ROLE OF INSTITUTIONAL FINANCE IN THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES OF DELHI

THESIS SUBMITTED FOR THE DEGREE OF Doctor of Philosophy IN COMMERCERE BY JUNAID AHMAD

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**INTRODUCTION**

Small-scale industries form the backbone of industrial development of almost every developed and under-developed country of the world. With their enormous potential for increasing the consumable output and extensive capacity for generating employment opportunities as well as self-employment avenues, small industries are the kingpin in the process of economic development. They are instrumental in optimising the rate of economic growth. Being labour-intensive, small units' capacity to absorb material and human resources as also to harness the individual entrepreneurial talent at comparatively small investment of capital is immense. Because of the mobility in its character small form of business can be adapted far and wide across the country by every industrious person. Advance economies of the United States and West European countries and
Japan are glaring examples to show that small enterprises can greatly help in achieving sustained economic growth. Japan has emerged as a powerful competitor in world market mainly due to its network of small-scale units almost in every field of business.

In developing countries, like India, small industries are an essential factor for bringing about economic growth and economic prosperity. Large-scale industries alone cannot provide enough employment for a large population of the country nor can ensure the country's economic and social development under conditions of capital scarcity and technological dependency.

**THE PROBLEM:**

Delhi being the capital city of the country, a Union territory and a metropolitan commercial centre has a conglomeration of small industrial units. These units produce a wide range of products whose output is distributed internally as well as exported. They have been a source of
employment to a vast chunk of the population of Delhi. The presence of a number of head offices of the financial institutions alongside a wide network of their branches spread over the territory of Delhi offers the benefit of a developed capital market. Yet, despite the advantageous ground and favourable climate for flourishing, these units are afflicted with multifarious problems. Many a unit have gone sick while others prosperity is in jeopardy. In fact, every problem of small enterprise concerning production or marketing, management or organisation, quality or materials, is in the ultimate analysis a financial one. This gives rise to the problem of enquiring into the financial health of these units with an special eye on the institutional finance so essential for the growth and development of these industries. Practicable suggestions are also tendered to bale out these units of the financial stringency and to put them on firm financial footing.

RESEARCH METHODOLOGY:

Throughout the study to obtain specific conclusions, a judicious use has been made of
both the conventional approaches of deduction and induction methods. Also, to illuminate the problem, the applications of economic reasoning, statistical methods and financial management principles has been made. For statistical information, the Reserve Bank of India Statements, Bulletins, Reports on Currency and Finance, and Reviews have been profusely consulted. But I have not relied on any single source. Other sources of information have been the agencies like the Ministry of Finance, Ministry of Industries, Ministry of Commerce, Government of India and the Planning Commission, Yojana Bhawan, New Delhi. Materials and data concerning the small industries of Delhi have also been collected personally by visiting a number of these units selected at random. The required information has been noted from their records and has been used in this work. Annual Reports and Accounts of the financial institutions, viz., Delhi Financial Corporation, Life Insurance Corporation of India, Industrial Development Bank of India, State Financial Corporation, National Small Industries Corporation and also of the
Directorate of Industries, Delhi, have also been used in compiling this study. Some figures have been computed and statements compiled by the author on the basis of the available published data relating to financial institutions and institutional funds to small-scale industrial sector of Delhi and the country at large. In addition, the information available in various government publications and articles published in periodicals and newspapers of repute have also been used freely to enrich the present work.

THE FRAMEWORK:

The subject-matter of the thesis has been arranged in the following six chapters:

Chapter-I makes an appraisal of the role of small-scale industries in modern economy with special reference to India. The study reveals that small-scale industries occupy a prominent position in the industrial structure of every developed and under-developed country of the world. These units are an essential factor for overall economic growth of a developing country like India. They have the potential for optimum exploitation.
of natural and human resources in developing economies. Small enterprises have great mobility and provide a viable media for the flourishing of entrepreneurial talent of individuals. Being labour intensive, their contribution in employment and in aggregate turn-over is significant. In fact, small industries form the back-bone for the advancement of the modern economies.

Chapter-II identifies the problems and assesses the prospects for development and growth of small industrial units of Delhi. The study reveals that Delhi being the capital of the country and a metropolitan commercial centre is dominated by smaller units. But the small industries of Delhi are confronted with multifarious problems ranging from procurement of inputs, management of human and material resources to ultimate distribution of output. In fact, every problem of small producer concerning production or material, quality or marketing, is in the ultimate analysis a financial one. Hence, the most serious and fundamental difficulty of small units of Delhi bears out to be related to the
problem of finance.

Chapter-III deals with the financial needs and traces out the sources of finance available to the small industries of Delhi. The study makes an attempt to measure the demand for funds through an analysis of the capital structure of small-scale sector. It also gauges the quantum of funds supplied by financial institutions comprising the capital market of Delhi on the basis of a survey of external funds employed conducted on a representative group of small-scale industries of Delhi selected at random. A comparison of the demand for funds with the supply of finance reveals the inadequacy of the institutional finance which is, to a great extent, accountable to a host of difficulties ranging from tortuous procedures to cumbersome terms and conditions encountered by these small entrepreneurs and elaborately enumerated in the chapter.

Chapter-IV assesses the role of financial institutions providing the long-term finance to the small industries of Delhi. It analyses the
flows of long-term funds from the national level as well as territorial level institutions. The study reveals that the role of financial institutions has neither been expansive nor growing. During the decade under study while the number of small units of Delhi multiplied considerably, the number of units beneficiary of institutional funds shrank in strength. The institutions have thus remained unexpansive compatible to the increasing demand for finance emanating from an expansive small-scale sector of Delhi. Statistics of funds flows bring to fore that the yearly volume of long-term financial assistance flowing from these institutions has maintained a fluctuating trend moving downwards. The net funds supplied have not grown in quantum to any significance.

Chapter-V analyses the role of short-term financing institutions. It merges that commercial banks are the only agency that supply short-term credit to small industries of Delhi. Though there is a wide network of banking system in the Union territory of Delhi, the contribution of banks
in financing the growth and development of small industries of Delhi has remained limited during the decade. The commercial banks have remained short of the target fixed for them by the Reserve Bank of India with regard to enhancing the percentage of short-term funds to the small industries in their aggregate credit operations. The annual average of bank credit to smaller units in Delhi is even lower than the yearly average of credit provided by banks to small-sector on all-India level. The yearly increases in bank finance to smaller units in Delhi have also proceeded at a snail's pace.

Finally, the sixth Chapter sums up the conclusions drawn on the basis of this study and, in the ultimate analysis, finds that because of the short-supply of institutional finance, the growth and development of the small-scale industries of Delhi has been hampered. It also makes workable suggestions with regard to streamlining the existing procedures prescribed by financial institutions for the sanction of financial assistance to small industries and
sets out concrete measures for augmenting the quantum of institutional finance to these industries which will bail them out of their present afflictions by putting them on firm financial footing.
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CHAPTER I

ROLE OF SMALL-SCALE INDUSTRIES IN MODERN ECONOMY WITH SPECIAL REFERENCE TO INDIA

Small-scale industries occupy an important position in the industrial structure of almost every developed and under-developed country of the world. "We find the small units almost everywhere predominant."¹ They are instrumental in optimising the rate of industrial growth. The experience of the industrialised economies like those of the United States, the countries of Western Europe and Japan shows that small industries can greatly help in achieving sustained economic growth. Among these countries, Japan is a powerful competitor in the world market mainly because of its network of small scale units in various fields.

In less developed countries, small industries are an essential factor for overall economic growth.

It is now being acknowledged that industrial development cannot be achieved by establishing and promoting only large scale units. Large scale industries alone cannot ensure a country's economic and social development. Small units in developing countries have specific advantages for optimum exploitation of their natural and human resources. Moreover, small firms have great mobility and better media for the flourishing of entrepreneurial talent of individual as compared with large units where advanced technology and heavy capital requirements are dominant factors and entrepreneurial qualities are not of so much consequence.

While emphasising the crucial role of small scale industries, it is necessary to have a clear idea about their nature and scope. For visualising the role of small industries they need to be analysed both in qualitative and quantitative aspects. Various names are given to these industries, which are based on their qualitative aspects like decentralised sector, socialised sector, employment oriented sector, natural resource sector, etc. Anyhow, while analysing their importance, it is necessary that we should have a clear understanding as to what these industries are.
In the following paragraphs an attempt is made to this end.

**DEFINITION IN VARIOUS COUNTRIES:**

It is quite difficult to define "small-scale" industry in uniform terms. Firstly, there is overlapping of functions between the various categories of small scale units. Secondly, they vary in nature and size from country to country depending upon the economic, political and social environment. The definition is an indicator of the stage of economic development of a country. It also reflects the policies and attitudes of the governments towards these industries. Hence, there is a multiplicity of definitions which confuse the comparative studies. To substantiate this statement a few definitions are reproduced which are prevalent in different countries of the world.

**JAPAN:**

In Japan by "small industries" is meant those which are relatively small in scale of management and capital investment. This basis for classification varies according to the type of industry and cannot be generalised. The government applies the term to
industries employing less than 300 persons with a capital below 10 million yen.

UNITED STATES OF AMERICA (USA):

In U.S.A. a manufacturing firm is officially considered a small business if it does not hold a monopoly in its field of operation and if it has fewer than 500 employees or if it is certified as small by the Small Business Administration. For the purpose of financial and other assistance a unit is classified as small if it has fewer than 250 employees.

UNITED KINGDOM (U.K):

There is no demarcation between small and large industries in U.K. However, in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as small units but this cannot be considered as a criterion of general applicability.

ECAFE:

The Working Group of the Economic Commission for Asia and the Far East suggested in 1952 that small industries be defined for statistical purposes as establishments employing not more than 20 workers when
using power or 50 workers when not using power.2

There are a few similarities among the above definitions, i.e. they are based on three variables, viz., investment, employment and output. In certain countries investment is used as yardstick. In some countries, employment has been taken as criterion for distinguishing small-scale from large scale, while in some other countries the quantum of investment in fixed assets and the number of persons employed are prescribed for categorising them as small scale units.

