1.1 INTRODUCTION

The Small Scale Industrial (SSI) sector has acquired a prominent place in the socio economic development of our country. Small scale industries are small in term but play a significant role in the Indian economy. It is acknowledged by the government that, alongside agriculture, small scale industry is an important segment of the Indian economy. Small scale industries contribute significantly to employment generation, dispersal of industrial activity to rural and backward areas, ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills. There were 34.40 lakh industrial units in the country directly employing 192.20 lakh workers at the end of March 2002. While the rate of growth of the industrial sector as a whole was 6.01 percent in the last decade (1992–93 to 2001–02) the SSI sector showed a growth of 8.28 per cent. The rate of growth of the SSI sector has consistently outperformed the growth of the industrial sector. The contribution of the SSI is even more significant in bolstering the growth rate of the Gross Domestic Product of our country.

“The small industrial sector is undoubtedly the engine of employment and income—generation. It helps to empower the masses who have relatively less access

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to resources. In a developing and predominantly agricultural economy like India, small industries can exercise a stabilizing influence on the vagaries and uncertainties of a rural economy besides contributing to its prosperity.”

In India there is the basic problem of absorbing the surplus manpower in non-agricultural jobs and providing additional employment opportunities for the growing population.

The SSI sector enjoys priority in getting financial and non-financial assistance from the Central Government, State Governments and other non-governmental organizations. To protect the interest of the SSI units and to improve their viability, the Government gives preference to the items manufactured by them. At present, it produces more than 8000 products. As per the policy note 2004–2005 issued by the Small Industries Department, our country has about 35.31 lakh SSI units providing employment to more than 199.65 lakh persons responsible for 40 per cent of the country’s industrial production, and 35 per cent of the national exports are contributed by the SSI sector.

In spite of the thrust accorded through the administrative machinery of the government and financial assistance extended by financial institutions and commercial banks, the growth of the SSI sector has been much below the expected level. At the end of the Ninth Plan, namely March 2002, the small-scale industries produced goods

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worth Rs.6,90,522 crores against the target of Rs.7,38,180 crores. They exported goods valued at Rs.62980 crores against the Ninth Plan target of Rs.78900 crores.\(^3\) Though the SSI sector contributed significantly to the economy of the country, it has not emerged as an engine of exponential growth and rapid economic transformation of the semi-urban, rural and backward areas. The liberalization and reform process initiated in India since 1991 has enlarged the problem areas of the SSI sector. While notable advances were made in exports and high technology areas, the general state of many small units continues to be critical.

1.2 INDUSTRY AND BANK FINANCE

There is a well-known fact that finance is the lifeblood of any sort of business, trade, commerce or industry. Any enterprise engaged in industrial production realizes a great need of finance according to form, size and capacity. In a small scale industry the need of finance is very essential due to its limited sources and that too with difficult procedures. It is a hard fact that finance is lacking in the small–scale sector.\(^4\) There is also an acute shortage of credit available to this sector.

Finance is an important input for an industry. Financing a business may take any of the traditional or new innovative forms. For small scale industries, forms of

\(^3\) Laghu Udyog Samachar, *op.cit.*, pp.5–11.

financing are private funds, loans and venture capital funds. Money is the main element in starting any business. To procure this, small entrepreneurs have to approach either the organised sector such as banks and financial institutions or the unorganised sector such as money lenders, friends, relatives, and the like.

Among these sources banks play a significant role in financing small scale industries. Banks are financial institutions providing financial infrastructure which is an essential factor in the process of development of SSI.

The role of commercial banks in the process of economic development is well recognized. The year 1969 was a major turning point in the Indian financial system when fourteen major commercial banks were nationalized. The main objective of bank nationalization was re-orientation of credit flows so as to benefit the till then neglected sectors such as agriculture, small–scale industries and small borrowers.

Government has constituted several committees from time to time to improve the credit delivery system of commercial banks towards SSI. Accordingly at present SSI has been recognised as a priority sector by commercial banks and they lend liberally to SSI.

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Inspite of this, the SSIs are facing problems in securing credit from commercial banks.

The greatest problem faced by the small scale entrepreneurs was the non-availability of adequate financial assistance. Lack of finance may arise at the implementation stage itself. In the present day the most important problem facing small scale industries is finance.

A proper system is lacking in the commercial banks for apprising the projects of the S.S.I units. In sanctioning working capital assistance, they follow a security-oriented approach. This leads to the entry of unviable projects into the industrial area that in due course become sick.

1.3 REVIEW OF LITERATURE

Financing of SSI is an interesting topic for research. Many researchers have made several studies on this topic in different dimensions. A brief review of such works is presented here.

