Chapter Four

Financial Problems of Small and Medium Sized Industry

Financial Structure

The types of credit and capital demanded by and supplied to small, medium and larger sized concerns differ significantly from one another. Generally speaking very small and very large sized concerns rely more heavily on retained earnings and short term credit than the medium sized concerns. This is due to the characteristics of these different types of concerns.

The funds employed in a business enterprise are either owned or borrowed. The asset structure of a concern reveals the degree of dependence on outside capital as well as the nature and extent of outside funds available to a particular concern. Usually owned capital claims the preponderance of business assets of very small and very large sized concerns. At the outbreak of the second world war in America, sample data, showed that the ratio of equity to total assets was far greater in the unincorporated concerns than in the corporated ones. Size of business is thus an important factor in relative use of equity and debt financing. The highest indebtedness in proportion to total assets in 1939 in U.S.A. was found in the class of concerns with total assets of less than $50 thousand. In our country comparative figures showing the relative use of debt and equity financing in different sized concerns are not available. But such surveys

1 Jacoby and Saulnier - Business Finance and Banking.
2 Ibid.
of small units as are available in our country point to the same conclusion. In fact, the supply of capital and long term credit is practically nil to the smaller as well as the medium sized concerns. Majority of smaller sized concerns being proprietary or private limited concerns, had to depend on equity capital supplied by the owner enterprisers themselves, occasionally supplemented by funds supplied by interested relatives or friends. Additions to the capital investment in the small business have traditionally been made by plowing back of profits. Equity capital accounted for 93% of the total assets of the small industries of Calcutta.\textsuperscript{3} In the small engineering industries of Howrah, the corresponding proportion is 79.5 to 86%.\textsuperscript{4} The few industries of West Bengal surveyed in course of this study give more or less identical picture. Of the 28 firms with capital not more than one lakh, equity financing accounted for a very high proportion, as much as 86% of total financing of business assets. The corresponding proportion in the twenty two medium sized concerns is 72% - which shows that though outside capital is available to some extent to these type of concerns, compared to the smaller industries, medium sized concerns also had to depend on an appreciable degree on equity capital for the financing of business unlike other industrially developed countries, where heavy reliance on equity capital is found in the cases of typical small concerns on the one hand and the established larger industry on the other. Medium sized industry relied more heavily on the borrowed funds to which it has more ready access than to the supply of equity funds.

\textsuperscript{3} Economic survey of small industries of Calcutta 1952-53, op. cit.
\textsuperscript{4} Survey of small engineering industries of Howrah, op. cit.
Factors affecting supply and demand for credit and capital

It is sometimes pointed out that reluctance on the part of small business owners to share the ownership of the business partly explains the predominance of owned capital in the capital structure of small concerns. A survey of small manufacturing corporations of America conducted in 1950 revealed that of the respondents with less than 100 employees, less than 9 p.c. favoured capital stock for any part of their financing needs. While there may be some element of truth in this argument in America, relevant data for testing the validity of this argument in our country are unfortunately not available. The predominance of internal equity capital in the case of smaller sized concerns can be explained more fully by analysing the factors that affect the supply of external capital to different manufacturing concerns.

The difference in the types of credit and capital utilised by different sized concerns reflects a number of interdependent factors, such as the industrial characteristics of business concerns which determine the volume of financial requirements, the financial structure, which in part determines the class of lenders or investors from whom outside funds can be obtained and the area of operation of the manufacturing concerns. These characteristics are basic in determining the types and sources of funds used.

Smaller sized concerns are mostly unincorporated and thus can not get help from the money market. Their small requirement itself puts them away from the money market. Not only the expenses of flotation of small

5 Stated by the Chairman of the Board of Governors of the Federal Reserve System in his reply to a questionnaire from the sub-committee on general credit control and debt management of the congressional joint committee on the economic report.
issues are almost prohibiting the difficulties of marketing the small issues through existing channel even in countries like U.K. or America are found to be inseparable. Both the localised nature of the small industries and their financial standing are also significant determinant of the type of funds employed. Small concerns are seldom known outside the area in which they operate. Informations on their activities, management, competitive position, past financial performance and present earning potential, which together would permit evaluation by conventional investment standards is not readily available to the investing public. Small, closely held, localised businesses are seldom in a position to obtain long term debt or equity capital through the organised money market. Thus when a small business is first organised, bulk of its capital is typically provided by its owners. In U.S.A. a study by a department of commerce, covering about 1,100 manufacturing concerns which were established in the 1946-48 period, revealed that where the initial credit and capital was less than $100,000, nearly two thirds were supplied by officers and directors, the remaining one third comprising largely bank loans and mortgages. Among the small manufacturing concerns included in the sample, only 2 p.c. of initial capital was raised through sale of stock to the general public.  

In the 23 concerns in West Bengal with capital not exceeding one lakh which were surveyed, 100% of the initial capital was supplied by proprietors, partners and directors. This heavy dependance on owned capital by the smaller sized concerns is due to their inability to raise outside funds. In our country not only the smaller sized concerns, but the

6 Bridge - Capital requirements of new trade firms, Survey of Current Business, December 1948.
medium sized industries also do not get any significant accommodation from the money market due to virtual non-existence of issue houses and underwriting firms. Thus though some of the concerns in the 22 medium sized units i.e. with capital from Rs. 10000 - 150000 in West Bengal included in our personal survey are public limited concerns, yet none of them reported to have raised capital through sale of stocks and shares to the general public. In fact except in some of the well established industries, flow of outside capital is practically nil to the remaining industrial sector of the country.

The preponderance of equity capital in the total assets of the larger sized concerns is due to entirely different reasons. Larger sized concerns have greater accessibility to external capital. They can also build up equity through extension of earnings, because they have a higher and steadier profitability. During the period 1946-51 for the 448 public limited companies in India, additions to paid-up capital (Rs. 86 crores) and borrowing (Rs. 95 crores) were the principal source of funds for the financing of capital formation; total paid up capital increased from Rs. 159 crores to Rs. 245 crores and borrowings rose from Rs. 77 to Rs. 172 crores. "The principal source for the financing of expansion of industry or net investment in fixed assets are fresh equity capital and retained profits of industry".7

On the basis of the data furnished to the Taxation Enquiry Commission by 492 public limited companies, the relative contribution of fresh outside capital and corporate savings towards industrial expansion during 1946-51 was found to be Rs. 53 crores and Rs. 69.3 crores respectively. But although

Corporate savings provided a larger source than new subscriptions, on the whole in the financing of industrial expansion during the post war period, new companies received a major portion of the fresh outside capital for the 492 selected companies. New subscriptions accounted for ₹5.53 crores out of a total increase in paid up capital of ₹9.97 crores during the six years 1948-51. An industry-wise classification would show that on the whole, industries with larger additions to the number of new companies received significant help from outside money market in the form of new equity capital. Thus the largest part of the increase in capital was met by new subscription in the cases of engineering (the percentage of new subscription to total paid-up capital being 89%), cement (100%), electricity (86%), shipping (91%), chemicals (90%), iron and steel (100%), other textiles (75%) and vegetable oil (74%). The older industries on the other hand earning good profits relied more heavily on internal savings for expansion and replacement. Internal sources play a less important role in the financing of private limited companies. During 1946-51, for 362 private limited companies in the manufacturing sector, which were mostly large and medium sized concerns, new subscriptions to paid up capital amounted to ₹11.6 crores out of the total reserves of ₹41.2 crores for all companies together. Borrowings accounted for ₹18.6 crores, half of which were from banks. Borrowing from shareholders (₹3.8 crores) was also appreciable. Retained profits were substantially smaller as compared to other sources of finance. The predominance of internal sources in the financing of large sized concerns is also revealed from a study by the Reserve Bank of India of the

8 Out of 492 companies, 54 were new companies.
9 In the sample, concerns with capital less than ₹1 lakh have been excluded.
finances of Indian Joint Stock Companies during 1951-55. The study covers 750 public limited companies registered in India with a paid up capital of not less than Rs.5 lakhs each. It has been found that of the total capital formation of Rs.443 crores during the five year period as a whole, internal sources contributed Rs.265 crores or nearly 60 p.c. of the total. Share capital was relatively small (31 crores), borrowing being much the more important.

Due to the shortage of external equity capital small and medium sized units depend heavily on credit for meeting their financial needs. But between different sized concerns, it has been found that each type of credit is more readily available to the larger sized concerns and is more expensive for the smaller concerns. With inadequate financial statements, limited sources of credit and no extended record of successful working, small concerns failed to satisfy the standards of credit worthiness as conceived by the lenders. Thus they have to depend on more expensive types of loans from private sources. Small concerns usually pay more for any one type of credit, not only for the greater risks assumed by lenders, but for covering the higher lending cost.

With regard to long term funds, earnings retained from operations together with other savings of owners constitute the principal type of long term funds used by small concerns. In other countries like U.S.A., long term loan to some extent is available from insurance companies though the volume of funds so obtained is relatively modest. In our country there is no source to which normally the small concerns can turn for long term credit. Banks in our country do not consider long term

lending to business concerns as a part of their business and supply renewed
short and medium term loans to established and known business concerns
which in practice are used for long and medium term financial purposes.
Out of the 28 smaller sized concerns with capital asset not exceeding one
lakh only, four concerns were reported to have secured long and medium
term credit, mainly from directors, relatives and private financiers.
West Bengal Government assisted one of these four by a loan for 8 years
against the hypothecation of assets. Thus loan capital constituted only
8% of the total raised capital of these concerns. The respective propor­
tion in case of the 22 medium sized concerns is 25.8 p.c. In this group
eleven concerns appear to have long term credit funds in their total
raised capital, mostly from directors, shareholders and private sources.
Only 2 have received financial help from Banks and one from West Bengal
Government under 'State Aid to Industries Act'.

