INTRODUCTION
At the time of Independence, widespread poverty, rapid growth of population, underemployment and unemployment, low productivity, slow development of industries, backwardness of agriculture, the very old land tenure system, inequalities in the distribution of income and wealth were some of the important causes for Indian poverty. And all these causes were interrelated. Among all these causes underemployment and unemployment are the most important. There is a wide gap in per capita incomes between developed and developing Nations. This is largely reflected in and attributable to the disparities in their economic structures. At present, Indian economy is an underdeveloped economy, though its natural resources are vast, they are either unutilized or underutilized. This is due to our over dependence on agriculture. As agriculture is a seasonal occupation, a major section of the manpower, which too is plentiful, is lying idle (remains unemployed or underemployed). Moreover, the traditional and outdated techniques or methods of agriculture are resulting in low agricultural yield. Because of low yield and widespread unemployment and underemployment, the basic needs of a sizeable section of the population always remain unfulfilled¹. So, in Indian economy, which is marked by an abundance labour and scarcity of capital, the imperative of judicious utilization of scarce capital resources to provide large scale employment to teeming millions of people is more than obvious. In other words, accelerating industrialization is the only answer to the present state of disrupted economy.

Agarwala, et al (1988) stated that the industrial units which possess relatively high marginal propensity to save and invest contribute significantly to the eventual achievement of self-sustaining economy. Thus, industrialisation acts both as an instrument that creates capacity to absorb excess man power and caters to the diversification of the market required at higher stages of economic development. The pattern of industrialisation to be adopted has, of course, to be decided in the light of numerous socio-economic and technical factors.

The main goals of industrialisation are maximum growth rate, large scale employment generation and equitable distribution of income and wealth. Of course, the emphasis shifts from one objective to the other with the level of development achieved and with improved perceptions. Nevertheless, the objectives of growth and employment have always assumed much importance. Some general issues connected with economic growth like equity, welfare and the national economic independence are given due importance in the process of industrialisation.

Ruddar Dutt, & KPM Sundaram (1988) Indian economy, New Delhi: S. Chand & C0, P. 539.

Industrialisation Strategies

With the attainment of independence, there was a lot of thinking among the intellectuals, planners and government policy makers regarding the need to take some systematic steps for accelerating the development process. Industrialisation strategies are the long term overall plans designed to give specific lines on which the future industrialisation should proceed to attain a set of objectives. Strategies of industrialisation differ from nation to nation and time to time in a given nation/state.

In the process of industrial development, one of the strategies considered by the planners was to choose between large and small scale industries or promote both in an integrated manner. The consideration of the size an industrial unit gains importance for two reasons. Firstly, its economic efficiency and secondly, its competitiveness in the market. The success of any industrial unit largely depends upon its ability to reduce the cost of production per unit of output and maintain its quality of output. However, there is a difference of opinion with regard to the question of whether large scale or small scale units are more efficient.

Large scale industrial units are built around the following reasons. Large scale industrial sectors are more economical in working than small scale industrial units. They spread the overhead cost per unit of output and derive economy through large scale production. Large scale industrial units provide more employment and also produce more output than the small scale sectors.

The champions of small scale industrial organizations are reluctant to accept the fact that the large scale organizations bring in more efficient results. They maintain that the much claimed economies of size are due to questionable business practices at the cost of free and fair competition. In small firms, the efficiency in production is attained by intra-plant economies through an effective coordination and supervision. Small scale sectors are more flexible and readily adaptable to the changing situations. Small scale organizations also conserve non-renewable resources unlike big ones.

Small scale sectors also prevent city-ward migration through balanced regional development. Further, they also serve the local needs and make use of locally available resources. All over the country the promotion and organisation of smaller units would lead to production by masses unlike the

mass production by a few large scale industrial sectors. These small scale industries also have a talent of "dispersal". They can be made accessible in the remote or inaccessible rural areas of the country, and do not lead to concentration of industries at one place. They thus help remove regional imbalances which are responsible for many economic ills. At the same time, they help in drawing out economic resources such as entrepreneurship and capital. Besides, they are labour oriented and hence very much suitable for a country like India to play a catalytic role in the overall economic development.

