Chapter I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Indian economy is an under developed economy. Its vast resources are either unutilized or underutilized. A major section of man power is lying idle. The per capita income is low. Capital is shy and scarce and investment is lean. Production is traditional and the technique is outdated. The output is insufficient and the basic needs of the people remain unfulfilled\(^1\).

Industrialization is the only answer to this present state of disrupted economy. The problem is of the approach which should be direct, utilitarian and pragmatic. Such industries do not require huge capital and hence suitable for a country like India. The small scale industries have a talent of “dispersal”. They can be accessible to the remote rural areas of the country and do not lead to regional imbalances and concentration of industries at one place, which is responsible for many economic resources such as entrepreneurship and capital \(^2\).

Financial sector plays an indispensable role in the overall development of a country. The most important constituent of this sector is the financial institutions, which act as an intermediary for the transfer of resources from net savers to net borrowers. The financial institutions have traditionally been the major source of long term funds for the economy. These institutions provide a variety of financial products and services to fulfill the varied needs of the commercial sectors. They play a vital role

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in reducing regional disparities by inducing in providing assistance to new enterprises, small and medium firms as well as to the industries established in backward areas.

The Government of India in order to provide adequate supply of credit to various sector of the economy has developed a fine structure of financial institutions in the country. These financial institutions can be broadly categorized into All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rate of interest. These institutions subscribe to the debenture issue of companies, underwrite public issue of shares, guarantee loans and deferred payments etc. although the State level institutions are mainly concerned with the development of medium and small scale enterprises, but they also provide the similar type of financial assistance as the national level institutions.

Finance is a key input of production, distribution and development. It is therefore, aptly described as the “life-blood” of industry and is a pre-requisite for accelerating the process of industrial development.

During the pre independence period, financial constraints had hampered the rapid development of industries in the country. After independence, the Government has built up a network of specialized financial institutions to provide financial assistance to all types of industries, including small scale industries.

A growing economy needs the support of a financial structure which is responsive to the needs of development. In India, in the process of financial deepening, commercial banks have to shoulder special responsibilities for meeting the financial needs of diverse sectors of the economy, at various stages of development. In the process, they have evolved various modes and instruments of financing, fashioned
various organizational innovations, moved away from traditional commercial banking and evolved into development banks, responsive to socioeconomic needs$^3$.

Finance is now made available to entrepreneurs on a totality basis by commercial banks, except in cases where the State Financial Corporations and other similar financing agencies step in to meet their medium-term requirements. An appropriate type of credit is granted for the construction of the factory building, the purchase of plant, machinery and equipment, and for working capital requirements. In deserving cases, loans are advanced for the expansion, renovation and modernization of plant and machinery. Banks and financial institutions provide the export finance needed by small industries for letters of credit, issuance of guarantees and extension of pre-shipment and post-shipment credit facilities. The interest rate structure is generally graded on a slab basis, with a favorable bias towards the smaller loans. Institutional support and economic factors are stimulating entrepreneurial activity and thus generating more robust economic development.

In our present economy, finance is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium or small, needs finance to carry on its operations and to achieve its targets. In fact, finance is so indispensable today that it is rightly said that it is the life blood of an enterprise. Without adequate finances, no enterprise can possibly accomplish its objectives$^4$.

The figure shows the various sources of raising fund which are available to the entrepreneurs.

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The financial source of small scale industries classified into three short term, long term and medium term. The short term source includes bank credit, customer advances, trade credit, deferred income, commercial paper and installment credit. The medium term financial source includes issue of debentures, issue of preference shares, bank loans, public deposit and loans from financial institutions. The long term source includes issue of shares, issue of debentures, ploughing back of profits and the loan from financial institutions.
Depending upon the nature of the activity, the entrepreneurs have three types of finance, viz., short term, medium term and long term finances. The distinctive features of these are enumerated below.

**Short-term Finance**

Short term finance which is required for less than one year is usually required to meet variable, seasonal or temporary working capital requirements. Borrowing from banks is a very important source of short term finance. Other important sources of short term finance are trade credit, installment credit and customer advance.\(^5\)

**Medium-term Finance**

Medium term finance in which period varies from one to five years is usually required for permanent working capital, small expansions, replacements, modifications and the like. Medium term finance may be raised by Issue of shares, Issue of debentures, borrowing from banks and other financial institutions.