In the case of small industries of Calcutta surveyed by the
Statistical Department of West Bengal, liability on account of fixed capital
represented only 13% of the total liability. 78.0% of the total concerns
having liability, borrowed on account of raw material and other purposes
i.e. short term credit. The borrowed capital represented only 3.7% of
the total raised capital of the small engineering industries of Howrah.

In view of the lack of equity funds and long term credit, small
and medium sized concerns depend more heavily on short term and medium
term credit than the larger concerns. The initial investment generally
depletes the initial capital which is mainly supplied by the owners and
partners in the case of small and medium sized concerns, which are thus
forced to turn to other sources of funds for carrying on the business.
Thus the demand for short and intermediate term credit is more pressing among the small and medium-sized concerns. So far as the supply of short term credit is concerned, medium-sized concerns of average profitability are in a much favoured position, since banks and other lenders are generally ready to advance short term credit to these concerns against stock of goods and raw materials. Most of the medium-sized concerns, from which we have been able to receive information, receive short term accommodation from banks, though not always up to their requirements and not necessarily on favourable terms. But smaller sized concerns not only find difficulty in securing long term and equity funds but also experience difficulties in getting short term credit as such loan accommodation by banks are mostly denied to them. For meeting short term credit needs they are thus forced to turn to the private money lenders, the suppliers of raw materials and dealers at an exorbitant rate of interest. The following table, showing the proportion of credit to working capital as well as proportion of fixed and working capital to total capital of the concerns investigated would reveal the situation more clearly.

Table 1

<table>
<thead>
<tr>
<th>Ind. No.</th>
<th>Industry</th>
<th>No. of Units</th>
<th>Proportions of Credit to Fixed Capital</th>
<th>Proportions of Working Capital to Total Capital</th>
<th>No. of Concerns Receiving Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pipe Fitters</td>
<td>10</td>
<td>56.66%</td>
<td>43.34%</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Small Tools &amp; Cutlery</td>
<td>3</td>
<td>24.24%</td>
<td>75.76%</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Lamp Holder</td>
<td>3</td>
<td>40.34%</td>
<td>59.66%</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Hosiery</td>
<td>5</td>
<td>4.58%</td>
<td>95.42%</td>
<td>1</td>
</tr>
<tr>
<td>5</td>
<td>Saw Mill</td>
<td>7</td>
<td>40.34%</td>
<td>59.66%</td>
<td>7</td>
</tr>
</tbody>
</table>

28 9
Table 2

Concerns with capital from ₹1 lakh to 15 lakhs (1953-54)

<table>
<thead>
<tr>
<th>srl. no.</th>
<th>industry</th>
<th>no. of units</th>
<th>proportions of credit to fixed working capital</th>
<th>working capital to total assets</th>
<th>no. of concerns receiving credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>(0)</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>1.</td>
<td>belting</td>
<td>3</td>
<td>14%</td>
<td>40%</td>
<td>59%</td>
</tr>
<tr>
<td>2.</td>
<td>oil pressure lamp</td>
<td>3</td>
<td>30%</td>
<td>57.50%</td>
<td>42.70%</td>
</tr>
<tr>
<td>3.</td>
<td>brass lamp holder</td>
<td>1</td>
<td>6%</td>
<td>44.09%</td>
<td>55.90%</td>
</tr>
<tr>
<td>4.</td>
<td>hosiery</td>
<td>3</td>
<td>-</td>
<td>59.9%</td>
<td>40.0%</td>
</tr>
<tr>
<td>5.</td>
<td>small tools &amp; cutlery</td>
<td>1</td>
<td>10%</td>
<td>25.8%</td>
<td>74.2%</td>
</tr>
<tr>
<td>6.</td>
<td>engineering</td>
<td>2</td>
<td>10%</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>7.</td>
<td>chemicals</td>
<td>1</td>
<td>18%</td>
<td>44.07%</td>
<td>55.93%</td>
</tr>
<tr>
<td>8.</td>
<td>ink</td>
<td>2</td>
<td>50%</td>
<td>44%</td>
<td>58%</td>
</tr>
<tr>
<td>9.</td>
<td>dry battery</td>
<td>2</td>
<td>2.9%</td>
<td>35.02%</td>
<td>64.98%</td>
</tr>
<tr>
<td>10.</td>
<td>electric lamp</td>
<td>4</td>
<td>26.86%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the group 1, out of 28 concerns, only one has secured short term credit from outside sources. In sharp contrast to this, 17 out of 21 concerns in the 2nd group appeared to have relied to some extent on credit in the financing of their working capital. The absence of credit item in the financing of the first group does not reflect any unwillingness on the part of the small concerns to incur short term liabilities, nor does it indicate absence of demand for such fund. The fact that all the concerns have complained about non-availability of short term funds reflects a genuine gap between the demand and supply of short term credit in the case of small
concern. An examination of the sources of credit and the terms and conditions attached with such credit funds would help to clarify the position.

Table 3

Sources of credit

Concerns with capital up to ₹ one lakh

<table>
<thead>
<tr>
<th>s/n.</th>
<th>industry</th>
<th>bank</th>
<th>other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>lamp holder</td>
<td>16.78%</td>
<td>83.22% (private money lenders)</td>
</tr>
<tr>
<td>2.</td>
<td>hosiery</td>
<td>-</td>
<td>100% (customers)</td>
</tr>
<tr>
<td>3.</td>
<td>saw mill</td>
<td>-</td>
<td>100% (dealers)</td>
</tr>
</tbody>
</table>

Concerns with capital from ₹1,00,001 to ₹1,50,000

<table>
<thead>
<tr>
<th>s/n.</th>
<th>industry</th>
<th>bank</th>
<th>other sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
</tr>
<tr>
<td>1.</td>
<td>belting</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>oil pressure lamp</td>
<td>10%</td>
<td>90% (from customers and suppliers of raw materials)</td>
</tr>
<tr>
<td>3.</td>
<td>lamp holder</td>
<td>50%</td>
<td>50% (suppliers of raw materials)</td>
</tr>
<tr>
<td>4.</td>
<td>small tools and cutlery</td>
<td>-</td>
<td>100% (Suppliers of raw materials)</td>
</tr>
<tr>
<td>5.</td>
<td>engineering</td>
<td>-</td>
<td>100% (customers)</td>
</tr>
<tr>
<td>6.</td>
<td>chemicals</td>
<td>80%</td>
<td>20% (private money lenders)</td>
</tr>
<tr>
<td>7.</td>
<td>dry battery</td>
<td>-</td>
<td>100% (private money lenders)</td>
</tr>
<tr>
<td>8.</td>
<td>electric lamp</td>
<td>50%</td>
<td>50% (customers and suppliers of raw materials)</td>
</tr>
<tr>
<td>9.</td>
<td>ink</td>
<td>20%</td>
<td>80% (private money lenders)</td>
</tr>
</tbody>
</table>

In the case of small engineering industries of Howrah the ratio of credit to working capital is 1/8 and the proportion of fixed and working capital 36:64 against 50:50 in the cases of all classes of general and
electrical engineering industries estimated from the census of Indian manufacturer's data. The low proportion of working capital to total productive capital also indicates the lack of short term funds. Though there is no fixed rule regarding the proportion of fixed and working capital to be maintained by a business according to the nature of the business, it is a well known principle that in the manufacturing field, for the sake of a sound and smooth business, proportion of working capital should be a little higher or at least must be equal to fixed capital.

The need for maintaining a higher proportion of working capital is all the greater in the case of small concerns whose credit standing is less known in the outside world and who are more vulnerable to seasonal fluctuations in the market. But it seems to have been the practice of the firms surveyed that they usually block most of the initial capital into fixed assets hoping to finance working capital with the help of short term credit which unfortunately is not available.

In a recent survey (1953) of 18 concerns of West Bengal covering four industries, namely hosiery, glass, plywood and teachest, and foundry by the Bureau of Industrial Statistics, the same pattern in the supply of credit has been found. From the report of the survey, separate informations regarding different sized concerns are not available. But from the industrial characteristics of the concerns covered, the nature of the problem of the credit supply to different sized concerns is revealed. So in cases of hosiery and glass industry, where the medium and larger sized concerns have been mostly covered, the problem of supply of credit is found to be in less acute form than in the two other industries where the smaller sized concerns have been investigated.
In the case of 7 hosiery factories of which 5 are public or private limited concerns and two are under partnership management, credit accounts for 52.12 percent of the working capital for the composite factories. The bulk of the credit supply comes from the money lenders and banks. "The general picture is that with the exception of a few big units, most of the hosiery factories get credit facilities from money lenders. The rate of interest ranges from 5 to 10% per annum, the highest rate being charged by the money lenders."

In the glass industry where 3 concerns have been surveyed, the percentage of credit to working capital is found to be 41, thus indicating a steady flow of short term funds. Of the total amount of credit received per annum, the bulk of it i.e. about 85.1% has been supplied by banks. "This is due to the fact that factories under investigation being public limited concerns are more organised and credit worthy. There are numerous small glass factories where credit flow is very scanty and whatever little is available mostly comes from money lenders."

