CHAPTER I

INTRODUCTION
1.1. The Significance of Small Scale Industries in India

Mainly for reasons of their certain positive 'in-built' advantages, the small scale industries have carved out for themselves a distinctive place in the socio-economic framework of different nations even in the highly developed nations like USA, UK and Japan. In USA for instance, the small scale industries sector accounts for 92.5 per cent of business establishments, 45 per cent of workers and 34 per cent of industrial production. Similarly in UK, they account for 29 per cent of employment and 19 per cent of output.¹ These industries also have attained a pre-eminent position in the economic structure of Japan.² In developing nations, however, and more particularly in nations where the menacing problem of poverty and the mounting problem of unemployment have been posing serious threats and the means to fight the battle against these problems are invariably circumscribed by many socio-economic constraints, the small scale industries have gained a special recognition as an appropriate and effective means to handle these problems. Being labour intensive in nature, less prone to heavy investment and more easily adoptable to local needs and requirements, these industries obviously offer better solutions to some of their basic problems than the large scale industrial sector. It has been for instance, worked out that while an investment
of Rs.4000 in fixed assets is needed for creating one unit of employment in the small scale sector, an exhuberant amount of Rs.33,390/- (Annexure I.I) would be needed for the same in the large scale sector. Further, the fixed capital out put ratio works out to be 0.13: 1 in case of small scale industries as against 0.5: 1 in case of large scale industries. In view of these desirable features together with the socio-economic constraints prevailing in the developing nations, the adoption of a strategy of massive industrialisation through heavy and large scale industries as a sound solution to their urgent socio-economic problem does not appear to be the right strategy. As a matter of fact, wherever, attempts have been made to lift their economies through the promotion of exclusively a large scale industrial sector, very bitter results have been obtained and the socio-economic problems far from being solved have been made rather more complicated. This has been endorsed by different authorities in different contexts. For instance, according to Mr. B.M. Bhatia; "The eastern model of development based on industrialisation has proved not only inapplicable but even highly misleading in the case of newly independent countries of Asia, Africa and Latin America, launching upon a programme of rapid economic development after the end of the Second World War." Similarly explaining the main reason for the perpetuation of poverty in the less developed nations, Michael Lipson in his admirable book 'Why the World's Poor Stay Poor' very pertinently observes that "despite huge
amount of money sunk into what the UN calls less developed countries, the lot of the poor who forms the vast majority, has not significantly improved. Development has generally meant construction of industrial showpieces, increased urbanisation forming islands of prosperity and growth of a privileged class. But the lives of millions outside this magic circle have remained unchanged. The experiment with heavy industries as a means for correcting imbalances in the Indian economy and ameliorating the economic hardships of the masses of the country have also yielded no better result. In the words of an eminent member of the Planning Commission, "If proof is needed for the proposition that development of large scale industrial sector is by itself no solution to the unemployment and poverty, then India is the proof; India has had remarkable success in the field of industrialisation, import substitution and even export promotion and yet its modern sector just sits there and the rest of the country remains by and large unaffected."

The decisive role assigned to this sector in the overall scheme of economic development in our country is adequately vouchsafed from the fact that not merely increasing amount of funds have been provided for their growth and development under the successive Five Year Plans (Annexure I.II) but also their importance and role have been clearly and categorically emphasised by the Government in their different Industrial Policy statements. However, for a better understanding of the role, the Government have played for the promotion of a sound and viable small scale industries sector,
it is proposed to make a brief reference to the following discussions on the policy measures and plan efforts of the Government in the matter of promotion of small scale industries in the country.

1.2. Industrial Policies and Plans

Definite policies regarding small scale industries could be traced back to the Industrial Policy Resolution of the Government of India, dated 6th April 1948. The Resolution interalia stated: "Cottage and small scale industries have a very important role in the national economy, offering as they do, scope for individual, village or co-operative enterprises and means for rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of consumer goods". This Policy was kept operative till the end of the First Five Year Plan. The First Plan was a transitional plan meant to rehabilitate the Indian economy which was hit hard by the war and partition. The plan aimed at the creation of a sound base for the key and parent industries in the large scale sector. However, a major step taken for the development of village and small industries was the establishment of All-India Boards to advise and assist the Government in the formulation of programmes of development of small scale industries, including sericulture and coir. It was during this time that the First International
Team sponsored by the Ford Foundation visited the country to suggest measures for the promotion and development of small scale industries in India. During this time also the first official definition of small scale industries was coined.

Immediately after the completion of the First Five Year Plan, the second Industrial Policy Resolution of the Government of India was announced in the year 1956. This Resolution categorically laid emphasis on the importance of small scale industries in the country's economic development programme. The Resolution interalia stated; "They provide immediate large scale employment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised.... The State has been following a policy of supporting cottage as well as village and small scale industries by restricting the volume of production in the large sector by differential taxation, or by direct subsidies. While such measures will continue to be taken whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self supporting, for its development is integrated with that of the large scale industry. The state will therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this purpose, it is essential that the techniques of production should be constantly improved and modernised and the pace of
transformation should be so regulated as to avoid, as far as possible, technological unemployment". It may be mentioned here that the Resolution also recognised the importance of the development of small scale industries in the backward areas. It reiterated very clearly that facilities like cheap power, water supply, transport facilities etc. will be provided in those regions where they are not available at present, so that the unbalanced growth in the various regions may be corrected and the country as a whole may achieve a better standard of living. This Policy Resolution continued to provide the basic framework for the industrial growth till the end of the Annual Plan period in 1969.

Various programmes were devised and commissioned for rendering assistance to the small scale sector during the Second Five Year Plan so as to accelerate the role of the small scale industries particularly in meeting the increased demand for variety of consumer goods and in reducing unemployment problem. The total outlay for the small scale sector in the Second Plan was to the tune of Rs.187 crores as against Rs.42 crores in the First Plan (Annexure I.II).

Still greater emphasis on small scale sector was accorded during the Third Plan period, for, it was during this time that the role of cottage and small scale industries was conceived as one of the important streams for providing larger employment opportunities, and of increasing the supply of consumer goods and some producer's goods. The Plan outlay for the small and village industries sector increased to
Rs.241 crores from Rs.187 crores in the Second Five Year Plan.

The 1970 Industrial Policy Resolution of the Government of India did not spell out anything new for the small scale sector but endorsed the earlier policies. The Fourth Five Year Plan, however, went a step further by giving emphasis on the establishment of industries in the backward regions. It also laid emphasis on the promotion of Agro-based industries in addition to its emphasis on production of quality products in the small scale sector and promotion, decentralisation and dispersal of industries. The plan provided a number of fiscal and other incentives to the small scale sector. The plan outlay for small scale sector stood at Rs.243 crores.

The Fifth Plan added a new dimension to the small scale industries development programme through the strategy of development of backward areas and rural industrialisation. It reemphasised on the complementary relationship between the large scale and small scale industries. To be more specific the plan envisaged an intensive programme for the development of ancillary small scale industries. The plan outlay for the small scale sector stood at Rs.510 crores in the Fifth Plan. It was during this Plan period that the most important Industrial Policy Resolution for the small scale industries was announced. The Policy Resolution which was tabled in the Parliament on 23rd December, 1977 laid emphasis on the reservation of additional items for small scale sector, assiduous
promote and nurturing of cottage and small industries widely dispersed in rural areas and small towns, creation of a tiny sector and promotion of Khadi and village industries. The Resolution stated interalia; "It is the policy of the Government that whatever can be produced by the small and cottage industries must only be so produced... The list of industries which should be exclusively reserved for the small scale sector has been significantly expanded and will now include more than 500 items as compared to about 180 items earlier.... Special attention will be given to units in the tiny sector namely, those in investment in machinery and equipment up to rupees one lakh and situated in towns and villages with a population of 50,000 according to 1971 census figures". The Resolution added; "In the past there has been a tendency to proliferate schemes, agencies and organisations which have tended more to confuse the average small and rural entrepreneurs than to encourage and help him. The focal point of development for small and cottage industries will be taken away from the big cities and state capitals to the district headquarters. In each district there will be one agency to deal with all the requirements of small and village industries. This will be called the District Industries Centres. Under the single roof of the District Industries Centres, all the services and support required by small and village entrepreneurs will be provided. These will include economic investigation of the district's raw materials and other resources,
supply of machinery and equipment, provision of raw materials, arrangement of credit facilities, an effective set up for marketing and a cell for quality control, research and extension.... In order to provide effective financial support for promotion of small village and cottage industries, the Industrial Development Bank of India has taken steps to set up a separate wing to deal exclusively with the credit requirements of this sector. It will coordinate, guide and monitor the entire range of credit facilities offered by other institutions for the small and cottage sector, for which separate wings will be set up in these institutions, particularly nationalised banks.... It is the Policy of the Government to see that no worthwhile scheme of small or village industry is given up for want of credit".

The draft plan 1978-83 could not be materialised. Subsequently the period 1980-85 was adopted as the Sixth Plan by the Government of India. This Plan document emphasised that the village and small industries will have to play a vital role in creating job opportunities in rural areas. It estimated that the number of unemployed persons will stand at 46 million during this period. Out of them 20 million may be absorbed in agriculture, 9 million in large industrial sector and the balance 17 million can be shared by the decentralised small scale sector. Then came the Industrial Policy Resolution of 1980. This Policy Resolution which was announced on 23rd July 1980 stated, interalia; "One of the major constraints to the growth of decentralised sector has been the difficulties
of finance experienced particularly by industrial entrepreneurs in small cottage and rural sector. Although there is adequate net-work of institutional finance, yet there is need for coordinating the flow of capital, both short-term and long-term. Government would evolve a system of co-ordination to ensure the flow of credit to the growing units in the decentralised sector at the right time and on appropriate terms. Government proposes to strengthen the existing arrangements and make such changes as may be necessary to facilitate the availability of credit to the growing units in the small scale sector". The Resolution added; "In order to assist the growth of small scale industries it is proposed to introduce a scheme for building up of buffer stocks of essential materials which are often difficult to obtain. Special needs of states which rely heavily on few essential raw materials will receive priority".

The Government of India also laid greater emphasis on the development of the small scale industries through their recent 20-point economic programme. It has been for instance, categorically stated that "the small scale industries deserve special care for the economic betterment of our masses in the rural and semi-urban areas".

1.2.1. Promotional Measures

The Government of India not only announced important policy measures for the promotion and development of small scale industries, but also introduced a series of
promotional measures by opening up, of innumerable promotional agencies. Efforts on this front can be traced back to 1954, when the First International Planning Team, sponsored by the Ford Foundation, visited the country at the request of the Government of India to suggest measures for the promotion and development of small scale industries. A positive programme of assistance was initiated in 1954 itself on the basis of the recommendations of this Team. A systematic attempt since then has been made to develop the small scale sector through a number of devices - by providing infrastructure facilities for their establishment and expansion, promoting an extensive institutional framework to meet their capital and other credit requirements, organising entrepreneurial development training, providing machinery on hire-purchase basis, reserving areas of production exclusively for small scale sector, limiting capacities of large enterprises in certain spheres and assisting the small industries in their marketing operations (Annexure I.III).

With a view to decentralise the small scale industries sector and to reduce the gap in the economic development among different regions, additional special incentives and facilities have also been provided by the Government for the rapid industrialisation of backward and rural areas of the country. For this purpose the Government of India has declared 247 districts as industrially backward in the country (in Orissa 8 out of the 13 districts) out of a total of 386 districts. Certain special facilities and
incentives in the form of concessional finance and relief in Income Tax are being provided to small scale industries in these backward districts. Out of these 247 backward districts 101 districts have been declared further as special backward (6 districts in Orissa) and hence special incentives are provided to the small scale industries of these districts over and above what is given in the 247 backward districts.

To promote and assist the small industries, numerous promotional agencies have also been set-up (Annexure I.IV). The most important of them is the District Industries Centres (DICs), which is the gift of 1977 Industrial Policy Resolution of the Government of India. The DICs deal with all the requirements of the small entrepreneurs under one roof. The small scale industries sector has been declared as a priority sector for bank financing. Credit Guarantee Scheme has been introduced by the Reserve Bank of India (the Reserve Bank is India's Central Bank). This scheme intends to provide a higher degree of protection to lending institutions against possible losses for credit facilities granted to small scale industries. In fact, the scheme provides a guarantee up to 90 per cent of the amount in default or the amount guaranteed, whichever is lower. Further, the Industrial Development Bank of India (IDBI) has introduced a refinance scheme under which up to 90 per cent of the loans disbursed by the financial institutions in favour of the units coming under the small scale sector are refinanced by it. Very rightly, therefore, Mr. K.L. Nanjappa, one time Development Commissioner of
Small Scale Industry, Government of India has opined; "Our small scale industry assistance programme has attracted world-wide attention. Many international organisations and developing countries are studying our experience with a view to adopt our programme to their local conditions. We have assisted many developing countries by suggesting suitable programmes for developing small scale industries in their countries". Similarly, Mr. Dhar and Mr. Lydall, two noted economists of the country have opined that; "In no country however, has the doctrine of small scale industry received such strong official support as in India".

Thus the above discussion fairly indicates that the promotion and development of a sound and viable small scale industries sector in the country has remained all along a matter of serious concern by the Government of India. As a result of the consistent emphasis laid on the small scale industries sector under different Industrial Policy Resolutions and successive Five Year Plans and also the intensive efforts made by the promotional agencies the position of small scale industries in the late seventies revealed a picture which is far different from what it was in the sixties as observed from Table 1.1.

1.3. Relevance of the Study

It is true that the growth and development of small scale industries sector during the past couple of decades in this country has remained very much impressive. But when
Table 1.1
Position of Small Scale Industries in India in 1960 and 1978

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Particulars</th>
<th>1960</th>
<th>1978</th>
<th>Variation in 1978 over the year 1960</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In absolute figures</td>
</tr>
<tr>
<td>1.</td>
<td>Number of small scale industries (Lakhs)</td>
<td>1.20</td>
<td>7.0</td>
<td>5.80</td>
</tr>
<tr>
<td>2.</td>
<td>Investment in Registered Units (Rs.in crores)</td>
<td>548</td>
<td>2140</td>
<td>1692</td>
</tr>
<tr>
<td>3.</td>
<td>Value of Production (Rs.in Crores)</td>
<td>2800</td>
<td>7600</td>
<td>4800</td>
</tr>
<tr>
<td>4.</td>
<td>Exports from Small Scale sector (Rs.in crores)</td>
<td>155</td>
<td>828</td>
<td>673</td>
</tr>
<tr>
<td>5.</td>
<td>Direct Employment (Lakhs)</td>
<td>29</td>
<td>60</td>
<td>31</td>
</tr>
</tbody>
</table>


viewed in the context of the decisive role assigned to it and the great hope reposed on it as an effective vehicle for bringing about certain desired changes in the socio-economic framework of the nation particularly of the rural sector, the progress, probably cannot be taken to have remained quite happy and satisfactory. Even the projected picture of progress cannot be accepted as a true indicator of the soundness of this sector. The reported cases of an alarming proportion of small units becoming increasingly sick and finally moribund adequately speaks of the ill health of this sector. It has been reported that there exists at present about 5 lakhs of sick units forming more than 71 per cent of the total units.
of the country. \(^8\) The All-India Report on the Census of Small Scale Industries, 1973-74, reported the presence of 38 per cent closed and ghost units among the 2.58 lakh registered small scale industries of the country. \(^9\) Another disquieting trend which can hardly escape any body's attention is the uneven and unbalanced growth of small scale industries in our country. While in certain states, the growth rate has remained substantially higher, in certain other states the growth rate is slow and sluggish as is seen from Table 1.2 and diagram 1. This appears very much significant when viewed in the context of the accepted policy of the Government, to promote a balanced industrial base in the country giving special attention to the backward areas. In fact, a variety of special incentive schemes are already in vogue to correct the regional imbalance, but it seems they have not produced the desired result. This study proposes to analyse the growth and development of small scale industries of Orissa, the role of financial and promotional agencies and their effectiveness in ensuring a steady supply of finance. The study is relevant as its findings would throw some new light on financing of small scale industries. This will help the planners, policy makers, entrepreneurs and further researchers to revise their understanding of the present overall financing position and in adopting in future a more rational, balanced and judicious approach towards the small scale industries sector.
### Table 1.2

Inter-State Comparison of Small Scale Industries in India in 1972-73 and 1980 (SIDO Units)

<table>
<thead>
<tr>
<th>Name of the State</th>
<th>No. of units in March '73</th>
<th>No. of units in December 1980</th>
<th>Variation in Dec. '80 over March, 1973</th>
<th>Variation as % to total variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Andhra Pradesh</td>
<td>8999 (5.6)</td>
<td>22958 (5.4)</td>
<td>13959</td>
<td>8.2</td>
</tr>
<tr>
<td>2. Assam</td>
<td>1739 (1.1)</td>
<td>3132 (0.7)</td>
<td>1394</td>
<td>0.5</td>
</tr>
<tr>
<td>3. Bihar</td>
<td>6368 (4.0)</td>
<td>20937 (4.9)</td>
<td>14569</td>
<td>5.4</td>
</tr>
<tr>
<td>4. Gujarat</td>
<td>11599 (7.3)</td>
<td>27790 (6.5)</td>
<td>16191</td>
<td>6.0</td>
</tr>
<tr>
<td>5. Haryana</td>
<td>5361 (3.4)</td>
<td>17685 (4.1)</td>
<td>12324</td>
<td>4.6</td>
</tr>
<tr>
<td>6. Himachal Pradesh</td>
<td>1729 (1.1)</td>
<td>5433 (1.3)</td>
<td>3704</td>
<td>1.4</td>
</tr>
<tr>
<td>7. Jammu &amp; Kashmir</td>
<td>1232 (0.8)</td>
<td>5966 (1.4)</td>
<td>4734</td>
<td>1.8</td>
</tr>
<tr>
<td>8. Karnataka</td>
<td>7062 (4.4)</td>
<td>16970 (4.0)</td>
<td>9908</td>
<td>3.4</td>
</tr>
<tr>
<td>9. Kerala</td>
<td>6902 (4.3)</td>
<td>16970 (4.0)</td>
<td>10068</td>
<td>3.8</td>
</tr>
<tr>
<td>10. Madhya Pradesh</td>
<td>8727 (5.5)</td>
<td>31302 (7.3)</td>
<td>22575</td>
<td>8.4</td>
</tr>
<tr>
<td>11. Maharastra</td>
<td>17338 (10.4)</td>
<td>35251 (8.2)</td>
<td>17913</td>
<td>6.7</td>
</tr>
<tr>
<td>12. Manipur</td>
<td>518 (0.3)</td>
<td>2511 (0.6)</td>
<td>1933</td>
<td>0.7</td>
</tr>
<tr>
<td>13. Meghalaya</td>
<td>179 (0.1)</td>
<td>327 (0.1)</td>
<td>148</td>
<td>-</td>
</tr>
<tr>
<td>14. Nagaland</td>
<td>46 -</td>
<td>203 (0.1)</td>
<td>156</td>
<td>-</td>
</tr>
<tr>
<td>15. Orissa</td>
<td>2163 (1.4)</td>
<td>8036 (1.9)</td>
<td>5873</td>
<td>2.2</td>
</tr>
<tr>
<td>16. Punjab</td>
<td>14827 (9.3)</td>
<td>33532 (7.8)</td>
<td>18705</td>
<td>7.0</td>
</tr>
<tr>
<td>17. Rajasthan</td>
<td>8055 (5.1)</td>
<td>23930 (5.6)</td>
<td>15875</td>
<td>5.9</td>
</tr>
<tr>
<td>18. Tamil Nadu</td>
<td>18547 (11.6)</td>
<td>30397 (7.1)</td>
<td>11850</td>
<td>4.4</td>
</tr>
<tr>
<td>19. Tripura</td>
<td>275 (0.2)</td>
<td>1096 (0.3)</td>
<td>821</td>
<td>0.3</td>
</tr>
<tr>
<td>20. Uttar Pradesh</td>
<td>13939 (8.7)</td>
<td>33364 (7.8)</td>
<td>19425</td>
<td>7.2</td>
</tr>
<tr>
<td>21. West Bengal</td>
<td>16904 (10.6)</td>
<td>74847 (17.5)</td>
<td>57943</td>
<td>21.6</td>
</tr>
<tr>
<td>22. Others</td>
<td>6811 (4.3)</td>
<td>15233 (3.4)</td>
<td>8422</td>
<td>3.1</td>
</tr>
</tbody>
</table>

| 159321 (100)                      | 427424 (100)              | 268103 (100)                 |                                        |                                  |

**Note:** Figures within brackets indicate percentage to the all India total.

**Source:**


<table>
<thead>
<tr>
<th>State in India (Variation in 1960 Over 1973)</th>
<th>District of Small Scale Industries Among Different States in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANDHRA PRADESH</td>
<td></td>
</tr>
<tr>
<td>ASSAM</td>
<td></td>
</tr>
<tr>
<td>BIHAR</td>
<td></td>
</tr>
<tr>
<td>GUJRAT</td>
<td></td>
</tr>
<tr>
<td>HIMACHAL PRADESH</td>
<td></td>
</tr>
<tr>
<td>JAMMU &amp; KASHMIR</td>
<td></td>
</tr>
<tr>
<td>KARNATAK</td>
<td></td>
</tr>
<tr>
<td>MADHYA PRADESH</td>
<td></td>
</tr>
<tr>
<td>MAHARASHTRA</td>
<td></td>
</tr>
<tr>
<td>MANIPUR</td>
<td></td>
</tr>
<tr>
<td>MEHGHALAYA</td>
<td></td>
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<tr>
<td>NAGALAND</td>
<td></td>
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<tr>
<td>ORISSA</td>
<td></td>
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<tr>
<td>RAJASTHAN</td>
<td></td>
</tr>
<tr>
<td>TAMIL NADU</td>
<td></td>
</tr>
<tr>
<td>WEST BENGAL</td>
<td></td>
</tr>
<tr>
<td>OTHERS</td>
<td></td>
</tr>
</tbody>
</table>

Distribution of Small Scale Industries Among Different States in India (Variation in 1960 Over 1973)
1.4. Review of Literature

The above trends, disturbing and disquieting as they are, have been posing serious problems for the planners and policy makers as well as serious thinkers of the country. Several kinds of indepth and analytical studies have been taken up in course of the past few decades to identify the main factors responsible for such sad state of affairs on this front. The conclusions drawn, present a wide spectrum of reasons ranging from raw materials to marketing and out-dated methods of production to unsympathetic attitude of the financial and promotional agencies; of course, with different degrees of importance attached to each of them. But a general survey of literature produced so far either exclusively studying the problems of small scale industries or making general studies on the small scale industries sector with peripheral treatment to their problems unfolds one basic truth that finance is the real villain of the piece. A review of the available literature lends adequate support to this contention.

Mr.S.K.Basu, to begin with, made a study in mid fifties and observed that, the small scale industrial units do not have access to the organised capital market because they are mostly organised on proprietary or partnership basis and are very small in size. They do not have access to the institutional sources of finance, partly because of their size and partly because of their surpluses, which can be utilised to repay the loan, are negligible. As they are not considered
creditworthy by commercial banks, they resort to private money lenders who charge exorbitant rates of interest, which affect their profitability and viability.

Dr. K. T. Ramakrishna, who made a study in the early sixties, observed that the institutional agencies have a negligible contribution in the total investment made by small scale industries. They rely largely on private agencies for financing their operations. They are the money lenders and middlemen who among them supply the bulk of the required funds. The modest loan required by the small scale industrial units for financing their operations are too small for commercial banks to entertain. Doing business on a bigger scale as they generally are accustomed to with large scale industries, to deal with smaller clients proves uneconomical and hence, small borrowers do not find favour with such banks. He further observed that in the early stages of their career credit from friends and relatives play an important role in financing their enterprises.

Dr. P. C. Alexander, one time Development Commissioner of Small Scale Industries in India, reported in the early sixties that among all the problems faced by the small industries, the absence of credit facilities has been the most serious one. Small entrepreneurs invariably start their enterprise with extremely limited capital arranged from their own sources. The major part of their funds are borrowed from money lenders at exorbitant rates of interest. Even if they know,
how to organise their production on efficient lines, they often fail because of their inability to raise adequate finance for acquiring good factory accommodation or new machinery and equipment or for meeting recurring expenses. As a result of this, production continue to be at low levels of efficiency yielding very little margin of profit for further investment. Banks and other institutional agencies of credit find these units generally ineligible for lending and they are thrown back to the mercies of money lenders or to their own resources.

The study of Mr. Devenport relate to the late sixties. He observed that even though there has been a proliferation of special schemes for financing of small scale industries in India they appear not to have yielded the desired result. The implementation of many of such schemes have proved more expensive and less effective. The small industrialists have often found that, administration of the schemes is dilatory, the amount of financing available is too small, the requirements for qualifying too burdensome, or the terms ill adopted to their needs. He further observed that, individuals other than principal owners are the second or third most important source of finance for the small scale industries. Despite their well known shortcomings, money lenders continue to supply a major portion of the total financial requirements of the small scale industrial units. The money lenders are favoured because of the promptness and informality with which
requests are met and their flexibility of terms. With regard to the commercial banks, he reported that small industrialists are usually of minor importance as depositors, lacking individual bargaining power with banks, and being of minor importance in the aggregate either as depositors or borrowers of immediate potential; banks thus tend to extend them credit only to the extent that funds are not required by the primary customers and to the extent that financing can be arranged without special risk or problems of departing from standard procedures. The form and amount of such residual financing is often not well adopted to the needs of the small scale industries.

Mr. R.K. Vepa, one time Development Commissioner of Small Scale Industries in India made a study in the early seventies. He reported that bulk of the bank's meagre resources are channelled to a few large scale industries, which in the eyes of the banks are prestigious and sponsored by influential people. He further observed that banks provide as little as 25 per cent or less of the total credit requirements of the small scale industrial units. With little resources to fall back upon, most of the units rely on private money lenders for financing their operations. He opined that the banks consider the small scale industries as risky propositions because they are mostly organised in a proprietary or partnership basis. He also observed that, the non-disclosure of full information by the small entrepreneurs before the banks stand on the way of the banks to assess their credit worthiness.
A study undertaken by the National Council of Applied Economics Research, Delhi, also relate to the early seventies. The Study Report revealed that the quantum and timeliness of credit given by financial institutions and the means of channeling it is not satisfactory. In most of the cases the credit made available to the small scale industrial units fall much short of the unit's requirements. Added to this is the cumbersome procedures and the enormous time taken to grant loans. The Report further stated that, the expanding requirements of small scale industries are not normally met under the existing system.

In the State of Orissa, a sample study was undertaken by the Directorate of Export Promotion and Marketing in the early seventies to unfold the factors responsible for the under utilisation of capacity by the small scale industries. The study Report revealed that 45.6 per cent of the units under utilised their capacities for non-availability of adequate working capital.

The study made by Dr.H.S.Pareek was confined to the state of Rajasthan and relates to the early seventies. He observed that the much published institutional sources have not been able to replace the non-institutional sources of credit (money lenders). The non-availability of right quantity of institutional credit at the right time has forced the small entrepreneurs to rely on private money lenders for financing their operations who charge exorbitant rates of
interest. This reduces their profit margin and affects their viability. He further observed that the smaller and the traditional small scale industries are not considered credit-worthy by the institutional agencies. The units of these categories remain outside the institutional fold. The institutional agencies also divert a major portion of their assistance to the developed pockets, thereby helping the growth of small scale industries in those areas. The backward areas receive scanty attention from the institutional agencies. He also reported that the procedural complicacies and rigid attitude of the officials of the institutional agencies stand on the way of smooth release of institutional assistance to the small entrepreneurs.

A sample study conducted in the State of Gujarat in the mid seventies under the supervision of Dr. H.N. Pathak revealed that 40.5 percent of the units had financial problems during their operational stage. The Study Report further revealed that pruning down of working capital requirements has remained a common practice of the banks.

Dr. K.R. Sharma, whose period of study covered from 1960 to 1976 observed that the most important cause of sickness in small scale units is lack of finance particularly lack of working capital. A large majority of small units depend on their own resources for long term capital requirements. This fact may be attributed to meagre assistance from banks and financial institutions. Though the small scale sector is
considered to be a priority sector and though nationalised banks are the principal agencies dispensing credit facilities, the fact remains that procedural and operational problems come in the way of small organisations. The excessive delay in the sanction and the pruning down of the working capital requirements are mainly responsible for the large scale sickness and mortality among the small scale industries.

The RBI\(^2\) had undertaken a sample study in the mid seventies. The Study Report revealed that the use of institutional credit is more in case of large and non-traditional small scale industries as compared to their smaller and traditional counterparts.

Mr. Singh and Mr. Gupta,\(^2\) whose study also relate to the mid seventies and was confined to Srinagar of Jammu and Kashmir State observed that proprietors contributed 93.8 per cent of the productive capital as against 5.1 per cent by institutional agencies and 1.1 per cent by non-institutional agencies.

The study of Dr. V. Desai,\(^2\) relates to the late seventies. In his opinion the small scale industrial units find it difficult to secure adequate institutional credit because of their own inherent limitations on the one hand and high standard applied by the lending institutions to the borrowers on the other. The institutional agencies do not consider the small industries as creditworthy. In their eyes the small industries
are poor risk. The difficulties of the small scale industrial units with regard to the procurement of institutional credit in the opinion of Dr. Desai are:

(i) Some rigidity in the approach on the part of the lending institutions in dealing with the small entrepreneurs and the absence of a close association with them;

(ii) The complicated nature of information required from the borrowers;

(iii) Strict requirements of security and a rigid prescription of acceptable collateral; and

(iv) Delay involved in the sanction of loan.

The Study of Mr. G. Swaroop, also relates to the late seventies. He opined that even though the small scale industries sector contributed handsomely to the total industrial production of the country, it has received meagre assistance from the commercial banks. Despite huge expansion of the banking sector, the small scale industrial units continue to rely on non-institutional sources of credit for financing their operations. It is partly due to the shyness of the small units to come to banks as they consider that banks ask for too many details, which almost amounts to interference in their working and partly due to special characteristics of small scale industries, which restrain banks from financing this sector. The characteristics of small industries which restrain banks from financing them in the opinion of Mr. Swaroop are; risk; weak
capital base; insufficient or no collateral; improper financial records; lack of marketing arrangements; and one man show.

A case study by Dr. Reddy and Mr. Murty in Anantpur of Andhra Pradesh reveals that 60 per cent of the proprietary concerns raise the loans from the private money lenders, whereas it is only 33.33 per cent in case of partnership firms. In their opinion, this may be due to the inadequacy of loan provided by the commercial banks to the proprietary concerns in view of their limited capacity to provide sufficient security. The study report further reveals that 83 per cent of the units with investment more than 4 lakhs secured financial help from commercial banks, whereas only 58 per cent of the units having investment less than 4 lakhs could secure financial help from banks. In their opinion this clearly indicates the bias of banks towards large units.

1.5. Research Design

The design of the present research study is outlined as below:

1.5.1. Hypotheses of the Study

From the review of the literature referred to above, the following broad inferences can be drawn and these inferences have been taken as a set of general hypotheses for the purpose of the present study.

i) The non-availability of adequate institutional credit is the most acute and pressing problem of the small scale industries.
ii) Despite the presence of a network of institutional financing agencies, the internal sources of finance and non-institutional credit (credit from money lenders) still continue to retain their prominence as an important source of finance for small scale industries.

iii) The accessibility of small scale industrial units to the institutional source of finance is greatly influenced and conditioned by their size and character. The smaller and traditional units mostly have remained outside the institutional fold.

iv) The developed areas have been more favoured by the financial institutions than the backward areas, in matters of financial assistance.

v) Financial institutions have hardly played any worthwhile role in correcting the regional and local imbalances by pursuing a sound and judicious policy of sanction and disbursement of financial assistance.

vi) Procedural impediments continue to stand on the way of smooth release of institutional assistance.

The present study, therefore, is an attempt to test these hypotheses in the context of the State of Orissa where so far probably no serious attempt has been made to study the financial problems confronting the small scale sector.

1.5.2. Objectives of the Study

The study sets the following objectives, taking into consideration the hypotheses and the research problem.
The first objective is to study the growth and development pattern of small scale industries in Orissa and to analyse and identify the basic problems confronting this sector.

The second objective is to analyse the financial structure of the small scale industries of the state of Orissa to study their financial solvency, pattern of investment and the extent of their reliance on different sources of finance for asset formation.

The third objective is to study the extent of the influence of size and character (traditional and non-traditional) of the small scale industries on the flow of institutional credit.

The fourth objective is to assess and evaluate the role of financial and promotional agencies in financing small scale industries in the state and in the process correcting regional imbalances in the growth and development of small scale industries.

The fifth objective is to highlight the problems, if any, encountered by the entrepreneurs of the state while arranging for institutional assistance.

1.5.3. Chapter Plan

Keeping in view the above mentioned objectives, the present study has been divided into eight chapters including summary of findings and conclusions.
Chapter I and II are introductory in nature. While Chapter I spells out the approach and genesis and the design of the present study, the socio-economic background of the state are discussed in Chapter II.

Chapter III is a study of the growth, health and problems of the small scale industries in Orissa. More specifically this chapter is devoted to study:

(i) The evolution of the concept of small scale industry;
(ii) The growth pattern of small scale industries in terms of number of units, capital investment and employment;
(iii) The sickness and mortality among them; and
(iv) Their problems.

Chapter IV studies the financial structure of the small scale industries of the state and is devoted to appraise;

(i) Their short-term and long-term solvency and pattern of investment;
(ii) The extent of their reliance on different sources of finance for their asset formation, particularly the degree of use of institutional, non-institutional and internal sources by them; and
(iii) The extent of influence of the size and character of the small scale industries on the flow of institutional credit.

Chapters V, VI and VII have been devoted to assess and evaluate the role of promotional and financial agencies in financing small scale industries in Orissa; with specific
reference to the position of the state in the national perspective and inter-state and inter district analysis. The significance of this part of the investigation arises from the fact that the policy of the central as well as the state Governments is to correct the regional and local imbalances through the promotion and development of small scale industries. Hence, a critical examination of the role of these agencies have been undertaken.

Financial assistance by commercial banks has been appraised in Chapter V. Among other things the chapter assesses;

1) The growth of bank credit in the State of Orissa vis-a-vis all-India;

ii) The coverage given by banks to the existing small scale industries of the state and the share of bank credit in the total investment made by them;

iii) The role played by banks in the promotion of self employment among the educated unemployed in the state of Orissa vis-a-vis other states of the country;

iv) Inter district comparison of the bank credit advanced to the small scale industries in the state; and

v) The problems encountered by entrepreneurs while arranging for bank credit.

Chapter VI assesses the role of Orissa State Financial Corporation in financing small scale industries in Orissa. Among other things the chapter appraises;
i) Sectoral growth of sanctions;
ii) Industry-wise, scheme-wise, size-wise and district-wise sanctions;
iii) Analysis of sanctions and disbursement;
iv) The problems of overdue and bad debts; and
v) The problems encountered by the entrepreneurs while arranging for credit from the Corporations.

Chapter VII appraises the role of Government Agencies (Orissa Small Industries Corporation, Directorate of Industries and National Small Industries Corporation) in extending financial assistance (loan, subsidies and incentives) to the small scale industries of the state. To be specific the chapter assesses:

i) The progress of loan assistance under different schemes;
ii) Inter-State and inter-district advance and the problem of overdue;
iii) The review of the operations of various subsidy schemes;
iv) The progress of industrial estate programme and their impact on the promotion of small scale industries in the backward areas; and
v) The problems encountered by the entrepreneurs while arranging for financial assistance from these agencies.

The important findings and conclusions, emerging from the present investigation along with a few suggestions are given in 'Summary of major findings and Conclusions' in Chapter VIII.
1.5.4. Sources of Data

In view of the manifold objectives of the present research study and different institutional sources providing financial assistance to the small scale industries, a single source cannot be expected to fulfil the requirements of data. Hence, different sources of data have been made use of. Since, the relevant sources of data, their inconsistencies and limitations have been explained in detail in different chapters, it is intended to broadly indicate the sources of data chapter-wise.

The records and publications of the State Industries Directorate, Annual Survey of Industries and the publications of Small Industries Development Organisations (SIDO) constitute the basic source of data for the analysis as contained in Chapter III.

The analysis of Chapter IV is based on the sample data collected from 195 small scale industrial units of the state through field survey.

The publications of the Reserve Bank of India (RBI) constitute the basic source of data for the analysis contained in Chapter V on "Commercial banks".

The records and the Annual Reports of the Orissa State Financial Corporation (OSFC), which were made available by the Head office of the Corporation formed the source for the analysis in Chapter VI.
The role of the Government agencies - the QSIIC, NSIC, Industries Directorate has been reviewed in Chapter VII. The records, annual reports of these institutions, together with several other unpublished statistics and information comprised the source of data for the study in this chapter.

Along with the sources of data referred to above, a perusal into the unpublished records and statements available at the offices of the financial and promotional agencies, also, reinforces the statistical and informative base of the study. However, data drawn from different sources are indicated at appropriate places in the chapters.

Further, wherever necessary, discussions have been made with the officials of the financial and promotional agencies and the State Small Industries Association and these not only proved to be helpful in interpreting the statistical findings but also provided an insight into various problems and issues.

1.5.5 Methodology

The methodology of the present research study can be broadly outlined as under.

Firstly, the present study is both a sample and census study. Because of the non-availability of census data to study the financial structure of the small-scale industries of the state, a sample financial statement of 195 small-scale industries has been used in the analysis. (The selection of sample and other details have been dealt in Chapter IV of this study).
The analysis of all other chapters has been based on census data.

Secondly, the census data used in this study have been collected both from primary and secondary sources. For instance, a major part of the census data used in this study has been collected from the records and reports of the financial and promotional agencies.

Thirdly, the statistical measures have been applied when the data lent themselves to such application and when it was felt that it would be appropriate to do so.

Fourthly, the broad inferences drawn from the present study are supported by discussions with officials of financial and promotional agencies and the entrepreneurs. As a matter of fact the discussion with these parties helped in making an indepth analysis of the problem under study.

1.5.6. Period of Analysis

The study broadly covers the period 1960-61 to 1980-81 and depending upon the availability of comparable data and information the period of study of many aspects falls within this range. In view of manifold sources of data, uniformity in the period of analysis of different aspects, obviously, could not be adhered to. Considerations of homogeneity of data over a period of time and availability of latest data reflecting recent trends have guided the decision regarding the selection of period for the study of different aspects.
The rationale behind adopting 1960-61 as the base year for the study is grounded on the following considerations. This year marked the perceptible efforts in the direction of promoting a sound industrial base in the state through the promotion and development of small scale industries. Moreover, the actual impact of the efforts made in the late fifties for the promotion of small scale industries could only be felt in the early sixties. Another important reason is the non-availability of data prior to this period.

Though the period of analysis and the sources of data have been elaborately explained in different chapters, it is appropriate here to outline, chapter-wise the reasons underlying the period of analysis.

The period of study adopted in Chapter III is 1973-74 to 1980-81. The reason for covering this period is that prior to this period the registration of small scale industries were done with the State Small Scale Industries Association. The State Industries Directorate maintained records on the registered small scale industries only after the census study was conducted by the Small Industries Development Organisation (SIDO) in 1972-73. As a result no data could be collected for the earlier periods either from the State Industries Directorate or from Small Scale Industries Association.

The analysis of Chapter IV is based on sample data. Since most of the small scale industries are organised in a proprietary or partnership basis, they are not obliged to publish their financial statements. Further, most of them
maintain books of accounts in a very crude form. In view of this, it was expected that they would be able to furnish at least three years data, from 1978-79 to 1980-81. But most of the units surveyed, could not provide the data relating to the year 1978-79. Therefore, the period of analysis of this chapter covers 1979-80 and 1980-81.

The period of analysis adopted in Chapter V in evaluating the role of commercial banks in financing small scale industries in Orissa, though broadly covers 1968 to 1980, it deviates in some aspects. Further, in some aspects for reasons of data limitation, the analysis has been made taking into account the cumulative data as on 31st December 1980. The publications of the RBI which formed the main source of data for the analysis as contained in this chapter did not provide the relevant information relating to the earlier period. As a result, there has been a problem of comparability of data.

The period of study adopted in Chapter VI though broadly covers 1960-61 to 1980-81, certain deviations have however, been found inevitable in some aspects. For instance, the Annual Reports of the OSFC which forms the main source of data for the analysis as contained in this chapter, did not provide the district-wise data in the required form prior to 1970-71. Therefore, the district-wise and industry-wise analysis has to be confined between 1970-71 and 1980-81. Further, for reasons of data limitations, some aspects has to be analysed on the basis of cumulative figures as on 31st March 1981.
The period of analysis in Chapter VII covers 1960-61 to 1980-81 in some aspects and in some other, from the year of introduction of the scheme till its closure or 1980-81 whichever is earlier. However, due to data limitation, the district-wise and inter-state analysis has to be made on the basis of cumulative data mostly as on 31st March 1981. The State Industries Directorate which constitute the major source of data for the analysis (as contained in this chapter) could not provide the relevant information. As a result, there has been a problem of comparability of data.

Thus, for the reasons explained above, no uniformity in the period of analysis could be maintained among different aspects and in certain aspects the analysis has to be confined to the cumulative figures only. In spite of this, it is hoped that the broad purposes of this study would not be vitiated, and meaningful inferences can be drawn from the different aspects on financing of small scale industries in Orissa.

1.5.7. Limitations of the Study

The outstanding limitation of the study relates to its period of analysis. Even though the period of study in some aspects relates to the two decade period of 1960-61 to 1980-81, in many aspects it deviates from this period. Further, in some aspects, the data relates to the cumulative figures only. The non-availability of relevant data in spite of best of our efforts has led to this limitation.
The second limitation relates to the non-incorporation of size-wise and industry-wise analysis in Chapter V and VII of the study. The publications of RBI and the records and publication of different promotional agencies, which form the main source of data as contained in these two chapters, do not provide the relevant information for analysing these aspects. Therefore, these aspects have not been studied in these two chapters.

The third limitation relates to the non-incorporation of the financial assistance rendered by the All-India Boards and Committees exclusively to the cottage industries sector. Scanty information on these sources has led to their exclusion from the purview of the present study.

The fourth limitation arises from the fact that values in the terminal year of the study such as, capital investment, amount of financial assistance rendered by the institutional agencies have not been adjusted with increase in the price level. But inter-State, inter-district and inter-industry comparisons over a period of time yield reliable conclusions without affecting the purpose of the study. It is pertinent to point out here that the limitations relating to the study of different aspects and the relevant sources of data are explained in different chapters.
## References


2. **Ibid.**