**Long term Finance**

Long term finance which is for more than five years is required for procuring fixed assets, for the establishment of a new business, for substantial expansion of existing business, modernization and the like. The important sources of long term finance are Issue of shares, Issue of debentures, Loans from financial institutions.

**1.2 STATEMENT OF THE PROBLEM**

In India the need for adopting and enlarging the institutional structure to meet the term financing needs of the industries sector was felt as early as in 1931. However, some tangible steps in this direction was taken only after independence in the year 1948, when the industrial Finance Corporation of India was set up jointly by

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Government of India, Reserve Bank of India and other Financial Institutions. The objective was to make long term credit available to public limited companies and industrial co-operatives. Later on the institutional credit set-up was expanded both at the national as well as at the state level through the setting up of a number of financial institutions with specific purpose of making the financial resources available to a wide variety of industries of different sizes and at different regional levels.

The post-independence period has witnessed rapid social, cultural, economical and political changes in India. These changes had their profound influence on entrepreneurial talent in different regions of the country. In response to the liberal financial packages offered by the financial institutions, several new entrepreneurial communities, not known for mercantile background came forward to start economic activities in trade, manufacturing and service sectors.

At present, India has one of the largest networks of institutional financing agencies among the developing countries of the world. These institutions have been making continuous attempt to fulfill the various socio-economic objectives of the government in the course of their lending operations.\(^6\)

It has been observed that financial incentives alone are not enough to draw out potential entrepreneurs into the entrepreneurial ventures. The basic quality of the entrepreneur is risk taking and to face the consequences, if failure comes his way, the entrepreneur requires risk capital, i.e. assistance in the form of equity by the financial institutions, so that his risk is minimized. The financial institutions have therefore evolved seed capital schemes to provide assistance in the form of equity capital to the potential entrepreneurs. Thus it can be said that the financial institutions in India have

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\(^6\) Ibid, P.2
been playing a very active role in developing and diversifying the entrepreneurship base of the economy.

Among the various inputs required by the entrepreneur successful functioning of his enterprise, availability of adequate and timely finance is considered to be an important one. Finance, which is sometimes termed as the life blood of any economic activity, not only facilitates the economic growth process but provides the strength for continuity of the same.

In the provisions of financial assistance to the entrepreneurs, the development banks play a very crucial role. They promote the industrial development of the country by meeting the medium and long term finance needs of the new enterprises. In this sense, they act as gap fillers in the capital market, where the demand for term finance more often exceeds their supply.

The shortage of finance affects the ability of the small units severely. Every kind of problem, whether of raw material, power, transport or marketing faced by an entrepreneur in its ultimate analysis turns out to be a problem of finance. The small industry gets elbowed out by the large and medium scale industries in the procurement of bank finance and institutional credit. The crux of the problem is very often that of finance. Small Scale Industries are very poor and have little to offer as security for raising finance.

In order to eradicate unemployment problem and to have an independent economy, more and more entrepreneurs both men and women should come forward to start their own industries. The unit may be a production centre, trading centre or a service centre. For all types, finance is considered to be the life blood. In addition to

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own capital contribution, additional capital, financial adjustments and credit guarantees are to be provided by financial institutions. Therefore the role of financial institutions play a crucial part to develop Small Scale Industrial sector in Tirunelveli District. Hence the researcher preferred to do the research on the topic entitled “A STUDY ON ROLE OF FINANCIAL INSTITUTIONS IN THE DEVELOPMENT OF SMALL SCALE INDUSTRIAL SECTOR IN TIRUNELVELI DISTRICT”.

1.3 OBJECTIVES OF THE STUDY

The study mainly focuses on the following objectives.

1. To study the need and significance of Small Scale Industries.
2. To focus on Government assistance for the development of SSI sector in Tamil Nadu in particular in Tirunelveli District.
3. To analyse the performance of subsidies sanctioned to SSI.
4. To measure the level of attitude of the financial agencies who help the Small Scale Industries in the study area.
5. To measure the level of opinion of the beneficiaries of financial assistances provided by Government and institutions.
6. To study the problems in getting financial assistances.
7. To provide suggestions on the basis of findings of the study.