The rate of interest ranges from 5½ to 10% per annum, the highest being charged by the money lenders. On the other hand, in the cases of plywood and tea chests industries and ferrous foundry industries, the percentage of credit to working capital is as low as 18.8 and 24.5 respectively. There is chronic difficulties in getting credit facilities from banking institutions in the plywood and tea chests industries whose tangible assets hardly interest banks as hypothecations. In the 4 medium size foundry unites, the bigger portion of short term credit comes from banks. "For smaller units the picture is different and whatever little "

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11 Economy of eight selected industries, part I, Bureau of Industrial Statistics (1957), page 8.
credit is available comes from money lenders and friends and relatives and not from banks. The problem of credit shortage for small industries is acute. 13

The heavy reliance on 'other sources' for the supply of working capital is indicative of the absence of proper sources for the supply of short term credit. It is true that credit from customers and suppliers constitute one of the important sources of financing the working capital of small scale industries of all countries. But the inability of small concerns to receive credit from the regular sources puts these 'other sources' in a very advantageous position. There is no uniformity in the rate of interest which is much above not only the rate charged by banks but also the prevailing market rate. In the case of saw mill industry, whose credit is wholly supplied by the dealers, the rate of interest works out to more than 50% per month. This is specially due to the present difficulty of the industry in the procurement of adequate quantities of timber, its main raw material, at fair prices. Lack of ready cash debars the manufacturers from the advantage of direct purchase of timber from Government Sales Depot, which requires the customers to deposit at least 15 days in advance the money in the Reserve Bank of India and to deposit the challan to the Depot. So the manufacturers are forced to depend on the dealers and middlemen who supply timber in advance at a price which is much higher than the fair price of timber. In other industries also the rate of interest from private sources varies between 15% to 30%.

The shortage of working capital has become more pressing at present due to the fact that while the manufacturers had to purchase raw materials

in cash, sales are usually conducted on credit for at least three months. Delays in payment both from private customers, as well as from Governments and Government agencies against goods supplied to them cause considerable hardship to the supplying concerns. Moreover as has been stated in the report of the Committee on finance for the private sector, when small industries undertake the job of processing materials supplied to them by the Government, they are often required to deposit an amount equal to the value of such raw materials with the Government. All these result in the locking-up of the slender liquid resources at the disposal of small scale industries and intensify their problems of working capital. Because of this delay, banks also are not willing to lend against Government bills.

The problem of medium and short term capital is also present in the case of medium sized industries, though in a less acute form compared to that of small concerns. The position has not changed despite the fact that various institutions have been set up to meet the financial needs of these types of industries and acts have also been passed in most of the States empowering State Governments to help the cottage and small scale industries with budgetary provisions. The activities of none of these institutions have so far been satisfactory. This is more due to their constitutional characteristics, which have not been framed with an eye to the peculiar characteristics and special requirements of the industrial concerns for whom these have been set up.

Existing agencies for the supply of credit and capital

Banks

Banks in our country generally do not render financial assistance to business enterprises except granting short term credit to established concerns. As has already been pointed out, sound manufacturing concerns
of reputation have never experienced difficulty in securing short term bank credit. This credit is generally for six months to maximum one year term and in normal time is usually renewed year after year, thus actually serves the function of long term finance. Recently in West Bengal a Belting industry has extended its operation by setting up a new machinery with the help of bank credit of this type. In certain cases it has been found that banks have given insécured loans to business concerns whose authorities are on friendly terms with the directors of banks.

The extent of short term accommodation granted by banks in our country in recent years would become clear from the following figures. During 1946-51, for the 448 public limited companies, addition to paid-up capital and increase in borrowings were the two most important sources of capital formation, and bank credit accounted for more than half of this total borrowings, supplying Rs. 48 crores out of total borrowing of Rs. 95 crores. In the case of private limited concerns also, bank credit provided half of the total borrowing. It is not possible to estimate the amount of credit extended to smaller sized concerns as in the above figures for private limited companies, only medium sized concerns have been included.

Usually bank follows a cautious lending policy and does not render credit facilities to small concerns. "The bigger joint stock banks are unwilling to undertake the financing of small industries because of inadequacy of securities that the small industries can offer, lack of

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14 In the sample of 500 private limited both manufacturing and non-manufacturing companies, all the concerns with paid-up capital above Rs.5 lakhs were included. Manufacturing companies with paid-up capital of less than Rs. 1 lakh were excluded and of those with paid-up capital of Rs. 1 lakh to Rs.5 lakhs, one-third were selected on a random sampling basis. Report of the Taxation Enquiry Commission, op. cit.
standardisation of products, difficulties of marketing such products and unsatisfactory managerial ability". In America, supply of short and intermediate term credit to small business is the principal lending policy of the smaller banks. At the time of the 1946 Loan Survey, advances to small business accounted for three-fourths of the number, though for only one-fifths of the amount of all business loans by member banks. At smaller member banks, 92 p.c. of the number and 83 p.c. of the amount of all outstanding business loans represented advances to small business. But in our country even the smaller sized concerns of medium industry group find the terms and conditions too stringent to the extent of accommodation offered by commercial banks. This is more so after the failure of several small banks which had invested substantial amounts in small industries in certain areas, as for instance, in West Bengal. After the widespread bank failure in 1946, commercial banks practically stopped lending to smaller sized units and advance credit only to those industrial concerns which can offer securities adequate from the bank's point of view. In course of our survey, many of the small and medium/concerns complained about the present non-availability of credit from banks, which they used to receive before on easy terms. None of the 28 small sized concerns is reported to have received financial facilities from banks. Out of 63 small industries of Calcutta surveyed by State Statistical Department, only 8 industries, namely starch, vegetable oil, chemicals, general engineering, saw mills, woodyard, printing and hosiery were found to have liabilities from banks. Average

15 Report of the Committee on Finance for the Private Sector; June 1954, Published by the Reserve Bank of India, page 81.
16 Schimit - Member banks loans to small business - Federal Reserve Bulletin, August 1947.
liabilities from banks was the highest (Rs. 71416) in the starch industry and in other industries, liability varied from Rs. 27 to Rs. 1473. It is to be noted that only mechanised small concerns in these eight industries received bank credit. The small engineering industries of Howrah received but very little assistance from banks. Of the total amount of credit required per annum, 50.7% were supplied by money lenders; 30.4% by 'others' (i.e. by friends, relatives etc.) and only 18.9% by banks. This is obviously due to the fact that commercial banks do not consider many of these small engineering firms as credit worthy.

The terms of advances also vary between different types of banks. The same bank used to charge different rates to different types of concerns. Smaller commercial banks have made advances at varying rates of interest, ranging from 6 p.c. to 9 p.c. per annum according to the period of repayment, types of security furnished and the types of goods against which the advances have been sought. Generally bank assisted medium sized concerns against (i) hypothecation of entire stocks in trade, plants, machineries and all other movable assets of the company both present and future, (ii) mortgage of company's land and landed property. In addition, joint and several personal guarantees by the directors of the company were usually required by banks. In the case of manufactured goods, the margin maintained was generally 50 p.c. while a much higher margin (as high as 50 p.c.) was maintained in the case of semi-manufactured goods. The rate of interest charged was 6 p.c. per annum with further 1/8 p.c. charges as commission. It has also been found that banks in many cases posted a representative at the factory, the expense of which was also borne by the borrowing concerns.
State aid

On the recommendation of the Industrial Commission (1910-1918) steps to render mainly financial assistances to cottage and small scale industries had been taken in many provinces in India. The first to take action in this direction was Madras which in 1922 passed the State Aid to Industries Act. State Aid to Industries Act at present obtains in almost all the states in India. Before the formation of the Andhra state, in Hyderabad, financial aid to industries was administered through Industrial Trust fund which was a state owned institution while in the former state of Saurashtra, financial aid to small and cottage industries was given by the small industries and Handicraft Board.

In its original form, State Aid to Industries Acts or Rules provided for assistances to new or nascent industries, industries to be newly established in an area and cottage industries including those which need revival or development. The assistances to be given by the State Government may take the form of loan, guarantee of loans raised from banks, grant of raw materials and land at favourable rates, supply of machinery, guarantee of minimum return on shares and debentures etc. The period of loan generally varied between 10 to 20 years. Every loan was required to be secured by the mortgage of the fixed assets of the industry. The maximum amount to be granted to any concern and the margin to be insisted upon also varied in different states.

In Assam, Madras and Travancore-Cochin (now Kerala), loan could be granted upto 50 p.c. of the value of the net assets. In West Bengal also, the loan to be sanctioned would not exceed ordinarily 50 p.c. of the net value of the assets of the industry, though loans upto 75 p.c. of the net value of the assets of the industry could be granted where collateral security of homestead or agricultural land or other tangible assets of the
owner of the industry furnished, subject to the condition that the maximum amount of such loan would not exceed seven thousand rupees in any case. Loan was granted upto 70 p.c. of the net value of the assets in Bihar, while in Bombay, loan could be sanctioned upto 75 p.c. of the security offered in the forms of land and building, fishing boats, nets, machinery plant etc. including those purchased with money given by Government by way of loan.

