CHAPTER – I

1. **INTRODUCTION:**

1.1 Importance of Study:

Small Scale Sector with a total strength of about 30-40 lakh units is the backbone of the Indian economy. It plays a key role in the industrialisation of the country. The SSIs provide immediate large-scale employment, offer a method of ensuring a more equitable distribution of the national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised.¹

The small-scale industries are not only creating employment opportunities but also their capabilities and acceptibilities have been proved in the international market being a major contributor of export earnings of our country. By taking advantage of liberalisation of the economy, small-scale industries have achieved more than 40 percent of the total exports and if non-traditional village and cottage industries products and indirect exports are taken into account, it will cross the figure of 65 percent of the total exports in the country.

“One of the unique features of Indian economic development during the past four and a half decades has been the phenomenal growth
of small scale industries, since the inception of the planning process, has stimulated enormous economic activity across the country and to a large extent it has been successful in ensuring utilisation of local resources both human and material locally and thereby bridging inter regional gaps in industrial growth. The other significant aspect associated with small scale industries development is the possibility of indigenous technology development on the one hand and on the other speedy diffusion and adoption of modern technology apart from providing breeding ground for successful entrepreneurs which is urgently required in the present move of privatisation.\textsuperscript{2}

Despite its crucial importance in the Indian economy small-scale sector has been facing numerous problems like marketing, finance, raw materials, infrastructure, etc. Of these the problem of finance is the most acute one. Finance is considered as life-blood of industry and is a pre-requisite for accelerating the process of industrial development. In the absence of proper credit flow to this sector the overall production, export and employment performance is bound to suffer. The Government has initiated various policies from time to time in view of the recommendations made by various committees but the flow of credit to the small-scale sector has been found inadequate. Therefore, a proper
study in this area is very much necessary in order to find out the causes underlying it and suggest suitable measures which will help in the overall industrial development of Assam in general and Kamrup district in particular.

1.2 General Significance of Small Scale Industries in the Context of Assam:

The industrial development process of Assam started more than a century ago with the establishment of tea plantation and oil refinery in the Upper Assam area. But even after five decades of independence, Assam is lagging far behind than many other states in the industrial development. The industrial sector in the state had been centralised around some particular sectors like tea, petroleum, coal, jute and forest products. In recent times State Government has adopted various policies to create a strong industrial base and push up industrial growth. The small-scale industries are also encouraged as it has an important role to play in the backward state of Assam. There is ample scope for its development on the basis of factor endowments in the state. Moreover, its development will lead to local resource mobilisation and increased employment opportunities in the state. The number of small-scale industries in the state is steadily on the rise. The major sources of financing the industrial
sector in the state are commercial banks, term lending institutions and all leading financial institutions. However, the flow of funds from these institutions is far from satisfactory in view of the requirements of the state’s economy. The position of the small-scale sector is worse as the large-scale sector takes away the buttered side of the bread.

1.3 Select Review of literature:

Review of literature forms an important part of research because it deals with the critical examination of various published and unpublished works related to the study undertaken. Here, I highlight the review of various works of authors as well as several committee reports related to the financial aspect of small-scale industries.

Nayak Committee (1992) set up by the Reserve Bank of India to examine the adequacy of institutional credit to the SSI sector and related aspects there to. The committee found that banks have insufficiently serviced the working capital needs of the SSI sector particularly that of village and tiny enterprises. Moreover, there is need for the setting up of specialised bank branches for small-scale industries, the absence of which has led to serious bottlenecks. Further, the system of providing term credit and working capital by two kinds of institutions, viz. Banks and State Financial Corporations (SFCs) has given rise to a host of problems of co-ordination among them.
J. Chandra Prashad and V. Narayana Rao (1996)\(^4\) in their study have observed that finance stands as a major bottleneck in the way of export activity of SSI sector. Some units, though produce exports potential items, could not tap the market due to lack of finance and the consequent export promotion handicap.

