CHAPTER – I

DESIGN OF THE STUDY

Introduction

A country has to embark upon industrialisation for quickening the pace of economic development. The net value of output per person is higher in industry than in agriculture due to the greater scope for internal as well as external economies. Jawaharlal Nehru correctly expressed the need when he said, “Real progress must ultimately depend upon industrialisation”.¹ The planners and visionaries have looked upon industrialisation as the main vehicle for improving the living standards of the people.² In the beginning of this century, M. Visvesvaraya opined, “industrialise or perish”³.

The objectives of industrialisation are:

To promote economic development and increase income levels, to increase employment and remove unemployment, to strengthen foreign trade, to stimulate the development of other sectors, to develop strategic industries and to safeguard defensive requirements.⁴

Scholars and economists from the time immemorial have recognized the importance of industrialisation as a means for achieving rapid growth and prosperity. Elaborate discussion on the role of industry in fostering development is found in Kautliya’s Arthashastra.⁵

Industrialisation on the whole plays an important role in the development of under developed countries. In a developing country like India the small-scale sector
occupies an important place in the industrialisation. In addition to national programmes, governmental, non-governmental and international organisations working in developing countries also consider small enterprise promotion to be an important component of industrialisation and employment creation.  

Small business enjoys a tradition of infinite variety and solid achievement. Small business flourished in almost all the ancient cultures. The Arabs, Babilonian, Egyptians, Jew, Greek and Romans excelled at it.

In a resource scarce and labour surplus economy, Small-scale Industries (SSI) have been recognised as an important tool of economic growth because of its capability to provide large-scale employment at low level of capital investment and also for contributing towards dispersed development. Rajiv Gandhi correctly expressed the need for the development of small-scale sector in his speech delivered at the National Convocation on small-scale industry, which was organised by the Federation of Associations of Small Industries of India in New Delhi on Sept. 17, 1986. He said, “Small-scale sector is one of the main legs of our Industrial development”. V.P. Singh at the concluding session of National Development Council meeting on June 19, 1990 also expressed the need for development of small-scale sector by saying “It is the small-scale sector which has given a large volume of employment and also boosted our exports.” Mahatma Gandhi once said.” The poor of the world can not be helped by mass production, only by the production by the masses. If large number of producers were to exist for wider markets, the entities that produce necessarily be small. It is only the earth that is large. All else is small.”
In the words of Nanjappa, small-scale Industry is a "golden mean" which can bring the benefits of modern technology and economic production and can emerge as an important plank to tackle the problems of unemployment, under employment, regional disparities and economic backwardness.\footnote{11}

Jayaram Vyas opined small-scale industries have the capacity to achieve economic growth faster in view of their small gestation period, high employment potential and relatively limited financial requirements. In a developing nation like India, where population is high and incomes are low, it is inevitable to develop the small industrial sector, which absorbs more men with low capital.\footnote{12} The small-scale industries are assigned a top place in our country's industrial development programme for the following reasons:

1. In India shortage of capital is a chronic problem and it has to be employed as efficiently as possible to expand the employment opportunities. A given amount of capital invested in a small-scale unit provides more employment than the same amount in a large undertaking. The first All India Census of small-scale industrial units made in 1973-74 revealed that Rupee one lakh investment in fixed assets generated employment to 16 to 20 persons as against only 4 persons in the large-scale sector.\footnote{13}

2. Indian economy is agrarian in nature. The increasing labour force in rural areas could not be absorbed in agriculture. Small-scale industries provide employment without affecting main occupation in agriculture.

3. India aims at achieving a socialistic pattern of society, which imparts equitable distribution of wealth and reduction in the concentration of economic power.
Income generated in a large number of small enterprise dispersed more widely and a large population derives its benefit. This is due to wide spread ownership and decentralised location of small-scale units.