Loans to small and cottage industries in the former state of Sourashtra was given by the Sourashtra Small Scale and Handicrafts Board set up in the year 1953. Besides the granting of loans to small and handi-craft industries, the board also granted subsidies for starting new industries on a pilot plant basis, and included in its scheme the setting up of industrial estates, establishment of training cum production centres for various industries, establishment of emporia for the sale of the products of the small scale and cottage industries, exhibitions, setting up of Urban Co-operative Banks etc. The Board was empowered to grant loans upto Rs. 20,000 on its own authority and was authorised to recommend to the State Government cases for grant or loans exceeding Rs. 20,000 but not exceeding Rs. 1 lakh. In view of the inability of the artisans to furnish surety or security the Board was empowered to grant loans on liberal terms. It advanced loans upto Rs. 2,000 to artisans without survey or security, if the loanee produced certificates from two responsible persons testifying to his credit worthiness and his ability to run the industry. Besides the loans, the board also sponsored schemes of small scale industries, whenever Any entrepreneur, who is prepared to invest upto Rs. 25,000 of his own, was aided by way of loans upto Rs. 75,000 repayable over 10 years. Such loans equivalent to three times the invested capital of the entrepreneur were given
against hypothecation of all the fixed assets as well as an additional guarantor so that the higher amount of advance was adequately secured.  

Although financial assistance to small and cottage industries by State Governments had been tried for a long time in India, it did not turn out to be successful except in few States like Hyderabad, Madras and Travancore-Cochin. The Saurastra Government’s attempt was also attained with significant amount of success. Total amount sanctioned by the Board from 1953 to 1955 was ₹1,695,750 to 1,301 concerns. The quantum of assistance made available to industries by the State Governments during the quinquennium 1945-50 has been relatively small, the amount of loan outstanding on the 31st March 1950 being ₹3.62 crores for six parts of A and two parts of B States. The sum total of loans and share-capital contribution by all these State Governments taken together amounted to ₹5.50 crores in 1951. More than half of this measure total was accounted for by only two States viz., Hyderabad and Travancore-Cochin, while total loans and short term contributions granted in West Bengal did not exceed even ₹10 lakhs. The result of the working for subsequent years in the States from which informations are available is not at all satisfactory.

17 Development of Small Scale Industries and Handicrafts in Saurashtra; December 1955; Published by the Govt. of Saurashtra.
18 Report of the Committee on Finance for Private Sector.
Table 3

Financial assistance under State Aid to Industries Act

<table>
<thead>
<tr>
<th>State</th>
<th>Year</th>
<th>Total Amount Sanctioned by Way of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rs.</td>
</tr>
<tr>
<td>Madras</td>
<td>1951-52</td>
<td>10,74,000</td>
</tr>
<tr>
<td>Bihar</td>
<td>1953-54</td>
<td>2,32,390</td>
</tr>
<tr>
<td></td>
<td>1954-55</td>
<td>1,611,399</td>
</tr>
<tr>
<td>Orissa</td>
<td>1945-52</td>
<td>93,085,000</td>
</tr>
</tbody>
</table>

Although budgetary provisions have been increased in many of the states, the whole amount had not been utilised by way of loans. During the years 1949-54 total amount of loan granted in West Bengal under State Aid to Industries Act fall short of total budgetary allotment, both under loans budget and under Boards Fund.

Table 4

Amount allotted and disbursed in West Bengal - 1949-54

<table>
<thead>
<tr>
<th>Total Budget Allotment in West Bengal during 1949 to 1954</th>
<th>Total Amount Disbursed during 1949 to 1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans Budget</td>
<td>Rs. 24,02,000</td>
</tr>
<tr>
<td>Boards Fund</td>
<td>Rs. 87,660</td>
</tr>
</tbody>
</table>

This was inspite of the fact that the number of industrial concerns seeking the assistance of the Board increased enormously after Independence, and small and medium sized industries with capital assets exceeding Rs. 1,00,000 have been helped with loans which have exceeded Rs. 50,000 for a single unit and the total amount of loans sanctioned
amounted to about Rs.2 lakhs and a half (on average) a year during this period. This is in sharp contrast to the period before independence when only small cottage industries used to be given financial assistance with loans generally below Rs.5,000 and the total amount sanctioned barely exceeded Rs.30,000 a year.

The failure of the state aid to industries was due to the fact that the procedure for granting such aid and the conditions attached therewith were not consistent with the ability of the type of concerns eligible for assistance. It was the experience of the various Boards that it was not possible to render any substantial help to the industries under the State Aid to Industries Act because of its rigid provisions. It was inadequate and restrictive in respect of the financial requirements of small and medium industries. The exclusion of established industries from the list of industries eligible for assistance in many of the States render the Act unduly narrow and restrictive in scope, as a large section of the industrial concerns were excluded from the benefit of such aid.

The limited financial accommodation which was extended to different

20 Annual Reports of the Board of Industries, West Bengal.

21 The report of the Industrial Finance Sub-committee of Bengal Industrial Survey Committee (1949) stated that "the scope of giving desired benefit under the Act has been seriously restricted by the rules framed under Sec. 19. The act clearly lays down that its scope will be confined, except in the case of those run on a cottage basis, to new industries, which as a rule is unable to satisfy the stringent conditions so as to deserve the contemplated assistance under the Act. The Rules framed laying down the tests to be satisfied by deserving applications, are indeed in the nature of self imposed check on the operation of the act. It has failed to give any benefit to existing small industries which may have been dragging a precarious existence on account of their existing financial difficulties. We consider that the policy of granting loans to these industries should be guided by the prospect of their eventual success than by the amount and worth of securities offered against the loans." Pages 93-94.
industries in the past explains clearly that even these types of industries which were eligible for consideration were in most cases unable to conform to the requirements of the Act, specially with regard to the type of securities to be furnished. From the Reports of the workings of State aid it is found that lack of adequate assets held by the applicants was the main cause for rejection of application. Moreover long delays took place in the disposal of applications for loans due to the complicated and lengthy procedure which was to be followed before a loan was actually paid, which in many cases compel the applicants to refuse the assistance. The provision for advertisement in the newspaper inviting objection for loans exceeding specified amount, was also an important reason for preventing the borrowers in availing themselves of this type of financial assistance. They feel that this publicity of their debt to Government is likely to be construed by the public as a sign of financial weakness which may undermine their credit "Not unoften such advertisement invites frivolous objection arising out of personal grudge which complicates the matter and causes delay."

The Central Government on the recommendation of Small Scale Industries Board set up in 1954 has asked the States to liberalise the rules governing the aid to industries on the following lines:

1) Loans would be advanced upto 75 p.c. of the value of the security offered. Such security would include land, buildings, plants and machinery and other assets created out of the loan.

2) Loans would be given both for capital expenditure as well as for working capital.

3) Rate of interest should be 3 p.c. for small entrepreneurs and 2 p.c. for industrial co-operatives up to ₹50,000 to any single party.

4) Loan to any single party shall not exceed ₹1,00,000 except with Central Government concurrence.

5) Loans up to ₹5,000 to small units be advanced on security of one or more personal sureties while loans up to ₹1,000 be advanced to bonafide small industrialists on a personal bond.

In order to quicken the procedure for granting of loans, it has been suggested that the powers should be delegated in a much larger measure to the officers of the industries department. District Industrial officers and others of equivalent status should be delegated powers to sanction loan up to an amount of ₹2,000 to small units in their own districts. A special investigation staff consisting of special and engineering officers, cost accountant and a legal adviser, if necessary, should be appointed in each state. The Central Government would meet 50 p.c. of the cost. The Central Government has also agreed to place at the disposal of the State Governments larger funds recoverable in ten years to supplement the state funds for this purpose and has also agreed to share losses on loans granted to approved industries according to liberalised conditions mentioned above. Such losses should be shared pro-rata according to the contribution made by the Centre. Where however the Centre contributes more than 75 p.c. of the total amount advanced, the losses would be shared on a 50:50 basis. The rigid provision regarding the type of industries to be assisted under the State Aid to Industries Acts and Rules should also be modified and loans would be given to those industries which the State Governments wish to promote. The assistance would not however be extended to the Handloom
and Khadi industries and to such village industries which are already receiving assistance from the All India Village and Khadi Industries Board or the All India Handicrafts Board.

It is gratifying to note that all the states have accepted more or less the liberalised terms. The actual disbursements so far are very poor. The Central Government contributed nearly two crores from their own funds and the State Governments have contributed Rs.93 lakhs during 1955-56. Out of the total of this Rs.2.93 crores, actual disbursements were only Rs.66.83 lakhs upto February 1956, that is a percentage of 30 p.c. only. The total amount disbursed during the period April 1957 to March 1958, however, has been much higher compared to the amount disbursed during 1955- to 1956. The amount disbursed by the States and the Union territories except Manipur, Pondicherry and Andaman and Nicobar Islands during this period was Rs.2.57 crores. It is clear that even under the liberalised terms, the State Governments have not, so far been able to render any significant help to the small industries. Long delays still take place in the sanctioning and in the disbursement of loans due to the complicated procedure of granting loans and the lack of adequate staffs in scrutinising the applications for loans. One of the main causes of delay is the procedure for valuation of property by the concerned authorities. The practice, although varying from State to State is more or less similar in most of the States in that the value of land and buildings is to be valued by the Revenue authorities and P.W.D. respectively and that of machinery by the Industries Department. This verification, we think, should be entirely

23 Reports of Progress of State Government schemes submitted to the Small Scale Industries Board by the Joint Development Commissioners, May 1958.
done by the Department of Industries through their staff, in order to
avoid the delay involved in valuation of securities offered by the
applicants. If necessary, the State Government should strengthen their
Directorate of Industries for this purpose.