Deepak Agarwal (1987) studied the prospects of Industrial estates in under developed countries and concluded that there is need for development of small scale industries in order to (a) speed up industrialisation on a decentralised and dispersed basis; (b) provide massive employment opportunities; (c) reduce wide inequalities in income and wealth distribution; (d) facilitate an effective mobilisation of small and scattered savings for production purposes; (e) accelerate the rate of economic growth; (f) provide avenues for broad based entrepreneurship; and (g) to meet increasing demand for consumer goods.

7 Vivek Deolankar Opcit, p. 383.
8 Deepak Agarwal (1987) Prospects of Industrial Estates in under developed countries; Allahabad; Chaugh publications, p. 129.
Thus these industries have a pivotal role to play in economic development, particularly in India, which is characterised by underutilised labour force on the one hand and scarcity of capital on the other.

In India, the earlier developmental planning keeping its stress on the development of large scale industry failed to solve the problems like balanced regional development, gainful employment to millions of unemployed and, equitable distribution of benefits of industrialisation. With industrial development mostly confined to a few metropolitan cities and big towns and the benefits of industrialisation have hardly percolated. Thus, it has been realised later that the pattern of industrialization could not be the same as the pattern of industrialisation in Western countries due to the fact that India is a over-populated country with wide regional imbalances and scarcity of capital. Moreover, the welfare objectives enshrined in the constitution imply that in the process of development, the common man's welfare is to be given top priority. The guiding principle of the socialistic pattern of society also dictates that the small scale should be recognised as the means to achieve equitable growth. Therefore, increasing attention has been given to the development of small scale units since the beginning of the Second Five Year Plan Period. This becomes evident in larger plan allocations to the small scale units and in wide ranging incentives and support programmes. Under the various Industrial Policy Resolutions, the main role assigned to these small
scale industries envisages: (a) creation of employment opportunities on a massive scale with relatively small capital investment; (b) meeting a substantial part of the increased demand for consumer goods and simple producer goods; (c) facilitating the mobilisation of local resources which would otherwise remain unutilized in the rural areas; and (d) removal of regional imbalances through a deliberate policy of encouraging growth in villages and small towns.

Definition:

The small scale industry definition is a very important aspect because it identifies the target groups for the government policy. According to Fiscal Commission (1949-50), small scale industry was one which was operated mainly with hired labour, usually 10 to 50 hands.

In the second Five year plan, the Government of India adopted the working definition of a small scale unit as a unit with an investment not exceeding Rs. 5 Lakhs and employing less than 50 persons if using power and less than 100 persons if not using power. However, on the recommendation of the Federation of Association of Small Industries of India, an apex level


Indrajit Singh and Gupta N.S. (1977), Financing of Small Industry; New Delhi, S.Chand & Co. P. 166.
organisation of small scale industries set up under the aegis of Ford Foundation Team, only the investment in fixed assets was considered for granting the status of small scale unit. Accordingly, a unit with an investment in plant and machinery not exceeding Rs. 7.5 lakhs was considered as a small scale unit.

From time to time, there have been many changes in the ceiling limit of investment in plant and machinery. In 1975, the Government of India revised the definition of small scale unit. Under the revised definition a small scale unit is an undertaking having investment in plant and machinery not exceeding Rs. 10 lakhs. In this connection, the Government also defined an ancillary unit is an undertaking having investment in plant and machinery not exceeding Rs. 15 lakhs. Further, with a capital investment of Rs. 1 lakhs a new sector called "tiny" sector was evolved within the small scale sector.

In 1977, the Industrial Policy Resolution, modified the definition of small scale industries. As per the new definition, all the units having investment upto Rs. 20 lakhs in plant and machinery were considered as small scale units whereas in case of ancillaries, the investment ceiling was upto Rs. 25 lakhs. In the case of tiny sector the investment ceiling limit was fixed at Rs. 2 lakhs. During the year 1982, the definition was further extended to
include service oriented enterprises which were not engaged in purely trading or commercial activities. Again in 1985 the government raised the ceiling limit of thrust investment in plant and machinery of small scale sector and ancillaries from Rs.20 lakhs to Rs. 35 lakhs, and from Rs. 25 lakhs to Rs. 45 lakhs respectively.