A. Ramkrishna Rao, K. Rajagopal and V.V. Muniswamy (1997)\(^5\) studied the effect of project delay on project productivity in the small-scale units. They concluded that the difference of actual cash flow and planned cash flow is one of the reasons for delay of project. So, banks and financial institutions should have regular interaction with the entrepreneurs in order to reduce delay in disbursements of loan. Technically qualified staff should be associated in project appraisal during the implementation stage. Sickness of SSI units during the project stage is due to the shortage of funds at right time. That is why the small units require timely credit rather than cheap credit. The schedule of higher investment activities at the end is a better schedule than the schedule of project with higher investment at the beginning.

V. Harikumar and K. Sasikumar (1997)\(^6\) in their study of pre-operational problems of SSI units in Kerala observed that the financial background of the entrepreneurs of the SSI units in Kerala are not very
sound and so from the very outset they depend on external sources for funds. This also leads to sickness in due course. Moreover, the entrepreneurs make faulty product selection, project report preparation etc. The service of technical agencies is also not up to the mark. Further, there is delay in implementing the projects due to the non-availability of funds at the right time from the funding agencies. Apart from these, lack of proper system in appraising the projects of SSI units, security-oriented approach of banks also does not auger well for them. This helps the entry of unviable projects into the industrial area, which in due course becomes sick.

Abid Hussain Committee (1997)\(^7\) on small enterprises examined and suggested institutional arrangements and policies and programmes for meeting long term and short term requirements of the small enterprises. The committee found that the reservation policy of specific products for exclusive manufacture by small-scale industries had not served much purpose as most industrialisation had occurred in items not reserved for small-scale industries. Moreover, it had resulted in low efficiency and productivity and restricted the expansion and exports potential of important industries, viz. light engineering, food processing, textiles and others. Credit to small-scale industries had become more
expensive after interest rate deregulation. Institutions and regulatory policies responsible for technical assistance, human resources development, industrial standardization, etc. expected to play a proactive role in halting technological obsolescence (particularly among tiny units) did not prove effective.

V.S. Kaveri (1998) in his study made an attempt to discuss issues related to bank finance to small-scale industries. He concluded that due to economic liberalisation and financial sector reforms small scale industries have a bright future provided they remain economically viable. Modernisation is the need of the hour for which they will require increasing credit from the banking sector. Therefore, there should be cordial relationship between banks and borrowers. Moreover, there is need for educating both, for timely and adequate flow of institutional credit to SSI sector.

S.S. Khanka (1998) in his study observed that development of small-scale industries in Assam is at low level because of inadequate infrastructural facilities, problems of finance, marketing and insurgency. Therefore, for industrial development, Government should create infrastructural facilities like transport, communication, power, energy, etc. Moreover, state level techno-economic survey should be carried out
to explore possibilities for developing specific industries successfully. Local people should be motivated to become entrepreneur. Finally, Government should curb insurgency in the state to make the industrial climate congenial.

D.D. Mali (1998)\(^1\) in his study has observed that small and medium enterprises (SMEs) and micro enterprises have to face increasing competition in the current scenario “quality will hold the key” and along with it they have to specifically improve in the areas of management capability, marketing, product diversification, technological upgradation, infrastructure development, attitudinal changes among officers of banks and financial institutions for smooth credit flow to the small and medium enterprises (SMEs) and micro enterprises. Moreover, new small and medium enterprises (SMEs) may have to move from slow growth area to the high growth area and they have to form strategic alliance with entrepreneurs of neighbouring countries. Data bank on industries to guide the prospective entrepreneurs including investors abroad is also needed.

S.K. Mitra (1998)\(^2\) observed that the main factors affecting flow of credit to the SSI sector could be broadly categorised into two segments. One set of reasons indicate shortcomings inherent in SSI sector like a weak financial base, which eventually prompts the entrepreneurs to bring
in funds by way of loan rather than capital, improper maintenance of book of accounts, inability to provide collateral security, delay in payments by the larger units, lack of appreciation of financial data required by banks or financial institutions etc. The second set of reasons are attributed to be operational restraints and perceptions of banks and financial institutions like the administrative cost of lending to small borrowers are relatively high thereby resulting in a disincentive to lend to SSI units. High mortality rate, sickness exists amongst the SSI units. The concessional interest rate does not motivate the financial institutions intrinsically to invest in SSI units etc.