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G. Blakrishnan\(^8\) analysed the experience of joint stock companies in finding finances and found that they had low carrying capacity due to the high cost of production and the high rate of interest.

Kopardekar\(^9\) attributes excess capacity remaining unutilized in small firms to the lack of finance. Lack of finance, especially shortage in working capital, leads to inefficient utilization of the installed capacity. Inadequate funds lead to inconsistent operation of the units. Many units are not in a position to apportion funds to fixed and working capitals.

J.N. Mishra\(^10\) in his study in Saugar District found that industrialists preferred a bania, a private money lender, to a co-operative bank for meeting their financial needs in order to avoid the complicated formalities, cumbersome procedures and undue delay in getting loans from banks.

One the bases of a survey conducted by the Central Small Industries Organisation\(^11\), the Administrative Reforms Commission, stated that twenty per cent of the financial requirements of small units were met by institutional sources.

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The study “Finances for Small Scale Industries in India” undertaken by Professor K.T. Ramakrishna, pointed out the nature and magnitude of financial problems faced by the small–scale industrial sector of India and the role of the Government, the State Financial Corporations and Banks financing this sector. The methods of financing by several countries like Japan, the U.S.A., the U.K., countries in Europe, Canada, Australia and the like were highlighted in the study.

S.P. Mathur on the basis of his study in the Agra region reported that finding adequate fixed and working capital was the greatest bottleneck in the growth of small-scale industries.

Hrishikesh Bhattacharya conducted a study on the problems faced by the small-scale entrepreneurs located in Howrah and Calcutta of West Bengal. All the units were bank–assisted units. The study found that the need for proportionate increase in capital was inversely related to the size of the small firms. In other words, the smaller the firm, the larger the proportionate increase in finance required to enable it to effectively respond to the demand of its product. It was also observed that the smaller the firm, the less as its chance to command finance form banks

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because it does not have any track record of past years’ performance. The bank managers felt shaky in sanctioning the required amount of loan because they were unable to judge the capability of prospective borrowers on the basis of projections only.

R. Neelamegam in his study of institutional financing for small–scale industries analysed various types of financial assistance offered to the small–scale units in Tamil Nadu. He dealt with the role of the National Small Industries Corporation, the Industrial Development Bank of India, the Small Industries Corporation, the State Financial Corporation, Co-operative Banks and Commercial Banks in assisting small scale industries.

Y.S. Yoosuf Khan in his study “Problems of Small Scale Industry: A Study with Special Reference to SSI units in Tirunelveli” found that the paucity of fund caused the small–scale units to organize more and more concerns under partnership, to pool together the resources of the partners. Fifty-five per cent of the sample units studied required financial aid for their day–to–day running expenses and only 7.5 per cent for

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expansion purposes. The nationalized banks in the region accounted for 40 per cent of the total institutional assistance given to small-scale units.

Neelamegam in his article “Small Business Financing” emphasized the fact that small firms suffered for want of capital. Inadequate capital resulted in less investment on labor saving devices, resulting in less productivity and profit. The short life span of small firms was attributed to inadequate capital.

R. Natarajan (1989) conducted a study on financing small scale industries in Andhra Pradesh which shows that the Andhra Pradesh State Financial Corporation and banks gave increasing proportions of credit to SSI. Inter-firm comparison was absent in their appraisal as also the to build up of relevant data on the performance of firms. An increasing proportion of bank loans as disbursed for working capital.

R. Natraj in his study “Institutional Finance for Small Scale Industries” observed that all institutions were engaged in promotional finance and fixed capital finance of SSI units but special institutions were not floated to provide working capital loans. The promotion of SSI units was encouraged by installation of fixed assets and

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by many financial institutions, but post-promotional financial requirements for meeting day-to-day business needs were completely ignored by them.

**M.S. Chikkara’s** study (1994)\(^{20}\) titled “Role of Banks and Financial Institutions vis-a-vis Consultancy Needs of SSIs” represents the evolution of non-financial role for the financial institutions and banks for the promotion and healthy growth of small scale enterprises.

**Sen** (1992)\(^{21}\) in his work argues that banks lack expertise in handling small industries accounts and have a natural aversion to them because of high risk and high mortality. Banks have to take precautionary measures to cover deficiencies at the time of appraisal and also during actual operations.

A study was undertaken by the National Institute of Bank Management (1995)\(^{22}\) titled “Are our SSI units receiving adequate Institutional Credit”. This study aimed to identify the credit-related problems faced by SSI units. The findings of this study are: the inadequacy of credit limits sanctioned, increase in interest rate, banks

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insistence on adequate security including collateral, and delay in sanctioning or
disbursement of loans.