The first two factors, investment and employment, should be considered with reference to the stage of industrial development of a country. For example, small-scale units of an advanced country may be of the status of medium or large scale of a backward or less developed country. In an advanced country where there is profusion of capital and scarcity of labour, the number of employees has greater significance. In the case of a less developed nation where labour is abundant and capital is scarce, units are categorised

on the basis of their capital investment. In many countries, the definition of 'small-scale industry' has been revised again and again just to check the inflation in the country. Anyhow, it is evident that the available definitions do not agree with each other in all respects. The same is the case with Indian definitions.

**DEFINITION IN INDIA:**

In India, before independence, the term small-scale industry was meant to denote the village and the urban cottage industry. The small scale and cottage industries are being given due place in the economic programme by the Government of India since the beginning of the First Plan in 1951 in pursuance of its policies.

In India, the definition of small-scale industries has been revised several times. In 1918, the Industrial Commission described 'small-scale industries' as organised industries carried on in a workshop or factory having a simple operation with provincial character.

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Prof. K.T. Shah, the eminent Indian economist who emphasised the importance of small-scale industries in India tried to give a definition of small-scale industry. He defines a small-scale as an enterprise or a service or operations carried on by a workman and members of family in his home with his own tools and materials, the finished products of which he markets himself. In 1949-50 the Fiscal Commission defined a small-scale industry as one which was operated with hired labour of usually 10 to 50 hands.\(^5\)

It is interesting to note that different States had different definitions for small-scale industries as there was no commonly accepted definition in the country.\(^6\) Therefore, in order to implement the plan for promotion of small-scale industries in the country a working definition was given by the small-scale Industries Board, an all-India body established in 1954 for overall planning, coordination and promotion of small-scale sector in India. According to this definition, industrial units employing less than 50

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persons, if using power, and less than 100 persons without the use of power and with capital assets not exceeding Rs. 5 lakhs, was considered small-scale industry.  

In 1955, the Karve Committee defined small units approximately on the same lines. It includes all industries which have a capital investment of less than Rs. 5 lakhs and employs less than 50 persons when using power and less than 100 persons when not using power. 

The definition of small-scale industry has changed in India from time to time, due to changes in the economic environment. This can be evidenced from the official definitions of small-scale industry from between 1955 to 1985. Thus, we find that at one time a unit employing less than 50 persons using power and less than 100 persons without the use of power with capital assets not exceeding Rs. 5 lakhs was supposed to be a small-scale unit. However, by 1980, the investment limit for capital assets was raised to

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7. Development Commissioner, Small-Scale Industries, Govt. of India, Small-Scale Industries in India, 1968, p. 53.
Rs. 20 lakhs. The above ceiling of investment in plant and machinery for the small-scale sector was further raised from Rs. 20 lakhs to Rs. 35 lakhs in 1985.

It is clear from the foregoing discussion that the definition of small-scale industries in India has been changing from time to time and even the prevalent definitions are based on administrative considerations and represent legal point of view. They provide convenient criteria for the selection of units eligible for government help and subsidies but they are not very useful for some broad-based purposes. Such definitions change with the development of economic levels. It follows, therefore, that a single and foolproof definition regarding the scale for all branches of industry and for all times is out of question. The aim of the present work is to study the role of small industries in the economic development of India. Hence, it is assumed that small industry includes all small undertakings whether the word 'small' is applicable to the number of workers employed, the capital invested, the turnover or the size of the market.

In the light of above clarification, it is worth while to examine as to why such industries continue to
exist in developed and under-developed economies. This question will be studied from different angles—economic, social as well as political.

The utility and role of small firms is considerably different in developed and developing countries. In the former, the main problem is to modernise small units and increase expanding market. In the case of developing nations, it is necessary to encourage and promote new units in the small-scale sector. In advanced countries, the emphasis is on modernising management and on improving the training programmes. On the other hand, in less developed countries, it is even essential to inculcate an entrepreneurial spirit along with wide knowledge of market conditions. Here we can conclude that there may be some difference in points of emphasis but small industries have valid justification of various nature in all countries of the world. In the following paragraphs, an attempt is made to analyse justification and significance of small industries on varied grounds.

**SOCIO-ECONOMIC FEATURES OF SMALL INDUSTRIES:**

The outstanding feature of small-scale and
Cottage industries is the personal character of organisation and management as against the predominantly impersonal organisation and management of large-scale industries. The former provide opportunity for independence, initiative and personal supervision. In most of the cases, the proprietor is himself the manager, the technician and the financier. Ownership and management are identical. The rules and laws to govern them are simple and thus it is free from legal inhibitions. This facilitates quick decision-making and prompt implementation.

The capital needs of small enterprises in respect of machinery, building and transport facilities are much less than in large enterprises. By promoting these industries one can economise in respect of these overheads.

The small enterprises are favoured as a means of decentralisation and for counteracting urbanisation. Large cities are congested and breed many social evils. The further growth of such cities can be checked by developing small enterprises in small towns and villages. In this connection the Karve Committee has observed: "The pattern of industrial activity that
should gradually emerge is that of a group of villages having its natural industrial and urban centres. These small urban centres will be related to big ones; thus, a pyramid of industries based on a progressive rural economy will be set up.  

The small enterprises are also considered a good means of mobilising savings which would otherwise remain unutilised and for fostering skills. People who have small resources of idle savings can put them to productive uses and can also develop their productive ability. In a developing economy it is advisable to make use of every source of skill and savings.

Small enterprises are considered a good means of preventing exploitation of men and concentration of economic power. Since the small industrial units in a particular line of product mostly concentrate in an area, the hired labour enjoys greater mobility from one unit to another. As a result, the incidence of exploitation of men is not high in small sector. Moreover,

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among the small entrepreneurs the disparities of income and wealth are minimal as also of transitional character. The keen competition, and sometimes cutthroat, between these units do not allow accrual of any abnormal profits. The just normal profits and a small capital base are inborn check over the concentration of economic power with the small entrepreneurs. Thus, small enterprises can be used as a means of promoting and building an egalitarian society.

It is also a valid point that small enterprises are conducive to the establishment of a democratic society. The Karve Committee has remarked that the principle of self-employment is at least as important to a successful democracy as that of self-government. The existence of a large number of independent, self-employed persons is a guarantee of the maintenance of democratic institutions, an obstacle to the domination of trade unions. From social and political points of view small enterprises are more suitable for the type of egalitarian society that is sought to be created in a developing country like India.

The employment generation potential of small scale industries is considerably higher and the
average cost of generating a job is relatively smaller. This is borne out from the following Table-I which presents important indicators concerning small industries shown for the bench-mark dates of the decade 1975-76 to 1984-85 under study:

TABLE - 1

IMPORTANT ECONOMIC INDICATORS RELATING TO SMALL-SCALE INDUSTRIES

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of small units (in lakhs)</td>
<td>5.46</td>
<td>7.34</td>
<td>9.62</td>
<td>12.65</td>
</tr>
<tr>
<td>2. Total Fixed Investment (Rs. Crores)</td>
<td>3,204</td>
<td>4,431</td>
<td>6,280</td>
<td>8,300</td>
</tr>
<tr>
<td>3. Average Investment per unit (Rs.)</td>
<td>58,681</td>
<td>60,368</td>
<td>65,280</td>
<td>65,725</td>
</tr>
<tr>
<td>4. Total number of jobs in small-scale units (lakhs)</td>
<td>45.9</td>
<td>63.8</td>
<td>75.0</td>
<td>90.0</td>
</tr>
<tr>
<td>5. Average number of jobs per unit (No.)</td>
<td>8.4</td>
<td>8.6</td>
<td>7.8</td>
<td>7.0</td>
</tr>
<tr>
<td>6. Cost of generating one job (Rs.)</td>
<td>6,985</td>
<td>7,019</td>
<td>8,369</td>
<td>9,389</td>
</tr>
</tbody>
</table>

SOURCE: Compiled from the statistical information obtained from the Department of Small-Scale Industries, Ministry of Industry, Govt. of India, New Delhi, as on Oct. 31, 1985.
It is evident from Table-1 that the average investment cost per small unit is as low as Rs. 58,681 in 1975-76 and the average employment potential per unit as 8.4 jobs. The cost of generating one job in a small unit works out to only Rs. 6,985 in 1975-76. The corresponding figures have marginally risen over the decade under the impact of inflationary pressure. The factor of inflation pushed up the average investment per small unit steadily during the decade and it stood at Rs. 65,725 in 1984-85. The cost of generating one job also followed suit and shot up to Rs. 9,389 by the year 1984-85. The inflation-push hike in per unit investment marginally eroded the employment generating capacity of smaller units and the average number of jobs per unit dropped from 8.4 jobs in 1975-76 to 7 jobs in 1984-85. Yet, the employment potential, lower average cost of generating a job and smaller capital investment involved in establishing a small unit remain positive contribution of small industrial sector unmatched with any other form of business organisation in the economy.

The above-mentioned arguments establish a case for the fast growth of small enterprises. But it must
not be forgotten that in many cases per capital production and output capital ratio are considerably lower in small enterprises than in large ones. Capital being one of the most important factors in economic development of the country, India cannot afford to have a low output-capital ratio by investing large sums of money in small enterprises. There are also problems of the cost of production and the optimum utilisation of raw materials. The unorganised small enterprises are generally not able to get maximum out of the raw materials and in many cases the cost of production is also high. India, being short of almost every variety of raw materials, can hardly afford this wastage. The process of growth needs cost reduction. Cost of production have to be reduced to fight inflation internally and export more to other countries. Nevertheless, small units are eminently suited to the developing economy of India for the redistribution of wealth, eradication of poverty and for the creation of an egalitarian society. For, the small scale industries bear characteristics to make positive contribution to a developing economy inasmuch as (1) they are labour intensive, generating employment potential; (2) they
assist in the growth of developing and backward areas so that the disparities between the developed and less developed get reduced; (3) skills are picked up by people in backward areas, both through training and by experience; (4) production in the small-scale industries quantitatively and in variety is very considerable; (5) as a result of fast development of technology, the quality and productivity have vastly improved; (6) their export potential is sizable; (7) they do not involve heavy financial commitment, (8) not many get sick except for temporary periods due to shortage of raw materials which problem is now not so acutely felt, and lastly (9) their labour problems do not usually cause much trouble because the number of their employees is not large. Hence, the small scale industries are being promoted in preference to large ones in India.