S.L. Kapur Committee (1998)\textsuperscript{12} studied the various problems germane to the credit flow to SSI sector and to suggest appropriate measures for their redressal. The committee found the performance of Commercial Banks unsatisfactory in respect of small-scale industries financing persisted with regard to non-adherence of working capital norms as suggested by Nayak Committee and poor flow of credit to tiny units. The loan application forms prescribed by banks for small loans were complicated. No separate earmarking of funds by banks for working capital loan existed. Banking staff management was not well trained in the task of appraising small-scale industries projects.
N. Rajendran (1999)\textsuperscript{13} made a study to examine the various kinds of assistance given by the institutions with the prime objective of identifying institutional assistance for the development of small-scale industries and the problems faced by small-scale industries of Tiruchirapalli district. He concluded that the greatest problem faced by the small entrepreneurs was non-availability of adequate financial assistance. Moreover, the small enterprises also faces raw material, marketing, technological and administrative problem. There were complicated procedures in availing loans from financial institutions and no coordination exists between the promotional institutions and government agencies.

K. Ramesha (1994)\textsuperscript{14} examined the trends in credit supplied to small scale industries by Scheduled Commercial Banks (SCBs) and State Financial Corporations (SFCs) and their inter-state disparity. The study found that commercial banks continue to play an important role in financing SSI sector. However, the growth rate of bank credit has been low as compared to the growth rate of production from the SSI sector. Therefore, we can say that banking sector has in a way failed to meet the increasing credit requirements of SSI sector. The inter-state disparities in the distribution of credit have also widened between 1989-90 and
1995-96. Moreover, the credit from SFCs term credit has shown relatively higher growth rate as compared to banks credit (short term) but still inter-state disparity in SFCs credit has also widened during the reference period. Further, there seems to be a sort of complementary relationship between Banks and SFCs in financing small-scale sector. Majority of the states that had low bank credit happened to be relatively strong in SFCs credit and vice-versa and this is in a way point to the above observation.

C. Sivarami Reddy, Harinatha Reddy and P. Mohan Reddy (1999)\textsuperscript{15} made an analysis of various sources of working capital financing in different small-scale industries groups so as to ascertain the significance and dependability of each of these sources. They concluded that in majority of small-scale industries excessive long term financing of working capital was resorted to. Such a situation deprives funds for long-term purposes on the one hand and adversely affects their profitability on the other. The long-term funds are excessively used to finance working capital needs of small-scale industries, as these units were not able to tap required funds for working capital from commercial banks.

Vikram Chadha (1999)\textsuperscript{16} studied the current state of institutional finance especially for technological upgradation and the problems faced
by the financial institutions in offering credit and the small enterprises in absorbing such credit flows for this purpose. In his study he concluded that the industrial sector in India is dominated by SSI but this sector suffers from technological backwardness. Therefore, for technological upgradation small enterprises require ample financial and technical support from the Government agencies and other financial institutions.