James and William\textsuperscript{23} (1996) in their work emphasize the challenges of managing
cash flow in times of rapid growth and finds that it is imperative for small business
managers to use a sound cash flow strategy in building their companies.

A. Subbiah\textsuperscript{24} in his study “Financing of small scale Industries by State Bank of
India: A Study with Special Reference to Sattur Branch” stated that there was delay in
the sanctioning of loan and subsidy to small-scale units. The State Bank of India could
not achieve its target of disbursement of loans to small scale units due to non-
materialization of some new proposals. Match factories were not fully utilizing the
cash credit limit sanctioned to them.

Bhattacharya’s (1997)\textsuperscript{25} work emphasizes the adoption of a total systems
approach to firms, a proper understanding of which will enable a banker to assess the
correct working capital requirement of a small industrial unit.

\textsuperscript{23}James and William, \textit{Managing the Small to Medium Sized Company – Concept and

\textsuperscript{24}A. Subbiah, \textit{Financing of Small –Scale Industries by State Bank of India – A Study
with special Reference to Sattur Branch}, M.Phil Dissertation submitted to Madurai Kamaraj
University, 1990

\textsuperscript{25}Hrishikes Bhattacharya, \textit{Banking Strategy Credit Appraisal And Lending Decision}.
A study titled “Institutional finance for the Development of small scale Industries in Karnataka” was undertaken by D.G. Rudramurthy (1997). This study made an attempt to analyse the pattern, trends and magnitude of financial assistance to the SSI sector in Karnataka. The study also evaluates the impact of institutional finance on industrial development and assesses the financial problems of the entrepreneurs and the nature of dependency on financial institutions.

Mithilesh Kumar Mishra and Anup K. Karan in their research paper entitled “Sickness in Small Industries: A Case Study” state that the two major factors for the sickness of small scale industries are lack of adequate and timely working capital and lack of marketing facilities. They found that the lack of technical know-how, shortage of improved machinery, labour problems, irregular power supply and erratic powercuts, fluctuation in prices of raw materials and inadequate arrangements for consultancy acted as checks on the growth of the units.

M. Altaf Khan in his paper “Industrial sickness and Revitalisation through Banks” mention that the banks and financial institutions which extend loan assistance were to be held responsible equally for the sickness of the SSI units, for the want of


proper analysis of very optimistic sale projections, for the laxity of control for the
diversion of funds, for the ineffective credit supervision, permitting delays in
submission of statements, returns and financial statements and inadequate credit
assistance.

George Verghese\textsuperscript{29} (1998) in his paper “Leading Issues in Credit Flow to SSI
Sector is Finance for Small Enterprise in India” states that focus on the limited impact
of policies on the SSI sector in India is mainly due to the isolated treatment accorded
to the SSI sector. The SSI sector needs a renewed thrust, enhancing credit flow by
drastically improving the problem areas of administration, personnel, entrepreneurial
development and infrastructure in the dispensation of credit.

P. Ganesan\textsuperscript{30} in his study “Public Sector Banks and Priority Sector Advances: A
Critical Analysis” states that the priority sector credit from banks rose from Rs.765.11
crores in December 1969 to Rs.61,794 crores in March 1995, registering an average
annual growth rate of 19.20 per cent. The advances of public sector banks to the the
small scale sector as a percentage of the total bank credit increased to 16.60 in 1997
from 9.78 at the end of 1969. He suggests that to enhance the credit flow to small
scale industries, banks should adopt a simplified approach to the assessment of the
working capital requirements.

\textsuperscript{29}K. George Verghese, “Leading Issues in Credit Flow to SSI Sector”, \textit{Finance for
\textsuperscript{30}P. Ganesan, “Public Sector Banks and Priority Sector Advances: A Critical
K. Ramesh\textsuperscript{31} (1998) suggested in his study the redistribution / opening of specialized branches in credit deficit states with a special thrust on financing micro enterprises. He acknowledges that the flow of credit would critically depend upon the availability of infrastructure and support services for SSI.

K.M. Shahjahan\textsuperscript{32} (1999) finds that the banks have surpassed the priority sector target of 40 per cent by only widening the area of the priority sector and not by financing the core priority sector. Diversified lending to areas within the priority sector has pushed down the total non-performing assets of banks.

In their study, “Sickness in small scale Industries of North–Eastern Region”. Kiran Sankar Chakraborthy and Alok Pramanlk,\textsuperscript{33} found that inadequate working capital supply by financial institutions, including banks, complicated banking procedure, the gap between the application for loan and the disbursement of money or the multiplicity of procedures and the like came in the way of the smooth functioning of the small enterprises. A greater positive role has to be player by the Reserve Bank of India through its Sick Industrial Undertakings Division for the re-

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\textsuperscript{31}K. Ramesh, “Bank Finance for SSI Credit – The Regional Dimension”, \textit{Finance for Small Enterprises in India}, ISED, Cochin, 1998, pp. 71-76.  \\
\end{flushright}
orientation of the attitudes of the banks and other financial institutions operating in
the backward areas for assisting and rehabilitating sick units.

