

CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

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1 INTRODUCTION

Small scale industries play a key role in the industrialisation of a developing country. A rewarding feature of economic development in India has been the impressive growth of modern small-scale industries. The small enterprises have by now established their competence to manufacture a wide variety of sophisticated goods in different product lines requiring a high degree of skill and precision. They have made a notable contribution in realising the principal objectives of expanded employment opportunities, adoption of modern techniques and dispersal of industries in small towns and rural areas. This has been possible as a result of the successful implementation of the programme for assistance of small-scale industries. The diversified rapid growth of small-scale industries is a significant feature of India's economic development in recent years.¹

The term "small-scale industries" has been defined in three ways. The conventional definition includes cottage and handicraft industries which employ traditional – labour - intensive methods to produce traditional products, largely in village households. They employ none or a few hired hands.

¹ DESAI VASANT, Small-Scale Industries And Entrepreneurship. Himalaya Publishing House, Bombay, Ed. 1996 p.7

In a developing economy it is the small scale industry that constitutes the backbone of its economic structure. Its development creates vast employment opportunities for the people, effects decentralisation of industries by the creation of industrial estates and makes possible a redistribution of economic power and income.

Paucity of funds hampers the ability of small scale industries to install modern machinery and tools, to purchase and store good quality 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 function with the funds borrowed from private sources such as friends. The remaining units depend on funds secured from institutional credit agencies.²

Working capital had always been a problem for the silver-ware manufacturing 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 silver-ware manufacturing units were depending on money lenders and indigenious bankers for finance, who were reluctant to finance silver-ware manufacturers merely because of their small scale operations and weak equity base.

² Chandrasekar K. Financing of small scale industries by the SBI, Salem, unpublished M.Phil Dissertation submitted to the Madras University, October 1993.

As the past experience reveals that 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 silver-ware manufacturing units, study their problems and accordingly extend finance to meet their specific requirements. Hence more banks are needed to cater to the financial requirements of small scale industries units exclusively. One such bank is The Shevapet Urban Co-operative Bank Ltd., Salem extending its financial assistance to silver-ware manufacturing units.

The skill and infrastructure facilities for starting such manufacturing units are available locally and hence these types of units have been carried on as a way of livelihood in rural and semi-urban areas.

Silver-ware manufacturing units have now been started at Salem District. There are also silver-ware manufacturing units in Kondalampatti, Gugai, Fort, Sivdhapuram and Pallapatti which meet only a portion of the demand of silver-ware. These manufacturing units have now ceased to be seasonal units and production is being carried out throughout the year. The manufacturing may touch a new height in the event of the hundreds of waiting applicants being granted license, to start these manufacturing units. But most of the raw-materials required for silver-ware Industries are available in Salem.

Among all the problems faced by silver-ware industries, absence of credit facilities has been the most serious. Small entrepreneurs invariably start

their business with extremely limited capital scrapped from their own assets and borrowed at exorbitant rates of interest.

Lack of adequate finance is a serious drawback. Silver-ware manufacturing units do not have sufficient funds of their own fixed capital investment nor can they obtain the necessary resources from institutional agencies, who are doubtful of the ability of such borrowers to repay the loan promptly in the absence of developed markets for their products.³

2 REVIEW OF LITERATURE

This study is the first of its kind. This study is a survey on the field. A number of studies have been conducted in many parts of the country regarding small scale industries. Most of the studies have generally evaluated the performance of each small scale sectors. No study has been attempted so far on silver-ware manufacturing units.

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

The first among them was made by Mr.K.Chandraseker under the title of "Financing of small scale industries by the State Bank of India Siruthozhil Branch Salem". Then Mr.R.Ponmurugan conducted a study under the title of 'Growth of Entrepreneurship in small scale industries' in Kanyakumari District

³ Gurusamy, S. 'The Problems of Small Scale Industrial Units in the Industrial Estate of Tamil Nadu', Unpublished Ph.D., Thesis submitted to the University of Madras, March 1994, p.

Next to them, Mr. S.Gurusamy's investigation came under the title of 'An analytical study of the problems of small-scale industrial units in the industrial estates of Tamil Nadu.'

3 STATEMENT OF THE PROBLEM

Banks generally lend against gold or ornaments, and on other properties. They do not lend credit against silver. So, the manufacturer gets credit by pledging or hypothecating the house, and does this business. Some manufacturers get credit from the bank by getting themselves registered with District Industries centre and the bank provides credit to them on the certificates issued by the District Industries centre.

