economic units on sound lines.

7) Financing By State :

In order to provide adequate financial resources to small scale industries the State Governments in India have launched a scheme of "State Aid To Industries Acts". Under these State Aid to Industries Acts or Rules Financial Assistence is given to new and nascent industries or for industries to be newly started in less developed regions. The assistence is given in the form of loans, guarantee of loans raised from banks, guarantee of minimum return on shares and debentures, supply of raw materials, plant and machinery, and land at favourable rates, etc. The loans are provided for a period of 10 to 20 years. Moreover, the scheme has a large element of subsidisation from Central Government.

However, the scheme suffers from the following defects :

a) The budget provision for this scheme is comparatively very small. As a result applications for large sums cannot be entertained.

b) The scheme involves lengthy and complicated procedures and many terms and conditions are required to be fulfilled for getting the loans and other benefits. Therefore, borrowers are generally reluctant to obtain financial assistence under this scheme.

c) Due to unnecessary delay and Government control over these industries during the period of loan made the scheme unpopular. Moreover, the borrowers have to submit detailed information regarding their present financial position tentative profit & loss account and the performance of last 3 or 4 years, etc., have deprived the common industries to avail the benefits of the scheme.

Recent Trends In Financing Small-Scale Industries.

Soon after independence the Government realised the importance of small scale industries and efforts are being made to foster the growth and development of these industries. The Govt.of India established 'National Small Industries Corporation'.(NSIC) in 1955. The main objectives of the corporation are :

a) To secure Government Orders for small scale units by accepting contracts from Government Departments.
b) To assist small industries to get direct contract from Government Departments by tender system.
c) To provide loans and technical assistence to such units who have obtained the orders for completing the contracts.
d) To supply machinery under hire purchase system.
e) To construct and manage two industrial estates at Okhla and Nani.

The Corporation is not a financing institution. However, it arranges for the supply of machinery under hire purchase system and under-write and guarantee the loans from banks and other institutions to small scale industries. Industries employing less than 50 workers and assets not exceeding Rs.5 lakhs come under the purview of this corporation.

Similarly Khadi & Village Industries Commission was established in 1957 to consider the wide potential for employment provided by village and cottage industries. The main task of this commission is to encourage the production of Khadi and Other 24 specified village industries. It has also undertaken promotional activities in the field of Khadi and Village Industries. National Small Industries

Corporation (NSIC) has assisted small scale industries in various ways viz. supply of machinery on hire purchase system, helping in getting Government contracts, training industrial workers, helping in marketing certain products and exporting the products of small industries.

State Small Industries Development Corporations (SSIDCs) are playing a very important role in the promotion and financing of small scale industries at the state level. They are operating in 18 states and 3 Union Territories. The main activities of SSIDCs are :

i) To procure and distribute raw materials to small industries.

ii) To supply machinery on hire basis to small scale industries.

iii) To manage seed capital schemes on behalf of State Government.

iv) To construct and manage industrial establishments.

v) To establish technical consultancy organisations..

vi) To undertake marketing activities.

To encourage the commercial banks and other financial institutions to provide financial assistence to small scale industries the Government of India formulated a "Credit Guarantee Scheme" in 1960. The main object ofthe scheme is to enlarge the institutional credit to small industries by providing protection to the lending institutions against the possible losses in financing the small units. The scheme provides for sharing of lending losses between the lending institutions and the Government of India, subject to the condition that the amount recoverable against the guarantee issued under the scheme was about 50% (raised to 75% and further increased to 90% effective from April 1, 1974) of the amount defaulted or of the amount guaranteed, whichever is lower. The maximum amount recoverable from the guarantee organisation under this scheme in respect of guarnanteed advances which was Rs.2 lakhs per account is now Rs. 7 1/2 lakhs in respect of working capital advances and a further Rs. 2 1/2 lakhs in respect of term loans per borrower.[1] The advances are given to small scale industries for purchasing fixed assets, equipments and also to meet working capital needs. The scheme has achieved a remarkable progress over the years. The total amount of advances under this scheme stood at Rs.2526 crores by the end of June-1978.

The Urban and Central Co-Operative Banks are the important agencies for providing loans and advances directly to industrial concerns. The Reserve Bank of India is giving refinancing facilities to these banks for their term loasn to certain selected industries. Regional Rural Banks have been set up under Regional Rural Banks Act 1976 to develop rural economy. These banks are sponsored by scheduled commercial banks and enjoy the same status of scheduled commercial banks. They provide short term, medium term and long term loans to village artisans and small scale and cottage industries.

Recently to achieve the balanced regional development Government has declared a list of "Priority Sector Industries" and

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1. S.C.Kuchhal "Corporation Finance-Principles and Problems", Chaitanya Publishing House, Allahabad-1982, P-502.

asked the commercial banks to finance for these priority sector industries. As a result commercial banks are now providing adequate finance to the small scale industries included in priority sector. Loans are provided at concessional rates of interest alongwith subsidies. This gave a great relief to small scale industries. At the end of December-1979, the total assistence from banks to the priority sector amounted to Rs.2886 crores covering 11 lakh borrowers and average term loans amounted to Rs.45000 per unit.

Industrial Finance Corporation Of India (ICICI) has been recently helping and developing the small and medium scale units by giving them much needed guidance in project identification,formulation,implementation and development of small scale and anciallary industries and encouraging the adoption of indigenous technology. Under its scheme of "Promotion of Ancillary and Small Industries". ICICI provides financial assistence upto Rs. 1 lakh per annum to the specified agencies for the purposes mentioned above.

Very recently Industrial Development Bank Of India(IDBI) has set up a "Small, Tiny and Village Industries Wing" with a view to evolve appropriate policy frame work and to identify areas for immediate action to promote the development of small, tiny and village industries. This Wing is also responsible for co-ordinating, guiding and monitoring the entire range of credit available to small, tiny and village industries.