D.D. Mali\textsuperscript{34} in his paper, “Development of Micro Small and Medium Enterprises
in India: Current Scenario and Challenges” stresses the need to bring about attitudinal
change among the officers of banks and financial institutions for improving the credit
flow to the small and medium enterprises and micro–enterprises.

M. Upaulthus Selvaraj\textsuperscript{35} in his article “Financial Incentives and Small Industrial
Units in Madurai District: A Survey” found that the entrepreneurs of small industrial
units had reasonable knowledge of the existence of long term financial incentives and
subsidy assistance. As to the availing of financial assistance, nearly seventy per cent
of the small scale units had made use of both the long term and the short term
financial incentives. He states that the deplorable feature was found in the availing of
subsidy assistance. Only 15 per cent of SSI units had availed of such assistance. The
industry-wise analysis laid that chemical industrial units followed by engineering and
textile units availed themselves of long-term finance to a greater extent. Engineering
units availed of short term financial assistance to greater extent followed by the
textile units in Madurai district.

\textsuperscript{34}D.D. Mali, “Development of Micro, Small and Medium Enterprises in India: Current
\textsuperscript{35}M. Upaulthus Selvaraj, “Financial Incentives and Small Industrial Units in Madurai
A study was conducted by Neelamegam and R. Maria Iniga\(^{36}\) on a sample of 150 units drawn from Coimbatore, Madurai and Sivaganga districts. One of the findings of the study was that nearly half the sample units (Constituting 49.3 per cent) had availed loans exclusively from banks and financial institutions. A distinct findings of the study was that 24 units did not avail financial assistance from any source but used their own funds. Out of the 150 units surveyed 107 units accounting for 71.3 per cent benefited from finances from banks and financial institutions. The study observed that only 16.7 percent of the sample units had the knowledge of the venture capital assistance provided by public as well as private sector banks. Further, only a partly portion of two percent availed themselves of the assistance under such funds. Fourteen per cent of the sample units had knowledge of the equity financial schemes of the SIDBI. It was also found that the units in the backward districts were more dependent on loans from banks/financial institutions than the SSI units in developed districts.

Laxman Singh Sharma\(^{37}\) (2000) in his published thesis on the role and contribution of the Reserve Bank of India in financing Indian Industry and its impact on growth observes that SSI have made remarkable progress in the utilization of credit and contributed to national production in a big way. Bank credit and the growth of an industrial unit are interrelated. Banks have to assess the need of the SSI borrower


\(^{37}\)Laxman Singh Sharma, *The Role and Contribution of Reserve Bank of India*, Modern Publishers, New Delhi, 2000,
through current ratio and DSCR and restrict credit facilities to twenty per cent of the turnover. The Reserve Bank has made banks indifferent in their work relating to SSI by issuing voluminous instructions and guidelines.

Saloni P. Ramakrishna\textsuperscript{38} in her paper “Mapping the Small Scale Industries: The Creative Way” observes that if the SSI’s were given information support along with adequate and timely finance, their performance could show marked improvement.

Harinath Reddy’s\textsuperscript{39} (2000) study on working capital management in small scale industries indicates improper controls on the working capital funding. The preparation of periodical working capital reports at least once a month, better planning to overcome shortages and over trading are some of the steps suggested and above all banks have to monitor the working capital utilization to detect early signs of sickness.

Revathy’s\textsuperscript{40} (2001) study on the financing pattern of small industrial units found that lack of access to credit represents a strong restriction on the expansion of SSI units. Owners perceive financing of their operational activities as their most debilitating constraint.

D.G. Rudra Murthy\textsuperscript{41} (2001) in the unpublished thesis on institutional finance for the development of SSI in Karnataka State finds that the availability of institutional finance has not met the demand from the SSI sector. The educational background of the owners had little impact on the running of the units. Proprietary and partnership firms were found to be more prompt and regular in repayment of loans than limited companies. The study suggests the setting up of an SSI mutual fund, more specialized SSI branches and modification of the Narasimham Committee report to suit the SSI sector.

The Chakarvarthy Committee\textsuperscript{42} (1985) found that the time has come to set the maximum limit for overdues so that banks put in their state within those limits. Limiting credit to overdue segments and not sacrificing lending criteria should be aimed at.

