"Finance is the life-blood of business in any productive sphere and its vital need is doubly realised where it is lacking as in small industry."¹ The importance and significance of finance in any activity concerned with production and distribution of goods, therefore, needs no special emphasis. Small scale industries, are specially in a disadvantageous position in regard to proper financing of their units. The problem of finance in small scale industries is appreciated by various authorities from time to time but no concrete and realistic approach to solve these problems is, however, implemented until now. The financial problem cannot be solved in isolation because all the problems are inter-related with one another and therefore one problem gives birth to other problem or problems. What more interesting is that actually finance is the root cause of all other problems like materials, management, men etc. In other words, all the problems are within a circle and hence, it is required to study the problems as 'Package problems'. Simply giving the required finance needed by industrial units will little solve the problem of small scale industries. Even the financial problem is appreciated by the International Team

¹ Ramkrishna, K.T. : Finances for Small Scale Industry in India, 1962, p. 1
in the following words: "Small scale factories today have much larger needs for capital than only ten or twenty years ago. Usually they have to provide comparatively costly machinery and tools; selling specialised, long-series manufactured goods in an increasing market causes great demands on their working funds. ... The finance problems for small firms in India seem to be greater than in many other countries, the main reasons being the general shortage of capital and low rate of savings."

Sources of Finance

In small industry, finance may come from two sources, viz., owners' contribution and borrowings. The former is known as 'Capital' and the latter as 'Credit'. Generally, capital is required to acquire fixed assets and credit is required for working funds. But primary difficulty of most of the small entrepreneur and village artisan is to procure finance for initial requirements. In other words, the problem of capital is very acute in small scale sector. Moreover, owners' contribution is limited to be made by one or in a few cases two or three persons because we have seen that incidence of sole proprietorship is prominent in small industries. Our survey revealed that 70 per cent of the small industries of the district of Cachar is one-man-ownership and another 25 per cent is Partnership firm. Hence, the demerit of inadequate capital as a characteristic of Sole Proprietorship organisation is

present here also. In Partnership also, the difficulty of inadequate capital hampers the firm's productivity and consequently profitability and what not! But in contrast, Joint Stock Company has certain advantages in regard to acquisition of both capital from shareholders and credit from Public over and above the institutional finance. Hence this type of acute financial problem is not apparently exists in large and medium scale industries which are generally organised on company form. The problem of finance if at all exists in large scale industry is also quite different in its nature and kind from the one that prevailing in small scale sector. However, it is admitted that finance is available in larger amounts to the small entrepreneurs today than it was thirty years ago. The entrepreneur of that time was far more worried about it than his counterpart today. In those days a prospective entrepreneur could not think of starting an industrial unit because of lack of finance whereas at present an entrepreneur can at least approach financial and other institutions for necessary credit.

The various findings regarding financial structure and problems connected with finance of the small industrial units of the district of Cachar is placed below:

<table>
<thead>
<tr>
<th>Description</th>
<th>No. of units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units with finance as one of the problem</td>
<td>26</td>
<td>43</td>
</tr>
<tr>
<td>Units without financial problem</td>
<td>34</td>
<td>57</td>
</tr>
<tr>
<td>Total:</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 8.1 Magnitude of Finance Problem
Lack of Financial Planning

Moreover, eight units reported lack of finance as one of the main reasons for underutilisation of capacity in their units. It is undeniable that adequate finance is a must to keep a particular unit productive. Lack of proper accounting and planning in small enterprises keeps the entrepreneur in darkness regarding his financial requirements, present and future. And as a result they cannot review their progress and growth in terms of exact financial term. What most entrepreneurs prepare called as Plan just occasionally to submit to financial institutions in connection with obtaining credit, serves no purpose of the entrepreneurs and which fails to exhibit the real picture of the enterprises.

The Report of the Banking Commission (1972) observed: "The important difficulties faced by commercial banks in processing credit proposals from small units are stated to be (a) absence of properly maintained books of accounts by small units, (b) inability on the part of small units to furnish information regarding cost of production and profitability, (c) late submission of stock statements with the result that the value of the security given cannot be easily ascertained on a given date, and (d) want of trained personnel." According to another observation, "major problems (of finance) included the absence of reliable accounts to enable applications for, or use of finance to be economically and accurately evaluated, the inability of small units to provide the kind of information

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required under present screening methods, and the unwillingness of small units to make full disclosure of pertinent information.