Suni George, J. (2000)\textsuperscript{17} in his study of small-scale industries and economic liberalisation concluded that all is not well with small-scale industries even today. Protection policy has lead small-scale industries to remain small, to become more inefficient with poor product quality. It is not protection but competition should be the rule of the day. Efficient management, strong marketing strategy to cope with international marketing standards, production of world-class products with top quality, alone can infuse a greater degree of competition in the SSI sector. The government should provide infrastructure at reasonable cost, and in small scale sector where we have traditional skills in finishing and manufacturing, government must liberally allow import of raw materials to attract foreign investors who can set up comparatively low cost production base in India.
Moli P. Koshy and Mary Joseph T. (2000)\textsuperscript{18} in their study of growth pattern of small scale units of women entrepreneurs concluded that the small scale units exhibited a satisfactory growth rate in most of the cases even though there was much more potential to grow. Most of the entrepreneurs limited their growth due to fear of managerial problems, loss of tax incentives for SSI units, marketing problems, scarcity of finance and other related units. Promotional measures to alleviate the fears and change the mindset of entrepreneurs are necessary to make the units grow into medium or large enterprises. Most of the women entrepreneurs faced problems related to marketing and finance. Training and development in imparting professional management skills will be a boon to women entrepreneurs most of whom were first generation entrepreneurs.

J. Revathy and K.V. Rao (2001)\textsuperscript{19} in their study found that lack of access to credit represents a strong restriction or acts as a hindrance on the expansion of small-scale industrial establishments. The proprietors themselves thought financing as their most pressing input constraint. It was found that borrowed funds occupied a dominant position in the total sample units. Share capital, reserves and surplus have contributed to the extent of around one-fifth only. Viewed from the point of view of
structure of liabilities, current liabilities and provisions have occupied 50.3 percent. The relationship between short term and long term liabilities revealed that short-term liabilities had occupied a place of prominence. Short-term liabilities were found to be four times more than the long-term liabilities in the sample units. This clearly shows the dependence of Small Business Units (SBUs) on temporary sources of funds than permanent ones.

Indian Institute of Entrepreneurship, Guwahati (2001) conducted a study of the performance of the small enterprises in Greater Guwahati area. The study revealed that large number of SSI units (30 percent) in the greater Guwahati area did not avail any financial assistance from banks or any other financial institutions. In Guwahati State Bank of India was the major moneylender to the small scale sector followed by United Bank of India, Assam Financial Corporation, etc. All other firms played more or less the same role i.e. providing loan to only 1 percent to 3 percent of units by each bank.

Valsamma Anthony (2002) in his study of the prospects and growth of small-scale industries in India highlighted that adequate and timely availability of working capital and marketing avenues for small-scale industries products should be ensured for improving their competitive strength in the domestic and global markets. There is need
for providing better information and excellent networking for the small-scale industries besides development of quality infrastructural facilities. The small scale sector can go on wings with the sincere efforts of the entrepreneurs, the dedicated functioning of the promotional agencies without red tape or bureaucratic delays and pragmatic approach by the government.

Anil Kumar (2002) in his study analysed the trends in loan sanctioned and disbursed by State Financial Corporation from 1991-92 to 1998-99 as well as purpose-wise, size-wise and industry-wise loan sanctioned by State Financial Corporations (SFCs) should make efforts to sanction the loan in balanced manner for different purposes. More emphasis should be given on small size category of loan, because it will help in promoting entrepreneurship development in the country, which is the need of the hour. Greater amount of loans should be sanctioned and disbursed to small-scale sector as well as service sector. Moreover, they should diversify their activities along with reduction in rate of interest, which will help SFCs to increase the amount of loan sanctioned and disbursed during recession phase of the economy.

K. Sundar, R. Kumar Gandhi and G. Gangatharan (2002) studied the role of SIDBI in meeting financial requirements of small-
scale industries through its various loan programmes. They concluded that the role of SIDBI in providing financial assistance is generally commendable both in terms of number of schemes sanctioned and the quantum of loan disbursed over a period of 8 years. The Bank is mainly financing to small-scale industries through ‘Refinance’ and ‘Bills Financing’ scheme. But bank’s performance is not so impressive in case of promotional and development assistance, project financing and equity financing.

P.R. Kulkarni (2002)\textsuperscript{24} in his study made an attempt to analyse the issues concerning low credit off-take to the small scale sector. He concluded in his study that the small scale sector deserves liberal institutional credit because of its unique potential to contribute in terms of employment creation, foreign exchange earnings, reduction in regional disparities etc. In reality such supply of institutional credit is too meagre and often delayed. There are many factors internal and external, responsible for the same. Therefore, much is required to be done by banks during the second phase of reforms to revive the low credit off-take situation.

