

CHAPTER 1

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CHAPTER : 1

INTRODUCTION & METHODOLOGY :

1.1 INTRODUCTION OF THE STUDY :

Most of the Developing Countries of the world today facing the problem of unemployment and under-employment. India has made significant progress in the field of Industrial Development within a period of three and half decades, since independence. So, that India has obtained a place of pride amongst the top industrially advanced countries of the world. The main cause of India's industrial development is the role played by the small scale industries. It has been accepted by one and all that small scale industries must be assigned a top priority in any programme of economic development like ours. Small Scale Industries removes the unemployment and creating job opportunities for the millions of jobless people in India. Ours is a large country with a large population. Although we are rich in material and man power resources, we have yet to exploit them fully, but also we have abundant unskilled labour, extensive under-employment on the other side we suffer from scarcities of technical and skilled labour and from scarcities of enterprising and experienced entrepreneurs and managerial talents.

In India, the Development Banks have been playing a promotional role in the field of industrial development of

the country. Small Scale Industries for their labour intensive, capital saving character coupled with appropriate technology and institutional support have played no less significant a role in the process of industrialisation. Small business enterprises release the forces of competition, prevent the growth of monopolistic tendencies in the economy. Small Scale Industries can promote the economic development within the constraints of resources available. The Five year plan in India have emphasised the need of establishment and growth of Small Scale Industries in the country time to time. In the developmental plans preference had been given to small and cottage industries.

Maharashtra State of Indian Union rank first in manufacturing operations. It accounts for one fifth of the national productive capital and employment. It accounts for one eighth of the total number of industries in India. The role/performance of Indian economy in the field of small scale industries has been very much impressive, that the share of small scale industries in the out-put of private sector accounts about fifty five percent and if employment taken into consideration, the small scale sector accounts for about seventy five percent of the whole industrial sector. The value of production of small scale industries in India has been around Rs. 10,000 crores, and persons employed in this sector about Two crores.

In Maharashtra State Small Scale Units are 5,000 in 1961 and to-day they have increased upto 65,000 by the end of the year 1987-88. The total investment in these industries stands about Rs. 900 crores, producing the output valuing Rs. 4,000 crores approximately. The share of State in the small scale industrial units in the country stands at present about twelve percent (12%) the highest in the country comparing with other States.

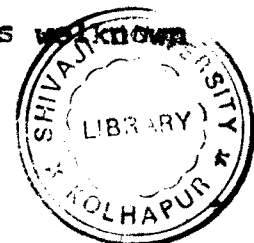
Kolhapur District of Maharashtra State is well-known for agrobased industries, small scale industries, and sugar factories. The outstanding feature of these units is that most of these units are owned, managed by the Small entrepreneurs.

Since independence a large number of financial institutions came in to existence, which helped in a big way to develop small scale units in the region. The State Financial corporation played a vital role in the promotion and development of small scale units in the region.

Finance is the oxygen of any industry. Without adequate and timely finance made available at reasonable terms, it would not be possible for industry to develop. An entrepreneur may be having marvellous business schemes in his mind, but till appropriate finance is made available to him, he will not be able to put these schemes in action.

Maharashtra State Financial Corporation is well known

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for its performance in the field of assisting a very large number of small scale units in State. Taking into consideration the financial assistance to the small scale units upto Rs. 5 crores, accounts for about 94% out of this, 84% of the number of units assisted by the loans upto Rs. 2 lacs and 65% upto Rs. 1 lacs. Thus, it creates employment potential of around 30,000 yearly.

During the year 1987.88 sanctions and disbursements reached the recorded of Rs. 73613.91 crores and Rs.48910.94 crores respectively, which are observed to be the highest in the preceding years.

M.S.F.C. faces number of difficulties in initial stages. Soon after it was successful in overcoming these problems and ranking first among all the State Financial corporations in India. Both in case of sanctions and disbursements of loans to small scale units as well as in income & recoveries. It extends the financial assistance in form of term loans and other facilities for purchase of fixed assets such as, tools, equipments, like fixtures etc.

As compare to past performance M.S.F.C. also keen on reducing the time-lag between considering applications and sanctions, those between sanctions and disbursements procedure. Then period for repayment of loan is Ten years with two years moratorium on principle amount.

M.S.F.C., through new schemes of financial assistance

to small scale units promote rapid industrial development in developing sectors. e.g. Kolhapur, Satara, etc.

1.2 BANKING DEVELOPMENT IN INDIA :

Meaning :

A development Bank is not only a financial institution engaged in providing service of medium and long term loans to business units. Development Bank is expected to do something beyond the provisions of capital. Such as, provision of technical know-how, management expertise, preparation of effective project reports. Thus, its main objective is financing, though it may undertake some developmental activities in promoting the business as well.

Defination :

Development Bank can be defined as "An institution established principally or solely to provide long term financial assistance for industrial units and undertakes developmental activities for industrial growth."

Objectives :

Considering above defination development banks have been designed to function as a development agency with responsibility to provide :

1. technical assistance for the promotion of management and expansion of industrial unit.
2. To undertake survey of techno-economic studies in

connection with development of industry and investment and market research.

3. Filling-up the gaps in industrial structure by planning, promoting and developing industries.
4. Encouragement to a new class of small entrepreneurs and rehabilitation of 'sick' units.
5. Financial assistance for modernisation and rationalisation on industry.
6. Finance to enterprises in Backward Regions.

Thus, the functions of development banks is to provide long term capital to industries as well as promoting the industrial development, preparations of project reports, technical advices, encourage new entrepreneurs, and rehabilitation of sick units etc.

1.3 ROLE PLAYED BY DEVELOPMENT BANKS IN INDIA :

With a variegated structure, the develop banking institutions, as a group, have played a significant part in the economic development of India.

The amount of industrial financing by them, in quantitative terms has been massive. In fact, they have outgrown their supplementary character of suppliers of fund in terms of their conception as 'gap-fillers' and have the character of normal financing agencies. This is done by

collection of small savings from people spread over a wide area and allocating these funds among different sectors. At the same time, by providing technical and financial expertise reduce the risk of investors.

On the other side, due to peculiar draw backs the responsibilities of Development Banks increases manifold. Banks have to increase rate of capital formation, induce the investors and entrepreneurs, undertake developmental activities for promoting industrial units, fill-up the gap in the industrial structure of the economy. They have to ensure, that no good projects suffers from unavailability of financial as well as technical resources.

In an developing economy the development banks are charged with the responsibility of increase the growth rate of economy through various aspects such as, speedy industrialisation, increase per capital income, modernisation leap forward in the phase of self-generated growth of economy.

1.4 DEVELOPMENT BANKS AND STATE FINANCIAL CORPORATIONS:

In 1951, the State Financial Corporation started their working as development banks in different states of the country. The difference between a development bank and state financial corporation can be drawn on the basis of whether or not they provides assistance in the form of underwriting and or direct investment. If this function is not performed, then the institution is known as a financial corporation.

There are totally sixty development banks such as, State Industrial Development Corporation, Small Scale Industrial Development Corporation, National Industrial Corporation of India, working in the country along with State Financial Corporations. These development banks are multi-purpose institutions with a broad developmental outlook rather than a conservative. As a development bank, the State Financial Corporations are financing to small and medium scale industries in all over country.

1.5 OBJECTIVES AND SIGNIFICANCE OF STUDY :

The objective of the present study is to be examine the financing of small scale industrial units by Maharashtra State Financial Corporation, Kolhapur Branch and its various financial schemes in a statistical point of view. The other objectives are :

- (a) Study the financial schemes of the corporation and implementation of those schemes,
- (b) To study the extent to which the financial assistance of the Kolhapur Branch has helped in increasing the industrial strength.
- (c) Employment opportunities generated and effect of various schemes on small scale industries in Kolhapur.
- (d) To know the opinions regarding the procurement of loan period, actual receipt of loan, interest and repayment

schedules as well as terms and conditions laid down by the Maharashtra State Financial Corporation for borrowers.

- (e) To review the performance of M.S.F.C. in granting loans to small scale units in Kolhapur for last five years.

1.6 SCOPE OF THE STUDY :

The present study is concerned to Small Scale Units coming under the operational area of the Kolhapur Branch of Maharashtra State Financial Corporation.

The term 'Small Scale Industry' defined by the corporation only those industries are considered for the purpose of study.

" All industries with a capital of Rs. 20 lacs in plant and machinery are classified as Small Scale Industries". Taking into consideration the key role played by the M.S.F.C. in the development of small scale units in Kolhapur city, it would have been interesting to examine the contribution of the M.S.F.C. in the development of the Small Scale Industries.

1.7 METHODOLOGY OF THE STUDY :

For the purpose of the study the necessary data was made available from secondary sources. The main source of data was Annual Reports of Maharashtra State Financial Corporation for the years 1982, 83, 84, 85, 86, 87, 88 and

office records of M.S.F.C., Kolhapur Branch. The pamphlets published by M.S.F.C. were able to provide detailed information regarding the financial assistance schemes. The currency and finance Reports of Reserve Bank of India for various years were very much useful in generating the data regarding the financial assistance of various financial institutions for respective years.

Detailed discussion, that were held with the concerned officers of M.S.F.C. at Kolhapur, were of much use in throwing light on the problems faced by them, while sanctioning the loans as well as the problems faced by the borrowers while taking the loan and other relevant facilities provided by M.S.F.C.

About Ten borrowers were interviewed in detail with a view to understand their problems through a special questionnaire, which is attached ^{at} ~~in~~ the ^{end} ~~Appendix~~. This questionnaire consist of question relating to capital invested, production effects, borrowed capital, employment creation and problems faced by the borrowers while securing the loan and facilities available to them from M.S.F.C.

Researcher's purpose is to represent the study in a statistical manner by using statistical techniques and graphs.

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