The Kalyana Sundaram Committee\textsuperscript{43} (1988) found a sizeable demand for factoring services from small scale units and suggested the handling of factoring services of the SSI sector by the Small Industries Development Bank of India.

The Abid Hussein Committee\(^44\) (1997) in its report observed that the access of small scale enterprises to credit is inadequate and hence the existing institutional structure needs a thorough overhaul. The committee endorsed the recommendations of the Nayak Committee for providing twenty per cent projected turnover as working capital finance by banks to SSI. The plan of the government of the Local Area Banks and specialized branches for the SSI’s was endorsed by the committee.

The S.P. Gupta Committee\(^45\) (2000) presented a comprehensive picture of the various aspects of the small scale sector and recommended the fixing of investment limits for tiny (upto Rs.10 lakh), small (Rs.10 lakhs to Rs.1 crore) and medium (Rs.1 crore to Rs.10 crores) units, and emphasised the need for priority sector lending by banks, reducing interest rate, technology upgradation and price preference to the goods manufactured.

V. Manickavasagam and C. Vethirajan\(^46\) on their article “Contribution of Small Scale Industry to the Indian Economy” assessed the role of the small scale industrial sector in augmenting the production and also in earning foreign exchange through exports.


**Raja Gopalan Nair and P. Vimala** in their article “District Credit Plans and Financing of Priority Sectors”, analyse the progress of the priority sector lending in the State of Kerala through district credit plans.

**Adwait Mohantly and Jyotirmayee** in their article “Credit Rationing and SSI units” analysed the impact of credit rationing undertaken by banks in financing SSI units. They observe that small scale units largely encountered the working capital rationing imposed by banks.

**K. Nirmala** in her study “Problems of Small Scale Industries: A Study with Special Reference to Sattur Taluk”, analysed the problems of production, marketing and finance for the small scale industrial units. She states that the lack of timely finance was responsible for the problems of production and marketing in small scale industrial units.

**C. Thilaka** in her study “A Study of Financing of Select Small Scale Industries by Commercial Banks in Tamilnadu” states that one of the important problems of the

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small scale industries was bank finance. Restriction on term loan facilities to small scale industries acted as a stumbling block in the promotion of SSI units. She states that commercial banks provide only 75 per cent of the financial needs of the small scale industrial units. Further the borrowers complained that they had to visit the bank more than ten times for getting their loans.

K. Kamalakannan and N. Namasiyayam\textsuperscript{51} says that the small scale industries in India over the past fifty years have made a significant contribution building a strong and stable national economy. The SIDBI has been playing an important role by operating various schemes of financial assistance to small scale industries. In order to widen its area of operations, the SIDBI should open more branches in district headquarters. Small scale industries have an important role to play in achieving the plan objectives of increasing industrial production, generating additional employment and reducing regional imbalances of growth. The Small Industries Development Bank of India (SIDBI) was set up for promoting, financing and developing industries in the small scale sector and for coordinating the function of other institutions engaged in similar activities.

A. Subbiah and K. Navaneethakrishnan\textsuperscript{52} in their article “Small Scale Industrial Units and their Problems” explain that small scale industries have a place of pride in India. These have a high potential, among others, for generating employment, dispersal of man power to semi-urban and rural areas, promoting entrepreneurship and earning foreign exchange. A District Industries Centre has been set up in each district to serve as the focal point for the development of small-scale and cottage industries. Small scale industrial units play a significant role in the economic development of India.

The capital requirement for the establishment of small scale industries compared to large and medium scale industries is very low. The small scale sector provides employment opportunities to a large number of people. The number of people employed by the small scale sector increased from 129.80 lakhs in 1991-92 to 192.23 lakhs in 2001-02. Small scale Industries are confronted with problems such as paucity of finance, difficulties in procuring raw materials and in marketing, and obsolete and out-dated technology.

K. Sunder, R. Kumar Gandhi and G. Gangatharan\textsuperscript{53} find that after Independence innumerable financial Institutions have come into existence and they serve as

\textsuperscript{52}A. Subbiah and K. Navaneethakrishnan, “Small-Scale Industrial Units and their Problems”, \textit{Facts for you}, March 2006, pp..35-36.

important sources of finance for industrial projects. The financial institutions have
been established at the all India level and at the state level. The paper presents the
role of the SIDBI in meeting financial requirements of the SSI though its various loan
programmes. The SIDBI is a wholly owned subsidiary of the Industrial Development
Bank of India (IDBI). The SIDBI is an apex institution for promotion, financing and
development of industries in the small scale sector and for coordinating the function
of other institutions engaged in similar activities. The Bank is mainly financing SSI
through “Refinance” and “Bills financing” schemes. The performance of bank in
providing promotional and development assistance is not so impressive. Therefore it
is suggested that banks should widen their horizon of loan assistance to cater to the
diverse credit requirements of the small scale units. It has to intensify its lending
activities into the areas ie equity assistance, project-related finance and resource
support to the institutions engaged is promoting SSI.