Balanced regional growth is a socio economic requirement for all round development of the nation, large industries have a tendency to cluster around big cities. It creates economic and social evils like pollution, slums, and shortage of civic facilities. It can be eliminated by setting up SSI units in underdeveloped areas and by providing employment to local people. \( ^{14} \)

4. In the case of small-scale units the gestation period is lesser than large-scale industrial units. SSI units are less dependent on imported machinery and raw materials. They usually use locally available raw materials. \( ^{15} \)

5. Small industries seem to specialise in certain spheres of industrial production. There are many economic activities, which are not suited to large-scale enterprises, but the SSI units specialise in such activities. An efficient small industry sector can substantially enhance the efficiency of large factories by relieving them of the necessity of making certain operations, which for some reason or the other, the smaller unit can provide at a lower cost. \( ^{16} \)

6. On technical grounds also small-scale industries are favourable. Harrison stated that the cheapest and quickest way of spreading appropriate technology widely is to encourage small-scale enterprises. \( ^{17} \)

From all these it is clear that the small-scale sector and its development in a developing economy like India is essential. Hence, this sector is awarded a special consideration and proper relevance to our economy.
Statement of the Problem

In the development dynamic of Indian economy, the small-scale sector, which covers a wide spectrum of industries, occupies an important place. It has undoubtedly grown into one of the most vital sectors of our economy. The small-scale sector including small, tiny and cottage industries with a total strength of forty lakh units plays a vital role in the economy. It not only provides immediate employment on a large-scale but also acts as a tool for ensuring a more equitable distribution of income as well as an effective vehicle for mobilisation of resources including capital and entrepreneurship, which would otherwise remain unutilised. According to the Economic Survey 2001-02 the small-scale sector has played a very important role in the socio economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP), employment generation and exports. The performance of the small-scale sector therefore has a direct impact on the growth of the overall economy. 18

Kerala is a region where the employment problem is most acute and the development of small-scale industry occupies importance for solving the unemployment problem and for achieving economic growth. In terms of size and factor productivity small-scale sector in Kerala compared poorly with all India figures and other southern states. So the growth of small-scale industry is not remarkable in Kerala. 19 The third All-India Census of small-scale industries has identified Kerala as the state accounting for around one fourth of the country’s sick small-scale industrial units. One of the main reason for sickness is shortage of finance. 20 The small-scale industrial sector confronts several problems despite its strategic importance in industrialisation and its immense
potential for employment generation. The problem, which continues to be a big hurdle for the development of the sector, is lack of timely and adequate credit. Tamil Nadu had the highest share among the southern states in cumulative disbursements from all-India financial institutions at 7.7 percent up to 2000-01 followed by Andhra pradesh and Karnataka, which were almost equal at 6.3 percent. Kerala got a meagre 1.5 percent of all-India financial institutions disbursements. The institutional finance assumes considerable importance in the developing countries because of low capital formation, ill organised capital market, gaps between the need and supply of finance in small industrial units.

Central and state governments have developed a comprehensive network of institutions in the public sector for the promotion of small-scale industries. Among all those provide finance to small-scale industries, the government has set up Small Industries Development Bank of India (SIDBI) to meet the requirements of small-scale sector in particular. The difficulty in getting the right type of finance at the right time and in right quantity continues to hunt the small entrepreneurs and still rank among the major problem faced by small-scale sector in Kerala. By reason of their size they are not in a position to raise equity from the capital market. But no pragmatic effort has been made by individual researchers and government reforms in this area so far. Such a study, is hoped would throw light in the position of SSI in Kerala and also the role played by SIDBI for the overall development of SSI sector in Kerala.

Scope of the Study

The study of small-scale industries has always been a subject of wide interest and various interpretations. But the scope of the present study is restricted to those units,
which fall under small-scale sector as defined under the Industries Development and Regulation Act of the Government of India (1999). A small-scale unit is defined as “a unit engaged in manufacturing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs: 1 crore”. A detailed note of this is given in the Table 3.3. Among the various types of institutions providing financial assistance to SSI units in Kerala, SIDBI has its special importance. Keeping in view the growing importance of the SSI sector in the region and the crucial role of Small Industries Development Bank of India in the development of SSI sector, the present study is confined to the role of SIDBI in the development of SSI sector in Kerala. The study concentrates on its promotional and developmental activities, operational and financial performance, nature and form of assistance, form and structure of the SIDBI aided units, and impact made in the development of small-scale industries are also included in the purview of the present study.