1.4 AREA OF STUDY

Tirunelveli District in Tamil Nadu is one of the districts endowed with good infrastructural facilities and resources, which contribute to the development of industries in the area and in particular for the development of Small Scale Industries. Most of the people in Tirunelveli depends on agriculture hence there is not much growth in the industrial development. The Government of India declared about Tirunelveli district as an industrially backward area and which makes the district
eligible for capital investment subsidy at the rates of 15 and 10 percent respectively. Many Financial Institutions come forward with an obligation of helping in every possible manner to improve the economic conditions of the people at Tirunelveli. They play a vital role in reducing disparities by inducing in providing assistance to new enterprises, Small and Medium firms as well as to the industries established in backward areas. These are the reasons which gave a push to select Tirunelveli district as the study area to find out the role of financial institutions in the development of small scale industrial sector.

1.5 PERIOD OF STUDY

Financial assistance for the past fifteen years from 1996 – 1997 to 2010 – 2011 was analysed. Primary data was collected from April 2013 to April 2015.

1.6 LIMITATIONS OF THE STUDY

While administering the questionnaire with industries for some of the questions the respondents gave answers with the help of their memory and many respondents have not maintained proper records (regarding their capital at the beginning, Additional capital brought in, Number of men and women employed during beginning stages), hence there are some chances for error that arise due to memory which as a result create some variation in accuracy of results. A few among sample belong to first generation entrepreneurs and the experience is almost nil. It is one of the limitations of the study.

1.7 CONCEPTUAL DEFINITIONS

1.7.1 Industrial Unit

An industrial unit is defined as one engaged in the manufacturing, processing and/or preservation of goods. Additionally, units engaged in repairs and servicing are also deemed to be industrial units.
1.7.2 Unit

Every industry or organization which has separate independent entity and maintains a separate book of accounts is called a unit.

1.7.3 Ancillary Unit

An ancillary unit is basically a Small Scale Industrial Unit of which supplied or proposed to supply more than 50% of its products to one or more parent units (which may or may not be SSI units) for production of other articles.

1.7.4 Tiny Industry

The concept of Tiny Industry is rather recent. It is a small scale industrial unit which is situated at centres having population of 50,000 and the investment in the plant and machinery is not over Rs.200 thousand.

1.7.5 District Industries Centre (DIC)

In every district there is a ‘District Industries Centre’ to cater to the needs of Small and Village Industries. The centre provides, under one roof, all the services and support required by Small Scale, Village and Cottage Industries such as Plant, raw material, machinery and equipment, credit facilities, marketing. There is a separate wing with the centre to deal with cottage and household.

1.7.6 Liberalised Scheme

Due to certain inherent weakness, the small scale industries cannot face the competition offered by the large industries. Hence, the bank decided to provide credit facilities to small scale industries on liberalized terms. The scheme was introduced by SBI in year 1956 on pilot scheme basis in 22 districts of the country. Later on its area of operation was extended to the entire country. The scheme envisages relaxation in the norms of financing as also grant of some additional facilities.
1.7.7 Conventional Industries

The following industries are known as conventional industries and these are not eligible for credit facilities provided by the SBI under its Liberalised scheme of Assistance to Small Scale Industries:

(i) Rice Mills,
(ii) Dal Mills,
(iii) Flour Mills,
(iv) Oil Mills,
(v) Decortications of nuts except cashew nuts,
(vi) Cotton ginning,
(vii) Curing of tobacco,
(viii) Manufacturing of bidies.

1.7.8 Entrepreneur Scheme

This is a scheme specially designed for technically qualified persons or those having business qualifications that are unable to meet even the minimum margin requirements of the bank, i.e., those unable to provide even 15% of the project cost from their own sources. Technically qualified persons include those having degrees/diplomas in any technical field of study, with or without experience, as also craftsmen with adequate experience in the line of proposed manufacture. For the purpose of the scheme, business qualifications would mean having a degree/diploma in business management from a recognized and approved institution or being a qualified Cost/Chartered Accountant.