P. Chinnaiyan and R. Nandagopal54 in their study “Accessibility of Bank Finance
by SSI: A Case Study” explain that in India the SSI contribute substantially to
production, employment and growth in the number of units after the new industrial
policy (1996). Small scale industries are viewed increasingly as an important vehicle
for meeting both the growth and the equity objectives of developing economies.
Employment generated by this sector stood at 185.6 lakh which constitutes 59.8 per

54P. Chinnaiyan and R. Nandagopal, “Accessibility of Bank Finance by SSI - A Case Study”,
cent of the total employment in the organized sector of the country. Finance is always a crucial input for an enterprise. The inability of small scale entrepreneurs to scout for funds results in slowing down their growth, lowering their capacity to internally generate funds thereby leading to the lowering of the retention and recycling of the same. It is suggested that apart from financial documents, selective entrepreneurial traits could also be considered for sanctioning loans. It could also be of help for many of the first generation entrepreneurs who need institutional support as they do not have their own financial backup. The study shows that the type of ownership of the firm, the age of the units and the socio-economic groups significantly influence the accessibility of bank finance.

B.L. Chandak\textsuperscript{55} says that the ratio of SSI bank credit to GDP at current prices has declined from 3.0 per cent as at the end of the financial year 1998 to 2.6 per cent as at the end of the financial year 2004 whereas the overall bank credit to GDP ratio increased from 21.3 per cent to 30.5 per cent. The world over, it is the SMEs which play a major role in innovation, revitalization of economy and creation of new jobs. Hence it is high time governments realized that adequate and timely availability of working capital is vital for the growth of SSI units. The unusual slide in SSI assistance from bank credit (BC) channels to the SSI sector since late 1990’s reflects downward shifts in the SSI credit risk appetite of banks. Non-bank credit channels are an essential

and critical part of the financial intermediation process as a very high proportion of savings, investment and credit in the economy are still managed informally. The Role of the NBC as a standby source of credit, as a lifeline to the firms under temporary distress, and of meeting the day-to-day liquidity requirement provide confidence and comfort to business Integrity of credit culture needs to be strengthened in trade and industry to enhance confidence, efficiency and effectiveness of credit channels.

A. Subbiah and K. Navaneethakrishnan\textsuperscript{56} has studied the financing of the small scale industries by the commercial banks operating in Virudhunagar district under the Lead Bank Scheme.

The term “commercial bank” at the district level refers to all branches of public and private sector commercial banks operating in Virudhunagar district. Financing small scale industries refers to financing the small scale industrial sector under the Lead Bank Scheme. for the purpose of this analysis the commercial banks are classified into three categories. They are the State Bank Group (SB Group) the Nationalized Commercial Banks (NCB) and Private Sector Commercial Banks (PVTBs). The result of Friedman’s test indicates that there is no significant difference in the performance of commercial banks of different classifications operating in Virudhunagar district in lending to small scale industries.

Kasturi Nageswara Rao\(^{57}\) has showed that the priority sector credit is not uncommon among developing economies. An internal group of the RBI studied the question of priority sector credit and recommended that directed lending has to be continued with respect to small borrowers. Directed lending, if continued, has potential to generate huge employment. Credit to SSI sector has steeply fallen from 13.8 per cent of net Bank credit (1995) to 8.2 per cent (2004). So has the number of accounts from 29.6 lakh to 18.1 lakh. The RBI Committee has opined that certain important sectors like agriculture and SSI in the economy continue to suffer from inadequate credit flow and hence there is the need to continue with the practice of directed lending.

Anil Kumar\(^{58}\) said that the SFC’s should make efforts to sanction the loans in a balanced manner for different purposes. More emphasis has to be given small size category of loans, because it will help in promoting entrepreneurship development in the country, which is the need of the hour. SFCs should concentrate on the growth of the services sector in terms of loans sanctioned and disbursed, which is considered be essential for rapid economic growth.


\(^{58}\)Anil Kumar, “Role of State financial corporation (SFC)in Financing SSI in India during Post reform Period”, *Southern Economist*, May 2002, pp.7-9.
Rashid R. Pansare\textsuperscript{59} in his article “Trends in financing SSI sector in India” explains that the small scale industries play a very important role in India. The small scale industry has been given a priority status in the matter of bank financing. Experience, however, shows that in a significant number of cases, bank branches have departed from the guidelines subjecting SSI units to necessary delay and exposing them to the danger of losing viability.