**Objectives of the Study**

1. To assess the performance of SIDBI.
2. To identify the form and structure of SIDBI aided units and also the socio economic profile of the entrepreneurs of such units.
3. To determine the nature and form of assistance disbursed by SIDBI.
4. To assess the impact made by SIDBI on the development of small-scale industries.
5. To evaluate the promotional and developmental activities of SIDBI.
Hypotheses of the Study

1. Among the financial institutions at the national level, SIDBI has a significant share in industrial financing.
2. There is no difference in the financial performance of SIDBI and other development banks.
3. There is no difference between SIDBI aided units and other agency aided units in the form, level of investment, and nature of business.
4. The socio economic profile of the entrepreneurs of SIDBI aided units is similar to other agency-aided units.
5. SIDBI disburses more long-term loans than other financing agencies.
6. The cost and terms of SIDBI loans are more attractive compared to loans from other sources.
7. Obtaining loans from SIDBI is less difficult compared to other sources.
8. SIDBI has created more impact on the development of SSI than other financing agencies.
9. SIDBI aided SSI units in Kerala are benefited by the Promotional and Developmental Activities of SIDBI.

Methodology

The small-scale units registered with the district industries centre in Kerala form the universe of the study. Sample units have been determined by using a two-stage procedure.
1. Selection of the Sample Districts

All the districts in Kerala have been divided into two categories on the basis of the norms of the KFC. The KFC has classified the districts of Kerala into two categories depending on the level of industrial development achieved by the district. Two districts from each category are selected on simple random sampling technique. (Table 1.1)

Table 1.1
List of Districts Selected for the Intensive Study

<table>
<thead>
<tr>
<th>Broad categories of districts</th>
<th>Districts in each category</th>
<th>Districts selected at random for the intensive study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non backward districts</td>
<td>Ernakulam, Palakad, Kollam, Kottayam, Pathanamthitta</td>
<td>Ernakulam Kollam</td>
</tr>
<tr>
<td>Backward districts</td>
<td>Idukki, Wynad, Alapuzha, Malapuram, Kannur, Kollam, Kollam</td>
<td>Idukki Thiruvananthapuram</td>
</tr>
</tbody>
</table>

Total 14 4 (28 percent of the total)

2. Selection of the Sample Units

SSI units in the selected districts were divided into two categories. They are: Units, which received financial assistance directly or indirectly from SIDBI and units assisted by other agencies. 25 units from each group were selected from selected districts on simple random sampling technique. Units financed directly or indirectly by SIDBI are selected from the list obtained from SIDBI and KFC. Units financed by other agencies
are selected from the list obtained from the District Industries Centres of the selected districts.

**Collection of Data**

Both primary and secondary data were used for the study. Primary data required for the study have been collected from small-scale units by using structured interview schedule. Relevant information has been collected by holding discussions with various officials of SIDBI. The draft interview schedule designed for the purpose was first tested by conducting a pilot survey among a sample of 10 units, which had availed financial assistance from SIDBI and other agencies in Ernakulam district. The interview schedule was restructured and finalised after making necessary alterations on the basis of the experience and feedback obtained in the pilot study. A copy of the interview schedule for the sample units is given in the Appendix.1. The collected data have been consolidated using districtwise, organisationwise and investment levelwise classification.

The secondary data have been collected from the following sources. SIDBI report on small industries sector, Annual reports of SIDBI, Publications of Ministry of Small-scale industries and Agro & rural industries. Statistical statements relating to small-scale sector published by National Institute of Small Industry Extension Training (NSIET), IDBI Reports on Development Banking, various publications of SIDBI, Report of the study group on development of small-scale enterprises, Plan documents of both central and state governments, Study Report of Planning Board and Department of Economics and Statistics, academic studies conducted in related fields in different Universities, books and journal dealing with the subject.
Websites of SIDBI and IDBI and other related sites have also been referred to collect the latest information. The collected data have been analysed with the help of appropriate technology.

