Chapter II
Factors Affecting the Sound Growth of Small Scale Industries
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FACTORS AFFECTING THE SOUND GROWTH
OF SMALL SCALE INDUSTRIES

INTRODUCTION:

In the previous chapter the socio-economic signi­nificance of small scale industries in the national economy has been discussed. The conclusion drawn from our analysis is that the small scale industries play a vital role in accelerating the pace of socio-economic development in the country. Although, these industries have been receiving much patronage from various facilitating institutions and agencies estab­lished for the purpose by the Government of India, the momentum is slow considering the needs of the country. There are various factors (growth inhibiting factors) responsible for the slow growth of these industries. Some important factors affecting the sound growth of these industries are the shortage of raw-material and finance, lack of managerial skill and technical know-how, lack of marketing methods, techniques etc. However, the chief among them is the lack of Product Development Programme on modern lines due to which these industries could not increase their needed demand in foreign market. In the light of the above observations, the present chapter attempts to
analyse the factors which are hampering the sound
development of small scale industries. This has been
analysed both in rural and urban sectors as the inhibiting factors differ in these sectors in nature as
well as in degrees.

The nature of factors inhibiting the sound growth
of small scale industries is almost the same throughout
the country. Although, the problems differ from industry
to industry, the common problems facing the small scale
industries include (i) low labour productivity, (ii) absence of technical know-how, (iii) unsatisfactory health,
safety and working conditions, (iv) limited financial
resources, (v) exploitation by middlemen with regard to
supply of raw-material, finance and marketing of goods,
(vi) lack of organised marketing facilities, and (vii)
poor management.

From the point of view of a systematic study of
the problems, the small scale industries may be broadly
classified as Rural and Urban.

PROBLEMS OF RURAL SMALL SCALE INDUSTRIES:
(1) Supply of raw-materials:

The small manufacturers in rural areas are handi-
capped in the buying of raw-materials. The rich manufac-
turers buy up all the good quality raw-material through
middlemen and the cottage workers do not get the best qualities to work upon. It is impossible for them to deal with this problem unless they organise themselves collectively as the collective organisation makes their financial and buying resources more potential. In the absence of such organisation the State ought to intervene, allotting fixed quotas to different manufacturers in rural areas. The State will have to tackle the problem of middlemen also who are responsible for misleading the innocent manufacturers and pyramiding of prices.

"As far as yam is concerned there is hardly any doubt that the handloom weaver is being mulcted on several fronts by a host of middlemen and parasites whose existence leads to the pyramiding of prices of yam and who have for long carried on nefarious practices in regard to quality as well as quantity of the yarn supplied and fully exploited the ignorance, poverty and helplessness of the weavers".¹

(2) Poor Production Technique

Paucity of good implements cause a great deal of inefficiency. The existing implements are handed down to the artisans by tradition and are usually crude;

¹. The author collected these informations from the weavers at Maunath Bhanjan, Azamgarh.
for example, the wool weaver's loom and the oil 'ghani'. The use of efficient tools and machines can improve the working of small units in such areas. Here also an active role of the State is needed. Demonstrations, touring classes, scholarships, exhibitions all these will require State help and initiative.

(3) Problem of Finance:

Lack of finance is a serious drawback as the artisans and small scale industries do not have sufficient funds of their own for installing modern machinery and tools, and storing raw materials and finished products. Under the Credit Guarantee Scheme the Reserve Bank of India upto December 1968 issued guarantees for Rs. 356 crores in respect of 82,387 applications. Under the Liberalised scheme in operation since 1966 maximum amount recoverable from the Government has been doubled to Rs. 2 lakhs in respect of any loan and the number of institutions eligible for such risk-sharing has been expanded from 97 to 454 by the inclusion of some Central Cooperative Banks and non-scheduled banks. Besides, Small Industries Corporation also supplies machinery on

hire-purchase basis to modern small scale industries. It has supplied indigenous and imported machinery worth Rs. 40 crores to more than 9000 small scale units. In addition, Industrial Estates are also being financed by the Government. The rural artisans require finance for purchasing and stocking raw materials and for holding their finished articles. There is usually a gap between production and sale. It often becomes difficult for these manufacturers to sustain themselves during this period. The result is that they are in the grip of the middlemen-cum-money lenders. The State Industrial Finance Corporation is discharging this important function but the facility from this source is inadequate. Again, the State will have to undertake this responsibility of financing small units in rural areas.

(4) Marketing problem:

Another difficulty that the artisans are facing is that they cannot sell their products at a remunerative price. There are many causes of this difficulty:

2. The author himself collected these informations through personal enquiries from the Handicraft workers at Maunath Bhanjan, Azamgarh.
3. The above study is based on discussion with the management of Small Scale Industries.
(a) The change that has taken place in the tastes of the consumers; old fashioned products are being replaced by the new ones. Though much cannot be done to remove this difficulty but the tastes of consumers can be studied through well planned market surveys and market research.

(b) Lack of finish and uniformity in quality is yet another difficulty which can be removed by improving the technique of production and making provision for better implements.

(c) High cost of production: This has resulted in complete elimination of such industries in certain areas due to the growing competition of small scale industries with large scale industries. One of the greatest advantages which large scale industries enjoy over small scale units is the economies of scale in production. The cost per unit of output of large scale industries is low as compared to the small scale units. However, if small scale industries are organised on modern lines and more efficient managerial skill is developed, the cost per unit of output can be reduced considerably.