Financial Structure

The investment structure of the small industrial enterprises of Cachar district is shown below:

Table 8.2
Investment Structure

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tiny Units</td>
<td>48</td>
<td>80</td>
</tr>
<tr>
<td>Small units</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

These 80 per cent of the units, i.e., tiny units, have their investment in Plant and Machinery up to Rs. 1 lakh. However, as per revised definition as announced very recently raising the investment in plant and machinery limit to Rs. 2 lakhs for the purpose of treating an industrial unit as tiny unit, the percentage of tiny units in Cachar is 93 per cent. According to National Census of small industrial units 91.25 per cent of the small industrial units is considered as tiny units (i.e., units with investment in Plant and Machinery up to Rs. one lakh). As per latest definition it is approximately 94 per cent. This, however, tallies with our findings of, 93 per cent. Interestingly,

all but two of those 12 small units having investments in Plant and machinery above Rs. one lakh have no financial problem. So, it is quite clear that tiny units are suffering more from financial problem. On the other hand, most of the financial benefits under various schemes of Governments had gone to these small units which constitute a meagre percentage of the total units. Hence, to reverse the trend serious and practical thought is required. The following table will show a relation of our findings with that of National Census in this regard.

Table 8.3

Small Units classified on the basis of range of investment in Plant and Machinery

<table>
<thead>
<tr>
<th>Investment in Plant and Machinery (Rs. '000)</th>
<th>Sample study of Cachar District</th>
<th>All India National Census of Small Units</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of units</td>
<td>Percentage</td>
</tr>
<tr>
<td>Upto 25</td>
<td>33</td>
<td>55</td>
</tr>
<tr>
<td>26-50</td>
<td>10</td>
<td>16</td>
</tr>
<tr>
<td>51-100</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>101-300</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>301-600</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Above 600</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total:</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

According to our study 50 per cent of the small units in the district of Cachar are in rented premises whereas the National

Census of small industrial units shows the all-India figure at 60 per cent. This shows that small scale entrepreneurs do not block their resources in land and buildings. The remaining 50 per cent of the small units (i.e., 30 small units) have a total investment of Rs. 23,49,000 in land and buildings. In other words on an average these 30 units have an investment in land and buildings Rs. 78,300 per unit and investment in fixed assets of all these 60 units is Rs. 61,61,930 with an average of Rs. 1,02,692.50 and employment 10 per unit including self-employment. The All India National Census indicates that the investment in fixed assets was Rs. 76,000 and employment 12 per unit including self-employed.

**Institutional Credit**

After analysis of the sources of capital the following facts are revealed.

**Table 8.4**

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>No. of Units</th>
<th>Percentage of the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own capital</td>
<td>..</td>
<td>29</td>
</tr>
<tr>
<td>Borrowed capital</td>
<td>..</td>
<td>8</td>
</tr>
<tr>
<td>Both own and borrowed capital</td>
<td>..</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>..</td>
<td>60</td>
</tr>
</tbody>
</table>

The above table shows that about 50 per cent of the units
employed their own capital only without any institutional or private finance. On the other hand only 13 per cent employed borrowed finance only. The remaining small units of the district have both own as well as borrowed finance. As regards source of borrowed finance the United Bank of India and the State Bank of India extended credit to 25 units and State Government under State Aid to Industries Act to 11 units. Moreover, friends and relatives extended credit to 6 units, private moneylenders, ASIDC, AFC two units each. This reveals that State Bank of India (SBI) and the United Bank of India (UBI) actually played a dominant role in granting credit to small entrepreneurs of Caohar District. The growth of Bank branches in Caohar district is represented by the graph given in next page.

The evaluation study made by the Planning and Development Department of the Government of Assam in 1968, to examine the working of loan programme of the Industries Department observed "we find that only about half the loan has gone to deserving persons and has been utilised properly. The other half has been a complete waste. But less than 20 per cent of the units which received loan are functioning well while the remaining are either closed or not functioning well. The action taken for recovery of the loans is very inadequate. As we had earlier mentioned the entire loan programme seems to lack a sense of purpose." This state of affairs exists even today which is

GROWTH OF BANK OFFICES IN CACHAR DISTRICT

![Graph showing the growth of bank offices in Cachar District from 1975 to 1978. The graph includes lines for Cachar District, Silchar Sub-Division, Karimganj Sub-Division, and Hailakandi Sub-Division.]
very unfortunate.

For supply of credit, small scale industries fall within the priority sector. The financial constraints of the small scale sector includes complex appraisal forms, high rate of interest, non-availability of adequate and timely credit, delay in payments, offering adequate security or finding out guarantor etc. In some cases, the project reports prepared even by recognised agencies are turned down by Banks. The statistics supplied by Entrepreneurship Motivation Training Centre, Silchar as referred to in Chapter VI shows that as many as 31.4 per cent of schemes prepared and submitted by the said EMTC had been rejected by Banks. The attitude of the bankers in financing small units should not be formality-oriented considering the limitations of small entrepreneurs in all respect.