1.4 Objectives of the Study:

The main objectives of the study were as follows:-
(1) To identify the different sources of financing Small Scale Industries from institutional sources.

(2) To assess the problems of Small Scale Industries in availing term loan from financial institutions.

(3) To examine the problems faced by Small Scale Industries in getting working capital from financial institutions.

(4) To seek remedies and give pragmatic solutions having policy implications.

1.5 Hypotheses:

The following hypotheses were formed for the purpose of the present research work.

1. Lack of finance act as a major constraint in the growth of small scale industries in Assam.

2. The problem of finance is the same in every type of small-scale industries.

1.6 Methodology:

The study is based on primary and secondary data. The primary data has been collected by visiting various SSI units. But before that names and addresses of the SSI units were collected from the records of District Industries and Commerce Centre (DICC), Kamrup. Thereafter, a
A pilot survey was conducted of 15 SSI units to know the reactions of the respondents and later on some questions were incorporated and a few were deleted. Then the required information was collected through well-structured questionnaire. The questionnaires were distributed among the Managing Director, Manager or the Chief Executive Officer of the units or Proprietor. Moreover, the investigator himself undertook personal interviews and discussions with Proprietors, Managing Directors of the SSI units. Comments and suggestions were also invited from them. Though the questionnaire was in English but regional languages were also used while asking questions to entrepreneurs.

Sample: Total number of registered SSI units in the Kamrup district was 12,260 in the year 2001. They are engaged in various activities out of which only 90 units of the Kamrup district were selected for the study. More units could not be covered due to the unwillingness or non-cooperative attitude of the SSI entrepreneurs as well as time and financial constraint on the part of the researcher. Only those units that are registered with the District Industries and Commerce Centre (DICC), Kamrup are taken into account and those units that are not registered are not covered under study.
The secondary data were collected from journals, newspapers, annual reports of the financial institutions, published and unpublished documents, newsletters, etc.

1.7 Limitations:

(1) The main limitations is that the entrepreneurs are not co-operative enough and don’t want to disclose information. It is after a lot of persuasion that they get convinced and provide the information.

(2) Majority of the SSI units never maintained proper records viz. cash book, ledger, stock statement, profit and loss, balance sheet etc. In spite of this, the investigator left no stone unturned to get the correct information from these SSI units.

(3) Although the general conclusions of the study would help in developing insights and understanding of the problems faced by the small scale sector in the field of finance, the conclusions of the study may not be applied to all the districts in Assam as well as other parts of the country. This is because different districts and area may have different problems and may need different solutions.
1.8 **Outline of Chapters:**

Chapter-I primarily deals with a brief introduction on small-scale industries and the importance of the study, significance in the context of Assam. Moreover, it describes a brief review of literature on small-scale industries scenario with special reference to financial and institutional support and also some review of enquiry committee reports. Apart from these, objective, hypothesis, methodology and limitations of the study are taken into account as well as chapter scheme.

Chapter-II deals with the role of small-scale industries in economic development and includes definitions, its role in regional development of backward areas, growth of small-scale sector in national context and industrially backward state. Moreover, general and major constraints of small-scale industries are covered. Institutional and supportive infrastructure for the promotion of small-scale sector are also taken into consideration.

Chapter-III includes socio-economic profile of Assam and Kamrup district i.e. a general background, geography, natural resources and economic scenario, economic indicators, infrastructural development and inter-district or inter-regional variation.
Chapter-IV deals with industrial sector in Assam and Kamrup district as well as problems and future prospects.

Chapter-V is the core chapter under study and it includes the major sources of financing small-scale industries (SSIs) in Assam and their credit to the SSI sector in Assam. Moreover, it shows the analysis of the survey undertaken in the Kamrup district.

Chapter-VI presents summary, conclusions and recommendations.
REFERENCES:


