

CHAPTER -I

INTRODUCTION AND METHODOLOGY

1.1 INTRODUCTION :

Small Scale Industries occupy an important place in the Indian Economy. Their contribution to the economy is significant in terms of production, provision of employment and export. They produce about five thousand different items of the value of more than Rs. 72,250 crores per annum. They provide employment to almost eighty percent of the total employment in the whole manufacturing sector of the Indian Economy. Their exports account for two fifths of Indian's total exports¹. There are about fifteen lakh Small Scale Industries in this country. Thus Small Scale Industry is a vital organ of the national economy.

With all this importance, however, the Small Scale Industries are not free from problems. They face several problems and difficulties and they have been increasing over the years. The main difficulties relate to the procurement of raw materials, power, marketing and finance. "Every problem of small producer, whether production, purchase, marketing, is, in the ultimate analysis, financial one" This is what internal planning team of the Fort Foundation communicated while making its observation on the Small Scale Industries². And it is

this Finance which is the lubricant of the process of economic growth.³

Financial problems of Small Scale Industries include (1) Procuring of long term and short term finance at the right time and (2) Proper Financial Management. Long term finance is required for acquiring fixed assets such as land, building, machinery etc. and also for meeting permanent working capital requirements. Short-term capital is necessary to meet the working capital requirements.

There are several sources of finance. One source is 'Own Capital' i.e. finance provided by the owners of business. Small Scale Industries are at a disadvantage in procuring 'Own Capital' or 'Risk Capital' because of the Form of business organisation adopted by them. Most of the Small Scale Industries are 'Sole trading concerns' or 'Sole proprietorships'. The Survey of Small Scale Industries in Greater Bombay found that 78.5 percent of the total units were of the private proprietorships type⁴. Partnership and Joint Family Firms are also used to establish Small Scale Industries. Co-operative and Joint Stock Company forms are not popular in the Small Scale Sector.

The ability to procure 'Own Capital' is very much limited because of predominant sole proprietorship

form of organisation where only one person has to bring in capital. Limited amount of own capital leads to less amount of profit. The profit, if any, is withdrawn by the owner for personal consumption which limits the ploughing back of profit, another form of own capital.

The lack of required amount of own capital and reserves leads to the dependence of Small Scale Industries on borrowings. Borrowings, thus, is the next source of finance. The availability of finance might be the most important determinant in the establishment and growth of Small manufacturing enterprises. There are many obstacles in financing the Small Industries, but the risk has always been rated high as an obstacle. Small Scale Industry's risk is of special type in the sense that :-

- (1) Small firms have limited pool of management capabilities and business experience.
- (2) They are highly vulnerable to environmental pressures.
- (3) They are generally not able to provide sufficient collateral to comply with assured repayment. But the financing agency will always try to minimise risk.⁵

The problem of financing Small Scale Units is

totally different in nature. The small units cannot enter the capital market to collect its capital on account of its organisational constraints. Handicapped to collect risk capital because the entrepreneur's own saving are limited and he cannot approach organised capital market. Therefore he has to rely on institutional and non-institutional sources for financing his unit.⁶

Institutional finance assumes importance mainly because the rate of interest is lower compared to non-institutional finance, though the latter is easily available. The financial institutions, mainly the commercial banks, were not interested in financing the Small Scale Sector until the nationalisation of Banks in 1969. The banks were generally reluctant to finance Small Scale Industries mainly because of the inability of the Small entrepreneurs to provide security for the loans obtained.

Institutional borrowing has become a major source of finance for small scale industries. A Small Industrialist depends more on this source because as compared to non-institutional borrowing this is cheaper source of finance.

In this connection the following points emerge-

- (1) To know the extent to which the Small Scale Industries are financed by financial institutions.

- (2) To know the type of finance they get from financial institutions.
- (3) To know whether they get financial assistance they ask for.
- (4) To know the problems in financing a Small unit.
- (5) To know the cause of denial of or delay if any in providing assistance.
- (6) To know the relations of Small Scale unit with financial institution.
- (7) To know the financial management of Small Scale unit.

1.2 STATEMENT OF THE PROBLEM :

The root cause of all the difficulties of Small Scale Industries is finance. The provision of right amount of finance at the right time and the efficient management of available finance are the main concerns of the Small entrepreneurs. Hence, the present study undertakes financing of Small Scale Industries.

As the financing is too vast a subject, the study is limited to the financing of Small Scale Industries by Organised Financial Institutions. The study covers the Small Scale Industries of Karwar Town. Thus the present study is Financing of Small Scale Industries by Organised Financial Institutions in Karwar Town (Karnataka).

1.3. REVIEW OF RELATED LITERATURE.

The study of the problems of Small Scale Industries

in India is regularly done by various agencies and individuals.

The Seminar on Financing of Small Scale Industries in India held in Hyderabad between 20 - 23rd July 1959 considered the problem of Financing Small Scale Industries at length. It felt that back lending to Small Scale Industries was hampered by lack of reliable data in respect of technical and managerial standing of the borrowers as well as the growth prospects of the industries. It also felt that the role of financial institutions in providing credit facilities to the Small Scale Sector should be enlarged and rendered more effective. It also felt absence of rediscount facilities in respect of term loans was a major lacuna in an institutional set up. The seminar was of the view that the solution to the problems of Small Scale Industry laid in large measure in increasing the credit worthiness of the Small Scale borrower.⁷

The IDBI set up working group in November, 1976, under the chairmanship of Sri V.M. Bhide to study the co-ordination between state Finance Corporation and commercial banks. The working group recommended Time Bound Programmes for the provision of Financial assistance and adoption of common application forms by all the financial institutions.

The R.B.I. survey of small scale industries in India in 1980 found that out of total investment in Small Scale Industries (in the Surveyed units) 25% was financed by corporation loan and 35.54% by bank loan.

A few surveys conducted in India point out that the provision of institutional finance has been very limited and varied from place to place. A survey in 1957 by State Bank of India and by Central Statistical and intelligence organisation (CSIO) in 1961 showed that all the external sources combined contributed not more than 15 to 20% of financial needs of Small Scale Industries. A districtwise survey of banking potential also pointed out that lack of banking facility was retarding the growth of trade and small industries. Another Survey in Gujarat found that out of 7830 Units Surveyed, 3800 units were self financed. In a regional survey in 1970 of Kerala State the predominance of non institutional source was found.⁸

International Planning Team toured India in 1953-54. It made recommendations to encourage Small Scale Industries.⁹

The Intensive Industrial Potential Survey of Uttar Kannada District was conducted by Technical

Consultancy Service Organisation of Karnataka (Tecsok) in December, 1985. It covered the listing of available resources of the district and indentified products that can be produced based on available resources.¹⁰

The review of related literature shows that ample study has been done on various aspects of financing of small scale industries in India. But it is found that no such study is undertaken of financing of small scale Industries of Karwar Town. Hence the researcher has taken up for research the study of financing of Small Scale Industries in Karwar Town.

1.4 OBJECTIVE OF THE STUDY :

The present study is undertaken with the following objectives :-

1. To study the role of financial Institutions in financing Small Scale Industries in Karwar Town (Karnataka).
2. To study the financial management of Small Scale Industries in Karwar Town (Karnataka).

1.5 SCOPE OF STUDY :

The present study of financing of Small Scale Industries is limited to the Small Scale Industries in Karwar Town (Karnataka).

1.6 METHODOLOGY :

For the purpose of study of financing of Small



Scale Industries both primary and Secondary data are used. The primary data was collected from Small Scale Units and Financial Institutions. A list of Small Scale Units was obtained from District Industries Centre. As the number of Small Scale Units was large i.e. in the year 1986-87 it was 146, it was decided to choose 20.0 percent of Units i.e. 30 units by following stratified sample method. The Small Scale Units were classified as a (1) Agro based (2) Forest based, (3) Food processing, (4) Engineering & repairs, (5) Mining and (6) Miscellaneous. From each category random samples were drawn. As the fraction of unit cannot be considered for survey work the number of units are rounded off to a full unit.

Regarding financial institutions, it was decided to collect data from all of them as their number is only 12. But one of them did not respond stating that its financial assistance to small scale industries is practically nil. Hence, only 11 of them have responded.

Secondary data was collected by personal discussions with the officials of District industries centre and lead Bank and also from brochures, books and articles appeared in various magazines.

1.7 LIMITATIONS OF THE STUDY :

The present study is limited to only the financial

management of the Small Scale Units. It does not cover other problems of Small Scale Units. The study is limited to the financial, organisations and Small Scale Units in Karwar Town (Karnataka) It does not cover other parts of the district.

As most of the Small Scale Units have not maintained the accounts properly, they were not able to provide the figures in respect of their structure of capital for the past years. Hence, the study depends on only those units which have revealed the data.

Some information being of confidential nature the authorities of financial institutions were reluctant to provide the same.

1.8 CHAPTER SCHEME :

The entire study of financing of the Small Scale Industries in Karwar Town (Karnataka) is presented in Five Chapters.

Chapter I : Introduction and methodology:

This chapter deals with the Small Scale Industries, their importance their problems and the main problem of financing. It states the problem taken up for research. The chapter includes a review of related literature, objectives of the study, its scope and limitations and the methodology applied.

Chapter II. Small Scale Industries, Their Nature

and Problems and Small Scale Industries in Karwar Town (Karnataka).

This Chapter deals with the meaning of Small Scale Industries, and their importance. It is followed by meaning of finance and Sources of Finance. It contains a brief explanation of sources of finance. It includes information about Karwar Town and Small Scale Industries in Karwar Town.

Chapter III - Financial Institutions and Financing of Small Scale Industries in Karwar Town.

This Chapter deals with meaning, types and functions of Financial Institutions with special reference to Karwar Town. It deals with the relation between form of business organisation and sources of capital. It deals with project report preparation and procuring finance from financial institutions. It also deals with lending to Small Scale Industries from the point of view of financial institutions.

Chapter IV : Financial Management of Small Scale Industries in Karwar Town.

It deals with relation between Fixed capital and working capital, ploughing back of profits and tools and techniques used for financial Management.

Chapter V : Conclusion and Suggestion.

It contains a brief summary of all the Chapters, conclusions and Suggestions, and suggestions for further research.

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