However, a balance has to be struck in the matter of the development of small scale and large scale industries. Decisions in this respect should be taken keeping in mind the interest of the overall economy of the country. The above mentioned description of the characteristics of small industries call for a discussion on their economic role which is presented below:
ECONOMIC ROLE OF SMALL-SCALE INDUSTRIES:

The small-scale industries contribute significantly both in the developing and developed economies. The assumption that with economic advancement small scale units start declining is not correct. Small-scale industries have not disappeared in even highly industrialised countries of Western Europe. In most of these countries the majority of their manufacturing enterprises (usually 60 to 80 per cent) are classified as small. In developing countries, small-scale industries account for more than 90 per cent of the industrial base.

It is common experience that the prices of the products of large industries and multi-national corporations are higher due to huge administration and transportation costs. For the same reason, Britannia bread sells at a higher price in Aligarh than in Delhi. The prices of goods could be reduced when they are produced by local small-scale industries. Production of small-scale units does not only fulfill the demand of the market, but at the same time it results in high money

circulation among manufacturers, traders and consumers, thereby increasing the capital income of the region and fostering the economic growth of the country.

Moreover, large units do not grow in isolation. They depend for their components and intermediate materials on the small-scale sector. The growth and prosperity of large scale sector is thus greatly linked up with the growth and prosperity of small sector. Hence, trade and commerce are dependent on the growth of both small and large-scale sectors. In the former sector there is a close relationship between customers and suppliers based on sound knowledge of regional markets. Small units being closer to market have better knowledge of demand, preference, attitudes, quality and quantity of raw materials available, finance, techniques of selling and business risks. For an integrated development of industrial sector, it is necessary to have well-planned programme for the growth of small-scale industries. They can certainly produce quality goods to the satisfaction of the buyers provided all the requirements are made available to them.

The development of small-scale sector in developing countries has every economic justification.
Lack of economic infrastructure in these countries does not permit the establishment of many large industrial units. They need huge capital and employ a large number of skilled and unskilled workers. Small scale sector is to be encouraged especially in the developing countries for greater utilisation of available supply of labour and limited supply of capital. Though small scale units would not accelerate the rate of growth, yet they will be helpful in attaining a balanced economic development. The regional imbalances which are common in developing countries can also be eliminated. Small-scale industries are more employment oriented and are also instrumental in eradicating imbalances in the distribution of wealth amongst the people and various regions of the country. The promotion of modern small-scale industries is one of the important means to achieve balanced regional development. "The promotion and development of small-scale industries have been increasingly attracting the planners in many countries as a potent instrument of reducing the inequalities in economic and material welfare among the individuals and among nations. 11

Small-Scale industries are fulfilling the aim of socio-economic development of both urban and rural areas. They solve increasing unemployment problems through the use of labour intensive and unsophisticated techniques, permitting the employment of unskilled and semi-skilled workers. They can also be an important source of generating new employment opportunities. They have enabled millions of unemployed people to earn their livelihood and contribute to the economic health and industrial development of their countries.

SOCIAL AND POLITICAL JUSTICE:

The development of small-scale sector results in far reaching social changes in the country. The younger segment of population is becoming politically, economically and socially more important. Therefore, there is greater need for channelising the energies and potentialities of youth in constructive directions. To establish the small-scale sector in extensive areas in the countryside and in small towns would provide the youth gainful opportunities for self-development and for increasing their material well-being. The youth feel frustrated because they do not have assurance that their educational and scientific
attainment would be fully utilised. Their active participation in the small-scale sector would ensure job satisfaction to them.

Small units in small towns and villages are cheap from the investment point of view and for employment potential. At the same time, the gap between the rural and urban people would be narrowed by creating greater coordination and cooperation between the village and the city in the country. In small enterprises there is lesser gap economically and socially between the worker and his employer than in large enterprise. There is an element of truth in the assertion that "there is less exploitation in small firms." 11

The case for promoting small-scale industries in an economy rests primarily on the desire to honour the sacred commitment to build up a democratic society ensuring social justice, equality of opportunity and decentralisation of economic power. In this context small decentralised sector plays a pivotal role for the society.

ROLE OF SMALL SCALE INDUSTRIES IN THE MODERN ECONOMIES

From the above discussion it can be concluded that small industries play a vital socio-economic role in developing economies. But these industries in spite of being small occupy a place of honour in economically well developed countries of the world too. To substantiate this statement it is proposed to analyse the position of small scale industries in a few industrially advanced countries. For the analysis, the United States of America, Japan and U.K. are selected.

SMALL SCALE INDUSTRIES IN U.S.A.

The U.S.A. is a good show case for the growth of new small firms. They have always played a vital role and are significant force in the American economy. A. Vernon Weaver, who was Administrator of the U.S. Small Business Administration, gave a statement before the Senate Small Business Committee on March 31, 1977. He said, "Small Business, after all, is a national resource of enormous proportions, providing the livelihood for 100 million Americans and comprising
97 per cent of all business which creates 43 per cent of the Gross National Product.

There are over 10 million small businesses throughout the United States which provide 58 per cent of American business employment. However, the population of small business owners is likely to be broadened to include more women and members of minority groups as they are becoming more aware of opportunities for owning and operating their own business.

**SMALL SCALE INDUSTRIES IN JAPAN**

Japan has recorded notable success in introducing modern technology to suit its own conditions. It is interesting to note that small units which were fostered in the utilisation of abundant labour force have ever since undergone transformation. They have adapted to new situation of labour scarcity in their economy. The small scale sector of Japan has adopted to new and modern methods of production and are quite competitive with large scale units. This

shows that the growth prospects of small firms exist not only in the initial stages of industrial development but also in the long run to support to competitive industrial structure in the country. Since 1965, the growth of Japanese economy has been a miracle in national development activity. Japan ranks in GNP as the third industrial nation of the world next to the USA and USSR, achieving more than 12 per cent growth rate and reaching at times the notable figure of 17 per cent. Whereas U.S.A., U.S.S.R. and Western Europe achieved their industrial advancement on the basis of heavy and giant multinational enterprises, the foundation of Japanese economic development is actually provided by small firms. The small and medium scale units numbering over half a million play very fast growing role in the economy of Japan. The small enterprises in Japan employ 12.69 million people, accounting for 81 per cent of the total number of business establishments and employ 32 per cent of the total number of workers in the private sector industries. The share of small scale enterprises has continued to increase in all industries between 1966 and 1975.  

SMALL SCALE INDUSTRIES IN UNITED KINGDOM:

The small scale sector in U.K. is relatively less important in terms of both output and employment than in most other developed countries. In 1977, there were roughly 72,000 small firms (employing less than 25 persons) accounting for about 30 per cent of total employment. The small units flourished as suppliers of components and semi-processed materials to the industrial giant units. They also dominate in consumer fields as furniture, leather and travel goods, supply of goods to luxury and fashion markets. Small firms compete on the basis of offering quick and flexible services, at very low overhead costs. Thousands of new small firms have been promoted in recent years to exploit new technological ideas specially in rapidly advancing fields of electronics and computers instruments.

We have briefly reviewed the position of small scale industries in the U.S.A., U.K. and Japan and noted that such units hold a very important position in the national economy. This sector has been of

remarkable significance in these countries. However, the small-scale sector occupies even more significant place in developing countries. In the following paragraphs we propose to review their position and prospects in some developing economies of the world.

ROLE OF SMALL-SCALE INDUSTRIES IN DEVELOPING COUNTRIES OF ASIA:

In developing countries, the small-scale industries constitute an important ingredient of the process of growth. Developing economies are characterised with scarcity of capital, lack of technical knowhow, abundance of human resources and unexploited natural wealth. Agriculture is their mainstay and most of the population is engaged in this profession. Scarcity of capital resources and skilled human force does not allow these countries to outright embark upon large scale industrialisation. Small-scale units which are labour-intensive and less capital absorbtant provide to them a convenient means of industrialisation, matching with the economic and social environment of developing nations. Because of their decentralised character smaller units check concentration of wealth and bring about greater evenness in regional development as both
of them are menacing problems in developing countries. Higher employment potential of small units generate large number of jobs and absorb a considerable chunk of population and help solve employment problem of developing nations. By making the diversification of product line possible at lower investment cost, the small-scale industries provide consumers with a wide variety of goods produced at relatively lower cost. Ultimately, these industries play the role of industrial infra-structure in the developing economies which is a pre-requisite for the establishment as well as sustenance of large-scale industries, for it supplies ancillary products to larger units.