(5) Poor Organisation:

The small enterprises with their limited resources are not in a position to hire the services of skilled
workers, efficient managers and consultants. Often, they have to employ raw hands and train them in their own way, and such training is generally found to be inadequate and inappropriate. As a result, labour becomes unproductive, and lack of management expertise reflects on the quality and volume of production in small scale enterprises. In order to compete with products of better quality and lower, price it has become essential for small scale units to organise in the best possible manner their production, management and marketing systems. The artisans must learn to act collectively. The establishment of a central marketing organisation and multi-purpose cooperative societies are the two important alternatives.

In order to provide facilities to small units in rural areas, the government of India had already established a Cottage Industries Board. The main functions of the Board are as follows:
(a) To advise and assist Government on the organisation and development of small industries and function as an executive body.
(b) To examine and advise how cottage and small scale industries can be coordinated with large scale industries.
(c) To examine the schemes of the State Governments for the promotion of cottage and small scale industries and to assist in coordinating them.

(d) To advise the Government on the marketing of the products of these industries in India and abroad.

Thus, the main problems of Cottage and Village small industries are lack of raw-material and finance leading to dependence on the middlemen, who are very much like trader-cum-money lenders in agriculture. The supply of raw-material is inadequate and of inferior quality, and finance available from this sources is very expensive and conditional. The borrowers are compelled to market their produce through these middlemen who know whom to contact for selling the goods more profitably. The National Council of Applied Economic Research, New Delhi, conducted a survey of eleven selected industries in 1965. In the case of leather industry it was found that the common problems of cottage small industries are dependence on money lenders or middlemen for finance, poor quality of raw-materials and absence of organised marketing facilities. In this direction, it is suggested that the quality marking scheme of the

1 Survey Report conducted by NCAER, New Delhi, 1965, p.6.
State Government, which at present covers only a small percentage of total products should be extended in order to cover the entire industry. Further, the arrangements for obtaining good quality raw-material as well as the disposal of final products should be improved by organising a common marketing agency or through cooperative marketing societies.

Similarly, the cottage workers engaged in Bangle making industry are exploited due to their poor bargaining power with dealers. They can strengthen their bargaining power if they organise themselves on cooperative basis both for the purpose of marketing of goods and finance. The same may be suggested for the wooden furniture industry and so on. The main problems of Cottage and Small Scale Industries in rural areas are thus poor quality of raw-material, dominance of middlemen and lack of knowledge about better designs and techniques of production.

The State Governments through their agencies have been supplying raw-materials at controlled prices but the same is not supplied in time and as per requirements. These industries, to meet their requirements, buy raw-materials from black-market or from the open market at high prices mainly due to competition with the bigger producers. Hence, small scale industries do not get
raw-materials of standard quality and, in some cases, they do not get adequate supplies. Similarly, the Brass-ware industry, utensil industry and lock industry which have a favourable export market but they have been suffering from irregular supply of raw-material.

It is evident from the above that the artisans in the village and cottage industries are facing the problem of raw-material, finance, technique of production and marketing. The production capacity in most of the small industries as a result remains under-utilised. Artisans are indebted to the Mahajans and, therefore, compelled to work through middlemen who, for the sake of profit motive, do not care for the right type of quality and design of the products. They produce cheap and poor quality products which ensure higher profits. These limitations prevent them from employing travelling agents to procure orders and create effective demand for their products.

Under the existing conditions, it is of no use to acquaint the artisans with modern technique of production if they constantly starve of finance and raw-materials. In order to develop the village and cottage industries, it is necessary that the State should arrange for the supply of cheap and good quality materials by opening more fair-price shops on cooperative basis
exclusively for these industries in rural areas. This will not only be helpful in solving many of the difficulties of the rural artisans but will also render a great service by relieving them of the exploitation of middlemen.

The formation of Service Cooperatives for the artisans should also be undertaken by the Government so that the services pertaining to purchasing, supply of credit, marketing, shortage of raw-material, finishing of products, maintenance and repairs of tools, workers training, designing of products, research in production methods and product development may be easily available to them. For instance, Handloom weaver Apex Cooperative Organisations in India have developed a designing scheme to help the craftsmen producing articles of greater variety and standard quality which appeal to consumers' tastes. Cooperation is the modern instrument that responds to new economic situations, increases receptivity to new ideas and introduces changes in the methods of production in small industries because it can employ competent and expert hands and sales personnel. Thus, co-operatives can offer technical advice to the small units about new machines and methods of production. They can also disseminate market information and develop training programmes for the personnel of member units.
Hence, service cooperatives may be organised as primary societies with individual craftsmen as members, or as federal societies with the membership of artisans or service societies. "Some of the functions which call for a larger scale of operations and resources than a primary productive or service cooperative can command, may be undertaken by their federations. The federal structure of the cooperative movement, while enabling the small units to function independently in a decentralised fashion, achieves for the constituent units, financial, managerial and technical advantages which can be realised only through cooperation on a large scale. The federal structure of the service-cooperatives can raise the competitive capacity of small industries to a considerable extent."¹

PROBLEMS OF URBAN SMALL SCALE INDUSTRIES:

The main problems of urban small scale industries are as follows:

(1) Raw-material:

Unlike rural small scale industries, the main difficulty of urban small scale industries is that of raw-materials and its procurement. In the past, when the small industries undertook the production of items

of comparatively simple nature, there was no such problem. But, now the field of production of small scale industries has expanded. They are producing many sophisticated items previously produced by large scale industries. At present, the small scale industries contributing 45 per cent of the total industrial production of the country have been demanding parity with large scale undertakings in matters of allocation of raw-materials. Much of their productive capacity is lying idle for want of adequate supply of raw-materials. Therefore, in order to solve this problem, the Government should create ready stocks of raw-material so that these industries could meet their requirements at reasonable/fair price in as small a quantity as possible. To solve this problem, the small Industry Corporation was established which is making arrangements for the distribution of raw-materials in small lots through its different depots to small scale industries. Due to non-availability of raw-materials, not only the productive capacity of these industries remains under-utilised but also the time, labour and capital of the entrepreneurs was wasted. As a result, ultimately due to lack of adequate supply of raw-material most of the small scale industries are closed down as they cannot afford huge losses for a long time. On the other hand,
raw-material supplies available at competitive prices appear to be the greatest handicap. There are evidences that the inequalities in the distribution of raw-materials and imports are so severe that they tend to override all other types of assistance offered to small scale firms by the government. The International Perspective Planning Team in its report also stated that nearly 60 per cent of the firms analysed, provided evidence that acute shortage of raw-materials and components that could only be purchased at higher black market price made it unprofitable for them to expand their production to fuller utilisation of capacity. The other 18 per cent of the firms stated that they could not get additional supplies at any price. "Due to competition with large scale producers and lack of financial resources, these industries do not get raw-materials of superior quality and in some cases they do not get enough supplies even of the inferior quality of raw-material. Even where supplies of raw-materials are locally available, the small scale producers find difficulty in obtaining their requirements at reasonable/fair price because they are mostly

purchased by large scale industries in advance"¹. Approximately half of the small units which found it unprofitable to increase production because of the black market price of raw-materials, were facing competition with large scale firms producing similar products and enjoying allocated inputs at fixed prices. When these larger firms producing homogeneous products were checked by the Team as to the allocations, it was revealed that they received these materials at fixed prices through the department of technical development.

"On the average, they were allocated 85 per cent of their one shift requirements whereas, smaller competitors received allotments to cover only 33 to 40 per cent of their one shift requirements"². Hence, it is clear that great discrimination was meted out to the small scale sector in this regard. In order to save the small scale units, the State should arrange for the supply of cheap and good quality materials by opening more fair-price shops on cooperative basis exclusively for these small scale industries so as to enable them to

¹. Farooquee, Q.H. "Small Scale and Cottage Industries as a means of providing better opportunities for labour in India, Faculty of Arts, M.U. Press, Aligarh, 1959, p.17.

work to the full-rated capacity. The State Government should establish a centralised agency to keep a constant and strict vigil on the availability of raw-materials and the requirements of small scale industries and also to ensure timely and adequate supply through indigenous production or imports.¹

It follows from the above analysis that the State has failed to provide the much needed relief on the issue of adequate supplies of raw-materials so badly required for self-reliance. The Survey Report submitted by Lokhnathan Committee to the Government of India revealed: "There were 11870 units all over the country using various non-ferrous metals, copper, 1,50,455 tonnes. The requirements of zinc were estimated at 55,805 of lead at 19,814 tonnes of the 17303 tonnes annually"². These estimates revealed that the small scale sector was getting allocation to the extent of ⅕ th of its requirements of non-ferrous materials and had to

¹. The Estimate Committee of Parliament in its 17th report presented to the Lok Sabha dated April 27, 1972 urged the establishment of a centralised agency for the allocation of raw-materials. The Committee has also underlined the need for close coordination among the Ministries concerned. Further, the Committee has also urged that licences should be given to parties with a proven record of being able to produce the goods within a time limit.

buy the rest in open and black-markets. The non-priority industries had to pay more than the large scale units for steel. Moreover, they received only 20 to 25 per cent of their requirements. Therefore, the Government should see that the small scale units get raw-materials of good quality and in sufficient quantity on the basis of the assessed capacity against the present procedure of distribution on the basis of 30 per cent of installed capacity or Rs. 75,000 whichever is higher. Hence, the problem of inadequate supply of raw-materials is one of the factors which has hampered the speedy growth of small scale industries in the country.

(2) Finance:

Finance is the basic requirement for every industry, big or small. But the need is greater in the case of small scale industries because of the fact of their poor financial condition. Due to lack of financial resources small scale industries are not in a position to instal modern machines and introduce technological devices. As a result, they are unable to

produce goods of better quality and at reduced costs. Consequently, they are unable to compete with large scale industries. Shortage of finance compels them to purchase raw-material in small quantity. In most of the cases, it is experienced that these industries are unable to purchase raw-materials of even inferior quality at right time as per their requirements. The large scale industries on the other hand, having no such problem purchase raw-materials of good quality and at cheaper rates in bulk quantity and enjoy the privilege of low cost of production vis-a-vis small scale industries. There are however, some small scale industries which are in a position to offer adequate security to the financial institutions and thus get long-term capital loan from these financial institutions. They are also getting in some cases credit for working capital requirements from Commercial banks. As at the end of March 1969, out of a total of Rs.20,675 million disbursed to all industries by commercial banks, the amount of loans granted to small scale industries aggregated only to Rs. 2,109 which had accounted for a little over 10 per cent of the total bank credit to all industries. Whereas the contribution of the sector to the total industrial output was roughly 35 per cent.
in 1965\textsuperscript{1}. But, considering the vital role of small scale industries within the Indian Industrial economy, the total amount of loans granted to small scale industries forms a very small part of the total loans to Indian industry\textsuperscript{2}.