N. Namasivayam and S. Ganesan\textsuperscript{60} in their articles say that the small-scale industries have emerged as an engine of growth in several developed and developing economies of the world. Commercial banks with their vast network of branches have emerged as an important alternative institutional source for SSI financing. Private-sector banks also play an important role in financing the SSI sector. The total value of credit by public-sector banks exhibits an increasing trend. It was Rs.31,542 crore in 1996-97 and Rs.48,445 crore in 2000-01 and finally stood at Rs.67,639 in 2004–05.

S.M. Chockalingam and J. Sundara Raj\textsuperscript{61} in their article “Adequacy of Commercial Bank Credit to Small Scale Industries: An Empirical Analysis” explain that

the SSI sector is a major contributor to the country’s industrial economy. The objectives were to access the adequacy of commercial banks finance to small scale industrial sector and to offer suggestions for the smooth flow of commercial bank credit to the SSI sector. The banks are liberal in extending credit to the industrial sector and more particularly to the SSI. Some coordinated efforts should be taken by the government and commercial banks for the smooth flow of adequate credit to SSIs. An adequate credit flow to the SSI sector from commercial banks may result in making the country a strong industrialized nation and thereby achieving the targeted eight per cent GDP growth rate.

From the review it can be concluded that there were many studies in the area of bank financing to SSI at the macro level. Only very few studies have been made at the micro level. The present study focusses on SSI financing by Canara Bank at Madurai, a micro study which throws light on the intricate aspects.

1.4 STATEMENT OF THE PROBLEM

Availability of timely and adequate finance is the sine qua non for the growth of any sector, including the SSI. In a small scale industry, the vital need of finance becomes a problem due to the limited resources of the entrepreneurs and the cumbersome procedures in which in getting the loans. The SSI face several challenges
such as low productivity, low profitability, stiff competition and the like mainly due to the inadequacy of institutional credit.

Several financial institutions and commercial banks operate in Madurai district. They liberally provide all sorts of financial assistance to SSI. Among them the Canara Bank is one of the nationalised banks, which is the Lead Bank of Madurai district, playing a dominant role in the financing of SSI. Hence the present study is attempted to analyse its effectiveness.

1.5 OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To review the government policy regarding the financing of small scale industries.
2. To study the various institutional assistance and support to the small scale industries.
3. To analyse the extent of financial assistance to the SSI sector by the Canara Bank in Madurai district.
4. To analyse the effectiveness of the Canara Bank finance on the growth of SSI.
5. To analyse the attitude of SSI towards the lending services of the Canara Bank.

6. To study the level of satisfaction and to identify the factors influencing the level of satisfaction.

7. To offer suitable suggestion based on the findings of the study.

1.6 HYPOTHESES

A few null hypotheses have been formulated and they were tested by using appropriate statistical tools in the analysis chapter. They are

1. The variables namely age, community and education of the respondents are independent of their level of satisfaction.

2. The factors relating to the nature of organisation, type of industry, years of existence, area of plant location and location status of plant have not influenced the level of satisfaction.

3. The factors namely type of industry and nature of organisations under different dimensions are independent of the level of satisfaction.
1.7 PERIOD OF THE STUDY

The secondary data relating to the number of branches, deposits and advances in India and Tamil Nadu were obtained from 1994-95 to 2005-06 for the period of 12 years. The Madurai district was bifurcated in the year 1997 and hence the data for 12 years were not available. Hence only data from 1997-98 to 2005-06 were used. The field survey was conducted to collect the primary data from April 2005 to September 2005.

1.8 LIMITATIONS OF THE STUDY

The following are the limitations of the present study:

1. The study is limited only to analysing the opinion of the SSI beneficiaries and the opinion of the banks is beyond the purview of the present study.
2. The findings based on opinion cannot be generalised to all categories of SSI borrowers.

1.9 METHODOLOGY
Designing of a suitable methodology and selection of analytical tools are important for a meaningful analysis of any research problem. This section is devoted to describing the methodology which includes sample design, collection of data, construction of the interview schedule, period of the study and Tools of analysis.

1.9.1 Collection of Data:

Both primary and secondary data have been used for the present study.

1.9.2 Primary data:

The primary data have been collected from the 250 sample units with the help of a pre-tested interview schedule administered to the small scale enterprises to elicit first hand information.

1.9.3 Construction of Interview Schedule

A pilot study was conducted by contacting 25 SSI respondents. In the light of their comments, the interview schedule was modified.

