

## FINANCIAL MANAGEMENT: THE KEY STRATEGY FOR THE SUSTAINED GROWTH OF SMALL SCALE INDUSTRIES OF INDIA

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### ABSTRACT

#### **Introduction:**

*Finance is the key input for sustained growth of small scale sector and its accessibility continues to be a matter of concern. The small scale industries need both long run as well as short run credit. The financial management plays a vital role in the survival, growth and development of these industries. In India, Small scale industries account for 95 per cent of the industrial units in the country.*

*The contribution of small industries to the balanced regional development of India is remarkable. SSIs can be extensively spread without any locational and regional constraints.*

#### **Objectives of the Paper:**

- 1. To study the contribution of SSIs,*
- 2. To study the need for the financial management*
- 3. To know the role of government in improving SSIs.*
- 3. To find and suggest solutions for problems faced.*

#### **Methodology:**

*The secondary data is used for preparing the paper.*

*The paper contains role and performance of small-scale industries in Indian Economy, problems, financial management of small-scale industries, government role in the development of SSIs, conclusions and suggestions.*

**Key Words:** *Financial Management, Sustained Growth, Accessibility, Locational.*

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**INTRODUCTION:**

In India, Small scale industries account for 95 per cent of the industrial units in the country. They contribute about 40 per cent of the gross industrial value added and 45 per cent of the total exports of India.

The contribution of small industries to the balanced regional development of India is remarkable. Small industries which use simple technologies and locally available resources both material and labour and produce simple products, can be set up in any part of the country. The benefits of industrialization can be reaped by every region, as SSIs can be extensively spread without any locational and regional constraints.

They, thus, contribute significantly to the balanced development of the country. The small scale industries generate more employment opportunities compared to large industries in terms of per unit of capital invested. After agriculture, small industries are the second largest employment providers in India. Therefore they are considered to be more labour intensive and less capital intensive. Such is a fortunate thing for a labour surplus country like India.

Small scale industries play strategic role in restructuring and in transformation of an economy with a comparatively higher labour-capital ratio and a shorter gestation period. They operate relatively in smaller markets to be economic. Small scale industries involve lower investment and greatly suit the economies of less developed countries (LDCs) who are capital deficient and labour abundant. They offer a method of ensuring more equitable distribution of national income and facilitate on effective mobilization of resources of capital and skill which might otherwise remain unutilized"

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**SMALL SCALE INDUSTRIES IN INDIA:**

The definition of small scale industries in India is based on the criterion of capital investment. The investment limit for a small scale industrial unit is set at Rs. 1 crore in fixed assets in plant and machinery and for a tiny unit the investment limit is Rs. 25 lakhs. This is unlike many other countries like China, Germany, Indonesia, Iran, Turkey, etc., which go by the number of employees as the criterion for identifying small scale industries. In USA small business which has employment of less than 500 people, in UK it is less than 200 workers, in Germany less than 300 workers, in Sweden and Italy less than 50 and 500 people respectively.

**MEANING AND DEFINITION OF SMALL SCALE INDUSTRIES**

Small scale industries are the ones that primarily deal with the manufacture, processing and preservation of goods. Usually, the investment of the small scale industries in machinery and plant does not, in any case, exceed Rs.1 crore. This will also include units engaged in mining, repairing or servicing of the machinery. For the ancillary units, the amount invested in machinery and plant must also not, in any case, exceed Rs. 1 crore in order to be classified as small-scale industry.

Just recently, the investment limit of Rs. 1 crore has been increased to Rs 5 crores for an industry in order to be classified as a 'Small Scale Industry'. Government of India has done this in respect to some particular items including hosiery, drugs & pharmaceuticals, hand tools, sports goods, and stationery items.

Those small scale units earn the status of 'Tiny Enterprises' that have invested 25 lacs in plant and machinery, irrespective of their unit's location. Even the industry related business enterprises and services will earn the benefits of small scale sector if they have an investment of nearly Rs. 10 lacs in fixed assets. This investment is inclusive of building and land. In order to calculate the value of the fixed assets, the original price that was paid by the first owner is considered. The price that the subsequent owners pay is not taken into account.

Small Scale industries might seem to be really small, but the unique feature of the intensiveness of labor often characterizes the small scale industries. It has been calculated that the total number of people employed in the small scale industries is nearly equivalent to 1 crore and 90 lakhs in India.

