CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Small scale industries play a strategic role in the progress of a developing country like India. They are the best suited for the economic conditions prevailing in India. The small scale industries help in the effective and efficient utilisation of capital which is scarce in India. These industries constitute a major and continuing component in the scheme of national planning.

Unlike the Western economies, where there is paucity of labour in one side and plenty of capital in another, the Indian economy is capital short and labour affluent. It has resulted in widespread unemployment. Small
scale industries are characteristically labour intensive and hence have the potentiality to generate large scale employment opportunities. Labour abundant, developing countries like India have laid emphasis on the development of small scale industries as an effective tool for social transformation.¹

As the small scale industries would be dispersed all over and not restricted to selected rich pockets of industrial belts, the small scale industries have a significant role to play in the removal of regional imbalances and in ensuring a balanced development.

Unlike the large scale industries which promote monopolistic trend and unequal distribution of income, small scale industries

are eminently suitable for fulfilment of the objective of social justice. The promotion of these industries is essential for removing unemployment and poverty. While the rural poverty has been stagnant, urban poverty has deepened further as a result of migration of rural population to towns and urban areas in search of means of livelihood. The solution lies in encouraging small scale industries in rural areas as the small scale industries serve as a check on migration to large cities and provide avenues of work in close proximity to places of residence.\(^2\)

Small scale industries link agriculture and industry for a more complete and meaningful development of an agrarian society like ours. They are viewed as a progressive and effective decentralised sector which is closely related

with agriculture, on the one hand, and with large scale industry, on the other. 3

Emphasising the importance of Small scale industries in the Indian Economic Development, the Industrial Policy Resolution, stated:

"They provide immediate large-scale employment; they offer methods of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the

establishment of small centres of industrial production all over the country. 

Paucity of funds hampers the ability of small scale industries to install modern machinery and tools, to purchase and store good quality of raw materials, to offer attractive package for their products and to have effective and efficient sales organisation. In India, the funds allocated by the institutional agencies to small scale industries are inadequate. About 15 percent of the small scale industrial units manage their affairs with their own funds, about 35 percent of the units would be functioning with the funds borrowed from private sources such as friends. The remaining

units depend on funds secured from institutional credit agencies. 

Regarding institutional finance to small scale industries, there was lack of coordination between commercial banks and State Financial Corporations and other financial institutions. Although, there is adequate network of institutional finance, yet there is need for co-ordinating the flow of capital both of short-term and long-term. The small scale industries face a situation where everything for them is "cash and carry", but whatever they offer goes only on credit.


Working capital had always been a problem for the SSI units, though the Banks and other Lending Institutions have come forward to assist, but the strict norms fixed for releasing the working capital, compels the banks only to arrive at lower credit limits, which is not adequate to meet their requirements. So, the small scale entrepreneurs were depending on money lenders and indigenous bankers for finance, who were reluctant to finance small scale entrepreneurs merely because of their small scale operation and weak equity base.

As the past experience reveals the branches of commercial banks catering to the needs of all sectors, such as trade, large scale industries, small scale industries and urban middle class borrowers are not able to concentrate their attention on the financial requirements of small scale industries, study their problems and accordingly extend finance to
meet their specific requirements. Hence, commercial banks open branches to cater to the financial requirements of small scale industries units exclusively. One such branch opened by State Bank of India is its Siruthozhil Branch at Salem.

This study attempts to study the working of the Siruthozhil Branch of State Bank of India at Salem and also the attitude of the borrowers towards the bank.

1.2 REVIEW OF RELATED STUDIES

The following are some of the studies related to the present study.

The first among them was made by Mr. P.N. Dhar under the title of "Small scale industries in Delhi". Then M/s. D.T. Lakdawala and J.C. Sandesara conducted a study under the title of "Small Industry in a Big City" i.e., in Bombay. Next to them, Mr. M.C. Shetty's
investigations came under the title of 'Small Scale and Household Industries in a developing Economy'. It was followed by Mr. R. V. Rao's work bearing the title of 'Cottage and Small Scale Industry in Planned Economy'. Dr. (Mrs.) B. Mohanty made an analytical study of the different aspects of various Small scale industries in India under the title of "Economics of Small Scale Industries." It was followed by Mr. T. Satyanarayana who undertook the study "Financing of Small Scale Industries with particular reference to Andhra Pradesh".