1.9.4 Sampling Design
In order to evaluate the effectiveness of the Canara Bank finances in Madurai District, 40 per cent of the total sample small scale units (250 small-scale industrial units) were selected by adopting the proportionate stratified random sampling method. For this, SSI units assistance from Canara Bank branches were obtained from the register of the Canara Bank, Circle Office at Madurai, as on 31 March 2005. There are different categories of SSI borrowers according to the nature of industries into six division, namely, (i) Food products, (ii) Electric and Electronics, (iii) Rubber and Rubber products, (iv) Metal and metal Products, (v) Chemical and Chemical Products, and (vi) Miscellaneous units includes textiles and textile products, Readymade garments and the like. The proportionate stratified random sampling method was adopted to select 250 from these six categories. The selected sample units are shown in Table 1.1.

**TABLE 1.1**

**DISTRIBUTION OF SAMPLE SIZE**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Stratum</th>
<th>Total Number of Units</th>
<th>Random Sample Size (40%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food Products</td>
<td>180</td>
<td>72</td>
</tr>
<tr>
<td>2.</td>
<td>Electrical and Electronics</td>
<td>105</td>
<td>42</td>
</tr>
<tr>
<td>3.</td>
<td>Rubber and Rubber Products</td>
<td>45</td>
<td>18</td>
</tr>
<tr>
<td>4.</td>
<td>Metal and Metal Products</td>
<td>90</td>
<td>36</td>
</tr>
</tbody>
</table>
5. **Chemical and Chemical Products** | 95 | 38
6. **Miscellaneous** | 109 | 44

| Total | 624 | 250 |


It is seen from Table 1.1. that out of 250 sample units, 72 were making Food Products, 42, 36, 38, and 44 were involved in Electrical and Electronics, Rubber and Rubber products, Metal and Metal products, Chemical and Chemical products and Miscellaneous products respectively. The miscellaneous industries include textile and textile-based garments, building material-based, animal husbandry-based and other industries.

### 1.9.5 Data Processing

After completion of the data collection, the filled up interview schedules were edited to make them ready for coding. A master table was prepared to sum up all the information obtained through the interview schedule. With the help of the master table, every information was coded and than transcribed on transcription cards. With the help of the transcription cards classification tables were prepared. These were used for further analysis.

### 1.9.6 Secondary Data
The secondary data for this study have been collected from various published and unpublished sources:


2. Annual Reports of Canara Bank, Bangalore.


7. Annual report of the Tamilnadu Industrial Investment Corporation, Chennai.


1.9.7 Tools of Analysis

In order to examine the growth in the number of branches, deposits, advances, lending and the like and its stability over the period under study, the Arithmetic Mean (\( \bar{X} \)) and Coefficient of Variation (C.V.) have been applied.

The levels of impact have been determined by the total score values obtained from the identified ten components of impact. The levels of impact have been classified into three categories, namely low level, medium level and high level for analytical purposes. For this, the arithmetic mean (\( \bar{X} \)) and the standard deviation (SD) obtained
have been used and also factors influencing the impact of bank finance on SSI, Multiple Regression is applied.

In order to measure the attitudes of the SSI units to the lending services of the Canara Bank, thirty statements were identified and given in the form of a five point scale. The Likert Type Scaling technique was adopted. Further, to examine the factors that influenced the level of satisfaction, the Chi-square test was also applied.

Factor analysis was used to analyse the attitude of the SSI units to the lending services of the Canara Bank. The Rotated Factor Matrix has been used to express the ratio between the attitude variables and the underlying factors.

Apart from these, trend, compound growth rate and percentages have also been used.

1.10 CHAPTER SCHEME

The present study, “Effectiveness of Bank Finance to Small Scale Industries in Madurai District – A Study With Reference to Canara Bank” is divided into seven chapters.

The first chapter introduces the subject and deals with small-scale industries and bank finance, Further, it reviews past literature, statement of the problem, methodology, objectives of the study, hypotheses, limitations and chapter scheme.
The second chapter deals with an overview of small scale industries which includes the growth of small scale industries in India, Tamil Nadu and in Madurai district, Government policies concerning the financing of SSI. Further, the impact of globalisation on small scale industries, SSI after liberalisation, committees on the financing of SSI sectors are also dealt with.

The third chapter discusses the various financial assistance and other kinds of support provided to the SSI sector by various institutions at the Central and State levels.

The fourth chapter analyses the trend and growth of Canara Bank finances to SSI in India, Tamil Nadu and Madurai District.

The fifth chapter deals exclusively with the effectiveness of bank finance and also covers the profile of the SSI.

The sixth chapter discusses the attitude of SSI units the lending services of the Canara Bank in Madurai District. Further, it examines the factors influencing the level of satisfaction of the SSI units with regard to their services.

The seventh chapter presents the summary of the findings along with suggestions based on the findings of the study and the conclusion.