### **ROLE AND PERFORMANCE OF SMALL SCALE INDUSTRIES IN INDIAN ECONOMY:**

In both the developing and developed countries the small-scale enterprises play important role. The following points reflect the role and importance of Small scale industries they are, small industries provide ample opportunity for entrepreneurship, small industries also enjoy the advantage of low cost of production, employment generation, quick and timely decisions, adaptability and a personal touch, dispersal of industries in rural and semi-urban areas, utilization of local resources and skills, development and widening of entrepreneurial base, maximization of exports, supplier of intermediary goods to large scale industries.

The scope and importance of SSIs is a worldwide because of small size, dynamic nature and efficient production that could respond quickly to customer needs. Hence the emphasis of the globe is on the small enterprises which hold the key to growth with equity and skill. The following table shows the clear picture.

**Overall Performance of SSI Sector, 2002-03 to 2007-08**

Year	Number of (Units in lakh)			Production (Rs. crore at 2001-02 Prices)	Employment (in lakh)	Exports (Rs. crore)
	Registered	Unregistered	Total			
<b>2002-03</b>	16.03	93.46	109.49 (4.1)	3,06,77 (8.7)	263.68 (4.5)	86,013 (20.7)
<b>2003-04</b>	17.12	96.83	113.95 (4.1)	3,36,344 (9.6)	275.30 (4.4)	97,644 (13.5)
<b>2004-05</b>	18.24	100.35	118.59 (4.1)	3,72,938 (10.9)	287.55 (4.5)	1,24,417 (27.4)
<b>2005-06</b>	19.30	104.12	123.42 (4.1)	4,18,844 (12.3)	299.85 (4.3)	1,50,242 (20.8)

<b>2006-07</b>	20.32	108.12	128.44 (4.1)	4,71,663 (12.6)	312.52 (4.2)	1,81,426 (20.8)
<b>2007-08</b>	N.A	N.A	133.68 (4.1)	5,32,979 (13,0)	322.28 (3.1)	N.A

Note: Figures in parenthesis indicate the percentage increase over previous year.

Source: Govt. of India Economic Survey 2007-08 (Delhi, 2008). Table 8.17. p. 198 and India 2010- A Reference Annual (Delhi, 2010). P.698.

The above table gives the information about the performance of SSIs in India. The total number of SSI units were 109 lakh in 2002-03 of which 16.0 lakh were registered and 93.5 lakh unregistered. In 2006-07 the number of SSI units increased to 128.4 lakh of which 20.3 lakh were registered and 108.1 lakh unregistered. The number of SSIs reached to 133.68 in 2007-08. The output of these units was Rs.3, 06,771 crore in 2002-03 which rose to 5, 32,979 crore in 2007-08. The SSIs provided employment to 263.7 lakh people in 2002-03 and to 322.28 lakh people in 2007-08.

The SSIs produce variety of goods. The product range of SSIs after independence is changed to non-traditional goods like sports-goods, finished leather, leather products, readymade garments, woolen garments, knitwear, processed food items, chemicals, engineering goods, etc. The establishment and expansion of SSIs contribution towards exports increased to 1,81,426 crore in 2006-07 from Rs. 155 crore in 1971-72.

### **PROBLEMS OF INDIA'S SSIs**

The SSIs and cottage industries face so many problems. 2.49 lakh SSIs were sick at the end of March 2001. Shortage of capital, problem of raw-materials, problem of machinery and technique of production, problem of marketing, inefficient management, problem of power shortage, lack of transport facilities, competition from large industries, lack of training and research facilities, under-utilization of productive capacity, sickness and inefficiency, burden of local taxes, de-reservation, etc are the main problems faced by the Indian SSI units.

### **FINANCIAL MANAGEMENT OF SMALL-SCALE INDUSTRIES**

Finance is the key input for sustained growth of small scale sector and its accessibility continues to be a matter of concern. The small scale industries need both long run as well as short run credit. The financial management plays a vital role in the survival, growth and development of

these industries. In India, Small scale industries account for 95 per cent of the industrial units in the country.

The small-scale industrial units need short run as well as long term credit. Short term credit is needed for running the industry for its day to day necessities, for purchasing raw materials and other inputs like electricity and water etc. and for payment of wages and salaries and it constitutes working capital. Long term credit is needed for the creation of fixed assets like land, building, plant and machinery, etc.

### **FINANCIAL SOURCES OF SMALL SCALE INDUSTRIES**

Usually the commercial banks provide short term credit to SSIs. Some times co-operative banks and regional rural banks also provide short. The institutions like State Financial Corporations (SFCs), Small Industries Development Corporations (SIDCs), National Small Industries Corporation (NSIC) and National Bank for Agriculture and Rural Development (NABARD) provide term loans. The financial assistance in the form of supply of machinery on hire purchase basis, from NSIC and to some extent from SIDCs is available. The Small sized units and tiny units also get some term loans from commercial banks along with working capital in the form of composite loans.

The Small Industries Development Bank of India (SIDBI) provides refinance to these institutions. This kind of refinance includes, assistance provided to State Financial Corporation Bills, Finance Scheme, Special Capital/Seed Capital Scheme, new debt instruments and to National Small Industries Corporation. To the smalls scale industrial units, long term loans are provided by SFCs mainly through Single Window Scheme and National Equity Fund and also direct assistance provided to State Financial Corporations in the form of refinance. State Financial Corporations provide some part of working capital for pre-operative expenses to Small Scale Industrial Units under the Single Window Scheme.

### **STEPS TAKEN BY RESERVE BANK OF INDIA TO IMPROVE CREDIT FLOW TO SSI SECTOR**

- a) The Government of India had increased the investment limit for Small Scale Industrial units from Rs.60 lakhs to Rs.300 lakhs and for tiny units from Rs.5 lakhs to Rs.25 lakhs. In order to guarantee the credit is available to all types of tiny sector, Reserve Bank of India has issued directions that, out of the funds usually available to SSI sector, 40%

should be given to units with investment in plant and machinery up to Rs. 5 lakhs; 20% for units with investment between Rs. 5 lakhs and Rs.25 lakhs and remaining 40% for other units.

b) The Nationalized Banks have been directed to operationalise more specialized SSI branches at centers where there is a possibility of financing many SSI borrowers. 370 specialised (as on March 1998) SSI branches are working in the country.

c) Direction is given to extend 'Single Window Scheme' of SIDBI to all districts to meet the financial requirements of SSIs.

d) Banks are advised to deal SSI units with a good track record, the benefits of lower spread over the Prime Lending Rate, with a view to moderating the cost of credit to SSI units.

e) In order to take quick decision on credit proposals of SSI units, banks have been advised to entrust enhanced powers to the branch managers of the specialized SSI branch so that, the majority of the credit proposals are decided at the branch level.

## **GOVERNMENT FINANCIAL HELP TO SMALL-SCALE INDUSTRIES**

The government of India has taken several steps to improve SSIs. Shortage of capital is the most important problem of SSIs. For extending credit by financial institutions the government of India has declared small scale sector as 'Priority Sector'. To improve the financial position government has taken many measures such are as follows:

- Government provides long term and medium term loans under State Aid to Industries Act at low rate of interest.
- To provide medium term loan at lower rate of interest, State finance Corporations were set up in each state.
- Credit is supplied through Industrial co-operatives.
- The government has directed the State Bank of India and various Commercial Banks to provide credit under priority basis.
- Industries Development Fund, National Equity Fund, Single Window System, Small Industries Development Bank of India (SIDBI), etc are the specialized financial institutions set up.
- In 1960 a credit guarantee scheme was introduced.

- Direction is given to the Industrial Development Bank India to re-finance to all financial institutions those finance SSIs.
- The Government of India has taken following steps to ensure credit delivery to SSI sector:
  - i. The composite loan limit has been increased from Rs. 25 lakh to Rs. 50 lakh
  - ii. The limit of collateral free loans increased from Rs. 5 lakh to Rs.15 lakh and upto Rs. 25 lakh in case of SSI units with a good track record,
  - iii. Laghu Udyami Credit Card (LUCC) credit limit enhanced from Rs. 2 lakh to Rs. 10 lakh,
  - iv. Small and Medium Enterprises (SME) fund under SIDBI in January 2004 with an initial capital of Rs. 10,000 crore to supply credit at competitive rates, etc.

## CONCLUSION AND SUGGESTIONS

The Small Scale Industries contribute significantly to the balanced development of the country. The small scale industries generate more employment opportunities compared to large industries in terms of per unit of capital invested. After agriculture, small industries are the second largest employment providers in India. Finance is the key input for sustained growth of small scale sector and its accessibility continues to be a matter of concern. The small scale industries need both long run as well as short run credit. The financial management plays a vital role in the survival, growth and development of these industries. The government of India has implemented several schemes for improving SSI units. The SSI units must make use and take the advantages of available sources and helping hand of the government, improve themselves, try to meet the employment needs of growing unemployed force and contribute to the nation by sustained growth. Thus the financial management is the key strategy for the sustained growth of Small Scale Industries in India.

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