The nature and extent to which power has been delegated to
various authorities to sanction loans to small scale industrial units in
the various states also varies from state to state. While in one state,
no loan can at all be sanctioned by the Director of Industries, without
the recommendation of the Statutory Loan Advisory Board, in a few other
States the Director of Industries and his officers have been delegated
authority to sanction loans upto Rs.20,000 or Rs.25,000 under their own
powers and without the obligation of obtaining the recommendation of the
Statutory Advisory Body. There is no uniformity in the degree of delegation
of power. Although conditions are bound to vary from state to state, it is
highly desirable that Central Government should recommend a common pattern
of delegation of authority for adoption by the State Governments. Moreover
it has been found that some of the State Governments are still continuing
to charge higher rate of interest, although the Government of India is
urging upon the State Governments to liberalise the terms and conditions of
their loans to small scale units. In fixing the rate of interest, it is
necessary to keep in view the promotional nature of the scheme and the fact
that small scale units cannot bear a high rate of interest. The working
group appointed by the Small Industries Board in January 1958 to study the
rules and procedure obtaining in various states for advancing loans under
State Aid to Industries Act, in their interim report has expressed the view
that the present rates of 3 p.c. and 2½ p.c. should be the upper limits and
that subject to these upper limits, the rate of interest should be fixed so that it is one percent below the Reserve Bank rate for small scale entrepreneurs and $\frac{1}{2}$ p.c. below that rate for industrial co-operatives.

State Financial Corporation

For providing long and medium term credit to small and medium sized industries which fall outside the purview of the Central Finance Corporation, the Parliament, by the State Finance Corporation Act of 1951, empowered State Governments to set up similar Corporations in their respective States. In order to facilitate financial help to small and medium industries, the definition of the industrial concerns has been widened in the Act so as to include not simply public limited, but also private limited, partnership and proprietary concerns. The Industrial and State Financial Corporations Amendment Act passed in September 1956 empowered the Corporation to extend financial assistance also to industries newly set up. The Act authorised the State Financial Corporation to carry on and transact any of the following kinds of business, namely,

(a) the guaranteeing on such terms and conditions as may be agreed upon of loans raised by industrial concerns which are repayable within a period not exceeding twenty years and are floated in the public market;

(b) the underwriting of the issues of stocks, shares, bonds and debentures of industrial concerns;

(c) the retention as part of its assets any stocks, shares, bonds or debentures, which it may have to take up in fulfilment of its underwriting liabilities, provided that it disposes of the stocks, shares
and bonds so acquired as early as practicable and in any case within a period of seven years from the date of such acquisition;

(d) the granting of loans or advances to or subscribing to debentures of industrial concerns, repayable within a period not exceeding twenty years from the date on which they are granted or subscribed to as the case may be.

Accommodation could only be given against tangible assets secured by sufficient pledge, mortgage, hypothecation or assignment. The Corporation have been debarred from accepting deposits except as provided by the act or from subscribing directly to shares or stocks of any company or granting advances on the security of its own shares. The maximum amount to be advanced has been fixed at Rs. 10 lakhs. Under the State Financial Corporations (amendment) Act of 1956, Financial Corporations have been further empowered to grant accommodation against the guarantee of the State Government, a schedule bank or a state co-operative bank.

Under this Act, Financial Corporations have so far been established in eleven states viz., Punjab, Bombay, Kerala, West Bengal, Uttar Pradesh, Bihar, Assam, Madhya Pradesh, Orissa, Rajasthan and in Andhra. In Madras, the financial assistance to small industries has been done by the Madras Industrial Investment Corporation.

Review of operation

It would be premature to draw any conclusion regarding the functions of the State Corporations from the results of their working during this short period of existence. Nevertheless a review of the upto date working cannot but create a feeling of disappointment about the activities
of these Corporations. The Corporations have not so far been able to give any significant help to the small and medium sized concerns of different states.

Annual Reports of the Finance Corporation of all the States (except the Orissa State Financial Corporation) show that though none of them has actually incurred losses, yet none has been able to give the guaranteed dividend to the shareholders without State Government subvention. But this would have been an unimportant point, if the Corporations had actually succeeded in attaining their principal objective, namely, assisting medium and small industries with finance. Viewed in this angle, unfortunately, the activities of the Corporations are none too encouraging.

During the first few years of their working it has not been possible for the State Financial Corporations to utilise the whole of the available funds for purposes of loans and advances to industries. The total amount of loans and advances outstanding at the end of the year 1955-56, constituted only 28.1% of the total paid up capital of the Corporations. The corresponding proportion at the end of the year 1956-57 was 36.59%. The percentages varied from one Corporation to other. The percentages was found to be the highest for the Kerala Financial Corporation (83.9 p.c.). Next to Kerala came Bombay with 75.5 p.c. and then Punjab with 56.8 p.c. The corresponding percentage for West Bengal Financial Corporation was 34.7 p.c. only. The position has now been considerably improved. The working reports for the year 1957-58 show that in many of the States, including Kerala, Punjab and West Bengal, the Financial Corporations had practically run through their resources and are now in immediate need of funds.
There are also considerable gaps between the total amount of
loans asked for and total amount of sanctioned and total amount sanctioned
to total amount finally disbursed. Percentage of loans sanctioned to loans
asked for the Financial Corporations in eight States\textsuperscript{24} was only 34.9 p.c.
at the end of the year 1955-56. The corresponding percentage was 39.5 p.c.
at the end of the year 1956-57. The rejections have been on a variety of
grounds, such as absence of adequate security and scope for further expansion, insufficiency of profit earning capacity to repay the instalments of
principal and interest, unsatisfactory financial position, unfavourable
credit reports, bad management etc. The most important cause for rejection
however has been the unsatisfactory nature of the security offered. Most
of the small and many of the medium sized concerns do not own any land and
building which are considered to be the safest type of security by the
Corporation. Moreover as majority of the applicants are proprietary or
partnership firms, it seemed very difficult to exactly ascertain their
financial position. Not only there is gap between the total amount asked
for and the total amount sanctioned, the amount actually advanced is much
lower than that sanctioned. Upto March 1958, the total amount sanctioned by
all the State Financial Corporations except the Orissa State Financial
Corporation was Rs. 59.69 crores, but the actual disbursement was only
10.61 crores.

\textsuperscript{24} The eight State Financial Corporations were West Bengal, Bombay,
Punjab, Assam, Kerala, the former Hyderabad and Saurashtra Financial
Corporations and the Madras Industrial Investment Corporation Ltd.
Assistances to Small and Medium Sized Industry

Not only the aggregate amount of loan sanctioned is small, but the Corporations have also failed to achieve the main objective—that is to render financial assistance to those small and medium sized industries which are not getting accommodation from the money market, with medium and long term loans. In actual practice, the Corporations so far are able to reach by and large, the type of industrial concerns, which have fixed assets of adequate value to offer as security and which are generally in a position to satisfy the requirements of a financier under a system of mortgage credit in the matter of investigation and marketability of title to the security and which are also able to bear the legal and other charges including the stamp and registration fees payable on the mortgage of property. This limits the field of operation of the Corporations. Thus the Corporations have been able so far "to serve those industrial units which fall within the medium group". The working results of the Corporations point unmistakably to the fact that they are providing accommodation to comparatively large industrial concerns in the medium sized group on a rather disproportionate scale, which is not fully consistent with their fundamental function. Cotton textile, engineering, electric supply, oil crushing, and similar industries as also tea and rubber plantations engaged in factory operations stand out as major recipients of loans.

From the Report of Small Scale Industries Board, it has been found that upto 30th September 1954, the Corporations had sanctioned 571 loan applications in all for Rs.14.04 crores of which an amount of Rs.9.09 crores have

been disbursed. These include 284 applications received from small scale 
industries (small scale industrial units have been defined as those with 
capital assets of less than Rs. 5 lakhs and employing less than 50 workers 
if working with power or less than 100 workers if working without power), 
the amounts sanctioned and disbursed to them being Rs. 2.40 crores and 
Rs. 1.55 crores (or about 17 p.c. of the total amount disbursed by the 
Corporations to all industries) respectively. A consolidated statement 
showing the loans sanctioned and advanced by the Corporations as on the 
30th September 1957 is given in the following table.

Table 5

Loans sanctioned and advanced by the State Financial 
Corporations as at the 30th September 1957.