Hence, the small-scale industries have been growing steadily over the past few decades in the Asian countries and playing a vital role in economic development of these countries. The growth of small-scale industries in some of the Asian countries is discussed in the following paragraphs:

BANGLADESH:

Since 1973, Bangladesh has accorded important role to small and medium scale units with assets not exceeding
taka 2,50 million. The main purpose is to create employment opportunities and the fast rate of industrialisation in the depressed areas of the country. The manufacturers operating in these areas are provided various incentives. For instance, the import duty on capital machinery is only 2.5 per cent, rebate of 50 per cent of the import duty is allowed on spare parts, while the balance of 50 per cent could be paid in instalments within 5 years. A 9-year tax free period is accorded for the profit of such enterprises. Moreover, for the loans to these industries an interest rate ceiling of 11.5 per cent has been fixed. 16

In Bangladesh, a number of institutions are made responsible for the development of small-scale and cottage industries. Some of these institutions are the Bangladesh Small and Cottage Industries Corporation (BSCIC), the Department of Industries and the Bangladesh Shipla Bank (BSB). It is estimated that of the total sum of private investment in industry for the First Five Year Plan Period (1973-78), 56 per cent (about taka 1200 million) was in small industries.17

In 1961, small and cottage industries employed 1.36 million workers forming 87 per cent of total industrial workers in the country. The share of small and cottage industries to the national income is estimated to be taka 985.25 million as compared to taka 842 million by large and medium scale industries in 1972-73. The share of small-scale and cottage industries account for 5 per cent of the National Income and 45 per cent of total value added by industrial sector.\(^{18}\)

**MALAYSIA**

Malaysian government has recognised the importance of small-scale industries in its economic planning, particularly after the mid sixties. Thus, in the third Malaysian Plan (1976-1980) it was specially recommended that the development of small-scale industries will be an integral part of the Malaysian Industrial policy. In the year 1976, the Malaysian government established the Coordination Council for the development of small-scale industries to integrate the various agencies in promoting small-scale industries.

Small-scale industries play an important role in Malaysian economy. The census data of 1973 reveals that

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\(^{18}\) Sharma, SVS*, op.cit., 39.
32.4 per cent of all manufacturing establishments belonged to this sector, providing employment to 22.8 per cent workers engaged in the industrial activities. It also contributed 16.5 per cent of the net value added. With active interest of the government and the country being rich in natural resources, the prospects of small-scale industries there are luminous.

THAILAND

In Thailand, agriculture is the backbone sector of the economy. In serious terms there was no industrial sector till 1960, and no conscious efforts were made to promote the industry. In 1964, there were 29,434 industries in Thailand of which 96 per cent were small units. The Fourth National Plan of Thailand (1976-1981) contains the following policy statement regarding the development of small firms. "The government will encourage the development of small-scale industries which are important for generating employment. This will be done through the provision of credit, risk guarantees, the provision of employment opportunities, technological services and marketing services."

19. Sharma, SVS: op.cit., 35
Now small industries have developed into a very significant sector of the Thai economy. In 1976, small firms employing less than 50 persons accounted for factories absorbing nearly 40 per cent of manufacturing force. Its value added represented over 20 per cent of the total contribution of industry. The share of small units in total exports was 26.7 per cent as against 14.8 per cent of big industries.

SOUTH KOREA:

In 1961-62, the South Korean Government had acknowledged the significance of small and medium scale industries and gave them special consideration. Their Second Economic Development Plan (1967-71) gave a tremendous boost to the small-scale industries. Through these planned efforts, Korea was able to increase significantly both employment and Gross National Product. Between 1963-1976, the export value of small scale sector tremendously increased by 181 times, i.e. from $16 million to $2924 million. In the same period the sector shared 37.4 per cent of the total exports and 45 per cent of labour force. The increase in the number of small units was 21.5 per cent. The value added output contributed 49.7 per cent of all value
added output in mining and manufacturing sectors.

**PHILIPPINES**

In 1963, the President Marcos had emphasised that "No sector of our economy holds greater promise for our country than the sector made up of small and medium scale industries. Medium and small industries may very well provide one of the answers to economic development and full employment". 21

The Ministries of Industry, and Trade and the National Science and Development Board are the important agencies to develop and execute an effective and comprehensive national programme to accelerate the development of small and medium industries. In 1974, the Commission on Small and Medium Industries (CSMI) was formed under the Ministry of Industry having 12 organisations under it engaged in a number of activities.

The National Cottage Industries Development Authority (NACIDA) had registered 27,769 units in 1969 of which 9,400 were small industries. These units accounted for 91 per cent of all establishments in the factory sector. Their share in total employment in

The manufacturing sector was 23.5 per cent which rose to 30 per cent in 1974. In the year 1975, the country had about 15,900 small firms forming 93.6 per cent of the total industrial units in organised manufacturing sector. The annual growth rate of value added output in small industry is 15.6 per cent for the period 1968-1974. The promotion of small-scale industries has become an important ingredient in the government's development strategy and provisions are made in country's 4-year Plans for the development and growth of small sector.

**ROLE OF SMALL INDUSTRIES IN INDIA:**

It is an agreed fact that industrial development is essential if we want to remove poverty from Indian society. How that objective is to be achieved is a crucial question. In a poor and thickly populated country like ours where the population is increasing every day, the only method of employing such a huge population is the development of small-scale and cottage industries.

The small-scale sector is like a big umbrella under which there are various kinds of manufacturing
activities. These industrial activities include (i) handicrafts (ii) handlooms, (iii) silk, (iv) coir, (v) Khadi and village industries, (vi) modern small-scale industries. Apart from this, there are a large number of small firms which are not covered by the above categories. India has taken full advantage of its vast resources in raw materials and skilled labour and has succeeded in building up a remarkable small-scale sector. After recording notable success in the production of semi-finished and finished goods of different types for home market, this sector is now in a position of manufacturing a wide range of items for exports.

GREATER SUITABILITY FOR INDIAN ECONOMY:

The small sector is ideally suited to the developing countries like India on many grounds. The growth of large scale industries alone neither raises the living standard nor solves the problems of increasing unemployment. It is a fact that in the State of Bihar, Madhya Pradesh and Orissa, heavy investments in large industries have been made in the public and private sectors, but the living standard in these States is
the lowest in the country. On the other hand, the States like Delhi, Punjab, Haryana and Gujarat which have progressive small-scale sector have a higher standard of living.

The development of small-sector is essential for a thickly populated country like India. Indian Government has fully assessed the position. "Since the government is committed itself to eliminate unemploy-ment the industrial development strategy it has chosen is based on small producers. The main objective is to decentralise and disperse the industrial base widely enough to expand employment opportunities and reduce regional imbalances in development."  

It is now being recognised that the small-scale sector is capable to attain high degree of sophisti-
cation by using modern equipments. Prof. Farooque observed: "Small-scale and cottage industries offer a new procedure of industrialisation better suited to the economic condition of India."  

are used efficiently, that labour has developed greater proficiency in specialised tasks and techniques are continually improving.

DOMINANCE OF SMALL SCALE INDUSTRIES IN INDIA

The small and cottage industries sectors have made spectacular progress over the last two decades. In 1950s and in early 1960s India adopted a model of industrial development which was based on modern technology. In the beginning of 1960s, India's small scale production was dominated by food, cotton textiles, tanning and wood-work industries which employed 75 per cent of their labour. Now the public sector companies have thrown open their doors to the small manufacturers for the supply of components needed for defence production. And in defence production there is tremendous scope for small-scale units to meet the defence needs.

A layman is liable to think that with economic advancement the small-scale sector shrinks. It is not true even in highly industrialised countries. "The small units are well suited for certain types of specialised precision jobs which the big units may not like to

undertake, or which they may not find economical. The strengthening and proliferation of small enterprises in urban and rural areas of India would check to some extent the flow of young Indians in search of employment to large cities, a movement which has made India one of the most highly urbanised countries in Asia.

PROGRESS OF SMALL SECTOR IN INDIA:

As a recent development the performance of the small-scale industries in India has been phenomenal. There has been a spectacular spurt in the number of units as well as value of investment in the small-scale industries. In addition, it is estimated that there are a large number of unregistered units as well. More than 5000 varied items are produced in small-scale sector.

The contribution of small-scale and cottage industries in the national economy in recent years can also be revealed from the contribution they made to
- net national product (8 to 9 per cent)
- industrial production (50 per cent)

According to the data given in Table-2 India has recorded notable progress in the establishment of small-scale industries. The total number of units increased from 5.46 lakhs in 1975-76 to 12.75 lakhs in 1984-85, which gives an increase in the rate of growth of 134 per cent. The value of production in the same period at current prices has tremendously increased by 359 per cent. More recently (1979-80 prices) during 1984-85 the value of production was Rs. 34,065 crores as compared with Rs. 23,566 crores during 1981-82 signifying an increase of 45 per cent. Employment in this sector also rose to 90 lakhs persons in 1984-85, from 46 lakhs in 1975-76 recording an increase of over 96 per cent. The investment level also rose to Rs. 8380 crores accounting for an increase of 162 per cent over the 1975-76 level. The exports rose to Rs. 2580 crores in 1984-85 as against Rs. 532 crores in 1975-76. This amounts to a rise by 385 per cent.

**TABLE - 2**

**PROGRESS OF SMALL SECTOR: PRODUCTION, EMPLOYMENT AND EXPORTS**

<table>
<thead>
<tr>
<th>At the end of the year</th>
<th>Total No. of Units (lakhs)</th>
<th>Production at current prices (Rs. in Cr.)</th>
<th>Production at 1970-71/1979-80 prices* (Rs. in Cr.)</th>
<th>Employment (Lakh No.)</th>
<th>Investment (Rs. in Cr.)</th>
<th>Exports (Rs. in Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>5.46</td>
<td>11000</td>
<td>6425</td>
<td>45.9</td>
<td>3204</td>
<td>532</td>
</tr>
<tr>
<td>1976-77</td>
<td>5.92</td>
<td>12400</td>
<td>7078</td>
<td>49.8</td>
<td>3553</td>
<td>766</td>
</tr>
<tr>
<td>1977-78</td>
<td>6.70</td>
<td>14300</td>
<td>7980</td>
<td>54.0</td>
<td>3959</td>
<td>845</td>
</tr>
<tr>
<td>1978-79</td>
<td>7.34</td>
<td>15790</td>
<td>8797</td>
<td>63.8</td>
<td>4431</td>
<td>1069</td>
</tr>
<tr>
<td>1979-80</td>
<td>8.05</td>
<td>21635</td>
<td>-</td>
<td>67.0</td>
<td>5540</td>
<td>1226</td>
</tr>
<tr>
<td>1980-81</td>
<td>8.74</td>
<td>23000</td>
<td>23566</td>
<td>71.0</td>
<td>5850</td>
<td>1643</td>
</tr>
<tr>
<td>1981-82</td>
<td>9.62</td>
<td>32600</td>
<td>25920</td>
<td>75.0</td>
<td>6280</td>
<td>2071</td>
</tr>
<tr>
<td>1982-83</td>
<td>10.59</td>
<td>35000</td>
<td>27700</td>
<td>79.0</td>
<td>6800</td>
<td>2097</td>
</tr>
<tr>
<td>1983-84</td>
<td>11.58</td>
<td>41620</td>
<td>30415</td>
<td>84.1</td>
<td>7360</td>
<td>2159</td>
</tr>
<tr>
<td>1984-85</td>
<td>12.75</td>
<td>50520</td>
<td>34065</td>
<td>90.0</td>
<td>8380</td>
<td>2580</td>
</tr>
</tbody>
</table>

**Note:** Figures of production, employment, investment and exports cover both registered and unregistered small-scale units.