Due to lack of finance, the small producers are bound to sell their produce as soon as they manufacture them and do not get reasonable prices for the products since they require immediate cash for further production purposes. To carry on business, they generally borrow money at high rates of interest which further increases the cost of production. It is, therefore, on account of shortage of finance, that the existing small scale units are not working efficiently and to their full-rated capacity irrespective of the fact that their products are much in demand.

The main cause of the above state of affairs was the undesirable step-motherly attitude of the financial institutions (Commercial banks) towards small scale industries and the government's failure to deal with

\begin{footnotesize}
\begin{enumerate}
\item Small Scale Industries, Development Commission, Small Scale Industries, Government of India publication 1971, p. 158.
\item The Second Report of the International Perspective Planning Team, p. 10.
\end{enumerate}
\end{footnotesize}
them. The main charge on these institutions was against the mis-direction of their resources; their policies have made the needy sectors of the economy starve of financial requirements. Just like agriculture, the small scale industries are having three types of financial requirements as mentioned below:

(a) Short-term capital
(b) Medium-term capital
(c) Long-term capital

Short-term capital is needed by the small scale industries for the purchase of raw-materials, payment of wages, salaries and other short-term requirements. Medium-term capital is required for the purpose of extension and replacements, while the long-term capital is required for the purpose of installation of plants and machinery, buildings etc. which is imperative for modern small scale industries.

The medium-term loans in case of small scale units vary from 1 to 5 years and in some cases to 10 years and a long-term loan usually varies from 5 to 20 years. The short-term capital needs of the sector are mainly being met by the State Bank of India and other Commercial banks. The long-term and medium-term financial assistance to small scale industries are provided by
the following institutions:

(1) Loan from State Government.
(2) State Financial Corporation.
(3) Small Scale Industries Corporation (Pvt.Ltd.).
(4) State Bank of India.
(5) Commercial banks.
(6) Credit Guarantee Scheme (Reserve Bank of India).

Financial assistance is being provided to meet both fixed capital and working capital requirements of small scale industrial units. Fixed-capital requirements are provided by the States through loans under the State Aid-to-Industries Acts, by the State Financial Corporation and the State Bank of India and other financial banks through their medium-term credit plans and instalment-credit schemes. The National Small Industries Corporation supplies machinery on hire-purchase system. The working capital requirements are met mostly by Commercial banks, though a part of the loans advanced under the State Aid-to-Industries Acts and by the State Financial Corporations is also used for the purpose.

A brief review of the functioning and progress of the financial assistance programmes of the various institutions is given below:
Loan from State Government:

Loans are normally granted to small scale units under the State Aid-to-Industries Act by the State Director of Industries. In almost all the States, loans up to Rs. 1,000 are advanced against personal bonds, up to Rs. 5,000 are given against security or mortgage at 75 per cent of the surety offered which may include land and building, plant, machinery and equipment, stocks and other assets. The rate of interest has been kept considerably low at $2\frac{1}{2}$ per cent for loans up to Rs. 2 lakhs advanced to industrial cooperatives. The repayment of loans is spread over a period of 10 years and can be paid in easy instalments. In many States loans up to Rs. 2,000 are distributed either by District Industries Officers or District Magistrate. Normally, the amount of a loan to an industrial enterprise is not to exceed Rs. 1,00,000 and that to an industrial cooperative Rs. 2,00,000 without the prior sanction of the Government of India. During the 10 years period ending March 1966, a total sum of Rs. 305 million had been sanctioned. An additional sum of Rs. 97.1 million had been advanced by the State Government up to March 1969.1

State Financial Corporation:

The Financial Corporation provides financial assistance to both the existing units and the units to be set up. Financial assistance is granted to existing units for renovation, expansion and modernisation of plant and machinery. In the case of new units, funds are made available for the acquisition of fixed assets. In general, loans are not granted by the Corporations for working capital which falls under the jurisdiction of the Commercial banks.

The small-scale units are financed by the Corporation up to a maximum limit of Rs. 5 lakhs, the minimum limit being Rs. 1 lakh with 25 per cent margin for loans up to Rs. 3.50 lakhs. The margin is further reduced to 15 per cent in the case of the loans applied by the small-scale units located in the backward areas. The normal rate of interest charged by the Corporation on these loans is 9\frac{1}{2} per cent per annum with a rebate of 1 per cent per annum for prompt repayment. In the case of loans sanctioned to the small-scale units beyond Rs. 5 lakhs, the rate of interest remains the same but the rebate is reduced to \frac{1}{2} per cent per annum.

Unlike, the margin of security is reduced by the Corporation in the case of backward areas, the rate of
interest is also reduced from 9½ per cent to 8 per cent with 1 per cent rebate at a flat rate of any amount of loan granted. Due to availability of these rebates the effective rate of interest actually remains at 7 per cent per annum for any loan granted in backward areas and 8½ per cent and 9 per cent respectively in case of loans from 1 lakh to 5 lakhs and above granted in other areas which are not considered backward. The table given below shows the year-wise progress of the assistance sanctioned by the State Financial Corporations to the small scale industries.