Bank Finance is a major of source of finance for the silver-ware manufacturing units. In Salem District, the Shevapet urban co-operative Bank Ltd., Salem is the only bank which provides credit facilities to the silver-ware manufacturing units against hypothecating the house of the manufacturers. So, the above discussion poses the following questions.

- ⇒ To what extent the bank finances the silver-ware manufacturing units ?
- ⇒ How far the silver-ware manufacturers are benefited by the Shevapet Urban Co-operative Bank ?

4 OBJECTIVES OF THE STUDY



The following are the objectives of this study.

- i. To study the recent trends in banks, their role in the economic development and their part in extending advances to small scale industries.
- ii. To study the role of small-scale industries in Indian Economic Development and their progress.
- iii. To study the extent of bank finance provided to small scale industries by banks.
- iv. To study the working of the Shevapet Urban Co-operative Bank Ltd., Salem.
- v. To study the development of silver-ware manufacturing units in Salem,
- vi. To study the extent of financial assistance provided by Shevapet Urban Co-operative Bank to silver-ware manufacturing units,
- vii. To study the problems of silver-ware manufacturing units in Salem,
- viii. To offer suggestions for improving silver-ware manufacturing units.

5 SAMPLING

The Shevapet Urban Co-operative Bank of Salem has been selected for study as it is catering to the financial needs of silver-ware manufacturing units in Salem. Eighty silver-ware manufacturing units receiving financial assistance from this bank have been selected following simple random sampling.

6 COLLECTION OF DATA

For this study both primary data and secondary data were collected. The primary data were collected from silver-ware manufacturing units and the said bank. The secondary data were collected from the records, Annual Reports,

and Registers of Shevapet Urban Co-operative Bank at Salem and also from various published articles, books, journals, and magazines.

7 TOOLS FOR DATA COLLECTION

Interview schedule was adopted for collecting primary data from the silver-ware units. The interview schedule was formulated on the basis of the previous experience got during visits and pilot study. Different kinds of questions were framed to elicit important information, regarding the nature of the manufacturing units. Some questions were framed in such a way as to ensure an uninhibited response from them. The interview schedule was framed in English and discussions were held in the local language, Tamil.

8 PILOT STUDY

Pilot study was undertaken before framing the Interview Schedule. The researcher visited the silver-ware units and observed the functioning of the industries. The researcher gathered all the available resources that are necessary for the present study. Information thus gathered was used to frame the interview schedule.

9 PRE-TEST

After the pilot study, the interview schedule was framed and was examined with two silver-ware manufacturing units in Salem. Their answers were recorded and on the basis of this, the whole schedule was altered suitably, so as to make it more accurate and to the point.

10 PERIOD OF STUDY

Data relating to the sample silver-ware units have been collected for two years, 1994-95 and 1995-96. The respondents do not maintain any record for the transactions. They have to depend on their ability to recall. Therefore the period was restricted to two years. Data relating to the bank was collected for a period of five years from 1991-92 to 1995-96.

11 FRAMEWORK OF ANALYSIS

The data collected were arranged in concise and logical order and then they were tabulated. A part of them was arranged in the statistical tables. Inferences were made from the tables.

12 LIMITATION OF STUDY

The study is exploratory in nature and hence the study is based on primary data from silver-ware manufacturing units and secondary data from sample. There are banks with no information about silver-ware industry in any books or journals. Silver-ware manufacturing units do not keep any books, accounts and registers.

13 CHAPTER SCHEME

This study is made up of Nine Chapters. In the introductory chapter, the significance of the study, objectives of the study, statement of the problem, data collection, sampling, tools used, 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 banks in the economic development and the lending terms and conditions of the 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 Government policies towards small scale industries.

The details of financing of small-scale industries by Bank is dealt with in the fourth chapter.

The fifth chapter provides details of the working of the Shevapet Urban Co-operative Bank Ltd., Salem.

The sixth chapter deals with Development of silver-ware manufacturing units in Salem.

The seventh chapter contains the details of financial assistance to silver-ware manufacturing units by Shevapet Urban Co-operative Bank Ltd., Salem.

The eighth chapter deals with the problems of silver-ware manufacturing units in Salem.

The summary of findings, suggestions for improving silver-ware manufacturing units in Salem, and conclusion are given in the ninth and final chapter.