**SOURCE:** Statistical Information supplied by the Department of DC, SSI, Ministry of Industry, Govt. of India, New Delhi, as Oct., 1985.
Apart from this, a major contribution to the total value of manufactured goods of the economy to meet the demand for consumer goods small scale sector has entered into many new and sophisticated fields of production. They include about 60 per cent of the total production in domestic electrical appliances, 75 per cent in TV sets, over 50 per cent in radios and transistors, 50 per cent in paints and varnishes, 35 per cent in dye stuffs, more than 50 per cent in plastic items, over 50 per cent in bicycles and their parts, 66 per cent in laundry soap, 35 per cent in detergents and major portion of production in about 100 items including hosiery, leather and export goods is being contributed by the small-scale sector in India.  

In earlier years, the small-scale sector catered only to the domestic market. Later on, increasing quantum of its products started being exported. This progress is due to the competitive capability of the small-scale sector. In this context, it would be worthwhile to review the export potential of small industries of India.

EXPORT PERFORMANCE:

The export performance of India's small-scale sector has been highly encouraging. Our new export policy aims at consciously and systematically developing export of items in which India has comparative advantage and those which promise long term growth prospects. In fact, in the recent years, the small-scale sector exports have grown tremendously.

The major items of exports of small-scale sector and their values are computed in Table-3 below. The

<table>
<thead>
<tr>
<th>S.No.</th>
<th>PRODUCT GROUP</th>
<th>1981-82</th>
<th>1982-83</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ready-made Garments</td>
<td>602.82</td>
<td>566.47</td>
</tr>
<tr>
<td>2.</td>
<td>Engineering goods</td>
<td>318.00</td>
<td>340.00</td>
</tr>
<tr>
<td>3.</td>
<td>Marine Products</td>
<td>258.14</td>
<td>332.10</td>
</tr>
<tr>
<td>4.</td>
<td>Finished Leather &amp; Leather Products</td>
<td>326.60</td>
<td>314.64</td>
</tr>
<tr>
<td>5.</td>
<td>Processed Foods</td>
<td>143.07</td>
<td>125.06</td>
</tr>
<tr>
<td>6.</td>
<td>Basic Chemicals, Pharmaceuticals and Chemicals</td>
<td>59.34</td>
<td>99.62</td>
</tr>
<tr>
<td>7.</td>
<td>Woollen Garments &amp; Knitwears</td>
<td>85.04</td>
<td>71.50</td>
</tr>
<tr>
<td>8.</td>
<td>Cashew kernels &amp; cashew nut shell liquid</td>
<td>124.85</td>
<td>88.74</td>
</tr>
<tr>
<td>Sector</td>
<td>1980-81</td>
<td>1981-82</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>---------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>9. Chemicals &amp; Allied Products</td>
<td>22.30</td>
<td>21.31</td>
<td></td>
</tr>
<tr>
<td>10. Plastic Products</td>
<td>27.55</td>
<td>32.16</td>
<td></td>
</tr>
<tr>
<td>11. Semi-finished Leather</td>
<td>45.52</td>
<td>43.52</td>
<td></td>
</tr>
<tr>
<td>12. Sports Goods</td>
<td>29.89</td>
<td>29.60</td>
<td></td>
</tr>
<tr>
<td>13. Rayon and Synthetic Products</td>
<td>2.96</td>
<td>2.70</td>
<td></td>
</tr>
<tr>
<td>14. Processed Tobacco Snuff and Bidies</td>
<td>5.86</td>
<td>8.46</td>
<td></td>
</tr>
<tr>
<td>15. Others</td>
<td>17.33</td>
<td>17.83</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2069.67</strong></td>
<td><strong>2093.67</strong></td>
<td></td>
</tr>
</tbody>
</table>

(Estimated 1980-81 and 1981-82 revised figures)

**SOURCE:** PTI Economic Service, New Delhi, 1984, p.37.

data for 1982-83 shows that exports of ready made garments from this sector were worth Rs. 566 crores followed by engineering goods which accounted for Rs. 340 crores. The marine products accounted for Rs.332 crores; leather products, Rs.315 crores; processed food Rs.125 crores and basic chemicals accounted for around Rs.100 crores.

From time to time, various measures have been taken by the government to encourage the exports, especially from the small-scale sector. These include inter-alia organisational support provided by the Export Promotion Council, Cash Compensatory Support, Import Replenishment under the scheme of registered exports, advance import-licensing under the duty exemption schemes, the scheme of cent per cent export oriented units, maximum level of exports of select products for reorganisation as export houses of lower level of Rs.50 lakhs for small-scale units and supply
of credit at concessional rates. In the import-
export policy for the year 1984-85 a new scheme for
entrepreneur merchant exporter (EMES) has been intro­
duced with a view to encouraging the linkage between
domestic product and export marketing and also to
support entrepreneurial initiative to step up export
from the small-scale and cottage industries.

AILMENTS OF SMALL-SCALE INDUSTRIES:

Although the performance record of small-scale
industries in India has been quite impressive, it is
not as good as it ought to be. The growth, development
and contribution of small-scale industries to the
industrial advancement of the country should have been
far higher than what has been achieved upto now espe­
cially in view of relatively favourable social,
political and economic factors. They are decentralised,
their position is weak and, unlike the big industries,
small sector has no chambers of commerce of its own
till recently. It has no say in policy formulation.
Its credit requirements are left to be financed by
banks and financial institutions. Marketing is left
to the forces of demand and supply. Small-scale sector has few products research and development programmes. In the following lines an attempt is made to highlight some of the major problems and difficulties which retard the proper progress of these industries.

HIGH COST OF NEW SMALL ENTERPRISES:

The capital cost of setting up a small scale unit has considerably gone up over the course of the decade under study. The following statistics extracted from an analysis of capital cost involved in promoting a small unit as brought out by the Economic Times, New Delhi, provides an insight into the pace of increase in fixed investment cost per unit in the small sector in India.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Average fixed investment per small unit (in Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>1,30,324</td>
</tr>
<tr>
<td>1979-80</td>
<td>1,43,356</td>
</tr>
<tr>
<td>1980-81</td>
<td>1,57,692</td>
</tr>
<tr>
<td>1981-82</td>
<td>1,73,461</td>
</tr>
</tbody>
</table>

**TABLE - 4**

**AVERAGE FIXED INVESTMENT COST PER SMALL UNIT IN INDIA**

**SOURCE:** Economic Times, New Delhi, May 22, 1984, p.5.
It will be observed from the above table that the fixed cost of starting a small unit has steadily risen. The actual increase over a period of four years works out to 33 per cent. It can be safely projected that by the end of the decade: 1984-85 of this study the capital cost of a small unit should have been further gone up, under the impact of general rise in price. Keeping in view the financial position of a small entrepreneur, the provision of the huge sum required to set up a small business cannot be met from his own resources, nor can the friends and relatives finance the proposition to such a large extent. Lest the cost factor should become a deterrent for small entrepreneurs to set up industrial units, the Government must come to the help of small units and extend capital finance to enable them to establish and flourish.

PROBLEM OF DUTIES:

The small industrial units are subject to excise duty on their produce. This casts its impact by way of pushing up the cost of products of small sector and ultimately erodes the already lower profit margins of smaller units. The duties, moreover, are hiked every
fiscal year. For instance, on the ground of rationalisation, the government has raised the excise duty on cylinders below 5 litres water capacity manufactured by small-scale units which are required to pay an excise duty of Rs.30/- against Rs. 4 to 12 before Feb.28, 1987.28 This increase in excise duty has put small scale units making small cylinders to severe disadvantage which may result in close down of a number of them. Another industry that faces excise duty problem is the automotive component manufacturing units. The problem is on account of levy of excise duty at the rate of 20 per cent advolrem since March 1986. Tracing back the history, in a very short span the duty has been revised time and again. It was nil upto 1978 when it was levied at 4 per cent and then revised to 8 per cent to 12 per cent and finally to 20 per cent in 1987.29

Excise levy on small sector production, thus, exercises an inhibiting influence on the prosperity of the smaller units. The Federation of Associations of Small-Scale Industries of India (FASII) has emphasised the need to exempt small units with turnover of Rs. 10

lakhs and below from excise duty. It is observed that this duty should be levied only on the turnover in excess of this amount. The loss of revenue on this account would be more than compensated by the expansion of this sector yielding large aggregate turnover.

MANAGERIAL PROBLEM:

Lack of proper management is the bane of small business in India. The small entrepreneur seldom combines managerial talent with other skills required to run a business successfully. Nor is the small unit possessed of financial resources adequate to allow the hiring of management experts like the large industries. As a result, the small entrepreneur is unable to do comprehensive planning, has unclear concept of his project, is unable to identify the cost, quality and market for his products, and above all lacks the skill to coordinate the human and material resources into a profitable productive activity.

Before embarking upon a project, the small entrepreneur because of absence of management expertise, does not critically valuate the total funds required
for the project, funds that are likely to be available through institutional finance and the gap likely to occur. On many occasions, the small entrepreneur on account of lack of knowledge does not draw upon the institutional funds available to him and relies upon more costly personal funds and deposits from his friends and well-wishers. He does not realise that heavy dependence on friendly loans and funds invariably sucks up his capital because of exorbitant charge of interest on such finance.

The lack of technical knowhow on the part of small entrepreneur renders him unable to employ cheap and best methods of product processing and development. Quality control is not exercised and marketing management is generally non-existent in smaller units.

The management problem with smaller units has assumed acute proportions of late and has threatened the survival of many a unit. Some institutions like the small-scale Service Institutes as well as special cells attached to financial institutions have been established to render managerial and technical services to the small sector units. But these facilities are
not commensurate to the growing number of units in the small sector and, hence, their effectiveness and benefits have been limited so far. The solution lies in educating the small entrepreneur himself in the art of managing his small business. Short-term training courses should be organised for the purpose. Besides, media of mass communication be utilised to do the needful for small entrepreneurs.

**RAW MATERIALS SHORTAGES**

As a result of substantial growth of small scale sector, shortage of raw materials is being felt by small units. They require different types of raw materials. Some of these raw materials are available from indigenous sources while the rest have to be imported. But in the supply of raw materials for these units is the problem of high prices at which raw materials are made available. In a meeting of the small-scale Industries Board it was pointed out that the supply of steel to small-scale sector is made at a price which is 20 per cent higher than what is charged from the large-scale units.  

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30. The Economic Times, Sept. 22, 1972, New Delhi, p. 3.
generally recognised that the policy adopted for the distribution of raw materials is defective in nature, hence, utterly disadvantageous to the small entrepreneurs. This problem has been examined by the Committee set up by the small-scale Industries Board. The Committee has recommended that "scarce materials should be equitably distributed without reference to the sector to which the units belong, subject only to the overall national priorities of their end products." 31

The problem of right type of raw materials at reasonable prices is particularly felt for those items the distribution of which is being controlled by the government, for neither the government supplies them in adequate quantity and well on time nor are these materials available in open market being controlled by the government. As a result, several units are facing the problem of lack of raw materials. Even after having the manufacturing capability they can not carry on the production activity as per their capacity. So the insufficient feeding of raw materials to the small-scale industries is certainly creating

the lacuna for the development of small-scale sector.

**INADEQUATE MARKETING OPPORTUNITIES:**

India has vast markets. However, the major share of marketing opportunities is seized by the large-scale industries due to their well organised and effective distribution network and advertisement funds. The small-scale sector in comparison is not able to make its way in the competitive market. As such limited marketing opportunities are available to small scale sector. These units tend to compete each other which often harms them. This results in low efficiency and high prices. There is a need for expanding the list of items reserved for small-scale sector so that markets for the products of smaller units are safe from large scale intruders and the competition is amongst the smaller units themselves.

In case of purchase by the government, preference should be given to the products of small units. It should be ensured that the items reserved for exclusive purchases from the small-scale sector are not purchased from other agencies. This will result in expansion of market for smaller units as well as check their
exploitation in the open market by big units. The implementation of this policy should be reviewed by the government periodically for the benefit of small units.

**PROBLEM OF FINANCE:**

Lack of finance is a serious drawback for the development of small industrial units. In fact, finance problem for small firms in India seem to be greater than in many other countries, the main reason being the general shortage of capital and low rate of savings.

The small units do not get any capital assistance. As a result, the owner has to provide initial capital himself. He raises the funds through loans and deposits from relatives and friends at exorbitant interest rates which actually do not help but suck his capital. The financial institutions extend only credit finance which is not commensurate to the requirements and number of small units. Moreover, the financial institutions are doubtful of the small units ability to repay their loans in time. Hence, they are reluctant in their attitude to make loans and advances to the small sector in adequate measure.
The entrepreneur himself is also responsible for the lack of finance for his business. The small entrepreneur generally has no managerial and financial knowledge. He suffers from lack of information about the availability of institutional funds for small business. He is unaware of the various schemes launched by the government from time to time for the benefit and financial assistance to the small sector units. Very often he is shy to have a dialogue with institutions. As a result, he does not approach the institutions for availing the financial assistance or remains unable to take benefit of the governmental schemes. Sometimes cumbersome procedures of sanctioning finance by institutional agencies work as a deterrent to small entrepreneur. He prefers to avoid them rather than get crushed under their weight.

Thus, shortage of funds affect their ability to install modern machinery and tools to maintain well organised and fully equipped factories. Similarly they can not buy good quality raw materials or stock their finished products, pack their goods attractively. They do not have any sale organisation of their own because of the paucity of funds.
The foregoing problems faced by smaller units have been instrumental in causing industrial sickness to a number of small concerns. A standing committee on industrial sickness has also been constituted to identify the problems of sick units in the small-scale sector and to suggest measures. In addition to this, the financial institutions and also the State governments have taken a number of steps to revive and rehabilitate the sick units. A margin money scheme is being operated by the Central Government under which loans are advanced to the State governments on matching basis for rehabilitation of sick small units.

According to data collected by the Reserve Bank of India, the information available upto the end of December, 1983, there were 491 large, 1256 medium and 78363 small scale industries which were reported to be sick.\textsuperscript{32} This shows that the small industries sector is not maintaining good health and suffers a number of ailments.

A number of causes both internal and external operating in combination are responsible for the industrial sickness. Some of the principal causes

identified are management deficiency and their inefficiency in financial control and diversion of resources, inadequate attention to R & D and obsolescence in technology and machinery. Other significant problems have been poor industrial relations, inadequacy of demand, shortage of raw materials, finance and other inputs.

CONCLUSION:

Primarily it is concluded that small industries in spite of being small in all respects, occupy a prominent position not only in developing economies but also in highly developed countries of the world. The studies made in this chapter reveal that plants of relatively small size predominate the industrial structure of the USA, UK and Japan. In the developing countries, the need to establish these industries is even more important. These countries are subject to capital scarcity and abundance of labour. Small industries being labour-intensive and capital sparing, are more suitable for these countries.

The small-scale industries bear a high relevance to the foundational and ideological structure of Indian economy. Our objective has been to ensure steady growth and development of the country with social justice and
to spread the benefits of development to the masses of the population. To achieve this, there is no other type of industry except small-scale units which may claim to be the most relevant type of industry. Preference for small scale industries in a country like India has several justifications. By virtue of being effectively labour intensive, they help solve employment problem more expeditiously. They help develop entrepreneurial talent on relatively larger scale. They serve as a potent instrument of reducing income and wealth inequalities and tend to curb the monopolistic tendencies and concentration of economic power.

The small-scale and cottage industry sector has made spectacular progress over the last two decades. In 1960's the small-scale industries came up as the producers of processed food items, cotton textiles, tanning and wood work item, employing 75 per cent of India's total work force. Later on, the small scale units seized the opportunity of being the producer of several engineering components needed for defence industry. In recent years, the small-scale industries sector has come to contribute nearly 8-9 per cent of net national product (NNP) and accounts for 50 per cent of industrial production.
However, there are big challenges before the small-scale industries. There is a severe shortage of skilled and semi-skilled labour force with abundance of unskilled workers. The small-scale industries have to make their way in a highly competitive marketing conditions, where the rival large scale units tend to seize the market through their well organised distribution network and big funds for advertisement and publicity. They lack adequate managerial expertise. They have to face the impacts of ever increasing indirect taxes, sales tax, production tax and excise duty, etc. Lastly, and most importantly they face extreme hardships in mobilising financial resources.

The present chapter has reviewed the position and progress of small industries in a general way on an extensive pattern. For a better understanding as a basis of close up study we have selected the small industries sector of Delhi. Thus, prospects and problems of Delhi Small Industries Sector will be the theme of the next chapter.
CHAPTER - II

PROBLEMS AND PROSPECTS OF SMALL-SCALE INDUSTRIES OF DELHI

The previous chapter dealt with the role of small-scale industries in modern economy with special reference to India. It pointed out the basic needs of Indian economy with a population of 684 million people. In this context the significance of small-scale industries in the process of economic development has been emphasised. The chapter has also given an account of the attitude and policies of the government for the promotion of these industries. In continuation, the present chapter is devoted to highlight the development and present position as well as prospects of small-scale industries of Delhi. Finally, the problems faced by this sector are highlighted.
HISTORICAL BACKGROUND:

Delhi has been the capital of different dynasties of kings and rulers who were interested in making it a centre of cottage and household industries. In the beginning, Delhi's craftsmen were involved in gold and silver embroidery, lamatta and kalabattoo, gold and silver jewellery, ivory carving and decorative copper and brasswares.

Three foundries and engineering works were established in Delhi during the years 1872-1879. A decade later the installation of two cotton textile mills in 1888 and 1889 laid the foundation of cotton spinning and weaving industry.¹ The years 1893 and 1905 witnessed the establishment of more spinning mills and modern engineering works. A modern flour mill was set up in 1891 and a biscuit factory in 1898². More progress in engineering work was registered after the shifting of the capital of India from Calcutta to Delhi in 1911.

¹. Delhi Gazetteer, Delhi Administration, Delhi, 1976, p.311.
². Ibid.
The pace of industrialisation was quickened after 1920 when, within a few years, hosiery, lace and braids factories and pottery works were set up in Delhi. A large expansion took place in iron foundaries and sheet metal industries. Power-driven machines were introduced in the lametta industry in 1920. A match factory was set up in 1931. The other pre-war industries worth mentioning were those of chalk, coloured pencils, paints and varnishes, glassware, vegetable ghee, fruit juices and cement tiles, etc.

The declaration of war in 1939 and consequent cut in the import of consumer goods and capital goods led to the growth of industries all over the country and in this expansion Delhi did not lag behind. Apart from organised industries, a large number of people set up cottage industries of varied nature manufacturing items like tin containers, blue lacks, horse-shoes, galvanised iron buckets, trunks

and suitcases. After the war most of the industries were able to tide over successfully the difficult transition period from the war to peace-time economy. The local industrialists also broke new grounds and exhibited a lot of initiative and drive by establishing units manufacturing enamelware, electric fans and room heaters, door and window fittings and bicycle accessories. No sooner did the National Government take over the charge of the country, the process of industrialisation came into operation that threw up a new class of entrepreneurs. The people who would have never thought of entering into industry, set up small workshops and factories in Delhi. Thus, a new map of small sector emerged in Delhi in the post-independence period.

POST-INDEPENDENCE DEVELOPMENT OF SMALL INDUSTRIES IN DELHI

The small business in Delhi received a big impetus in the wake of partition of the country in 1947. The partition resulted in a large-scale migration of people to this country who chose to
settle themselves mostly in Delhi. Included among the migrants were educated entrepreneurs, talents technicians, versatile craftsmen as well as trained and skilled labour. They were already engaged in their business and professions but were uprooted due to partition. They, thus, possessed lot of experience and expertise with them. The national government was keen to rehabilitate these displaced persons. But there were no sufficient jobs with the government at the time to absorb them all. The degree holders among them were absorbed in government departments while the rest of the migrants preferred to self-employ themselves by establishing their own cottage and small businesses. The government also visualised that the solution of rehabilitating the migrants largely lay in the encouragement and promotion of small business which will, on the one hand, channelise the entrepreneurial talent among the displaced persons and, on the other, the small units will generate employment opportunities to technicians, craftsmen and skilled labour settled in Delhi. In pursuance of this policy objective the Delhi Administration patronised the establishment of small units in the territory and
extended the financial and other assistance to the entrepreneurs. A new era of proliferation of small units was ushered in the post-independent India in which the migrants played a key role. They set up small industrial units for manufacturing a variety of products.

CENTRE OF TRADE AND COMMERCE:

The small units dominated the industrial map of Delhi in post-independent era and turned Delhi into the country's largest centre of trade and commerce both internal and external. Its character of being the capital of India and its status as the Union Territory further added to the importance of Delhi as an industrial centre. This threw a great temptation and attraction for the entrepreneurs to establish their small concerns. The small business units prospered and grew in strength as Delhi provided a big marketing centre for their products. The vast hinterland of Delhi comprising the densely populated States around it absorbed the production of these units and, in turn, created a growing demand for them. The hinterland also
served as the supplier of rural labour force at cheaper rate as well as of raw-materials to the Delhi's industrial complex.

The initiation of the planning era in the post-independence period recognised the small-scale units as 'priority sector' of the economy and specially made provisions of funds in each Plan as well as granted certain concessions and subsidies for the development of small-sector. This further contributed effectively towards the growth of small scale units as would appear from the following discussion on the Plan allocations for the development of small-scale industry of Delhi.

**PLANNED DEVELOPMENT OF SMALL-SCALE INDUSTRIES OF DELHI**

The industrial growth of Delhi is the outcome of special interest and encouraging policies of the central government and Delhi Administration. An idea of government patronage and financial outlays made in the country's Plans for the promotion of small-scale industries can be had from the following table-1.
The above table-1 shows the progressive increases in the amounts of money that have been spent by the government for the development of the small sector during the different five year plans. In the first, second and third Five-Year Plans, Rs. 5.19 lakhs,
Rs. 117.95 lakhs and Rs. 167.09 lakhs respectively were spent by the Delhi Administration on industrial development of the Union Territory of Delhi. This amount increased to Rs. 438.87 lakhs during the Fourth Five Year Plan. The Fifth Five Year Plan accounted for an expenditure of Rs. 1599.10 lakhs which is 264 per cent more than the expenditure incurred in the Fourth Plan. During the Sixth Five Year Plan, this amount increased to more than the double, i.e., Rs. 3337.09 lakhs as compared to that of the previous Plan. Briefly, a perusal of the Plan expenditure from First Plan to Sixth Plan indicates continuous enhancement in the expenditure made by the Delhi Administration for the growth of small-scale industries in the Union territory of Delhi.

**APPROACH TO SEVENTH FIVE YEAR PLAN**

The government has realised that the future growth of Delhi to a great extent depends on expansion of small-scale industries. Therefore, the Directorate of Industries proposed 94 promotional schemes in the Seventh Five Year Plan for the period 1985-90. The
schemes included in the Plan have socio-economic objectives as enshrined in the various government policies declared from time to time. These small industries which involve high technology will be encouraged by the Directorate of Industries in the future. Some points of emphasis of seventh Five Year Plan relating to small-scale industries in Delhi are as follows:

1. Modernisation and technology upgradation.
2. Quality Control.
3. Development of Infrastructure in the form of industrial estates.
4. Development of Institutes such as Tool Room, Electronics, Institute of Fashion Technology, etc.
5. Emphasis on the development of electronics, plastic, light engineering, garments, handloom, handicrafts, leather industries.
8. Pollution control.

The outlays provided in the Seventh Plan for
<table>
<thead>
<tr>
<th>HEAD</th>
<th>Expenditure (6th Plan)</th>
<th>OUTLAYS PROPOSED</th>
<th>Approved Outlay Annual</th>
<th>%age of col. 2 to 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Small-scale industries</td>
<td>782.51</td>
<td>3513.45</td>
<td>320.66</td>
<td>275.00</td>
</tr>
<tr>
<td>Industrial Estates</td>
<td>2077.67</td>
<td>2822.00</td>
<td>415.10</td>
<td>450.00</td>
</tr>
<tr>
<td>Khadi &amp; Village industries</td>
<td>17.27</td>
<td>100.00</td>
<td>20.50</td>
<td>13.00</td>
</tr>
<tr>
<td>Handloom</td>
<td>177.31</td>
<td>336.70</td>
<td>57.26</td>
<td>45.00</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>15.33</td>
<td>54.00</td>
<td>8.88</td>
<td>6.00</td>
</tr>
<tr>
<td>Medium &amp; Large industries</td>
<td>112.00</td>
<td>400.00</td>
<td>80.00</td>
<td>40.00</td>
</tr>
<tr>
<td>Mining</td>
<td>115.00</td>
<td>2084.00</td>
<td>511.00</td>
<td>170.00</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>3337.09</strong></td>
<td><strong>9310.15</strong></td>
<td><strong>1413.40</strong></td>
<td><strong>999.00</strong></td>
</tr>
</tbody>
</table>

the industries sector for Delhi are as presented in Table-2. The data in Table-2 supports the view that the outlays of seventh plan for the industrial sector of Delhi have been formulated in such a way as to be of real benefit to small units engaged in production. During the Seventh Plan period, Delhi Administration plans to provide assistance of about Rs. 3513.45 lakhs for small-scale industries which is 349 per cent higher than the outlays of the Sixth Plan. Likewise for the rural Khadi and Village Industries the financial support has increased from 17.27 lakhs in Sixth Plan to Rs.100 lakhs in the Seventh Plan accounting for a rise of 479 per cent.

The following facts also emerged from the figures of the category-wise outlays for the industrial sector in Delhi. During the Sixth Plan period the industrial estates were given the first priority and the amount earmarked was Rs. 2077.67 lakhs. The small scale industries followed next to the industrial estates for which the allocated amount was Rs.783.51 lakhs. Similarly, other industries like Khadi and Village Industries, Handloom,Handicrafts, Medium and Large Industries and Mining were given the due
Now in the light of the Sixth Five Year Plan, we would like to make the comparative study of Seventh Five Year Plan. In the proposals of Seventh Five Year Plan, small-scale industries enjoy a top position. As already pointed out that expenditure for this sector in Sixth Plan was only Rs. 782.51 lakhs while the amount for this purpose in the Seventh Plan is Rs. 3513.45 lakhs which accounts for about 349 per cent increase as compared to the previous Plan. Moreover, the amount constitutes nearly 38 per cent of the total outlays of the Plan. In the Seventh Plan next priority is given to industrial estates. The amount for this is fixed at Rs. 2822.00 lakhs which is nearly 30 per cent of the total outlays of Seventh Plan and around 36 per cent more over the last Plan. Similarly, other remaining industries are also provided comparatively larger amounts in this Plan.

As a result of planned outlays for the promotion of small units and government's priority treatment of small-scale industries, there occurred a tremendous
growth of small industries in Delhi as would appear from the following study of the present position of small units in Delhi.

PRESENT POSITION OF SMALL-SCALE INDUSTRIES IN DELHI:

The small sector of Delhi as at present is significantly developed. A large number of products are now produced in Delhi State. These items include sophisticated electronic and electrical equipments, appliances and instruments, a wide variety of light engineering goods, leather goods, machine tools, cycle parts, plastic goods, hosiery and ready-made garments, etc. These small units also meet the needs of defence departments of the country.

Over the course of the period under study, the numerical strength of small units in Delhi has recorded a remarkable increase. The capital investment as well as the value of output of small-scale industries has risen manifold. The employment generated by the small sector in Delhi has been tremendous as much as it has caused the migration of rural labour into Delhi for availing of employment opportunities in the small
sector. On the export front, the small industries of Delhi are in the lead. The value of their exports as well as their share in India's total exports is consistently on the increase. A detailed and statistical description of the various indices reflecting the present position and progress of small sector of Delhi is presented in the following paragraphs.

**QUANTITATIVE GROWTH OF SMALL SECTOR OF DELHI**

Numerically, the small-scale sector of Delhi has expanded both intensively as well as extensively. Intensive expansion has taken place by way of addition to the number of existing units producing the same product. The extensive expansion came about through establishment of units which produce different types of new products. Table-3 below presents the data on numerical growth of small units in Delhi over benchmark dates as well as the comparative indices of growth for the period. The year 1951 has been chosen as the base year with a view to making a broad-based comparative study relating the present progress with the historical background of
small units in Delhi.

