CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction
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2.1 REVIEW OF LITERATURE

Lead bank financing to 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.

G. Balakrishnan\textsuperscript{15} (1961) analysed the experience of joint stock companies in finding finances and found that was a demotivating factor for availing finance from banks.

J.N. Mishra\textsuperscript{16} (1968) in his study in Saugar District found that industrialists preferred private money lender, to a co-operative bank for meeting their financial need 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\textsuperscript{17} (1969), the Administrative Reforms Commission, stated that twenty per cent of the financial requirements of small units were met by institutional sources.

D. Kopardekar\textsuperscript{18} (1974) attributes excess capacity remaining unutilized in small firms due 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 fix and working capitals as per the plan.

The study entitled “Finances for Small Scale Industries in India” undertaken by Professor K.T. Ramakrishna\textsuperscript{19} (1975) pointed out the nature and magnitude of financial problems faced by the small-scale industrial sector in India and the role of the Government, the State Financial Corporations and Banks in financing this sector.

The methods of financing by several countries like Japan, U.S.A., U.K., countries in Europe, Canada and Australia were highlighted in the study.

**S.P. Mathur**\(^{20}\) (1979) 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.

**R. Neelamegam**\(^{21}\) (1983) in his study on “Institutional financing for small–scale industries analysed various types of financial assistance offered to the small–scale units in Tamilnadu. 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.

**Hrishikesh Bhattacharya**\(^{22}\) (1984) 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 from 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.

**P.L. Joshi**\(^{23}\) (1985) concluded that a single financial institution with family substantial resources meeting different needs of the agriculturists has its attraction instead of presently accepted multi-agency approach. The results reveal that loans borrowed from the State Bank of India by the active farmers for crop production purposes were not very helpful in increasing the productivity of land vis-a-vis non participation farmers.

**Nand Kishore Jha**\(^{24}\) (1985) traces at the origin of Land Development Banks and co-operatives at the World level. Germany is the original home of land banks and co-operatives. The co-operatives are known as Landschaftan in this country. The first bank of landschaft was created in 1769. Jha then discusses the emergence of Land Development Banks in India, particularly in Bihar.

**The Chakarvarthy Committee**\(^{25}\) (1985) found that the time has come to set the maximum limit for overdues so that banks put in their state within those limits.

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Limiting credit to overdue segments and not sacrificing lending criteria should be aimed at.

Y.S. Yoosuf Khan26 (1988) 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 expansion purposes. The nationalized banks in the region accounted for 40 per cent of the total institutional assistance given to small–scale units.

The Kalyana Sundaram Committee27 (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.

R. Natarajan28 (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. Natarajan\(^{29}\) (1989) 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 by many financial institutions, but post-promotional financial requirements for meeting day-to-day business needs were completely ignored by them.

R. Neelamegam\(^{30}\) (1990) 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.

A. Subbiah\(^{31}\) (1990) 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.

\(^{29}\)Ibid.
Mithilesh Kumar Mishra and Anup K. Karan\(^{32}\) (1990) 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 power cuts, fluctuation in prices of raw materials and inadequate arrangements for consultancy acted as checks on the growth of the units.

A.R. Sen\(^{33}\) (1992) 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.

M. Altaf Khan\(^{34}\) (1993) 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


\(^{34}\) M. Altaf Khan, “Industrial Sickness and Revitalization Through Banks”, \textit{SEDME}, Vol. XX, No.1, March, 1993, pp. 47-57.
submission of statements, returns and financial statements and inadequate credit assistance.

**M.S. Chikkara**\(^{35}\) (1994) study titled “Role of Banks and Financial Institutions vis-a-vis Consultancy Needs of SSIs represent the evolution of non-financial role for the financial institutions and banks for the promotion and healthy growth of small scale enterprises.

**M. Upaulthus Selvaraj**\(^{36}\) (1994) 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 extend. Engineering units availed of short term financial assistance to greater extend followed by the textile units in Madurai district.

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K. Nirmala\(^{37}\) (1994) 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.

A study was undertaken by the National Institute of Bank Management\(^{38}\) (1995) 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 insistence on adequate security including collateral, and delay in sanctioning or disbursement of loans.

James and William\(^{39}\) (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.

C. Thilaka\(^{40}\) (1996) in her study “A Study of Financing of Select Small Scale Industries by Commercial Banks in Tamilnadu” states that one of the important

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problems of the 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.

Hrishikes Bhattacharya\(^4\) (1997) 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.

A study titled “Institutional finance for the Development of small scale Industries in Karnataka” was undertaken by D.G. Rudra Murthy\(^2\) (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.

The Abid Hussein Committee\(^3\) (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.

K. George Verghese\textsuperscript{44} (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
dramatically improving the problem areas of administration, personnel, entrepreneurial
development and infrastructure in the dispensation of credit.

P. Ganesan\textsuperscript{31} (1998) 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.

K. Ramesh\textsuperscript{32} (1998) suggested in his study the redistribution / opening of
specialized branches in credit deficit states with a special thrust on financing micro

\textsuperscript{44}K. George Verghese, “Leading Issues in Credit Flow to SSI Sector”, \textit{Finance for Small
enterprises. He acknowledges that the flow of credit would critically depend upon the availability of infrastructure and support services for SSI.

D.D. Mali\textsuperscript{33} (1998) 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.

K.M. Shahjahan\textsuperscript{34} (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 Chakraborty and Alok Pramanlk\textsuperscript{35} (1999) 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-
orientation of the attitudes of the banks and other financial institutions operating in
the backward areas for assisting and rehabilitating sick units.


**Adwait Mohanty and Jyotirmayee** (1999) 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.

A study was conducted by R. Neelamegam and R. Maria Iniga (2000) 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 finding 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.

Adwait Mohantly and Jyotirmayeekar, “Credit Rationing and SSI Units”, *Prajan*, July–


Laxman Singh Sharma* (2000) in his published thesis on the role and
collection 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
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* (2000) 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* (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 in 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.
The S.P. Gupta Committee\(^{41}\)(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.

Rajagopalan Nair and P. Vimala\(^{42}\)(2001) 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.

J. Revathy\(^{43}\)(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\(^{44}\) (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.

V. Manickavasagam and C. Vethirajan (2002) 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.

K. Sundar, R. Kumar Gandhi and G. Gangatharan (2002) The SIDBI 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 that is equity assistance, project-related finance and resource support to the institutions engaged is promoting SSI.

Anil Kumar (2002) 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 to be essential for rapid economic growth.

A. Subbiah and K. Navaneethakrishnan (2003) 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.

P. Chinnaiyan and R. Nandagopal (2005) 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). Employment generated by this sector stood at 185.6 lakh which constitutes 59.8 per cent of the total employment in the organized sector of the country. 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.

Rashid R. Pansare\(^5\) (2005) 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.

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K. Kamalakannan and N. Namasivayam say that the small scale industries in India over the past fifty years have made a significant contribution to 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.

A. Subbiah and K. Navaneethakrishnan in their article “Small Scale Industrial Units and their Problems” explain that small scale industries have a place of pride in India. They 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.

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.

B.L. Chandak 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

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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.

Kasturi Nageswara Rao\textsuperscript{54} (2006) 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.

N. Namasivayam and S. Ganesan\(^5\) (2006) 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. Sundararaj\(^6\) (2006) in their article “Adequacy of Commercial Bank Credit to Small Scale Industries: An Empirical Analysis” explains 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 above review it can be concluded that there were many studies in the area of lead bank finance to SSI at the macro level. Only very few studies have been made at the micro level. The present study focuses on SSI finance by Lead Bank at Virudhunagar, a micro study which throws light on the intricate aspects.