CHAPTER III

FINANCING RETAIL TRADE AND SMALL BUSINESS

Introduction

The word 'Retail' is of French origin which means 'to cut again'. A Retailer may be defined "as a merchant middleman who sells goods mainly to ultimate consumers". He can also be defined "as a specialist in concentration, equalisation and dispersion". A retailer occupies a dominant position in the channel of distribution. Retailer is the Sales booster and a good market surveyor.

A trader is "an individual or a group of individuals (not being a company) or a firm or co-operative society registered under any law relating to co-operative societies which is for the time being in force and is engaged wholly or mainly in carrying on retail trade.".


"High risk and a willingness to experiment with relationship and strategies"\(^1\) are characteristics for entrepreneur who play a vital role in the economic development of our country.

In retail trade and small business the person conducting the trade is responsible for planning, forecasting, decision-making, fixing objectives and also to work as a manager. Here he deals with all the problems of his business and he can suddenly change according to the changing market environment. In controlling his business he can easily judge the deviation of his trade from the market and can make out the best out of it. Retailers give necessary assistance for the flow of goods from the producer to consumer, as the basic function of his business. He acts as an agent of distribution. Retail trade should accommodate fast changing trends in business accommodating the changing fashions and the customer's requirements and the varying tastes. As the ultimate aim of the business is to reach the consumers it is the most important link in the chain of distribution.

\(^1\) Long N. An Introduction to the Sociology of Rural Development, Tavistoch, London, P.128.
It may be noted in this connection that hitherto small business has not received the attention it deserves from authorities and financial agencies. In most of the developed countries including U.S.A. there are separate government departments to guide and assist small business ventures started by the entrepreneurs. Even though in recent years small scale industrial units have benefited by the number of schemes of assistance, small business units are left to the care of un-initiated and inexperienced entrepreneurs. Therefore it is a significant development that the small retail traders have been getting increasing quantum of financial assistance from the commercial banks in recent years as they are included in priority sector.

In this line of business it is very easy to start a venture as the capital requirement is limited. Small businessman serves the community in many ways and in that process help the nation to develop faster. With the entry of the commercial banks in financing non-conventional sectors the small businessmen also received their share of assistance from the organised sector.
Retail Trading offers a good scope for self-employment both for educated and un-educated un-employed youth. This occupation needs very little capital. No formalities are required to start the business. So it operates as a generator of self-employment for a very large number of persons.

The following Table shows the financial assistance to retail traders and small businessmen by commercial banks during 1980-81 to 1984-85.

**TABLE 3.1**

Scheduled commercial bank's Advances To Retail Traders and small businessmen during 1981-85.

(Rupees in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Amount of advances to Retail Trade and small business (Rupees in Crores)</th>
<th>% to total amount on priority sector</th>
<th>Increase over previous year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>832.25</td>
<td>7.7</td>
<td>10.9</td>
</tr>
<tr>
<td>1982</td>
<td>929.47</td>
<td>7.5</td>
<td>11.7</td>
</tr>
<tr>
<td>1983</td>
<td>1050.30</td>
<td>7.8</td>
<td>13.0</td>
</tr>
<tr>
<td>1984</td>
<td>1202.50</td>
<td>7.6</td>
<td>14.4</td>
</tr>
<tr>
<td>1985</td>
<td>1407.00</td>
<td>8.1</td>
<td>17.0</td>
</tr>
</tbody>
</table>

"The Reserve Bank of India conducted a country-wide survey of commercial banks finance to small business establishments during 1979-80. A sample of 8788 retail traders financed by commercial banks all over the country was selected for the study". The salient features are summarised and it reveals some interesting facts regarding how the commercial banks have been assisting the non-conventional group of small retail traders. Though commercial banks have been lending to big business units their entry into the area of financing small business enterprises is of recent origin.

According to the survey 87% of the assisted retail traders were proprietary units during 1979-80, the rest being mostly partnership concerns. Grain/Grocery stores and textiles together accounted for about one third of the total number of assisted units. About 31% of the units were located in rural areas, 40% in semi-urban areas, and 29% in urban and metropolitan areas. The average annual sales per unit amounted to Rs.1.8 lacs. About 14% of the units

had annual sales less than Rs.10,000, 42% between Rs.10,000-Rs.50,000, 18% between Rs.50,000 and Rs.1 lac, 19% between Rs.1 lac-Rs.5 lacs and 7% exceeding Rs.5 lacs. The gross trade margin realised were less than 10% for 31% of the units, 10-20% for 43% of the units and more than 20% for 26% of the units. The proportion of traders reporting relatively high gross trade margin of 15% or above declined with the increase in the size of annual sales. About 78% of the units reported ownership of fixed assets. The average written down value of owned fixed assets as at the end of the reference year was only Rs.4,148 per unit. Gross fixed assets formation during the year was nominal.