As in the case of the liberalized schemes, all the activities covered by the credit guarantee scheme of the Reserve Bank of India are eligible for finance under the scheme. Originally ceiling of Rs.200 thousand was applied to the quantum of finance
permissible under this scheme, which has subsequently been raised to Rs.1 million. Under this scheme, under appropriate circumstances, the bank may finance the entire requirements of the unit by waiving the margin contribution of the unit in full, i.e., there is no minimum margin requirement to be met by the unit. In respect of interest rates also, some further concessions are also made to units financed under this scheme.

1.7.9 Equity Fund Scheme

Generally funds are supplied by the promoters in the form of equity (own capital) and by the financial institutions and other sources by way of loans. Further, some minimum funds are required, say 25% of the project cost, as equity capital before these financial institutions give loans to new unit. However, for some entrepreneurs it is difficult to bring the minimum equity capital.

The problem could be solved by reducing the minimum equity capital requirement, i.e., reducing margin from 25% to some lower amount, say 15% and meet the shortfall by additional loan. This is one possible solution but it affects the viability of the project adversely, as costs increase on account of interest burden affecting the profits and secondly, the cushion of equity available to absorb shocks in case of emergencies is reduced. In short, the unit will suffer from a low equity base problem.

To obviate this and meet all genuine needs of the entrepreneur without affecting the viability of the projects, State Bank of India has introduced a novel scheme of financing which is known as the Equity Fund Scheme under which long term interest free loans are given to eligible small scale entrepreneurs.

1.7.10 Economic Viability of a Proposal

Economic viability means that the project, after its completion will, generate so much of extra cash that the borrower will be in a position to repay the bank’s loan timely. If the yearly incremental income is more than the installments of the principal
loan amount plus periodical interest accrued thereon, the proposal will be considered to be economically viable. The amount left after paying the installment and interest so work as an incentive to the borrowers in the shape of profits.

1.7.11 Technical Feasibility

Before granting a term loan it is essential to consider whether it will be technically feasible to give effect to the project. The availability of infrastructural and other facilities like transportation, raw material, market, consumption, power, technical know-how, location, etc., depending upon the nature of case, will be considered. In case these factors are compatible, the proposal will be considered as technically feasible as there would not be any difficulty in the fulfillment of scheme if finances are made available to the unit.

1.7.12 Break Even Point

The break even point is the stage of production where an industry is able to run without any profit or loss. After it crosses the stage of break-even point, it starts earning profits and therefore, it is necessary that it must produce more than the quantity of break-even point. It may be indicated in terms of percentage of the installed capacity. Thus for determining the profitability it should be ensured as to what is the break-even percentage and how much the unit is producing.

1.7.13 Accounting Ratios

The accounting ratio means the relationship between two figures shown in the statement of account of business. This relationship, considered on the whole, shows the financial and working position of the unit. If the ratios of the balance sheet of two consecutive years are compared, they will show the trend of the business and thus, indicate the future. For example, ratios of current assets and current liabilities show the
capacity of the business to pay its immediate liability which is indicative of its solvency. But these ratios should not be studied in isolation.

1.7.14 Liquid Surplus

Liquid surplus means the difference of current assets over the current liabilities of the business. The current assets include the items which could be converted into cash within a period of one year like cash, bank balance, stocks, consumables, stores, etc. Similarly current liabilities are those which are required to be paid within a period of one year. The liquid surplus available in the business may be utilized for meeting the day to day requirements.

1.7.15 Current Ratio

The relationship between current assets and current liabilities is current ratio. It should normally be 1:5:1. But in case of small scale industries ideal position is not found and even 1:1 may be considered quite satisfactory.

1.7.16 Debt Equity Ratio

It is the relationship between the outside borrowings and borrower’s own funds in the business. It indicates the outside control in the business and borrower’s own stake in the venture.

1.7.17 Primary Security

When charges by way of hypothecation or pledge or mortgage are created over the assets acquired out of the bank’s finance, such securities are primary.