The Reserve Bank of India appointed a committee headed by Dr. R.K. Hazari in 1970 to review the scope of differential interest rates. In the same year, another committee was constituted under the chairmanship of Shri V.D. Thakkar to review the working of special credit schemes of commercial banks. In July 1974, the Reserve Bank of India constituted a study group headed by Shri P.L. Tandon to frame guidelines for the working capital finance of industries.
State Bank of India was the first in studying the bank credit problems of small scale industries. It has been reviewing its policies and procedures from time to time with a view to stimulating the growth of small scale industries in the country. For this purpose, it has undertaken a number of reviews. The first such review was undertaken in 1963 by a team headed by Shri R.K. Talwar. It studied the problems of small scale units from the viewpoint of finance. In 1970, another committee was appointed under the chairmanship of Shri H.E. Chatelier for the improvement of the organisation and procedures in financing the small sectors. In 1974, another committee, under the Chairmanship of Shri J.S. Varshney was set up to study the problems of small scale units with aggregate borrowings in excess of Rs.2 Lakhs. Recently, a case study has been

conducted by Shri A.V. Rao under the title of"Assessment of Break Even Levels in SSI Units".  

The Government of India has given a prime place to small scale industries in the industrial policy of India. The Government of India appointed a Banking Commission in February 1969. It undertook a detailed survey of the credit problems of the small scale industries at 21 centres from all over the country. In 1978, a high power committee, under the chairmanship of Shri. H. Patel was appointed to discuss the problems of sick units and the role of the banking system in their rehabilitation. 1978, James Raj Committee recommended for setting up national equity fund which may be raised by the Central Government for providing equity support to small scale industries. I.C. Puri Committee

also had recommended the creation of a national equity fund for small scale industrial units. The fund is to be used for advancing interest free loans on long term basis for meeting the margin requirements of small scale industries.

1.3 OBJECTIVES OF THE STUDY

The following are the objectives of this study.

a) To study the recent trends in commercial banks, their role in economic development and their part in extending advances to small scale industries.

b) To study the role of Small scale industries in Indian Economic Development and their progress.

c) To study the extent of financial assistance provided by State Bank of India.
d) To evaluate the role played by Siruthozhil Branch of State Bank of India, Salem in financing small scale industrial units.

e) To identify the problems faced by the Siruthozhil Branch of State Bank of India in financing small scale industries and to offer suggestions.

f) To elicit the opinion of the borrowers of small scale industries regarding the difficulties in obtaining and in repaying the bank loans and to measure the attitude of the borrowers towards the bank credit; and

g) To offer suggestions to overcome the problems in bank finance to small scale industries.

1.4 PERIOD OF STUDY

The study covers the period from December 1984 to March 1993.
1.5 SAMPLING DESIGN

The Siruthozil Branch of State Bank of India at Salem has been selected for study as it is the only branch catering to the financial needs of small scale industries in Salem. 50 small scale industrial units receiving financial assistance from this bank have been selected following convenient sampling. Random selection of the borrowers has not been possible as there was no sample frame due to non-supply of the list of borrowers by the study unit. The researcher accompanied the Field Officers during their routine inspection of borrowing small scale industrial units. These Field Officers introduced the researcher to the respondents and this created enough rapport between the researcher and the researched.

1.6 COLLECTION OF DATA

For this study both primary data and secondary data were collected. The primary data
were collected from small scale units and the said bank. The secondary data were collected from the records and registers of Siruthozil Branch of State Bank of India, Salem and also from various published articles, books, journals and magazines.

1.7 LIMITATION

The main limitation of this study is the reluctance on the part of the borrower respondents to part with data. However, the researcher made necessary attempts to create adequate rapport with them and to keep them at ease, so that the data supplied are reliable.

1.8 FRAMEWORK OF ANALYSIS

The data collected were arranged in concise and logical order and thus they were tabulated. A part of them was arranged in
statistical tables. Statistical tools like weighted arithmetic mean, simple average and chi-square test, were used to analyse the data to make meaningful interpretations.

1.9 CHAPTER SCHEME

This study is made up of eight chapters.

In the introductory chapter, the significance of the study, scope and limitations of the study, objectives of the study, period of study, data collection, research methodology adopted and the structure of the study have been presented.

In the second chapter, an attempt is made to evaluate the role of commercial banks in economic development and the lending terms and conditions of the commercial banks with regard to small scale industries.
The definition, growth and development of small scale industries are discussed in the third chapter. The chapter also deals with the recent Union and State Governments' policies for small industries.

The details of financing of small scale industries by State Bank of India are given in the fourth chapter.

The fifth chapter provides details of financial assistance rendered by Siruthozhil Branch of State Bank of India to Small scale industries.

The sixth chapter analyses the problems faced by the Siruthozhil Branch of State Bank of India in financing the small Scale units.

The seventh chapter is devoted for analysing the problems of the borrowers in getting the financial assistance.
Summary of findings, suggestions and conclusion are given in the final chapter.