The latest classification and definition are mentioned below:

(i) **Small Scale Industries:**

A small scale industry was defined as an Undertaking having investment in fixed assets in plant and machinery, whether held on ownership terms or by lease or by hire purchase, not exceeding Rs. 60 lakhs.

(ii) **Ancillary Industries**

Undertakings, having investment in plant and machinery not exceeding Rs. 75 lakhs with the following characteristics. (a) the investment in plant and machinery whether held on ownership terms or by lease or by hire purchase, does not exceed Rs. 75 lakhs; and (b) the undertaking is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services, and the undertaking supplies or renders or proposes to supply or renders at least 30 per cent of its production or services, as the case may be, to one or more other industrial units. The amount of Rs.75 lakhs is now enhanced to Rs. 3 crores.
(iii) **Tiny Units:**

Undertakings, having investment in fixed assets in plant and machinery not exceeding Rs. 5 lakhs and situated in rural and backward areas having a population upto 50,000 as per 1981 Census, have been defined as tiny units.

(iv) **Small Scale Service Establishments:**

Establishments/enterprises engaged in personal or household services in rural areas and towns with a population of 5 lakhs or less, and having investment in plant and machinery not exceeding Rs. 2 lakhs, have been defined as small scale service establishments.

The small scale industries can be divided into two categories viz. (a) organized (modern small scale industries) and (b) unorganised (traditional small scale industries). The organized small scale industries are more urban oriented and have been registering comparatively faster growth. They are relatively more capital intensive with heavy machinery and modern equipment. The traditional small scale enterprises include village industries sericulture, handicrafts, coir, khadi and handloom industries. These industries are mostly labour intensive and based mostly in rural and semi-urban areas. They have
been sustaining employment and incomes in the rural areas\(^1\). They have also been preserving craftsmanship and artistic heritage of the country.

**FINANCIAL NEEDS**

Soon after Independence, India's economic plans envisaged the setting up of a wide spectrum of industries as a crucial development strategy to achieve self-sustaining economic growth, which would require massive capital. In a developing country like India, industries could no longer afford to be just one man show. They are now to be managed by a group called "technostructure". Several industrial units stand in urgent need of modern automatic machines to enable them to produce better quality products at lower costs so as to sell them at competitive rates in the international markets. Industrial growth can be spearheaded by a much needed shift of attention from prerequisites for location of industries, problem of dispersal, infrastructure and entrepreneurial motivation to development of management skills, marketing know-how, market research, management consultancy, prompt decision-making and advisory services for industries in India. All these improvements require large amounts of credit for short, medium and long periods.

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Development Commissioner (S.SI 1990); Facilities and Services for Development of Small Scale Industries, New Delhi; Govt. of India Press, pp. 2-3.
Finance is to industry what blood is to human body and the leading financial institutions act as blood banks to the large and medium scale sectors. The transfusion of blood enriches the recipient but does not impoverish the donor. Financial support from institutional sources is not only essential for the growth of industry but is perhaps even necessary for its very survival. When finance is easily available, industrial development can be accelerated as the participation of new entrepreneurs in economic activities depends up on the sources of access to funds on reasonable terms and conditions.

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. According to Bhattacharya (1960), a noted banker, to perform his economic function, an entrepreneur primarily needs two things: namely a pool of scientific and technical knowledge and the power of disposal over factors of production. Scientific progress being always at a greater pace than technical progress, there is never a dearth of technical


knowledge in any society. While an engineer translates the scientific discovery into workable technology, an entrepreneur puts it into commercial use and here he needs his power of disposal over factors of production, which according to Schumpeter, should be made available to him in the form of financial assistance from institutional agencies.15

Financial needs of small scale industries may be broadly divided into two categories i.e., fixed capital and working capital. The first category (i.e. fixed capital) needs resources to be deployed for a long period and the second category involves resources for a short-period. The long term finance is needed for creating assets like land, buildings, plant and machinery. The short term finance is needed for purchasing of raw-materials and for meeting the day-to-day requirements of business. The fixed capital requirements are usually met by issue of shares and debt securities. In small scale units the equity capital is generally provided by the entrepreneurs themselves. The entrepreneurs often supplement their own contribution with funds raised by their friends and relatives. The small entrepreneurs also borrow on long term basis from the financial institutions and others to meet their fixed capital requirements. The working capital requirements are met by drawing on: (a) owner’s funds; (b)

funds from operations; (c) long term borrowings; (d) spontaneous financing (trade creditors), and (e) short-term borrowings from commercial banks and others. The working capital is needed to purchase raw-materials, stores and to maintain required level of inventory. It is also required to maintain cash balance and also to make credit sales to customers. Moreover, the present day financial requirements of the business are met out of the funds drawn on working capital. The level of working capital in any organisation depends upon the operating cycle, nature of the business and the capital market situation.

All most all industrial enterprises, particularly, in the case of small scale industrial units suffering with inadequate working capital. In fact, the principal need of small concerns is working capital. The financial problem of the small scale units is aggravated by the tendency of their suppliers to demand immediate cash payments whereas their customers often insist on credit sales. This situation creates an additional problem of working capital finance. Thus, majority of the small scale industrial units suffer from financial problems. The reinvestible funds generated by the small enterprises are meagre and consequently, their ability to self finance their growth is limited. Thus, the availability of external finance is of crucial importance for the growth and development of small scale industries. However, the small scale units do not have access to the organised capital market because they are
mostly organised on proprietary or partnership basis, and are of very small size. Their access to institutional sources of finance was also limited because of many procedural wrangles. Before, the nationalisation of the commercial banks in 1969, the small scale enterprises were not having much dealing with commercial banks. The small entrepreneurs mostly depended upon the unorganised financial agencies. The main cause for step motherly treatment of small scale industries by commercial banks was that these units were not in a position to offer the guarantee as demanded by the banking sector. Most of the entrepreneurs, who were either illiterate or semi-literate, avoided borrowing from government agencies due to the fact that the procedure was so cumbersome.

A study Group under the chairmanship of the late Prof. D.K. Gadgil (1969) observed that there was uneven distribution of credit to different economic sectors while it was virtually not available to certain types of borrowers, particularly small borrowers and weaker section of the community. The sectoral distribution of credit by commercial banks is weighted in favour of large-scale industries, wholesale trade and commerce rather than agriculture, small scale industry, retail trade and small borrowers.


17 Report of a study Group of the National Credit Council (Prof. D.K. Gadgil) (1969) Organizational framework for the Implementation of Social Objectives;
Development of Financing Institutions

As stated earlier, the conventional banker, being purely security oriented, does not show interest in the development of small scale industries. During the Second Five Year Plan, it was felt that the commercial banks had to take interest in financing small scale enterprises. For the first time, the State Bank of India, which instituted a pilot scheme to meet all types of credit requirements of small scale industries incomplete under liberalised rules and procedures. In 1969, when the 14 major commercial banks, were nationalised other commercial banks have also made efforts to support the development of small scale industries. The concept of priority sector came to be evolved in India in the late 1960's. Of the economy particularly in the rural areas and to ensure adequate credit facilities to them. The priority sector covers agriculture, small scale industries, industrial estates, road and water transport operators, retail trade, small business, professionals and self-employed persons, housing and consumption. To provide adequate credit to this priority sector, the Government stipulated that the banks should provide at least 40 per cent of their total outstanding advances. Apart from these stipulations, the Government took several important steps for evolving suitable lending programmes like provision of refinance at confessional rates of interest, provision of guarantee cover, provision of consultancy facilities and technical expertise to the banks.

Bombay; Reserve Bank of India, p.8.
In India, where the commercial banks traditionally confined their role to meeting the short-term requirements of trade and industry, it was felt necessary to set up specialised institutions for meeting the medium and long-term financial requirements of the industry. The Industrial Finance Corporation of India, (IFCI) which was set up in 1948, started to extend medium and long-term credit to industrial undertakings. In fact, the establishment of IFCI marked the beginning of the era of development banking in India. At the state level, as counterparts of IFCI, State Financial corporations (SFCS) were established under the State Financial Corporations Act 1951. The State Financial Corporations are expected to cater to the financial and promotional needs of medium and small scale units. The Industrial Credit and Investment Corporation of India (ICICI) was established in 1955 as a private limited concern in order to diversify the development banking in India. In India, the ICICI was a pioneer in numerous areas of capital market development. In 1958 the Refinance Corporation of Industry (RCI) was established to extend refinance facilities to banks which provide medium term loans granted by them to medium and small scale industries. However, the most important landmark in the area of development banking in India was the establishment of Industrial Development Bank of India (IDBI) in 1964 as a subsidiary of the Reserve Bank of India. This bank acts as an apex institution to co-ordinate the activities of other industrial finance institutions and banks, to supplement their resources and to provide direct financial assistance to industrial projects
involving large outlays and long gestation periods. Later it promoted the establishment of Industrial Reconstruction Corporation of India Limited (IRCI) in 1961 under the aegis of World Bank. In view of the need to develop small industries, the National Small Industries Corporation (NSIC) was setup in 1955. The RCI was merged with IDBI in 1964. The IDBI is an apex institution in industrial financing. It not only provides finance but also co-ordinates the activities of all term lending institutions. In the form of regional institutions, State Industrial Development Corporations (SIDC), and State Industrial Investment Corporations (SIIC) were created to assist faster industrial development in the country. To assist the small scale industries exclusively, the National Small Industries Corporation Limited (NSIC) was established in 1995. The main function the NSIC is to aid, counsel and finance the small scale units in setting up industrial units. As time went on, the emphasis of term lending institutions has changed from financing to development. In pursuance of the new policy, the National Industrial Development Corporation (NIDC) was established in 1954. The NIDC, besides providing finance, aids helps the entrepreneurs in setting up industrial units. The NIDC has now been converted into a consultancy organisation. That provides consultancy services to industries and thus promotes the development of industries.

Besides development banks, the LIC, UTI and other investment institutions also help industries. While the IFCI and ICICI provide both
foreign and rupee assistance, the other institutions including the IDBI grant merely rupee credit. During the year 1982, the Export-Import Bank of India (EXIM Bank) was started with the prime objective of providing financial assistance to exporters and importers. It also co-ordinates the working of other institutions engaged in financing exports and imports. The other function of this Exim Bank is to provide refinance facilities to commercial banks and other financial institutions against their export-import credit.

In 1990, the Small Industries Development Bank of India (SIDBI) was established as a subsidiary of IDBI. The SIDBI administers both the small industries development fund and the national equity fund for providing equity support to tiny and small scale industrial units. In addition to providing developmental finance to small scale industries, the financial institutions, including commercial banks, have taken over a large number of functions like development of entrepreneurship, provision of technical and management consultancy and other related activities.

REVIEW OF LITERATURE

A comprehensive review of literature has become an essential part of any investigation as it not only gives an idea about the work done in the past and assists in delineation of problem area but also provides a basis for interpretation of findings. The available relevant literature on small scale
industries is reviewed with reference to their financial as well as other related aspects. An attempt is made along the following lines to review some of such studies.

Menon’s (1981) study on “Concessional Finance from All India Development Banks” aimed at examining the role of confessional finance in industrial development. The study covered 313 industrial units which are granted direct financial assistance on concessional terms by All India Development Financing Institutions during 1970-79. This study reveals that concessional finance accounted for 44 per cent of the total assistance and 15 per cent of the project assistance. The share of backward areas in project cost, total assistance and concessional finance accounted for 44 per cent, 39 per cent and 45 per cent respectively. The inter-state variations in the amount sanctioned under concessional terms were apparently wide. Andhra Pradesh and Uttar Pradesh accounted a little over 44 per cent of the total cost of the projects set up in notified backward areas/districts/states under concessional terms. The least developed states viz., Assam, Bihar, Manipur, Meghalaya, Nagaland, Orissa and Jammu and Kashmir continued to lag behind. The same trend was observed in the case of developed states also. The study further revealed that the percentage of the share of medium units in concessional finance is more than that of the large sized units.

Menon K.S.V. (1981); “Concessional Finance from All India Development Bank: A Statistical Profile and Theoretical Explanation” in IDBI, pp.249-266.
Bagwati Prasad and Eresi K. (1988) made an empirical study on "Fixed Assets Management - An Unknown Dimension Leading to Sickness in Small-Scale Industries". This study covers 101 samples of small scale units in the Bellari district of Karnataka State. The study attempted to examine the following issues:

a). What is the extent of investment in fixed assets in small scale industries;
b). How have they been financed; and
c). How have they been managed

The major findings of the present study are as follows:

i). The investment in fixed assets accounted for 41 per cent of the total investment;

ii). Equity and long-term sources of financing have almost entirely been responsible for the acquisition of fixed assets; and

iii). Higher investment group has utilised the fixed assets more efficiently as compared to others.