1.7.18 Collateral Security

It is known as secondary or additional security. When charges are created over the assets other than those procured out of the bank’s finance, such securities are by way of secondary securities.
1.7.19 Drawing Power

Drawing power is the limit up to which a borrower can withdraw money from his account. It cannot be more than the relative limit sanctioned to the borrower. The stocks pledged or hypothecated to the bank are valued at market, invoice or controlled price whichever less is and the stipulated margin is excluded. The resultant balance will be the drawing power. If a unit enjoying limit pledges stocks of raw material worth Rs.10,000 the margin retained thereon is 20%. The drawing power on the account after excluding 20% margin of Rs.2,000 will be Rs.8,000 only.

1.7.20 Pledge

The physical possession of stocks may either be with the bank as in cases of Lock and Key or with the borrower as in case of Mandi and Factory type of advances.

1.7.21 Hypothecation Charges

It is a floating charge which is not considered to be a good charge so as the banker’s security position is concerned.

1.7.22 Special Hypothecation

Normally hypothecation advances are granted to Limited Companies as Bank’s charge can be registered with Registrar of Companies. One major advantage in hypothecation advances is that stamp duty is much lower than in cases of pledge advance where ad-valorem duty is charged. Since most of the SSI units are proprietary or partnership concerns, hypothecation facility is not granted to them. SBI framed a scheme to grant the facility on hypothecation basis which is known as Special Hypothecation scheme. It provided some additional facilities which are not, normally, provided in case of hypothecation:

(i) This facility is granted to small scale industrial units only.
(ii) The same low margin is retained which we retain in cases of pledge advances.

(iii) It takes care of book debts and receivables also and these are included in the same stock statement on which drawing power is allowed.

1.7.23 Mandi

In Mandi types of advances, the charges are by way of pledge. The factory gate is locked with the bank’s padlock overnight. The locks and keys are delivered to the borrowers after obtaining a simple letter of undertaking from him.

1.7.24 Factory Type of Advances

In factory type of advances, a godown Durban is generally posted at the factory. A godown keeper may also be posted if the scale of operation of unit so warrants. The salary and allowances of the godown Durban or godown keeper are to be borne by the borrowers.

1.7.25 Trust Receipt

This facility is normally given to small scale industrial units when the unit places orders for raw material and bill is received at the Branch but he is not in a position to retire the bills as he has already drawn money up to the drawing power. The borrower at his request is permitted to deposit the margin money and relative T.T./R.R. is given to him after obtaining a Trust Receipt. The borrower will get the consignment from the Railway/Transport companies and pledge the same to the bank. Thus, the account will be regularized. The facility is allowed within overall limit of the unit. The borrower will give an undertaking on a stamp paper and will hold the receipt/stock on behalf of the bank till the position is regularized generally within 48 hours but it may be extended in deserving cases.
1.7.26 Trust Letter

This facility is provided for dispatch of finished goods. If the unit has already procured confirmed orders and it has drawn the account up to the available drawing power, the facility may be provided for dispatch of finished goods. The borrower will deposit the margin money, and give a stamped undertaking called Trust letter.

1.7.27 Special Contingency Account

This facility is provided to SSI units to tide over unforeseen situations and difficulties. Over and above the limit, the borrower is granted temporary overdraft to overcome the situation.

1.7.28 Reallocation of Limits

After arriving at the total permissible limit, it is decided into various types of advances and facilities like special hypothecation, lock and key, factory type, bill limit, etc. in view of the need and convenience of the borrower. This sub-division of limit is called reallocation.

1.7.29 Financial Institution

An establishment that focuses on dealing with financial transactions, such as investments, loans and deposits. Conventionally financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers. Almost everyone has deal with a financial institution on a regular basis. Everything from depositing money to taking out loans and exchange currencies must be done through financial institutions.

1.7.30 Subsidy

A benefit given by the government to groups or individuals usually in the form of a cash payment or tax reduction. The subsidy is usually given to remove some type of burden and is often considered to be in the interest of the public.
1.7.31 Beneficiary

Anybody who gains an advantage and/or profits from something. In the financial world, a beneficiary typically refers to someone who is eligible to receive distributions from a trust, will or life insurance policy. Beneficiaries are either named specifically in these documents or they have met the stipulations that make them eligible for whatever distribution is specified.

1.7.32 Small Scale Industrialist

Small Scale Industrialist means a sole trader or a partner who establish and manage a small scale industry registered in Tirunelveli District.