Due to lack of knowledge of financial management most of the small entrepreneur goes on making expenditure lavishly without proper budgeting. And what is worst that diversification of funds by the entrepreneur for unproductive purposes and even for domestic purposes. The entrepreneurs, specially those who have borrowed funds decline to disclose the fact of diversification towards domestic purposes but they very much incline to express regarding diversification of their own funds for this or that odd reasons.

Due to no accounts being maintained by most of the Sole Proprietary small units, they do not know their cost of production and hence profit or loss. As a result the accounting data cannot be utilised for management purposes.
"It is observed that small scale units are starved of finance. Small scale units are not aware of the governing rules and regulations of various financial organisations. The long procedural intricacies involved for seeking finance is a matter for concern. Analysis of representations from various small scale units all over the country has revealed that there is considerable delay in getting the loans sanctioned and in getting the sanctioned loan amount."\(^7\)

The principle of offering various facilities to small scale sector by different financial institutions widely vary from one institution to another institution. These includes rate of interest, margin of security, initial grace period for commencement of repayment of loans, service charges, mode of payments etc.

Considering the industrial backwardness of the district, special facilities and subsidies are provided to the small scale entrepreneurs of the district alongwith other backward districts. But from our observation it is evident that the special facilities could not make an impact on the growth of small sector of the district. According to the census of small industries of 1972, average investments of small scale sector was Rs. 76,000 per unit whereas the average finance available from banks was only of the order of Rs. 22,000 per unit which implies that the entrepreneur from backward areas had to raise a sum of Rs. 54,000 on his own.

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7. Sarat Chandra, A. : Resource Constraints of the Small Scale Sector (An article contained in December 1979 issue of SRARE, a quarterly research journal of SIEF Institute, Hyderabad), p. 326
No concrete steps have been initiated to increase the share of credit to small industry though Industrial Policy Announcement of 1977 mentioned that "Banks should earmark a specified proportion of their total advances for promotion of small village and cottage industries." As a result, their share increased from 12.3 per cent in 1975-76 to only 13.4 per cent in 1977-78, although the banks' outstanding credit to the sector during the year ending March 1978 declined by 1 per cent compared to the previous year, i.e., from 22 per cent in March 1977 to 21 per cent in March 1978.

The high-powered committee set up by the Government of India for examining bank credit problems of small scale industries in 1978 under the Chairmanship of Shri I.C. Puri, has made far-reaching but practical recommendations to simplify and streamline the flow of institutional credit to small scale units. Recommendations made therein were accepted by the Government of India. Introduction of simpler forms for uniform adoption as also a slab system of interest rates, setting up of a national equity fund, time limit for processing of loan applications and a more rational repayment schedule are some of the important recommendations of the committee.

The Reserve Bank of India (RBI) also issued guidelines to Commercial Banks for evolving specific measures for expanding bank credit to small scale and cottage industries, artisans, etc. Practically, institutional credits are beyond the reach of artisan and village and cottage industries. Effective and realistic approach is very much essential to bring the
institutions and artisans and village entrepreneurs closer for
production by the masses instead of mass production.

To sum up, as to the total quantum of financial resources meant
for the small enterprises and the numerical strength of the
agencies for dispersal of these resources are concerned, the
state of affairs do not perhaps look that grim as to inspire
in the prospective entrepreneur a sense of dismay and self-pity.
But it is undeniable that the desired co-ordination and cohesion
amongst these agencies on the one hand and between these
agencies and those meant for promoting small enterprises on the
other are altogether non-existent. For instance, the dimension
and scheduling of finance offered by a nationalised Bank to an
enterprise are not usually in harmony with the terms and
conditions laid down by the agency supplying the enterprise
with machineries on hire-purchase schemes. Moreover, the
financier at the time of offering fixed capital finance hardly
do so with an eye on the fund-flow prospects of the enterprise
in the post-installation stage. As a result the virus of
sickness gets injected into the body of the enterprise at the
very moment of its birth. To get cure of this hereditary
ailment is really a struggling job.

The problem of finance may be gisted as follows: Lack of
planning and capital budgeting by the small entrepreneur; lack
of resources at the disposal of entrepreneur and artisan;
absence of budgetory control; unhelpful attitude of the
financial institutions; absence of managerial talents to enforce
budgeting and control; no profit forecasting; absence of
adequate accountability; chronic shortage of working capital; 
diversion of funds for unproductive purposes; clumsy procedure 
of obtaining bank finance; provision of security to banks for 
credit; unbearable rate of interest on loans from both non-
institutional and institutional sources; lack of social status 
to influence on obtaining bank credit; lack of full information 
on the production and markets of small units; lack of 
statistical and other relevant information on the small 
industries regarding prospects of earning profit and repayment 
of loans; lack of co-ordination between various agencies; and 
last but not least lack of interest by the officials in true 
national developmental spirit.