### TABLE NO. IV

**SHOWING YEAR-WISE PROGRESS OF THE ASSISTANCE SANCTIONED TO SMALL SCALE INDUSTRIES.**

<table>
<thead>
<tr>
<th>As on</th>
<th>No. of loans</th>
<th>Amount Sanctioned (In million Rs.)</th>
<th>Amount Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.3.1962</td>
<td>1505</td>
<td>117.8</td>
<td>64.4</td>
</tr>
<tr>
<td>31.3.1963</td>
<td>1873</td>
<td>144.1</td>
<td>70.5</td>
</tr>
<tr>
<td>31.3.1964</td>
<td>2236</td>
<td>176.3</td>
<td>121.9</td>
</tr>
<tr>
<td>31.3.1965</td>
<td>2667</td>
<td>176.8</td>
<td>151.2</td>
</tr>
<tr>
<td>31.3.1966</td>
<td>3149</td>
<td>230.7</td>
<td>179.9</td>
</tr>
<tr>
<td>31.3.1967</td>
<td>3784</td>
<td>286.1</td>
<td>216.5</td>
</tr>
<tr>
<td>31.3.1968</td>
<td>4606</td>
<td>372.4</td>
<td>279.3</td>
</tr>
<tr>
<td>31.3.1969</td>
<td>5609</td>
<td>473.0</td>
<td>353.4</td>
</tr>
<tr>
<td>31.3.1970</td>
<td>7876</td>
<td>731.0</td>
<td>461.4</td>
</tr>
</tbody>
</table>

The repayment of loans generally starts after two years and spreads over a period of 7 to 12 years.

The Corporation provides loans to small scale industries through the State Directors of Industries under the State Aid-to-Industries Act/Rules. Under the agency arrangements, the Corporation operates the following three schemes:

(a) Ordinary loan scheme
(b) Liberalised loan scheme
(c) Technical entrepreneurs scheme

Ordinary loan scheme:

Till 1970, under this scheme loans to the small scale units to the extent of Rs. 5,000 were granted. The scheme was operated by Directorate of Industries. But now the scheme is also operated by the Corporation. The upper-limit of the loans has increased from Rs 15000 to Rs 25000. These loans are provided for the purchase of fixed assets like land and building, plant and machinery etc. and in some special cases for meeting working capital requirements upto 33 per cent of the amount of the total loan.

In case of ordinary loans the rate of interest is 8 per cent per annum with a rebate of 2 per cent for early repayment in 8 equal annual instalments. The first instalment falls due for repayment after 2 years.
from the date of receipt of the loan. The Corporation generally grants funds on 75 per cent of the value of tangible securities mostly on fixed assets existing with the units and created out of the loan amounts. All types of concerns, except Hindu Undivided Firms are eligible to apply for loans under this scheme.

**Liberalised loan scheme:**

Under this scheme the Corporation acts as an agent for the disposal of loan applications received by the Directorate of industries. Such loans are also available for working capital needed by export-oriented, defence-oriented and agro-based small scale industries. Loans more than Rs. 24,000 but not exceeding Rs. 1,00,000 are granted by the Corporation under this scheme. The Corporation charges interest at the rate of 6 per cent per annum for loans upto Rs. 50,000 and 7 per cent for loans more than Rs. 50,000 with a rebate of 1 per cent per year for prompt and early repayment of instalments. Like ordinary loans which are paid in 8 instalments, the liberalised loans are repaid in 10 annual instalments.

**Technical entrepreneurs scheme:**

Under this scheme the Corporations provide assistance to young technical entrepreneurs. This scheme
does not depend upon any equity ratio. Special repayment procedures have been laid down for these entrepreneurs so that in the initial period they could get an opportunity to strengthen their internal resources. The margin of security normally ranges between 25 and 50 per cent in the case of other agency loans but it has been reduced 15 to 25 per cent in the case of technical entrepreneurs. The margins are further reduced from 10 to 15 per cent in the case of entrepreneurs operating in the backward areas of the country.

State Bank of India:

The State Bank of India has recently introduced a new credit scheme for providing financial assistance to craftsmen and other technical entrepreneurs interested in setting up new small scale industrial units. Under the scheme, financial support is extended to those who have the requisite technical competency and who are engaged in promising units but do not have sufficient funds at their disposal for the purpose. The credit is provided on the basis of purposiveness, proficiency and prosperity of the unit. The criterion of advance is not solely based on the security offered but on the basis of soundness of the business, know-how as well as managerial and technical ability of the
entrepreneurs. The bank also provides bulk of advances on short-term basis for meeting their working capital requirements. The loans are granted against the pledge of raw-materials and processed goods. The rate of interest charged on these loans varies as per type of accommodation between $7\frac{1}{2}$ and $8\frac{1}{2}$ per cent. The financial assistance provided by the State Bank of India and its subsidiaries to small scale industrial sector has been mentioned in the following table:

**TABLE NO. V**

SHOWING FINANCIAL ASSISTANCE PROVIDED BY THE STATE BANK OF INDIA AND ITS SUBSIDIARIES TO SMALL SCALE INDUSTRIES.

<table>
<thead>
<tr>
<th>As on 31st March</th>
<th>Parties assisted</th>
<th>Amount sanctioned Rs. Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>3425</td>
<td>140.8</td>
</tr>
<tr>
<td>1963</td>
<td>4020</td>
<td>189.9</td>
</tr>
<tr>
<td>1964</td>
<td>5279</td>
<td>271.3</td>
</tr>
<tr>
<td>1965</td>
<td>8085</td>
<td>453.7</td>
</tr>
<tr>
<td>1966</td>
<td>10160</td>
<td>566.0</td>
</tr>
<tr>
<td>1967</td>
<td>15578</td>
<td>928.3</td>
</tr>
<tr>
<td>1968</td>
<td>18801</td>
<td>1190.5</td>
</tr>
<tr>
<td>1969</td>
<td>23614</td>
<td>1785.6</td>
</tr>
<tr>
<td>1970</td>
<td>36935</td>
<td>2769.1</td>
</tr>
</tbody>
</table>

The above table indicates that the State Bank of India along with its subsidiaries is providing financial assistance to small scale industries and it is the second highest institution which provides financial assistance to these industries in the country. The table also shows the rising trend of financial assistance which further focusses attention on the fact that the Bank is more liberalised in providing loans and advances to small scale industrial units.