<table>
<thead>
<tr>
<th>Name of the Corporation</th>
<th>All Industrial Units</th>
<th>Rs.</th>
<th>% of sanctioned</th>
<th>Small Scale Industrial Units</th>
<th>Rs.</th>
<th>% of sanctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no. of applications</td>
<td>amount sanctioned</td>
<td></td>
<td>no. of applications sanctioned</td>
<td>amount advanced</td>
<td></td>
</tr>
<tr>
<td>(<strong>name</strong>)</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Punjab Financial Corporation</td>
<td>71</td>
<td>1,02,03</td>
<td>68,23</td>
<td>41</td>
<td>31,87</td>
<td>(31.24%)</td>
</tr>
<tr>
<td>Bombay State Financial Corporation</td>
<td>139</td>
<td>2,94,70</td>
<td>1,82,62</td>
<td>56</td>
<td>45,57</td>
<td>(14.78%)</td>
</tr>
<tr>
<td>Kerala Financial Corporation</td>
<td>75</td>
<td>1,15,68</td>
<td>92,89</td>
<td>54</td>
<td>42,32</td>
<td>(56.56%)</td>
</tr>
<tr>
<td>Andhra Pradesh State Fin. Corp.</td>
<td>53</td>
<td>86,01</td>
<td>39,83</td>
<td>42</td>
<td>30,21</td>
<td>(35.12%)</td>
</tr>
<tr>
<td>West Bengal Fin. Corporation</td>
<td>25</td>
<td>1,08,65</td>
<td>55,72</td>
<td>5</td>
<td>8,90</td>
<td>(8.54%)</td>
</tr>
<tr>
<td>Assam Fin. Corp.</td>
<td>25</td>
<td>66,95</td>
<td>57,42</td>
<td>8</td>
<td>4,50</td>
<td>(6.42%)</td>
</tr>
<tr>
<td>Uttar Pradesh Fin. Corp.</td>
<td>46</td>
<td>89,39</td>
<td>39,75</td>
<td>34</td>
<td>26,97</td>
<td>(30.17%)</td>
</tr>
<tr>
<td>Bihar State Fin.Corp. (as at 28-9-1957)</td>
<td>37</td>
<td>83,28</td>
<td>44,36</td>
<td>24</td>
<td>56,70</td>
<td>(44.03%)</td>
</tr>
<tr>
<td>Rajasthan Fin.Corp.</td>
<td>22</td>
<td>57,49</td>
<td>28,92</td>
<td>11</td>
<td>6,52</td>
<td>(11.34%)</td>
</tr>
<tr>
<td>Madhya Pradesh Fin. Corp.</td>
<td>14</td>
<td>66,85</td>
<td>32,00</td>
<td>2</td>
<td>1,00</td>
<td>(10.43%)</td>
</tr>
<tr>
<td>Madras Ind. Inv. Corp. Ltd. (as at 27-9-57)</td>
<td>64</td>
<td>3,55,40</td>
<td>2,69,43</td>
<td>7</td>
<td>7,65</td>
<td>(2.28%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>571</td>
<td>14,04,41</td>
<td>9,09,17</td>
<td>284</td>
<td>2,40,01</td>
<td>(17.09%)</td>
</tr>
</tbody>
</table>
The bulk of assistance to small industries has been provided by the Bombay, Kerala, Punjab, Bihar, Uttar Pradesh and Andhra Pradesh Corporations, which, among themselves, accounted for 251 applications for Rs.2.12 crores, the sum disbursed by them aggregating Rs.1.39 crores. The total amount sanctioned by all State Financial Corporations except the Orissa State Financial Corporation to the small scale industries in the subsequent period upto March 1958 was Rs.2.38 crores, the amount disbursed being Rs.1.50 crores. Not only the total amount/loan given to small industries is negligible, but the amount sanctioned and disbursed to these industries has shown to have declined between December 1957 to March 1958. This is inspite of the fact that the definition of the small scale industries adopted here is much wider compared to that adopted by us, specially from the point of view of total capital invested. From the published reports, it is not possible to gauge exactly the amount of loans received by different sized concerns as defined by us. Informations received from some of the Corporations on this point in reply to personal query also show that so far from the point of view of capital invested, medium sized concerns were the major recipients of loans. In the case of the former Hyderabad Corporation, out of the twenty recipients of loans, eleven concerns were in the medium group, i.e., having capital assets between Rs.1 to 15 lakhs receiving Rs.3561000/-, that is, 92.33 p.c. of the total amount sanctioned upto 31st March 1955. In case of the former Saurashtra Financial Corporation, only one out of eleven recipients of

26 The total amount sanctioned and disbursed by the Corporations upto December 1957 were Rs.2.44 crores and Rs.1.59 crores respectively. The corresponding amounts upto March 1958 being Rs.2.38 crores and Rs.1.54 crores. - Agenda and Notes of the Twelfth Meeting of Small Scale Industries Board, November 1958.
financial accommodation was a small concern, the amount sanctioned to this concern accounts for only 4.8 p.c. of the total amount sanctioned by Saurashtra Corporation upto March 1955. Punjab Financial Corporation, in the course of the four years of working (that is, upto March 1957) have granted loans to sixty three concerns, of which twenty four were smaller sized concerns (that is, with capital assets below Rs. one lakh) receiving 10.3 p.c. of the total loans granted, thirtyfive are medium sized concerns (with capital assets from one to fifteen lakhs of rupees) receiving 76.9 p.c. of the total loans advanced. Smaller sized concerns received only 5 p.c. of the total loans granted by the Assam Financial Corporation upto March, 1956, the rest being advanced to medium sized concerns. The corresponding percentages for Bihar Financial Corporation are 1.09 p.c. and 98.90 p.c. during 1955-56.

From the point of view of the period of loan, it is also interesting to note that although the Corporations have sanctioned both medium and long term loans, small concerns have in most cases received only medium term (that is for the period of 5 to 10 years) loans. Thus out of the twenty recipients of loans from the Hyderabad Financial Corporation, only five have been granted long term loans for a period of ten to fifteen years. This long term loan accounts for 75.86 p.c. of the total financial assistance by the Corporation. The rest of the amount can be treated as medium term loans, as were repayable after five years but within ten years. Saurashtra Financial Corporation granted upto March 1955, long term loan only to a medium sized concern and rest of the loan (that is 64.29 p.c.) was granted for a period of five to ten years to one small and nine medium sized concerns. The loans granted to small sized concerns by Punjab and
Assam Financial Corporations were for a period of 5 to 10 years, while the medium sized concerns have been granted loans on long term basis. The failure to assist small units is due not to any unwillingness on the part of the Corporations but to the defects inherent in the constitution of these Corporations. The institutions have not been constituted in a manner so as to be able to render financial assistance to small units on the terms and in the form consistent with their nature and ability. There were several difficulties, financial and practical, in the way of the small units having no tangible assets to mortgage, to avail themselves of financial assistance from the Corporations. The failure of the smaller sized units to offer sufficient security is also proved by the fact that the proportion of rejection to total number applied was the heaviest in the case of proprietary and partnership concerns, who so far formed the majority of the total applicants during the first two years of the working of the Corporations.

Table 6
Classification of concerns applied for and sanctioned loans by S.F.C. on the basis of organisation - for the years 1954 to 56

<table>
<thead>
<tr>
<th>name of corporation</th>
<th>public limited companies</th>
<th>private limited companies</th>
<th>partnership companies</th>
<th>proprietary/joint Hindu family etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>application</td>
<td>application</td>
<td>sanction</td>
<td>application</td>
</tr>
<tr>
<td></td>
<td>received</td>
<td>sanction</td>
<td>received</td>
<td>sanction</td>
</tr>
<tr>
<td>(0)</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>Bombay S.F.C.</td>
<td>54</td>
<td>17</td>
<td>40</td>
<td>18</td>
</tr>
<tr>
<td>Hyderabad S.F.C.</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>(1955-56)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Punjab S.F.C. (54-55)</td>
<td>7</td>
<td>3</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Assam S.F.C. (55-56)</td>
<td>12</td>
<td>7</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>
Although the State Corporations have been established mainly to render financial assistance for acquiring fixed assets, in course of their functioning, it is found that majority of the applications, specially from the smaller concerns are for working capital funds. In fact, today the shortage of working capital is as acute (if not more) as that for medium and long term credit and capital. Medium and long term credit for expansion and modernisation would be of no use to them unless they are at the same time provided with funds for working capital purpose, for which they have not a single source to turn to. West Bengal Financial Corporation in course of its first thirteen months of working, received applications for working capital which far exceeds that for block assets. In Saurashtra "the general trend of the applications received reveal that most of them are for working capital requirements". The inclusion of the supply of funds for working capital purposes in their list of operations by subsequently modifying their lending scope, the Corporations have recognised this characteristic of financial requirements of small and medium, and specially of the former group of industry. The West Bengal Financial Corporation has decided to give loan for working capital also in deserving cases. In response to requests, specially from small scale industrialists for loans for working capital, the Board of Governors of the Bombay State Financial Corporation has decided to grant loans for working capital. Generally, if the loan is primarily required for block capital, the element of working capital, would, in special circumstances be provided upto 20 p.c. of the total amount applied for. The loans primarily required

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for working capital would be given to (a) industrial concerns which are of high priority from the point of view of industrial development in the state, (b) an industrial concern which is organised on sound lines and has a promising future, but is working below capacity owing to lack of working capital or (c) a new unit which is unable to get accommodation from commercial banks and requires assistance for a transitional period.

The security against which loans to be advanced would always include the net value of the fixed assets and may also include stocks if necessary.

Loans and advances are not given in the nature of cash credit arrangements. In order to enable large number of concerns to avail themselves of this facility, the Board has decided that a loan primarily for working capital to be granted to a single industrial concern should not exceed Rs.1,50,000.  

The Hyderabad Financial Corporation also advanced funds for working capital in appropriate cases, but only against the security of tangible assets.  

The Assam Financial Corporation has also relaxed its lending policy and accommodate a few concerns in deserving cases for working expenses upto 25 p.c. of the block loans.

Concluding observation

The financial requirements of the concerns generally cover the following types viz., (1) short term credit, (2) medium credit and (3) long term credit for equity capital.

While the technical distinction between long, medium and short term credit is based upon the terms of maturity of the loans, the true
economic distinction is based on the nature of the business transactions being financed. Short term credit is generally required for financing the working capital; medium term for improvements of plant and machinery and equity capital; and long term loan for original investment and permanent addition to fixed assets. In practice however, there is no sharp divergence in the uses to which different classes of credit is put by business concerns. It depends more on the availability of credit and capital to different sized concerns, than the type of investment undertaken by the borrowing concerns. Loans that are technically of short term may be used to finance fixed assets on long sustained operations and medium and long term loans may be used in part to finance temporary transactions.