1.7.33 Village Industries

Any industry located in a rural area which produce any goods or renders any service with or without the use of power and in which the fixed capital investment in plant and machinery and land and building per head of an artisan or worker does not exceed 15,000 rupees.

1.7.34 Commercial Bank

A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.

1.7.35 Sick Industry

An industrial unit (a) which could not reach the stage of normal production with normal profit or (b) has incurred loss or remained at the unprofitable level for
consecutive three to six years from the first year of commercial production or (c) could not produce above the break-even point for reasons beyond the control of the entrepreneurs.

1.7.36 Tiny Industries

All Small Scale units wherein investment on plant and machinery (excluding land and building) upto Rs. 25 lakhs are classified as tiny industries.

1.7.37 Loan

The act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as open-ended credit up to a specified ceiling amount.

1.7.38 Quota

Quotas are different than tariffs (or customs), which places a tax on imports or exports in and out of a country. Both quotas and tariffs are protective measures imposed by governments to try to control trade.

1.7.39 Moratorium

A period of time in which there is a suspension of a specific activity until future events warrant a removal of the suspension or issues regarding the activity have been resolved. In bankruptcy law, a legally binding halt of the right to collect debt.

1.7.40 Soft Loan

A loan with no interest or a below-market rate of interest, or loans made by multinational development banks (such as the Asian Development fund), affiliates of the World Bank and government agencies to developing countries that would be unable to borrow at the market rate. Soft loans are loans that have lenient terms, such as extended grace periods in which only interest or service charges are due, and interest
holidays. Soft loans typically offer longer amortization schedules (in some cases up to 50 years) and lower interest rates than conventional bank loans.

1.7.41 Seed Capital

The initial capital used to start a business. Seed capital often comes from the company founders' personal assets or from friends and family. The amount of money is usually relatively small because the business is still in the idea or conceptual stage. Such a venture is generally at a pre-revenue stage and seed capital is needed for research and development, to cover initial operating expenses until a product or service can start generating revenue, and to attract the attention of venture capitalists.

1.7.42 Debt Recovery Act

“Debt” means any liability (inclusive of interest) which is claimed as due from any person by a bank of a financial institution or by a consortium of banks or financial institutions during the course of any business activity undertaken by the bank or the financial institution or the consortium under any law for the time being in force, in cash or otherwise, whether secured or unsecured, or assigned, or whether payable under a decree or order of any civil court or any arbitration award or otherwise or under a mortgage and subsisting on, and legally recoverable on, the date of the application.

1.7.43 Term Loan

It can be defined as "the loan which has a final maturity beyond one year from the date made for purpose of providing the borrowers with long term capital and which is dependent upon future earnings to provide funds for its liquidation". A loan from a bank for a specific amount that has a specified repayment schedule and a floating interest rate. Term loans almost always mature between one and 10 years.
1.7.44 Training

Training is the acquisition of knowledge, skills, and competencies as a result of the teaching of vocational or practical skills and knowledge that relate to specific useful competencies. Training has specific goals of improving one's capability, capacity, productivity and performance. It forms the core of apprenticeships and provides the backbone of content at institutes of technology. In addition to the basic training required for a trade, occupation or profession, observers of the labor-market recognize as of 2008 the need to continue training beyond initial qualifications, to maintain, upgrade and update skills throughout working life. People within many professions and occupations may refer to this sort of training as professional development.

1.7.45 Abid Hussain Committee

An elaborate set of policies, programmes an institution has evolved over the past four decades for providing government support for the promotion of small industries in India. The Government has in the meantime implemented a programme of economic reforms including industrial and trade policy reforms whose objectives have been to eliminate bureaucratic control and protectionist measures, allow greater play to the market forces in shaping entrepreneurial decision making and promote competition. Globalisation and change in technology are also emerging as the major forces that will modify and mould the environment for small business an entrepreneurship over the next decade and beyond, Small enterprises in many barriers of the service sector, are fast emerging as provider of employment and contributors to export development which necessitates reconsideration of the view that the policies for small enterprise development should concentrate on the manufacturing sector. It is thus, necessary to address the need for reforms in the existing policies and design new policies for small and medium enterprises (SME) development which will facilitate the growth of viable
an efficient enterprises that can adjust to technological change and remain internationally competitive.