To solve the financial problem of small scale industries, the Government of India nationalised the 14 major commercial banks in the private sector in 1969. The chief objectives of nationalisation of these banks were as follows:

1. To provide adequate credit for agriculture, small scale industries and export.
2. To remove the monopoly of few industrialists over commercial banks.
3. To provide a professional bent on bank management.
4. To provide financial assistance to the new class of entrepreneurs, and
5. To provide reasonable terms of service and adequate training to bank employees.
These banks, before nationalisation, used to provide only short-term loans at a very high rate of interest. They were reluctant to provide medium and long-term loans. For the present, these banks are providing short-term, medium-term and long-term loans at reasonable rate of interest to small scale industries. Moreover, due to the fear of nationalisation, the other non-nationalised commercial banks have also started providing such facilities to smaller units. As a result, the position has improved considerably but still these industries are suffering from financial crisis although the concept of security is not the basis of banks advances. Purposiveness, proficiency and prosperity of the units is the main security. The reason is that the quantum of advance is based solely on the security offered by the borrower and not on the promise of the project. Apart from this the loans, in most of the cases, are delayed unnecessarily due to traditional formalities. It is, therefore, suggested that bank management should be rationalised to help these industries grow on sound lines and that the Government should take a more liberal attitude in granting loans to small scale industries so that the objective of balanced growth of economy could be materialised. The expansion of financial institutions in both rural and urban areas is, therefore, the pressing need of the day.
Commercial Banks:

The commercial banks which constitute the most important single source of short-term credit to industry had been reluctant in the past to extend credit facilities to small scale industries. With a view to ensuring adequate flow of bank credit to the small scale industrial units, Government of India had nationalised 14 of these major commercial banks and introduced a scheme of social control under which the banks were required to set aside a pre-determined proportion of the net deposits for granting loans to the small scale sector. The State Bank of India and its subsidiaries had sanctioned more than 33 million to 297 entrepreneurs till the end of March 1970\(^1\).

Credit Guarantee Scheme:

With a view to removing impediments in the way of free flow of institutional finance to small scale industrial sector, the Government of India in 1960 introduced a Credit Guarantee Scheme which is guided by the Reserve Bank of India. The Credit Guarantee Scheme has been modified with effect from 1st February, 1970. Accordingly, the limit of loans has been raised

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from Rs. 0.25 million to Rs. 0.75 million in respect of working capital advanced and Rs. 1 million in respect of long-term advances, subject to a maximum of 75 per cent of the amount defaulted or the amount guaranteed whichever is lower with reference to the amount advanced to a particular unit. The guarantee fee charged by the Guarantee Organisation, fixed at 1/10th of 1 per cent, is payable quarterly instead of annually as was the case prior to February 1970. Till the end of December, 1969, 1,52,240 applications for loans amounting to Rs. 7730.3 million were received against which 1,38,265 certificates of guarantee for a total sum of Rs. 6480 million were issued\(^1\).

Apart from this the small scale industries in India are suffering from managerial inefficiency and many technical problems. Even if the small scale industries are equipped with modern technical devices and possess adequate financial resources, they cannot function efficiently and effectively unless they are manned by efficient management and trained executives. This aspect of the problem is discussed below at some length.

\(^1\) Ibid. p.160.
Managerial and Technical problems of Small Scale Industries:

Management needs are universal. It is not a function important only to the largest firms as managerial activities are found in all organised group activity regardless of size and nature of the institution. In small organisation, management appears unimpressive mainly because they generally cannot afford to employ professional managers specialised in different aspects of industrial environments and engineering trades. All the management functions are performed by one person who has a multiplicity of duties and responsibilities. He is likely to overlook much of the managerial activity which he should perform, especially if he tends toward informal approaches in the fulfilment of his various functions. It has also been observed that the entrepreneurs who have set up small enterprises not only lack the knowledge of the techniques of modern production, marketing methods and techniques but are also equally ignorant of the essential elements of management. Even the technically qualified entrepreneurs do not know how to solve various problems related to financial, production and marketing
management including elimination of wastage, production planning, cost accounting, plant layout, diversification, simplification of production and so on. There are businesses which do not maintain accounts and do not know whether they are losing or making profit.

Under such circumstances, it is obvious that the small scale industries cannot grow on modern lines unless and until managerial activities are properly maintained by them. Management is principally a task of planning, coordinating, motivating and controlling the efforts of others towards a specific objective. In other words, it involves the combining of traditional factors of production (land, labour and capital) in an optimum manner, paying due attention, of course, to the particular goals of the organisation. Therefore, a manager should have proper knowledge of the management functions. He should know that the task of management includes planning, coordination, motivation and control.

Keeping in view the managerial and technical problems of small scale industries and with a view to improving the technical and competitive status of
small enterprises and to enable them to keep in touch with the latest developments in technology, country-wide management consultancy services have been organised by the Development Commission, Small Scale Industries Organisation. These services vary from adhoc advice on specific problems posed by the small industrialists to comprehensive in-plant studies covering aspects like finance, production and sales by qualified technical staff in each field.