**Period of the Study**

Since the introduction of the new economic policy of Liberalisation in the mid 1991, the SSI sector had to pass through a very hard phase in the 90's. So the study covers a period of 12 years from 1990-91 to 2001-02. The survey for the study has conducted during 2002-03.

**Method of Analysis**

In social research it is customary to use the before and after approach or with or without approach for investigating a research problem. The present study uses with or without approach.

**Tools of Analysis**

Secondary data on the growth in number of small-scale units, production, employment and export have been analysed with arithmetic technique like average annual growth rate and percentages. State wise performance of SSI in India is studied by using multidimensional scaling graph. The financial performance of selected development banks was evaluated mainly with the help of accounting ratios. The variations in the ratios of selected development banks in different years were tested by applying coefficient of variation. The perception of SSI units towards SIDBI was collected by administering pre-tested schedules. The socio economic profile of entrepreneurs of sample units, the quantity of loan, the cost and terms of loan, easiness in obtaining loan, impact of financing in the case of SIDBI aided and other agency aided
units and their association were tested by using the Chi-square test. The difficulty experienced in obtaining loan, causes for committing default, causes for postponement of modernisation and reasons for dissatisfaction were analysed by using the ranking method. Graphs were also used to indicate the trend of essential variables.

Measurement of Linkages

There are two types of linkages that are backward linkage and forward linkage. Both types of linkages has been calculated for the sample units using a three-point scale. The maximum score of three is given to units, which procure materials/sells the output locally or within the district. The lowest score of one is assigned to units that procure materials/sells the output outside the state. Units that procure materials/sells the output outside the district but within the state are given two points. The scores received by each unit are aggregated to get the total linkage for the unit. The units are then classified into three categories i.e. low medium and high depending on the total score of the unit. Units upto two points are rated low, units with score three and four are rated medium and units with five or more points are rated high in the linkage creation.

Ranking of Variable

The different options associated with the following variables have been ranked using the procedure described below. The variables are:

a. Difficulty experienced in obtaining the loan
b. Reasons for default in repaying the loan
c. Marketing problems faced by the units
d. Causes for delay or postponement of modernisation
e. Reasons for dissatisfaction with the funding agency
f. Source from which borrowers make good insufficiency of finance.
The alternatives available under the variables are assigned weights using a five-point scale. The most important factor identified by the respondent unit is assigned five points, the next important factor four points and so on. The lowest score one is given to the least important factor. Only the first five responses under each variable are weighted in this manner. The scores assigned to each alternative are then aggregated. The alternative recording the highest score is ranked first, the next highest score is ranked second and so on.

Variables Used for the Study

For assessing the growth of small-scale industries in India and Kerala, the following variables have been used.

1. Growth in number of units, production, employment and export from 1990-91 to 2001-02.

2. State wise number of units, employment, fixed investment, employment per unit, and investment per unit from 1990-91 to 2001-02.

3. Real growth of overall industry and SSI sector from 90-91 to 2001-02.

4. Growth in number of units, total investment, production and employment of SSI sector in Kerala from 1990-91 to 2001-02.

For assessing the financial performance of SIDBI.

1. Interest Income to Total Income

2. Non Interest Income to Total Income

3. Interest Expenditure to Total Income

4. Non-Interest Expense to Total Income.

5. Interest Expense to Interest Income.
6. Interest Expense to Borrowings
7. Interest Income to Credit
8. Borrowings to Credit
9. Spread to Working Fund
10. Burden to Working Fund
11. Profits to Own Fund

For assessing the operational performance of SIDBI.