The study concentrated only on fixed assets management and made a passing reference to working capital management which is an important aspect of small industry management.

Punja (1984) studied the performance of development financial institutions in general and IDBI in particular. He presented the different schemes and projects introduced by development banks in a chronological order. IDBI succeeded in establishing an appropriate working relationship with institutions and in co-ordinating their activities, besides undertaking promotional activities during the first decade (1964-74). In the second decade (1983-84) IDBI placed greater stress on promotion of small scale industries, development of industrially backward areas, modernization and upgradation of technology in industry, establishment of IRCI (1971), refinance operation of SIDCS (1976) and introduction of special refinance schemes for rehabilitation and modernization of small scale industries (1983-84). All these schemes, increased lending facilities to the small and medium scale industries from 91 in 1974 to 826 in 1984. IDBI also constituted Entrepreneurship Development Institute of India (EDII) in 1983, introduced Soft Loan Scheme in 1976 promoted. Extension of Modernization Assistance to all industries in 1980, and introduced modified soft loan scheme for modernization (1983-84)\textsuperscript{20}.

S.M. Patta Naik (1988) conducted a study on “Development Strategy for Small Industries”, to understand the structure of engineering industries from economic and organisational points of view. One hundred and forty nine small scale engineering industries in Karnataka state were surveyed for the

study. The important findings of the study are as follows:

i. A large number of units (88 per cent) had a production capital (fixed capital + working capital) varying between Rs.10,000 and Rs. 20,000 per employee, revealing low capital-labour ratio;

ii. More than three-fourths of the total sample units borrowed between Rs.10,000 and Rs. 5 lakh. But in the higher ranges of over Rs.5 lakhs, it was 14.74 per cent. A large number of units (118 units out of 149) borrowed from commercial banks, 6 from other financial institutions and the rest from unspecified sources.

iii. The consumer goods, intermediate goods and job work units are predominantly managed by proprietors or single entrepreneurs, while capital goods units by partnership firms; and

iv. 85 per cent of the units in consumer goods, 75 per cent in intermediate goods, 67 per cent in job works, and 72 per cent in capital goods sector reported that securing credit from various financial institutions has not been a problem to them. But obtaining credit in adequate amounts was still a problem due to lack of collateral security, margin money, absence of reference, ineligibility and procedural difficulties.

The study was primarily restricted to engineering industries and the main focus was also on developmental aspects of small-scale industries

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Sarma (1986) evaluated the role of financial institutions in reduction of regional disparities in the country". This study highlighted the problem of regional disparities (Inequalities) in India and the various schemes and measures taken up by AFIS with an emphasis on the apex institution viz., IDBI. This study has shown empirically as to how the institutional assistance flowed to a few developed states and to a few backward areas of developed states. This study also examined the flow of IDBI assistance to different districts of A.P

The State Bank of India (1972) conducted a survey of small-scale industries in four centres of Rajkot, Sangli, Ranchi and Varanasi, to assess the potential for financing the small-scale industrial units. In this survey, as many as 1,007 (74 per cent) did not have any borrowed arrangements with commercial banks. Of these 1,007 units, 532 units (53 per cent) expressed their willingness to borrow from commercial banks. And 475 units (47 per cent) were reluctant to borrow from banks. Moreover, it was found that the bigger the size of the unit, the greater was its keenness to seek funds from banks. Thus, the study was more of an exploratory nature and thus failed to investigate into specific financial problems of the small-scale sectors.

Therefore, with the growing involvement of banks in financing the small-scale industries, a nation-wide sample survey of small-scale industrial

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Sarma, Ramakrishna, K; (1986) : Financial Institutions and Regional Development in India, Allabhabad : Chungh Publications.
sectors, assisted by the banks, was organised by the Reserve Banks of India in collaboration with commercial banks.

Sunder Raj (1980) in his study sought to examine from the demand side, the extent to which financial institutions could meet the requirements of small-scale industries and, from the supply side, to analyse the deployment of institutional credit to small scale sectors according to the size of the units, their location and the type of organisation. The major findings of the study are as follows:

i. The overall view of the small scale industrial units assisted by banks reveals that the internal resources formed a smaller proportion of total net assets (128.2 per cent) for small scale units than for medium and large-scale units.

ii. 41.1 per cent of large scale (public limited units) with the small scale sector 63.5 per cent of the use of institutional credit was more in the case of larger units. (73.9 per cent).

iii. Within the small scale sector, the use of institutional credit as a proportion of total borrowings was low for small scale units.

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(63. per cent) than for (42 per cent) medium and large scale public sector units which employed 21 or more persons, and the partnership concerns;

iv. A major portion of the institutional credit was extended to units other than those in backward districts; and

v. The conventional small scale industries such as grain mills and oil mills resorted to non-institutional credit to a greater extent than others in the small scale sector.

This study concentrated more on sources of finance rather than on financial problems of small-scale industrial units.\(^{24}\)

The Small Industries Extension Training Institute (1980) conducted a study on “Impact of Concessional Finance on Industrial Development of Backward Areas”. For the present study of samples of the small scale entrepreneurs was selected. It was observed that the entrepreneurs resented the procedural delays in sanctioning of loans, and insistence on collateral security, and solvency certificate. In the case of raw materials, the problem was not so much as to the availability than to its distribution. As regards the underdeveloped areas, it was observed that the growth in number of units and

increase in fixed capital alone may not create the necessary impetus for growth unless considerable productivity changes are also effected through fuller capacity utilisation. The causes for under utilisation of capacity were mostly insufficient demand and inadequate financial resources for working capital\(^{25}\). The study confined itself to backward areas, and it also failed to look into unit level financial problems of small scale industries.

The Andhra Pradesh Industrial Technical Consultancy Organisation (APITCO) and the Kerala Industrial Technical Consultancy Organisation (KITCO) (1980) conducted a study on various problems faced by small scale industries in three states viz., Kerala, Karnataka and Andhra Pradesh\(^ {26} \). It was observed that the most serious problem faced by the units was inadequacy of working capital. About 69 per cent of the units in Kerala, 44 per cent of the units in Karnataka, and 52 per cent of the units in Andhra Pradesh had been facing the problem of inadequacy of working capital. The next in order of importance was marketing, as 30 per cent of the units in Kerala felt that it was a serious bottleneck in their growth. Non-availability of raw materials also affected the productivity of several units in all the states, especially in industry


groups such as metal product in Kerala; chemicals, rubber, plastics, and metal products in Karnataka, machinery and parts, metal products, and chemicals in Andhra Pradesh. It was also observed that the delay in getting timely finance also hampered the productivity of the units and this led to high cost of production. Thus, the study was a comprehensive one, attempting to identify the various bottlenecks in the growth of small-scale industries.

Vivek Deolankar (1989) attempted a quantitative survey of entrepreneurship development in the developed, developing and backward states of India by collecting information from a sample of 264 small scale units located in the states of Maharashtra, Andhra Pradesh, Karnataka and other states of India. The study found that despite of abundant natural resources, the pace of industrial and entrepreneurial development is slow, not only due to lack of basic facilities and financial support but also due to untapped entrepreneurial talents in the country. The study suggested that timely action by Government and other agencies can accelerate the process of entrepreneurship development in India.

Bhatia et al. (1990) surveyed 108 small entrepreneurs in the state of Punjab to find out the influence of various socio-economic variables on the performance of the enterprises. The study reveals that variables such as occupation, family background, education, and caste had a positive influence.

on the performance of an enterprise. Finance was one of the important problems of the entrepreneurs as it was found that a majority of the entrepreneurs have not benefitted much from the support facilities of the state agents because of their rigid procedures and insistence on adequate security cover for the loan.

**STATEMENT OF THE PROBLEM**

Among the different problems faced by the small-scale industries, the problem of financing is the most serious one, drawing attention of the policy makers, entrepreneurs, and others concerned. Many small scale industries have become sick due to lack of sufficient finance and improper management of finance was observed in several quarters. Accordingly the present investigation is an endeavour to investigate into different financial requirements of small scale industries. Further, the present study would examine the role of different institutional agencies in financing the small scale industries.

**OBJECTIVES OF THE PRESENT STUDY**

The objectives of the present study are as follows;

i. To identify the various financial needs of small-scale industrial units;

ii. To examine the different sources of finance to small-scale industrial units,

iii. To evaluate the assistance extended by institutional financial agencies

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to small-scale industrial units.

iv. To investigate into various problems faced by SSI units in getting assistance from institutional financial agencies; and

v. To offer suggestions for strengthening the role of institutional financial agencies in the development of small-scale industrial sector.

LIMITATIONS OF THE STUDY:

Generally as much can be expressed about the study by way of limitations can be said in acclaim. The investigator took all pains to overcome the limitations that could have been there otherwise for the present study. It is admitted that the present study has been carried out under circumstances given below.

Firstly, the study is confined to manufacturing units of the small scale industries; secondly, the study limits itself to the financing aspect of small scale industries in the Cuddapah District of Andhra Pradesh. However, some of the non-financial aspects are also touched upon as they are interrelated with this study; and thirdly, the study covered only the units assisted by commercial banks and consequently the economic characteristics revealed from the results of the survey are relevant only to the assisted sector. No data are available regarding the operations of the small scale industries presently outside
the reach of industrial finance. But they are likely to be mostly in the small scale units in the decentralized sector.

These limitations of the analysis and observations made in this study have, therefore, to be borne in mind while making generalizations regarding the small scale industrial units as a whole.

METHODOLOGY OF THE STUDY

For the present study, the methodology is analytical and descriptive. Keeping the objectives of the study in mind both the secondary and primary data have been adopted.

DATABASE:

The main sources of secondary data include the publication of Reserve Bank of India. viz., Reports on Currency and Finance, RBI Bulletins, Statistical Tables relating to Banks of India, Reports on Trends and Progress, Reports of the Banking Commission, Annual Reports on APIDC, APSI Directory, A.P. Industrial Handbook. In addition, to all these sources, important pieces of information pertaining to the study have been collected from different research journals, and reports.
In order to supplement the secondary data, Primary data was collected through sample survey. The specific schedule designed for the purpose were canvassed through personal interview, and the information given by the (entrepreneurs and top executives of the industry) respondents was thus recorded. In addition to this, the researcher held discussions with the officials of the bank of the sample areas to obtain required and relevant information.

SAMPLE DESIGN:

The number of small scale units registered with the District Industrial Centre (DIC) in 1999 was 2221. A sample consisting of 360 industrial units has been drawn by following the stratified sampling technique. All the small-scale manufacturing units have been primarily stratified on the basis of the nature of their products. From each of the stratum, 15 per cent of the units have been randomly selected, thus taking the total numbers of sample units to 360 enterprises.

FIELD WORK

The reference period for the study was 1994 - 1999, and, accordingly, the field investigation was done upto the period March 1999. The researcher received required data from the banks, officials and also from the beneficiaries in eliciting the information from them.
TOOLS FOR THE DATA COLLECTION:

For the purpose of collecting the data, an interview schedule was constructed and used. The interview schedule was used to collect the information relating to the various related questions of the entrepreneur. After getting the primary and secondary data, the data have been suitably classified and tabulated for the purpose of analysis. Various simple statistical tools like percentages and chi - square have been used to analyse and interpret the data.

ORGANIZATION OF THE STUDY:

This is divided into six chapters. The first chapter is introductory in nature and includes the Review of Literature, Objectives of the Study, Limitations of the Study and Methodology of the study.

The second chapter presents the various organisations involved in financing the small scale industries. The numerous programmes and schemes under which the small scale sector is assisted by the financial institutions are discussed here. Besides, the trends and patterns of institutional finance to small scale industries at macro level are also studied here.

The third chapter highlights the institutional finance to small scale industries in Cuddapah District. It also elaborates the institutional arrangements at the district level to assist the development of small scale industries.
The fourth chapter is devoted to analysis of financial structure of small scale industries (Sample Units) in Cuddapah district. The financing pattern of small scale industries is also discussed in this chapter and the problems and perceptions of small entrepreneurs in obtaining funds from banks and other financial institutions are studied in the fifth chapter and the last chapter presents summary and conclusions of the study. The suggestions of the researcher are also incorporated in this chapter.