### 1.7.46 Single Window System

The single-window system is a trade facilitation idea. As such, the implementation of a single window system enables international traders to submit regulatory documents at a single location and/or single entity. Such documents are typically customs declarations, applications for import/export permits, and other supporting documents such as certificates of origin and trading invoices.

The main value proposition for having a single window for a country or economy is to increase the efficiency through time and cost savings for traders in their dealings with government authorities for obtaining the relevant clearance and permit for moving cargoes across national or economic borders. In a traditional pre-single-window environment, traders may have had to contend with visits and dealings with multiple government agencies in multiple locations to obtain the necessary papers, permits and clearances to complete their import or export processes.

### 1.7.47 PMEGP

The objective of the programme is to generate employment opportunities in rural as well as urban areas through setting up of new self-employment ventures / projects / micro enterprises. The programme was launched on 15th August 2008 to empower the first generation entrepreneurs to set up micro enterprises. The Scheme is formulated by merging Prime Minister’s Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP).
1.8 SAMPLE SIZE

In order to evaluate the role of Financial Institutions in the development of Small Scale Industrial sector in Tirunelveli District, the researcher selected 275 respondents on stratified random basis from 21 blocks.

**Table 1.1**

**SAMPLE RESPONDENTS**

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<td>Manur</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>275</strong></td>
</tr>
</tbody>
</table>
1.9 METHOD OF DATA COLLECTION

The present study is based on primary as well as secondary data. The personal interview method has been adopted to collect primary data. For this, well designed and pre-tested questionnaires were prepared to collect the information relating to the study. One questionnaire was meant for beneficiaries in the form of Financial Assistances. The other questionnaire was meant for the financial institutions.

The secondary data were collected from published, unpublished reports, journals, Magazines, handbooks, Textbooks, Websites, pamphlets of Director of Industries and Commerce, Chennai, Annual reports of RBI, District industries Centre, Tirunelveli, Government reports of Statistical publications, KVIC, Industrial Estate in Pettai.

1.10 HYPOTHESIS SET

A hypothesis is a claim (assumption) about the population parameter. A statistical hypothesis is conjectural statement in statistical terms that the researcher sets upon to test. An important advantage of a sample study is to collect enough materials to carry out valid test on hypothesis.

In the light of the relevant literature review and keeping in mind the objectives of the study, the following hypotheses were tested. The study undertaken tested the following hypothesis by using chi-square technique.

\( H_01: \) There is no relationship between Type of business carried on by the beneficiary and their capital contribution.

\( H_02: \) There is no relationship between the type of business and the name of Financial Institutions where beneficiaries received assistance.

\( H_03: \) There is no relationship between the years of experience and the type of loan provided with.
H04: There is no relationship between Gender and number of times the beneficiaries visited the financial institution to get the loan sanctioned.

H05: There is no relationship between Income and the reason for the delay in repayment of loan.

H06: There is no relationship between the Education and the project report prepared by persons.

H07: There is no relationship between years of membership in Trade Association and the nature of action taken by Financial Institution with regard to delayed repayment.

1.11 Analytical Framework

In order to study the relationship between two variables Karl Pearson correlation co-efficient (r) formula has been used.

\[
r = \frac{(X - \bar{X})(Y - \bar{Y})}{n \sigma_x \sigma_y}
\]

Where

- X = Differences in production level
- Y = Differences in profit level
- \(\bar{X}\) = Arithmetic mean of X
- \(\bar{Y}\) = Arithmetic mean of Y
- n = number of pairs of observation
- \(\sigma_x\) = Standards deviation of X
- \(\sigma_y\) = Standards deviation of Y

---

Karl Pearson, the great biologist and statistician has given a formula for the calculation of correlation. It is popularly known as Pearson's coefficient of correlation and is widely used in practice.

**Interpretation of Correlation Coefficient (r)**

- The value of correlation coefficient ‘r’ ranges from -1 to +1
- If \( r = +1 \), then the correlation between the two variables is said to be perfect and positive.
- If \( r = -1 \), then the correlation between the two variables is said to be perfect and negative.
- If \( r = 0 \), then there exists no correlation between the variables.