The amount of outstanding loans taken by retail traders as at the end of the reference year averaged Rs.14,973 per unit. Institutional agencies had supplied 52% of the total outstanding loans; their share in the total was more than 90% for units with annual sales less than Rs.20,000, 75 to 80% for units with sales ranging from Rs.20,000 to Rs.1 lac and 40-45% for big units with sales above Rs.5 lacs.

The outstanding loans from institutional agencies reported by above two thirds of the units were for relatively small amounts of less than Rs.5,000. Loans of the size between Rs.5,000 and Rs.10,000 from institutional agencies were reported roughly by one out
of ten units. At the other end of the Scale, only 1% of the total number of units reported loans of size exceeding Rs.1 lac from institutional agencies, but these units absorbed as much as 31% of the total institutional credit. The classification by annual sales exceeding Rs.1 lac, which numbered roughly one in four, shared among themselves about 75% of the total institutional credit. Only 17% of the units in the assisted sector availed of loans from non-institutional agencies. The proportion of units reporting non-institutional loans and the proportion of outstanding loans financed by non-institutional agencies increased with the size of the units as measured by annual sales.

While only about 9% of units with annual sales upto Rs.50,000 reported non-institutional loans, as against 65% of the units with sales above Rs.10 lacs reporting such loans; non-institutional agencies accounted for 17% and 58% of the total outstanding loans, respectively, in the two categories. Thus, although the larger units absorbed a relatively large share of institutional loans, their reliance on non-institutional loans was also substantial. About 36% of the units reported having paid employees; the annual payment of salary, etc. per employee was Rs.2,615.
Thus the study has revealed that the assistance to retail trade is mostly for proprietary concerns. Out of the total advances the share of small units is as much as 75%. One other important factor is that 71% of such loans have gone in favour of the traders in rural and semi-urban areas. The size of the loan is also less than Rs.5,000 for most of the units. All these factor clearly indicate the fact that loans to retail traders is mostly un-conventional in nature.

Activities financed under retail trade and small business

Various trade activities are financed under financing schemes for retail trade and small business by the commercial banks. Particularly the loans provided by the banks for this category is utilised by the retailer for expanding their trade further.

Banks have classified certain activities as retail trade and they provide financial facilities in order to improve their trade. Some of the main lines of trade activity financed by banks are:

1. Dealers in Cloth.
2. Dealers in Ready-made garments.
3. Dealers in Stationery.
5. Dealers in Auto Spareparts.
6. Dealers in Electrical goods.
7. Dealers in Spectacles.
8. Dealers in Watches
9. Dealers in Cosmetics
10. Dealers in Wooden furniture.

However the retail trades are generally grouped under five categories.

1. Household consumption goods.
2. Household durables
3. Agricultural inputs
5. Transportation goods.

The grouping is not rigid. For example the Indian Overseas Bank has classified the traders under the following five groups.

1. Petty shops.
2. Groceries.
3. Medical shops.
4. Fertiliser/Pesticides shops and
5. Textile shops.

Some of the banks have adopted a broad pattern of grouping them under eight heads as follows:
1. Petty shops
2. Ready made/cut piece centres.
3. Street vendors including sweet stalls, Mutton stalls, etc.
4. Fertiliser dealers
5. General stores
6. Medical shops
7. Fair price shops and

A comprehensive list of trades financed under these categories is given in the Appendix I.

Eligibility for bank finance

Generally retail traders in fertilisers and mineral oil with an annual turnover upto Rs.10 lacs and other retail traders with an annual turnover upto Rs.4 lacs are eligible to borrow.

Small business units are eligible for bank loan if the Individuals or firms managing business enterprises provide services other than professional services and the cost of the equipments used do not exceed Rs.2 lacs. These services include cycle hire shops, booking, clearing and forwarding of goods, beauty parlours,

hotels, juice vendors, launderers, mobile restaurants and publishers cum book sellers.

Above all these, the firm or business is eligible only if they satisfy the following conditions,

1. Their business is legal in the eyes of law.
2. Proper Accounts are maintained for all the activities.
3. Obtained proper licences for the respective activities.
4. Deeds if any for the organisation are available for inspection.
5. The items dealt with are marketable with a good market for the future.
6. Sales Tax clearance and Income Tax clearance for the year ended are obtained and there are no arrears regarding the government revenue departments.

Purpose for which bank finance is available

In retail trade and small business usually the bank loans are granted for the existing business only, that too to expand their business by granting loan in order to develop them.

Their basic requirement is working capital to run the business. They give loans to buy necessary equipment and to renovate them. Finance is available
for establishment of branches also. They give loans even to buy vehicles for the transportation of their own goods and also for the maintenance of the vehicle.

**Type of finance required**

 Mostly the finance required by the retail traders are for the purpose of acquiring necessary equipment or for repairing and renovating existing equipment or for working capital needs.

 Mostly term loans and short term loans are given. Financial requirement of a business can be classified into two categories:

 i. Short-term requirements

 ii. Long-term requirements.

 Retail traders require short term funds for meeting working capital needs. These funds are provided only for a short period not exceeding one year and at reasonable costs.

 In the pre-nationalisation period, commercial banks hardly took any cognizance of the problems of the small borrowers mainly because of the greater element of risk involved in financing their requirements. After nationalisation, there has been a radical change in the bank's attitude towards financing the small borrowers.
Medium term loans are also given to this sector which is for the period ranging from 3 to 5 years. The rate of interest charged for this type of finance is 15%.

In the case of short term loan the rate of interest is 12.5% for loans upto Rs.5,000 and between 12.5% and 15% for loans between Rs.5,000 and Rs.25,000 and between 15% and 19.5% for units above Rs.25,000.

Lending Procedure

The advances given to retailers and small businessmen are considered as priority sector advances, if each loan amount for retail-trade is Rs.25,000 and below. If the retail-trade advance is more than Rs.25,000/- the advance is considered as non-priority sector advance.

If the trader has an annual sales turnover of more than four lac rupees the advance given is not covered under Guarantee cover of DICGC.

The credit institution granting any credit facility should ensure that

i) the facility is allowed only against merchandise which is readily saleable or against bills or book debts representing amounts receivable by the borrower on account of the sale of merchandise and
ii) statements of stock-in-trade or of the value of stocks are obtained from the borrower and the drawing power is regulated according to the margin prescribed in the account.

The applicant for a loan must be properly introduced to the bank and the bank must also try to know the financial back-ground of the applicant. For this purpose the applicant should submit his loan application narrating all the details such as his nature of trade, the present position of business, his trade network and for which purpose the loan is required, the type of financial requirement and the method of repayment.

After scrutinising the application if the bank authorities are satisfied with the informations given in the application they will make proper enquiry about his conduct. The banker should also ascertain the prospects of his proposed venture to know whether applicant would be able to get enough business. His estimated future profits should also be checked up to determine his loan repaying capacity within a stipulated period.

After these formalities the bank will inspect the place of business to check whether the details given by
the applicant in the application coincides with the present position.

The loan will be sanctioned as soon as the legal procedures and formalities are fulfilled. The bank must also ascertain whether the loan has been sanctioned as assured to the actual applicant.

Securities

For getting the loan, the applicant should furnish a guarantee from a reliable person known to the bank. If the banker's finding regarding his position are satisfactory, guarantee need not be insisted upon.

Period of repayment of loan and rate of interest

The loans as applicable to the retail trade are classified as short term and medium term loans for the purpose of repayment schedule. The short term repayment is to be made within one year time with interest upto 19.4% for limits above Rs.25,000.

Usually bank sanction the loan from 15 to 30 days from the date of application. For the amount exceeding ceiling, prior approval must be obtained and it will take the maximum period of 45 days to 60 days.
Rate of interest charged is 12.5% for loans upto Rs.5,000/- between 12.5% and 15% for loans between Rs.5,000 and Rs.25,000 and between 15% and 19.5% for limits above Rs.25,000.

Medium term loans are usually term loans, the repayment period of which is 3 years time, and the rate of interest charged is 15%.

Performance Evaluation

An evaluation of the performance of selected commercial banks in financing the retail trade and small business is now being attempted. First an assessment regarding the volume of advances granted to retail trade and small business is made. Table 3.2 shows advances granted to retail trade and small business as on 31.12.1986 by selected commercial banks in Thanjavur Town. The sample covers 5 public sector banks and 4 private sector banks. In addition to advances to retail trade and small business the Table also provides details regarding total advances by selected banks during the year and total advances to non-conventional sector.

The Table shows that the total volume of advances by public sector banks is Rs.275.16 lacs. The figure is several times higher than the private sector banks' advances to retail trade and small business which
## TABLE 3.2

Selected commercial bank’s advances to Retail Trade and small business in Thanjavur Town as on 31.12.1986.

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Total Bank Advances</th>
<th>Advances to Non-conventional Sector</th>
<th>Advances to Retail Trade and small business</th>
<th>% of advances to Retail Trade and small business on Total Advances (3 as % on 1)</th>
<th>% of advances to Retail Trade and small business on advances to non-conventional sector (3 as % on 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Banks</strong> (a)</td>
<td>7776.00</td>
<td>2295.19</td>
<td>275.16</td>
<td>3.53</td>
<td>11.99</td>
</tr>
<tr>
<td><strong>Private Sector Banks</strong> (b)</td>
<td>2061.96</td>
<td>568.14</td>
<td>61.38</td>
<td>2.97</td>
<td>10.80</td>
</tr>
<tr>
<td><strong>Total (a + b)</strong></td>
<td>9837.96</td>
<td>2863.33</td>
<td>336.54</td>
<td>3.42</td>
<td>11.75</td>
</tr>
</tbody>
</table>

**SOURCE:** Primary data collected from the Records of Commercial Banks.
amounted to Rs.61.38 lacs. Eventhough the volume of advance is lower as a percentage on total advances, the private sector bank's performance is not far behind the public sector banks. Their percentage of advances to retail trade and small business is nearly 3% compared to the percentage of advances by public sector banks which is 3½%.

To ascertain the importance of advances to retail trade and small business among advances to non-conventional sector, the percentage of advances to retail trade on total advances to non-conventional sector is calculated. The calculation shows that out of the total advances to non-conventional sectors retail trade and small business advances amount to only 11.75%. Here also the difference in the performance of public sector and private sector banks is not much, as the public sector banks have given 12% of the total advances of non-conventional sector to retail trade and small business as against 11% of the private sector banks.

In general with reference to the volume of advances to retail trade and small business it can be stated that the commercial banks have made only a beginning in financing this most important sector.
Though the commercial banks have been financing traditionally the whole-sale trade and big business establishment, they have been induced to finance the requirements of retail trade and small business because of inclusion of this sector under priority sector advances. There is much scope for expansion of loans to this sector as it can be expected, that with more experience the bank can make a selection of credit-worthy borrowers from this sector.

It must be remembered that the retail trade and small business are dependent on the indigenous bankers money lenders for their financial needs. By extending bank finance to this sector commercial banks will be rendering a very useful service of freeing them from the clutches of these money lenders who charge heavy rate of interest.

In order to understand the continuous involvement of commercial banks in financing retail trade and small business, a trend percentage is calculated for 5 years beginning with December 1983. Table 3.3 shows that the trend percentages of advances to retail trade and small business for the 5 year period. It can be observed that there is a noticeable increase in the advances to retail trade and small business during the 5 year
period. The increase is as much as 25.9% points. Though the amount involved is small the continuous increase in the advances to this sector is encouraging. In the case of public sector banks the increase is slow during the first 2 years taken up for the study. But afterwards the increase in the percentage of advances is significantly high. Particularly during 1987 there is 9% increase in advances to this sector. However the Table clearly shows that in the case of public sector banks advances to retail trade and small business have recorded a steady but consistent growth from 100-121% during the 5 years.

In the case of private sector banks also there is a remarkable increase in their advances to retail trade and small business. The advances have increased from 100% to 154%. But it can be noted that the increase is not uniform during the 5 year period taken up for study. During the year 1984, the increase is as heavy as 34% but during the years 1985 and 1986 the increase is only 5% and 7% respectively. However it appears that the advances to retail trade and small business have picked up again in 1987 as the increase is nearly 11%.
TABLE 3.3

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Banks (a)</strong></td>
<td>244.80</td>
<td>251.60</td>
<td>260.48</td>
<td>275.16</td>
<td>296.00</td>
</tr>
<tr>
<td>(100%)</td>
<td>(102.8%)</td>
<td>(106.4%)</td>
<td>(112.4%)</td>
<td>(121.0%)</td>
<td></td>
</tr>
<tr>
<td><strong>Private Sector Banks (b)</strong></td>
<td>42.80</td>
<td>56.10</td>
<td>58.08</td>
<td>61.38</td>
<td>66.00</td>
</tr>
<tr>
<td>(100%)</td>
<td>(131.0%)</td>
<td>(136.0%)</td>
<td>(143.4%)</td>
<td>(154.2%)</td>
<td></td>
</tr>
<tr>
<td><strong>Total (a + b)</strong></td>
<td>287.60</td>
<td>307.70</td>
<td>318.56</td>
<td>336.54</td>
<td>362.00</td>
</tr>
<tr>
<td>(100%)</td>
<td>(107.0%)</td>
<td>(110.8%)</td>
<td>(117.0%)</td>
<td>(125.9%)</td>
<td></td>
</tr>
</tbody>
</table>

(Figures in bracket indicate the trend percentages)

SOURCE: Primary data collected from the Records of Commercial Banks.
Graph 3.1: Public and Private Sector Finance to Retail Trade & Small Business

X-axis: 2cms = 5%
Y-axis: 4cms = 1 year

1983 84 85 86 87 88

Public Sector Banks

Private Sector Banks
Though the private sector banks have shown interest in helping the retail trade and small business the fluctuating trend in their advances is an indication that at times the commercial banks allow the trend increase to drop appreciably in some of the years.

In general it is to be noted that both the public sector and private sector banks have increased their volume of advances to retail trade and small business which can be considered as a neglected sector.

For the purpose of the study 5 public sector banks and 4 private sector banks operating in Thanjavur Town have been selected. It is interesting to note that the different banks in the public sector banks as well as in the private sector banks have varying levels of interest in financing the retail trade and small business. To ascertain the extent of interest of these different banks in financing this sector their volume of advance to this sector as well as its percentage on the total advances of all the banks put together have been tabulated. Table 3.4 shows advances made by the different selected banks in Thanjavur Town to retail trade and small business as on 31.12.1986. It is significant to note that the public sector banks
TABLE 3.4

Distribution of advances to Retail Trade and small business among selected banks in Thanjavur Town as on 31.12.1986.

(Rupees in Lacs)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank Group</th>
<th>Amount Lent</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PUBLIC SECTOR BANKS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>State Bank of India</td>
<td>119.00</td>
<td>35.36</td>
</tr>
<tr>
<td>2.</td>
<td>Indian Overseas Bank</td>
<td>63.00</td>
<td>18.73</td>
</tr>
<tr>
<td>3.</td>
<td>Indian Bank</td>
<td>82.00</td>
<td>24.36</td>
</tr>
<tr>
<td>4.</td>
<td>Canara Bank</td>
<td>4.65</td>
<td>1.38</td>
</tr>
<tr>
<td>5.</td>
<td>Punjab National Bank</td>
<td>6.51</td>
<td>1.93</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-Total (a)</strong></td>
<td><strong>275.16</strong></td>
<td><strong>81.76</strong></td>
</tr>
<tr>
<td></td>
<td>PRIVATE SECTOR BANKS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>City Union Bank Limited</td>
<td>41.85</td>
<td>12.43</td>
</tr>
<tr>
<td>2.</td>
<td>Bank of Madura Limited</td>
<td>10.23</td>
<td>3.04</td>
</tr>
<tr>
<td>3.</td>
<td>Lakshmi Vilas Bank Limited</td>
<td>6.51</td>
<td>1.93</td>
</tr>
<tr>
<td>4.</td>
<td>Karur Vysya Bank Limited</td>
<td>2.79</td>
<td>0.84</td>
</tr>
<tr>
<td></td>
<td><strong>Sub-Total (b)</strong></td>
<td><strong>61.38</strong></td>
<td><strong>18.24</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total (a + b)</strong></td>
<td><strong>336.54</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

SOURCE: Primary data collected from the Records of Commercial Banks.
account for nearly 80% of the total advances to retail trade and small business by selected commercial banks. But even among the public sector banks the preference for financing retail trade and small business show very wide variations. It varies from 1.38% in the case of Canara Bank to 35.36% in the case of state Bank of India. The state Bank of India, Indian Overseas Bank and Indian Bank among themselves account for more than 75% of the advances to retail trade and small business out of the total selected commercial bank's advances to this sector.

In the case of private sector banks there are marked variations in financing retail trade and small business. The variation ranges from 0.88% in the case of Karur Vysya Bank Limited to 12.43% in the case of City Union Bank Limited. It appears that the City Union Bank Limited and Bank of Madura Limited have favourably considered the loan application of retail trade and small business as they have account for 15.47% of the total advances of the selected banks to this sector. These 2 banks account for as much as 84.85% of the total loans advanced by selected private sector banks to this sector.
The study of the attitude of the different selected public sector banks and private sector banks towards financing retail trade and small business varies very widely. The reason may be some of the banks are feeling shy to enter into financing this sector as they still feel that it involves a considerable amount of risk. In the case of small business particularly such as dealers in fruits, flowers, egg, fish, etc., the banks may feel that there is no safety of funds lent to them. But with the experience gained during the course of years it is to be hoped that all the banks will show equivalent amount of interest and expand their loan operations to this vital sector.