The shortage of equity capital and long term credit to small industries is not a new feature of Indian industries, but common to small industries of all countries. Even in America, "where development during the last twenty-five years has been in the direction of making short and intermediate term credit more readily available to smaller business", there are still difficulties so far as the long term borrowed capital is concerned. "With regard to equity capital also the trend is towards diminishing the flows of such capital from external sources during the past 25 years". In earlier period, investment by individuals from their savings constituted one of the principal sources of external equity capital for small industries. The volume of individual equity investment in business concerns has, of late, shrunk very much due to various reasons, such as: a growing preference for security and liquidity of investment, 

30 Monetary policy and Management of Public Debt, pp.607-608. Relevant portions of this book has been sent to the writer from the office of the Federal Reserve System, USA, on personal request.

31 Ibid, page 608.
an increasing tendency of individuals to channel their savings into life
insurance companies, banks and in government securities; and the decrease
in the volume of saving itself due to high taxation on the one hand and
the rise in the general price level on the other. Thus a bill was intro­
duced in 1950 in the Congress for the establishment of National Investment
Companies to finance small and intermediate sized business concerns with
long term debt and equity capital. 32

From the point of view of meeting the long term financial needs
particularly of the small concerns, in our country, the activities of the
State Finance Corporation and the State Aid to industries so far are
records of hopeless failure. The causes for the meagre amount of financial
assistance rendered have been already explained. What is to be appreciated
is that, although the financial requirements can be met with long term and
medium term credit, the small and medium industry, specially the former one,
is not in a position financially to avail itself of the facility rendered
in the form of long term mortgaged loan at a rate of interest higher than
what it can afford. In order to appraise the financial problems of the
smaller sized concerns, the first point to be realised is that small
industry is by nature under capitalised. Financial problems, both with
regard to credit and capital, centre round the fact that small sized
concerns have initially very small capital base to begin with which prevents
them from taking advantage of the credit facilities provided through the
normal channels. The experience of other countries, which have tried to
provide small industry with credit is also similar. The Government of Egypt
placed at the disposal of Bank of Mirs £ E200,000 in 1922 for the express

purpose of granting loans to the small and the medium sized industrial
congerns. Although the amount lent by the bank under this scheme rose
from £ E145000 in 1923 to £ E1137,000 in 1938 "the basic objective was not
attained. The majority of the applicants did not possess the necessary
qualifications particularly in the matter of collateral and most of the
advances were made to large concerns especially in the textile industry
which could have raised capital in other ways". Another attempt to
meet the main problem of supplying credit to the small industry was made
after the second world war. The Government established the Bank of Egypt
which was empowered to participate in the capitalisation of industrial
enterprises as well as to grant short term advances with securities or
inventories as collateral and medium term loans (upto 10 years) with
fixed property mortgages as collateral. "During the first three years of
existence (1949 to 1952) the bank found that the major obstacles to
successful lending lay for the most part in the status and qualifications
of the applicants. On the one hand, many, indeed, most of the proposed
projects were either inadequately prepared or submitted prematurely while
on the other hand, there were many difficulties in appraising and esta-
blishing the credit worthiness of applicants."
The characteristic lack
of fixed assets is near to the heart of the credit problems of small
business since "lenders often base credits upon bricks and Motor Security
rather than on dynamic size". So any form of assistance in order to be
of real benefit to the smaller sized concerns should be in the nature of

33 U.N.O. "Processes and Problems of Industrialisation in underdeveloped
34 Ibid, page 57.
permanent venture capital. Unfortunately the State Finance Corporations have been debarred from subscribing to the share capital of the borrowing concerns which practically rendered these institutions unapproachable to smaller sized concerns. To be of any practical help, the lending power of the corporation should be widened enough like the Industrial Credit and Finance Corporation of England, whose lending method has not been prescribed before hand, and extends its financial assistance in the form suitable to the borrowing concern. A system of giving unsecured loan on long term basis has also been introduced in Indonesia for the assistance of small scale and cottage industries. Under their urgency programme of 1951-53, a 5 year plan for promoting cottage and small scale industries, the Indonesian Government alloted a certain amount to be lent out to small industries for (a) purchasing small machineries, equipment and tools, (b) erecting buildings for production purposes and (c) providing revolving capital for the small units which will be modernised. 56

For meeting the financial requirements of small industries in India, the Shroff Committee has suggested for the establishment of a special development corporation which would not be owned either partly or wholly by the Government, but should be provided with an interest free loan of 5,10 crores for 15 years. The corporation would undertake the following type of business, namely (1) investment in equity capital of industrial concerns (2) purchase of preference shares and debentures (3) granting of long term loans (4) granting of loans given to small

56 ECAF report of the study group of Small Scale Industry experts on their visit to Japan - E/2/71/137/108, February 1958.
industries by commercial banks (5) underwriting of issues (5) joint lending with other suitable agencies or with Government for purposes of industrial development in the industrial sector. We think that instead of setting up yet another corporation, the functions of the corporation outlined can be achieved by enlarging and modifying the functions of the State Finance Corporation. If the State Finance Corporations are allowed to subscribe not only to the preference shares but also to the ordinary shares and are given the option to convert their loans into preference shares, then, there would practically be no difference between the State Finance Corporation and the Development Corporation.

The long and medium term credits needs of the small and medium size industries are expected to be met by State Financial Corporations. The State Governments under the recent liberalised scheme are also supplying the long term and short term credit to small industry. The new rules provide for advancing of loans for both fixed and working capital upto 75 p.c. of value of the assets acquired out of the loan for a period of ten years which means that if the party can find out 25 p.c. of the total fund required, the Central and State Governments would jointly provide the remaining capital. The Central Government also agreed to bear any losses on a pro-rata basis. So the State Financial Corporation and the recent liberalised scheme are practically working and competing in the same field. This has been proved by the recent reports of the working of the State Financial Corporations. The flow of applications to the State Finance Corporation has been definitely slowed down mostly, due to the accommodation rendered by the Industries Department in different states on a much alluring terms. In order to avoid overlapping of functions, these corporations have

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37 Report of the Committee on Finance for the Private Sector, op. cit.
laid down minimum amounts below which they do not grant loans according to local conditions. The limits vary from Rs.5000/- to Rs.7500/- in different states. All these have considerably restricted their already restricted scope of activity and the Corporations cannot escape the criticism that they are providing medium and long term accommodation to comparatively larger industrial concerns. In order to increase the serviceability of the corporations and to bring about a proper co-ordination between different financial agencies, the Financial Corporations in a recent amendment have been authorised to act as Agents of Central and State Governments, provided the former would agree to modify their rules to advance funds to small scale units according to the liberalised basis. The State, the Central and State Governments in such cases would stand guarantee to the repayment of the principal and interest on such loans that may turn out to be bad debts and would bear the risk in a 2:1 ratio. State Financial Corporations in Uttar Pradesh and Andhra Pradesh had been appointed as Agents of the State Governments for routing loans above certain limits to small industrial units. In Bombay the State Government had recently entrusted the Bombay Financial Corporation with 'Agency' business in regard to Government loans to small scale industries.

All these are moves in the right direction. But when the Government has agreed to take so much risk, the question arises: why not a portion of the funds be advanced in the form of risk capital to the smaller sized concerns through the State Financial Corporations? The system of capital financing always has the merit over loan financing in the fact that the former method does not make the small concerns saddled with interest charges and frees the whole assets for securing credit through normal channels. It must be frankly recognised that the task of providing long term
financial needs of business concerns is always attended with considerable risks. In such circumstances if the Corporations are inclined to frame their policies, as observed by Dr Basu, "which will be conducive to hundred per cent safety, their utility will be considerably reduced, in that they would be able to extend their facilities to a limited circle of customers who, again, may not be in need of such assistance, being able to obtain all their requirements from the ordinary channels of banking and short term markets". 38

The problem of working capital presents no less difficulty among the small and medium sized units. In fact at present this problem is found to be more pressing compared with that of other types of capital. In U.S.A. the credit needs of small local enterprises are best met by the smaller banks in the particular localities. But as has been stated earlier, the very nature of the small concerns itself presents difficulty in the flow of working capital. It is doubtful how far the banks in our country can be able to solve the problem unless the small industries have improved their organisation and accounting system.

In order to facilitate the bank lending to small and medium sized industries, the Committee on Finance for the Private Sector has recommended the lowering of the registration fee of the hypothecation bonds with the Registrar of Assurance in the case of proprietary and partnership concerns on the lines with the Joint Stock Companies. One of the reasons for bank being reluctant to accept hypothecation is that there is no practice of registering hypothecation in the case of proprietary and partnership

concerns and in the absence of such practice, there is the risk of losing the security as there is no notice to the other creditors. Due to long intervals between the date of supply of the goods and the date of the payments of the bills, large amounts of working funds of industrial concerns are used to be blocked. The difficulties with regard to working capital funds can to some extent be avoided, if a system could be evolved by which the goods already supplied could be indirectly used as a means of security for short term advance by the banks.