Management consultancy work was started by the Development Commission, Small Scale Industries Organisation during the Third Plan (1961-66). In the initial stages, this work aimed at providing information on various procedural matters like setting up of new units, expansion of existing ones, obtaining machinery on hire-purchase, participating in Government purchase programme and rendering advice on various labour and commercial laws. Under the present pattern this service generally assumes two forms; namely the consultancy service for solving the specific problem faced by the industrialists designated as problem-oriented consultancy; and the consultancy work through more intensive and analytical studies of finance, production, and marketing problems.
Consultancy in the first form is offered in either of the following ways: (a) Management specialists of this organisation visit the unit and render on-the-spot advice on specific techno-managerial problems relating to production, marketing and finance, (b) The small industrialists themselves visit the institutes for seeking advice on matters like setting up new units, expansion of existing ones, commercial and labour laws, specific financial, sales problems etc.

Consultancy in the second form is offered in the following manner. Under this programme where the consultancy work is of intensive nature, a particular small unit is selected for detailed techno-managerial analysis of the problems of the firm. A group of officers specialising in finance, production and marketing visit the unit for a thorough analysis of all the problems faced by the unit. The group then plans and conducts the work for detailed study of layouts, various processes, product designs, machine, maintenance, safety, distribution channels, markets, finance, costing system, personnel organisation, channel of information, etc. This planning is done either on sample basis for otherwise depending upon
a particular situation. After the study has been carried out, a report is prepared and presented to the management. This report embodies broad analysis of the entire field including the specific problems. It also contains recommendations on all aspects—technical, managerial and economic; and suggests improvement for making the unit fully competitive.

However, with the introduction of management consultancy services in small scale industrial sector by the Development Commission Small Scale Industries Organisation, the condition of these industries has improved to a large extent. But still quite a large number of industries are facing managerial and technical problems mainly because they are either ignorant of such services or they are not in a position to visit the institutes for seeking advice on specific techno-managerial problems relating to production, marketing and finance. It is, therefore, suggested that management consultancy services should be made available to small scale industrialists all over the country so that they can consult them about their different types of problems.
Marketing problem of small scale industries:

While discussing the marketing concept it seems essential to make it clear that the notion of consumer wants as the focal point of all activities implies that the objective of the organisation lies not in itself but in society. It is a critical point as it provides a starting point for conceptualising and analysing the behaviour of any organised activity.

In commenting on the importance of marketing, Peter Drucker states: "If we want to know what a business is we have to start with its purpose. And its purpose must be outside of the business itself it must be in society since a business enterprise is an organ of society. There is only one definition of business purpose: to create a consumer". Thus marketing occupies an important place in the present industrial age. Marketing is probably the least developed aspect of the Indian economy. Till recently, middlemen and salesmen of all kinds were regarded as planners trying to profit at the expense of the public and it was felt that marketing in several cases, had failed to

2. For a good discussion on the weakness in the marketing system, see: the paper "Marketing in India", by Ralph Westfall and Harper W. Boyd, Jr. in the Journal of Marketing, October 1960, of the American Marketing Association.
furnish the forces necessary to start the economy on a path of rapid growth. As such, no systematic attempt to study the problems of marketing in India has been made.

Unorganised marketing facilities and the absence of an established trade-name for the items manufactured by small scale industries have been already recognised as factors responsible for the slow growth of small scale industries in the country. The existing marketing system in small scale industrial sector in India is not only unorganised but also defective mainly because of their small-size and shortage of finance. The small manufacturers themselves deal with the entire marketing functions, but they are not well-versed in all marketing techniques. Marketing activities include the following:


(a) Advertising, (b) Trade promotions, (c) Selection of channels of distribution, (d) Product publicity, (e) Personal selling, (f) Sales forecasting, (g) Specifying inventory levels of finished stock, (h) Transportation, (i) Processing of incoming orders, (j) Warehousing, locations, and inventories carried to each space, and (k) Marketing informations,
Due to lack of marketing facilities many products of small scale industries for which there is an adequate demand at a reasonable price cannot be distinction. The products of small scale industries are sold in the nearby markets by the producers where they are either in less demand or in no demand. It is a known fact that small producers sell their produce on adhoc basis to one purchaser in the nearest market since they require immediate cash for further production. As a result, they are unable to get reasonable price of their products. Due to lack of marketing knowledge, the small entrepreneurs produce goods without making any arrangement for assessing consumers' reactions to the products. Consequently, the goods of small scale industries fail to capture internal as well as international markets. Hence, the problem of marketing in small scale industrial sector assumes crucial importance.

These industries can compete favourably with the large scale industries in the domestic as well as in the foreign markets, if they are provided with adequate marketing facilities. For the present, marketing assis-
tance is rendered to small scale industries mainly in two forms; firstly, by undertaking actual mar-
ketin of their products, and, secondly, by conducting market research and investigation surveys for a particu-
lar product manufactured in the small scale industrial sector in general or for a specific brand of the product manufactured by a particular small scale unit. Actual marketing of the product of small scale indus-
tries is undertaken by the National Small Industries Corporation in the domestic market and by the State Trading Corporation under its Export-Aid-to-Small Industry Scheme in foreign markets. Market research and investigation surveys are undertaken by the Deve-
lopment Commission, Small Scale Industries Organisation. The Indian Institute of Foreign Trade undertakes commo-
dities surveys with special reference to their export potential and their sale conditions in export markets. These surveys cover the entire industry including large and small scale sectors and have, therefore, a close relevance to small scale industry products in the field. But the small scale sector is given partial treatment.

The formation of Cooperatives of small scale units for the purpose of marketing of goods was considered to
be a lengthy process and there was fear of the absence of unity of purpose and proper guidance. Under the circumstances, it was considered necessary that certain common services in the sphere of marketing should be made available by the government so that they may have regular and quick sales outlets. The piling up of their stocks may result in the deterioration of quality of products and heavy losses to them. Keeping in view the marketing problems of small scale units, the Development Commission, Small Scale Industries has established certain marketing Institutes both at the Central and the State levels to give a gfillip to small scale products internally as well as externally. Internal marketing is assisted by Small Industries Service Institutes which conduct distribution surveys for the benefit of small scale industrialists. They also enlist the units for participation in such surveys under the central government Store Purchase Programme. They issue competency certificates to those units receiving government orders. They also promote ancillary relationship with the large and medium-sized units in the public as well as private sectors.

Marketing of products for exports is also assisted by Small Industries Service Institute which enlist the small units for participation under the Export Aid-to-
Small Industry (EASI) Scheme of the State Trading Corporation of India. These Service Institutes render technical counselling for satisfactory execution of export orders. They also disseminate information about the items having export markets. They maintain close liaison with specialised agencies like Export Promotion Councils and have up-to-date information and knowledge about the products having export potentials.

The Chief Controller of imports and exports helps in issuing licences to Small Scale Industries for export. Another institute viz. Directorate of Export Promotion also collects and supplies information about foreign markets. They carry out market studies for particular products, publish Trade Directories, Brochures, and Bulletins. Export Promotion Councils are of great service to small scale and cottage industries. They organise exhibitions and show-rooms, maintain close liaison with Indian exporters and frame special export promotion schemes.

State Trading Corporation has come to assist the exports of small scale and cottage industries in a big way. They register units for participation under Export Aid-to-Small Industry Schemes. They also help these units in the preparation of sales leaflets, price lists etc.
Problem of lack of Product Development Programme in Small Scale Industries:

Of all the problems discussed above, lack of product development programme has been considered to be the most important one. Due to the absence of a product development programme, the quality of the products manufactured by the small scale units is inferior and the cost of production very high. As such, the products of small scale industries fail to compete with other similar products existing in the market. Hence, product development is of utmost importance to all business units big or small but, the need of such a programme in the case of small scale industries is still greater than others because of their small-size and shortage of funds. It is on account of this fact that they are not in a position to undertake at different occasions market research aid surveys for improving the quality of the products and to produce goods at low costs. Moreover, market research is costly and time-consuming and it requires the services of highly qualified and trained staff which the small scale industries cannot afford.

Product development programme renders useful services to small entrepreneurs in many respects. In production, it helps them in taking various important
decisions like how to start a business, where to start, when to start, what to produce, how much to produce, what should be the quality of the product etc. Similarly, in marketing it studies such aspects as are related to channels of distribution, methods, techniques of sales promotions etc.

Thus, for the speedy growth of small scale industries in the country, a comprehensive product development Programme based on market research is imperative. The need for product development programme in developing countries like India is increasingly felt because the small sector constitutes a largest segment of the economy. The programmes so far chalked out in India for the speedy development of industrial sector have several drawbacks. The facilities provided in all Estates have not been fully utilised as some of the Estates have been planned without proper investigation of the industrial potentialities of the area, and in others there are inadequate facilities. Further, in the programmes more stress is laid on large scale units and less on the small scale units. As a result of all these, the growth of small scale industries is affected adversely.

The efforts so far made by the Government of India in this direction through the Development Commission, Small scale industries, have improved the conditions of small scale units to a significant extent. These industries are now producing various modern and sophisticated items previously produced by large scale units but still thousands of small scale units (unregistered) are running on traditional lines using old and outdated machines, equipments, methods and techniques of production and distribution. Only registered units have been receiving patronage from the facilitating institutions pertaining to raw-material, finance, marketing and production. These facilities are no doubt important from the point of view of successful working of small scale units but they should not be confined to registered units only.

Apart from this, it has also been observed that the small units also require proper guidance and assistance in production planning and distribution system. With the exception of a few, the products of small scale units are not found according to the tastes, fashions, habits and fast changing consumer behaviour. Further, their prices are high and quality is poor. The production is carried out exclusively on the basis of
manufacturers' choice of only those goods and commodities which are more profitable and the production of which is simple in nature. As discussed earlier, only a few units in our country are producing sophisticated goods. They, too, take into account only Indian conditions, and do not pay any consideration to the international market situations. As a result, the exports of these industries have not increased as compared with the assistance and facilities provided to them.

It goes without saying that the main cause of such a state of affairs is the lack of product development programme in this sector. The small scale units could compete favourably with large scale units and contribute to the exports of the country if they were provided with proper guidance and assistance for their product development in the wake of fast changing consumer behaviour in the home as well foreign markets. Hence, Product Development Programme is one of the chief problems of the small scale industries.

CONCLUSION:

It follows from the above discussion that although the small scale industries are receiving assistance and guidance from the government of India through its diff-
erent facilitating institutions and agencies pertaining to supply of raw-material and finance, management and technical-know-how and marketing etc., they have not yet been developed on sound lines. It has been observed that apart from many other problems of varied nature, these industries are facing the major problem of lack of Product Development Programme due to which they are not in a position to compete with large scale units producing similar articles both in the internal as well as in the external markets. These industries can grow on modern lines if product development programme is introduced in this sector. It can help the small manufacturers to secure a larger market share by improving the quality, style, design, packaging and functional features of their products in the wake of the fast changing consumer behaviour in the domestic as well as the foreign markets. The important role played by the Product Development Programme as a growth stimulant for small scale units has been discussed in detail in the next chapter.