**Chi-Square Test \( (x^2) \)**

An attempt has been made to test the level of opinion of the beneficiaries chi-square test has been applied.

\[
\text{Chi-Square} = \sum \frac{(O-E)^2}{E} \text{ with (r-1) (c-1) degrees of freedom.}
\]

Where,

\[
\begin{align*}
O &= \text{Observed frequency} \\
E &= \text{Expected frequency} \\
E &= \frac{\text{Row Total X Column Total}}{\text{Grand Total}} \\
C &= \text{Number of columns} \\
r &= \text{Number of rows.}
\end{align*}
\]

**Garrett Ranking Technique**

This technique is used when a question is based on the rank orders. In this study, the financial institutions were asked to rank the reasons for reducing the loan
amount to the beneficiaries. The garrett ranking is done with the help of the following formula.

\[
R_{ij} = \frac{100 \times (R_{ij} - 0.5)}{N_j}
\]

Where, \( R_{ij} \) = Rank given for the \( i^{th} \) variable by the \( j^{th} \) respondent

\( N_j \) = Number of variables ranked by the \( j^{th} \) respondent

The scores for each reason is arranged in order of their ranks and inferences were drawn.

**Likert Scale**

A **Likert scale** is a psychological measurement device that is used to gauge attitudes, values, and opinions. It functions by having a person complete a questionnaire that requires them to indicate the extent to which they agree or disagree with a series of statements. The Likert scale is named after its creator, Rensis Likert, who developed it in 1932. Likert scaling is a bipolar scaling method, measuring either positive or negative response to a statement.\(^\text{10}\)

The format of a typical five-level Likert item, for example, could be:

1. Strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree

\(^{10}\) Likert scale – Wikipedia, the free encyclopedia (http://en.wikipedia.org/wiki/Likert_scale).
Simple Percentage (%) 

A percentage is defined as a number represented as a fraction of 100. Percentages are used to express numbers between zero and one. It is used to compare things and use it in ratios. It is denoted by the symbol %. 

The **Percentage Formula** is given as, 

\[
\text{Percentage} = \frac{\text{Value}}{\text{Total Value}} \times 100
\]

Compound Growth Rate 

The **Compound Growth Rate (CGR)** is a useful measure of growth over multiple time periods. It can be thought of as the growth rate that gets you from the initial investment value to the ending investment value if you assume that the investment has been compounding over the time period. 

Compound annual growth represents growth over a period of years, with each year's growth added to the original value. The compound annual growth rate indicates how much income the investment is generating when you reinvest the returns. It is especially useful when your investment experiences significant fluctuations in growth from year to year, since a volatile market means an investment may see large returns one year, losses the next and then more moderate growth another year. It can be used not only to evaluate the performance of the investment, but to compare returns on different types of investments, such as stocks and bonds or stocks and a savings account. Business owners may use the CAGR to analyze the performance of a variety of business measures, including market share, expense, income and customer satisfaction levels.
1.12 Chapter Scheme

The topic entitled on “A STUDY ON ROLE OF FINANCIAL INSTITUTIONS IN THE DEVELOPMENT OF SMALL SCALE INDUSTRIAL SECTOR IN TIRUNELVELI DISTRICT” is presented in seven chapters. They are as follows:

The first chapter presents the “Introduction and design of the study”. It includes statement of the problem, objectives of the study, hypothesis, operational definition of concepts, methodology, construction of tools, sample design, geographical coverage of the study, period of the study, collection of data, data processing, frame work of analysis, limitations of the study and scheme of the report.

The second chapter deals with the “Profile of Tirunelveli” and short “Profile of MSME”.

The third chapter highlights the “Review of the previous studies”.

The fourth chapter deals with the “Role of financial Institutions in the Growth of Small Scale Industries” focusing the various schemes of various Institutions, the “Problems encountered by SSI sector” in getting financial assistance and the “Subsidies of Central and State Government”.

The fifth chapter is pertained to the “Attitude of the Small Scale Industrialists”.

The sixth chapter analyse the “Attitude of Financial Institutions”.

The seventh chapter presents the “Summary of findings, Conclusions and Recommendations” based on the study. In addition, scope for further research is also given in this chapter.