We feel that, banks in our country can only be induced to render adequate help to the small and also to medium industries if a system of insurance of credit by banks is introduced here. In Japan greater part of the loans to smaller enterprises is provided through the city banks. The Government not only has taken steps to provide funds through the City Banks but has also tried to improve the credit standing of the borrowers by the introduction of such measures as credit insurance systems and credit guaranteeing association. Under the credit insurance system, loans granted to individuals and utilities embraced by the Smaller Enterprise Credit Insurance Law in 1950, are insured by the Government upto 80 p.c. of the value of the loan. The government also undertakes to issue, upto 60 p.c. of the value of the loans guaranteed by Credit Guaranteeing Association whose main object is to

39 In order to provide adequate loans to smaller enterprises special banking shops were established in 1950. There are also special banking institutions to extend loans to smaller enterprises such as (i) the Central Bank for Commercial and Industrial Co-operatives, (ii) The National Finance Corporation (iii) The Credit Corporation and Credit Co-operatives and (iv) The Mutual Banks and Mutual Loan Companies.
facilitate the granting of loans by banking institutions to smaller enterprises. To this end it examines the credit standing of smaller enterprises and undertakes to guarantee the payment of loans made to such enterprises. The Small Industries Board in India in their first meeting requested the State Governments to introduce a system of guarantee of repayment of not more than 75 p.c. of the funds advanced by commercial and co-operative banks to Small Scales Units and Industrial Co-operatives. The Central Government has agreed to underwrite 50 p.c. of the losses if such guarantee is provided by the state governments.

Under clause (b 6) of Section 17 (2) of the Reserve Bank of India Act, the bank is authorised to provide finance to the cottage and small scale industries provided the following conditions are fulfilled -

(a) the bills bear two or more good signatures one of which shall be that of a state co-operative bank or a State Financial Corporation;

(b) the bills are drawn for the purpose of financing the production or marketing activities of cottage and small scale industries approved by the Reserve Bank and

(c) the payment of the principal and interest on the bills is fully guaranteed by the State Government. Advantages of this clause has not been taken by small scale units till now. But in view of the shortage of funds for working capital purposes for the small scale units, the Reserve Bank has been asked by the Ministry of Commerce and Industries to keep their facilities open to all small scale units employing less than 50 persons if working with power or less than 100 persons if working without it. The State Governments have also been advised to provide the necessary guarantee and they have been assured that in such cases 50 p.c. of the losses would also be borne by the Central Government.
There is also the proposal to utilise the urban co-operative banks for channelling loans to small scale units and for this purposes 400 urban cooperative banks will be brought under the scheme over a period of three years. The minimum share capital of the urban banks existing or proposed which are to be covered by this scheme, would be Rs.20,000, 50 p.c. of which would be contributed by the State. Ordinarily loans to be made by cooperative urban banks should not exceed Rs.10,000 per individual, of which upto Rs.5,000 can be lent on the security of two or more sureties and for larger advances mortgage securities will be insisted upon. In regard to standard connected with mortgage security, the principle to be followed should be similar to those under the Government of India scheme for liberalised credit facilities for small scale industries. Like the scheme of liberal finance for small scale industries of the Central Government, the losses incurred by urban banks should also be guaranteed by Government. The guarantee should be in respect of the principal only, 50 p.c. of it being borne by the Central Government and 50 p.c. by the State Government. Loans granted by the cooperative banks would cover both long term and short term credits. Loans from Government funds may be made for periods extending upto 10 years, those from the resources of the cooperative urban banks would be advanced only upto 24 months as their resources are generally of a short term character. The limit of Rs.10,000 per individual mentioned earlier would of course include the requirements for both short term and long term credit whenever both types of credit are required.

For coordinating the activities of various institutional agencies viz., cooperative credit societies, commercial banks and State Finance Corporations, with regard to the financing of small scale industries and
thereby to provide a speedy, easier and better credit facilities to the small scale industries, the State Bank of India has started a Pilot Scheme, under which services of the agents of the State Bank branches are placed at the disposal of the institutional agencies in the matter of compiling and furnishing opinion and confidential reports on the work of the prospective borrowers and for assisting such credit agencies in their operational activities in such centres where they are not represented. Pilot Schemes have so far started at 51 centres in the four circles of State Bank namely Bengal, Bombay, Madras and Delhi.

Under the scheme, a borrower is requested to apply to the agents of the State Bank, or of the Cooperative Bank, if he belongs to the Cooperative Sector for all his credit requirements.

As regards the shares of the business to be assigned broadly to the different institutional agencies, particular amount (i.e. Rs.20,000) will be taken up by the Directorate of Industries under the Government's liberalised scheme for financing small scale industries. Applications over this amount will be dealt with by the State Bank or the Cooperative Banks if they are for working capital and by the State Financial Corporation if they are for medium or long term credit. If accommodation is for both short, long or medium term credit, the agencies concerned will act in collaboration with one another. Applications which various agencies will not be able to entertain normally, will be further considered with a view to finding out ways and means by which they could be entertained even with Government guarantee, if necessary. The short term loan advanced by the State Bank of India to small scale industries under their Pilot Scheme was 60.00 lakhs of rupees upto August 1958.
The Pilot Schemes are worked under the supervision and guidance of local coordination committees. A Central Coordination Committee has also been provided for so that the operation of the scheme in the different circles may be coordinated, the results obtained may be reviewed and appropriate action may be taken on the basis of such reviews.

In course of the working out of the Pilot Scheme, it has been found out that most of the small industries require working capital; and if this is made available, the greater part of their problem will be solved. Further, these industries are dependent on market and if they can produce goods against orders, which are readily salable, there would be less difficulty in their obtaining working capital. This is so, particularly as commercial and other banks will be in a better position to assist these industries if they are assured that the goods produced by them are easily marketable as in such a case both the goods produced and the raw materials can be considered as security for purposes of granting advances. The National Small Industries Corporation (Private) Ltd., which has been established for organising Small Units for production of parts for Governments as well as for large scale industrial concerns, assist these small units with loans against execution of definite orders to be placed by the corporation. Under the Scheme a proposal was made by the National Small Industries Corporation that where a unit has secured through their auspices Government or other orders, the State Bank of India should advance the full value of the raw materials to be pledged to the bank, the amount to be given in excess of what the bank will normally advance being guaranteed by the Corporation. The proposal was accepted by the Government and the Scheme has been put into operation recently.
Steps have also been taken by the State Bank of India to liberalise the bank's procedure of lending to small scale units, otherwise, it has been realised, it would not be possible to assist small scale industries in any appreciable extent. Thus it will now be possible for the Bank to extend at their Pilot Centres credit facilities to small scale industries for working capital purposes against raw materials and/or finished or semi-finished goods under pledge to the bank, where raw materials and finished goods in the possession of a unit do not lend themselves to be acceptable for pledge, it is also proposed, in appropriate cases, to offer clean type accommodation backed by the guarantee of another suitable person and if necessary against the security of the machinery in the factory or equitable mortgage of immovable property of the borrower. The above procedure will be followed provided the products of a unit have an assured market. In the cases of units which cannot satisfy the bank's requirements at present but can do so in a short period, provided it carries out a technical or organisational improvement programme, it has been decided to grant adequate credit facilities, subject to the improvement programme being carried out under the supervision of the representatives of the Department of Industries and the Small Industries Service Institutes. The terms and conditions of the loan is however much stricter than liberalised terms of the State Government.

Reference should also be made of a recent decision of the Government of India to set up a Refinance Corporation for providing medium term loan to medium sized units. The Corporation is about to be set up as a private concern, with an initial capital of Rs.12.5 crores of which Reserve Bank would contribute Rs.5 crores, State Bank of India Rs.2.50 crores, Life Insurance Corporation Rs.2.50 crores and 14 other schedule banks supplying
The counterpart of American Aid under P.L. 480 amounting to Rs. 2.6 crores will be placed at the disposal of the Corporation. The function of the Corporation will be to afford facilities to medium sized borrowers in the private sector for periods 3 to 7 years. The loans will be through the schedule banks who can obtain refinance from the Corporation.

Most of the schemes designed to meet the present shortages in working capital to smaller sized units, are yet to be put into operations, and thus are yet to show the result. The schemes which have been already implemented, have worked for such a short period that it is impossible to form any opinion. Looking at the various schemes, one cannot escape the feeling that too many agencies have been set up with the obvious result of lack of coordination in the functions of different agencies. The function of the Refinance Corporation, yet another agency to be set up, would more or less be similar to that of the State Financial Corporation in extending loans to medium sized units. It is clear that the success of the schemes would depend to a large extent upon the ability of the different agencies in coordinating the activities. For the attainment of greater coordination between the functions of different agencies, the State Bank should act at the Pilot Centres to the fullest extent possible as agents for State Financial Corporations in their dealings with small scale industries. The procedure can also be followed in respect of advances granted under the Government's liberalised scheme. We think that steps should be taken for routing Government funds through banking institutions and not departmentally. This would make it possible to cover a large number of parties with the same amount that Government is doing today. It would also enable the small industries to save the interest that they now have to pay for funds that remain unutilised with them for certain periods. The State Bank has 467
branches and 213 sub-offices throughout the country and is serving a large number of towns and areas where groups of small industries have been established than the State Industries Departments. It is highly desirable, therefore, that State Bank should be appointed as Government agents for granting loans to small industries. It is also desirable that the scope of activities of these schemes for extending short term funds should not be restricted to the small industries sector only, but should be extended to cover the medium sized unit also, so as to enable it to receive the loan at liberal rates compared to the rates charged by the existing sources, namely commercial banks and private money-lender.