1. Institutionwise assistance disbursed by financial institutions at all India level
2. Statewise per capita assistance sanctioned by all financial institutions.
3. Statewise assistance sanctioned by financial institutions at all India level
4. Schemewise assistance sanctioned by financial institutions at all India level and SIDBI
5. Industrywise assistance sanctioned by financial institutions at all India level and SIDBI
6. Assistance sanctioned by financial institutions at all India level and SIDBI
7. Purposewise assistance sanctioned by financial Institutions at all India level and SIDBI

For studying the form and structure of SIDBI aided units and socio economic profile of the entrepreneurs

1. Pattern of ownership
2. Size of investment
3. Nature of business
4. Year of establishment
5. Status under SSI
6. Current status
7. Size of direct employment
8. Size of indirect employment
10. Sex of entrepreneurs
11. Age of entrepreneurs
12. Level of education of entrepreneurs
13. Previous experience of entrepreneurs
14. Motivating factors to start business

For assessing the role of SIDBI in financing small-scale industries.

1. Quantity of loan disbursed.
2. Type of loan disbursed.
3. Cost and terms of the loan
4. Sufficiency of the loan amount
5. Ease of obtaining loan
6. Average profit earned
7. Mean value added
8. Mean capacity utilised
9. Linkages created

For assessing the extent of support other than finance extended by SIDBI.

1. Rural industrialisation.
2. Human resources development in SSI sector.
3. Technology upgradation.
4. Environment and quality management.

5. Market promotion.

6. Information dissemination.

Other aspects.

1. Reasons for default in repaying loans.

2. General problems faced by the units.

**Limitations of the Study**

The study suffers from certain limitations. They are:

1. Some of the entrepreneurs were hesitant to give correct information pertaining to sales, profit etc. In such instances it was necessary to resort to indirect methods for gathering information.

2. The form and pattern of statistics and records varied from unit to unit which render their comparison difficult.

3. The researcher found wide variations in the data collected from the sample units and the data collected from official sources.

However in spite of the apathy of the entrepreneurs in providing sufficient and relevant information and the reluctance on the part of the SIDBI officials to provide information, every possible effort was made to find out their attitude/ perception in various areas in an objective manner. The best use of the data available has been made to make the study purposeful.
Scheme of the Study

The study has been divided into nine chapters.

Chapter 1  The first chapter is the introductory one and describes the introduction of the study, statement of the problem. It also outlines the scope, objectives, hypothesis, sample design, data collection methods, and tools of data analysis, the period and limitations of the study.

Chapter II  Presents the review of different studies on SSI conducted in India and Kerala.

Chapter III  Chapter three provides an overview of SSI in India. It deals with the importance of SSI in the world, definition of SSI in other countries, scope of SSI in selected countries, changing definitions in India, SSI development in India, growth trends, development under the Five Year Plans, small-scale sector in Kerala.

Chapter IV  Chapter four outlines a brief review of the operations of SIDBI. It covers various schemes of SIDBI and institutional framework for assistance of SSI and state wise assistance, industrywise and purpose wise assistance sanctioned by SIDBI.

Chapter V  Chapter five deals with financial performance of SIDBI. It includes a comprehensive study of the operations of SIDBI and also financial performance comparison of selected development banks.

Chapter VI  Chapter six deals with the pattern and form of organisation of the sample units. The socio economic profiles of the entrepreneurs of sample units are also highlighted in this chapter.
Chapter VII  Chapter seven analyses the nature and form of assistance disbursed and easiness in getting the assistance and impact made by SIDBI on development of SSI units in Kerala.

Chapter VIII  Chapter eight includes the problems of small-scale industries and evaluation of the promotion and developmental activities of SIDBI.

Chapter IX  Chapter nine presents the findings of the previous chapters, conclusions and makes a few suggestions for improving the services to the small-scale industries.
Notes

2. R. Jayaprakash, Problems and Developments of SSI in India, Ashish Publishing House, New Delhi, P.3.
15. Dr. C.B Gupta, Dr. S.S Khanka, Entrepreneurship and Small Business Management, Sultan Chand and Sons, New Delhi, 2000, P.2.13.


25. S.Noman Ahmad and Ashrafuzzaman Chowdhury, SIDB's Role In Financing the SSIs, SEDME 30.1, March 2003.