TABLE - 3
NUMERICAL GROWTH OF SMALL UNITS IN DELHI

<table>
<thead>
<tr>
<th>YEAR</th>
<th>No. Of Small Units</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>8160</td>
<td>100.0</td>
</tr>
<tr>
<td>1965</td>
<td>19038</td>
<td>233.3</td>
</tr>
<tr>
<td>1968</td>
<td>25232</td>
<td>309.2</td>
</tr>
<tr>
<td>1972</td>
<td>30213</td>
<td>370.0</td>
</tr>
<tr>
<td>1976</td>
<td>36000</td>
<td>441.0</td>
</tr>
<tr>
<td>1978</td>
<td>43320</td>
<td>530.8</td>
</tr>
<tr>
<td>1979</td>
<td>41615</td>
<td>509.0</td>
</tr>
<tr>
<td>1980</td>
<td>42000</td>
<td>514.0</td>
</tr>
<tr>
<td>1981</td>
<td>45000</td>
<td>551.0</td>
</tr>
<tr>
<td>1982</td>
<td>50000</td>
<td>612.7</td>
</tr>
<tr>
<td>1983</td>
<td>54000</td>
<td>661.7</td>
</tr>
<tr>
<td>1984</td>
<td>57000</td>
<td>698.5</td>
</tr>
<tr>
<td>1985</td>
<td>62000</td>
<td>759.8</td>
</tr>
</tbody>
</table>

(b) Report of the Census of Industrial Units in Delhi, 1969, Okhla Industrial Estate, New Delhi.
(c) Industrial Profile Delhi, Directorate of Industries, Delhi Admn., Delhi, 1985, p.2.
Table 3 above brings to fore the large increases in the strength of small units in the small sector of Delhi. It is observed that in 1951 the number of registered and unregistered units was only 8160. By 1985, the number of units increased to 62,000. This yielded an expansion of more than seven-fold in the numerical strength of small sector of Delhi. The numerical increase in its wake pushed up the capital investment in the small sector as would appear from the following:

GROWTH OF INVESTMENT IN SMALL SECTOR OF DELHI

With the consistent quantitative growth of units in the small sector of Delhi, the total capital investment in small units rose massively. This will be evident from Table 4 below which presents the growth of investment in the small units of Delhi. The data in Table 4 reveals that the aggregate fixed investment in smaller units has multiplied approximately 66 times by 1985 as compared to 1951. From a mere 18 crores in 1951, the total investment in small sector of Delhi soared to Rs. 1200 crores.
TABLE - 4

GROWTH OF INVESTMENT IN SMALL SCALE SECTOR OF DELHI

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Investment</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in Rs. Cr.)</td>
<td></td>
</tr>
<tr>
<td>1950-51</td>
<td>18</td>
<td>100.0</td>
</tr>
<tr>
<td>1955</td>
<td>81</td>
<td>450.0</td>
</tr>
<tr>
<td>1968</td>
<td>129</td>
<td>716.6</td>
</tr>
<tr>
<td>1972</td>
<td>195</td>
<td>1083.3</td>
</tr>
<tr>
<td>1976</td>
<td>270</td>
<td>1500.0</td>
</tr>
<tr>
<td>1978</td>
<td>363</td>
<td>2016.6</td>
</tr>
<tr>
<td>1979</td>
<td>625</td>
<td>3472.2</td>
</tr>
<tr>
<td>1980</td>
<td>700</td>
<td>3888.9</td>
</tr>
<tr>
<td>1981</td>
<td>867</td>
<td>4816.6</td>
</tr>
<tr>
<td>1982</td>
<td>965</td>
<td>5361.1</td>
</tr>
<tr>
<td>1983</td>
<td>1035</td>
<td>5750.0</td>
</tr>
<tr>
<td>1984</td>
<td>1100</td>
<td>6111.1</td>
</tr>
<tr>
<td>1985</td>
<td>1200</td>
<td>6666.6</td>
</tr>
</tbody>
</table>

SOURCE: As for previous table.

in 1985. The heavy increases in investment have resulted in the tremendous growth in the value of production of small industrial units of Delhi as would appear from the following.
With the tremendous expansion of small sector, the output of small units of Delhi scaled new heights in terms of rupee value. The product lines were also diversified and the units entered into the production of variegated type of products comprising electronic garments, leather goods, engineering goods, etc. Table-5 below presents the upward changes in the value of output of small units of Delhi.

**TABLE - 5**

**GROWTH IN VALUE OF OUTPUT OF SMALL SECTOR OF DELHI**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Value of Output (Rs. in Cr.)</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>N.A.</td>
<td>-</td>
</tr>
<tr>
<td>1965</td>
<td>N.A.</td>
<td>-</td>
</tr>
<tr>
<td>1968</td>
<td>280</td>
<td>100.0</td>
</tr>
<tr>
<td>1972</td>
<td>346</td>
<td>123.5</td>
</tr>
<tr>
<td>1976</td>
<td>406</td>
<td>145.0</td>
</tr>
<tr>
<td>1978</td>
<td>477</td>
<td>170.3</td>
</tr>
<tr>
<td>1979</td>
<td>1167</td>
<td>416.7</td>
</tr>
<tr>
<td>1980</td>
<td>1700</td>
<td>607.0</td>
</tr>
<tr>
<td>1981</td>
<td>2196</td>
<td>784.2</td>
</tr>
<tr>
<td>1982</td>
<td>2350</td>
<td>839.2</td>
</tr>
<tr>
<td>1983</td>
<td>2352</td>
<td>840.0</td>
</tr>
<tr>
<td>1984</td>
<td>3050</td>
<td>1089.2</td>
</tr>
<tr>
<td>1985</td>
<td>3300</td>
<td>1178.0</td>
</tr>
</tbody>
</table>

SOURCE: As for Table-3.
Table-5 above clearly reflects the consistent growth in the value of production of small units of Delhi. In 1968, the total output of these units was valued at Rs. 280 crores. By 1985, the total value of small units production rose to Rs. 3,300 crores. Thus, the overall increase during the period has been twelve-fold in the value of production of small sector of Delhi.

The large increases in output fully catered to the demand of home market as well as created a surplus for exports. The progress made on export front by the small sector is discussed below:

**EXPORT PERFORMANCE OF SMALL SECTOR OF DELHI**

Consequent upon the tremendous quantitative expansion of small industrial units and large increases in the turnover of small-sector, Delhi has emerged as an important centre of exports for the surplus production of small scale industrial units. Delhi is contributing substantially in the export of engineering goods, ready-made garments, handicrafts, handlooms, processed food, leather
goods, etc. However, up to date and sufficient information is not available about the export performance of small units of Delhi. Only in June 1982, the first comprehensive industrial policy for the Union territory of Delhi was announced which laid emphasis on export promotion as one of the programmes to be taken up by the Administration. In pursuance of this policy, the Industries Department of Delhi set up an Export Cell to assist in export oriented units to maximize their performance. The export cell of the Directorate of Industries also began compiling information regarding exporting units and brought out its first and so far the only Export Directory of Delhi in 1983, which incorporates statistics about exports from Delhi for the period 1978-79 to 1981-82. Table-6 below presents a statistical view of the export performance of Delhi in the overall national exports.

Also Export Profile Delhi, Director of Industries, Delhi Administration, Delhi 1985, p.3.
TABLE - 6

EXPORT PERFORMANCE OF DELHI IN THE OVERALL NATIONAL EXPORTS (Rs. in Cr.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports from India</th>
<th>Exports from Delhi</th>
<th>%age share of Delhi in Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>5726.26</td>
<td>1070.35</td>
<td>18.69</td>
</tr>
<tr>
<td>1979-80</td>
<td>6458.76</td>
<td>1125.98</td>
<td>17.43</td>
</tr>
<tr>
<td>1980-81</td>
<td>6708.57</td>
<td>1214.58</td>
<td>18.10</td>
</tr>
<tr>
<td>1981-82</td>
<td>7781.40</td>
<td>1419.10</td>
<td>18.23</td>
</tr>
</tbody>
</table>


The above table-6 reflects that the share of Delhi in total national exports accounts for more than 18 per cent. The export performance during the years 1978-79 to 1981-82 has more or less been consistent in percentage terms. However, in absolute rupee terms, there have been increases in the value of exports each year. From Rs. 1070.35 crores in 1978-79, the exports value from Delhi rose to Rs. 1125.98 crores in 1979-80, to Rs. 1,214.58 crores in 1980-81 and further to Rs. 1,419.10 crores in 1981-82. This works out to about 33 per cent hike in the value
of exports by 1981–82 as compared to 1978–79.

Exports from Delhi reach almost all countries of the world, prominent amongst which are USSR, USA, Japan, Canada, Australia, United Kingdom, France, Switzerland, Belgium, Bulgaria, West Germany, Italy, Czechoslovakia, Yugoslavia, Holland, Middle East countries and many African countries. The major items of export and the share of smaller units in them is presented in Table-7 below:

**TABLE - 7**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>PRODUCT GROUP</th>
<th>Total Exports (Rs. Cr.)</th>
<th>%age share of from Delhi SSIs Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Engineering Goods</td>
<td>942.30</td>
<td>20</td>
</tr>
<tr>
<td>2.</td>
<td>Chemicals</td>
<td>11.64</td>
<td>20</td>
</tr>
<tr>
<td>3.</td>
<td>Plastic Goods</td>
<td>0.32</td>
<td>80</td>
</tr>
<tr>
<td>4.</td>
<td>Leather Goods</td>
<td>2.63</td>
<td>80</td>
</tr>
<tr>
<td>5.</td>
<td>Processed Foods</td>
<td>12.35</td>
<td>80</td>
</tr>
<tr>
<td>6.</td>
<td>Readymade Garments</td>
<td>184.56</td>
<td>80</td>
</tr>
<tr>
<td>7.</td>
<td>Sports Goods</td>
<td>4.62</td>
<td>100</td>
</tr>
<tr>
<td>8.</td>
<td>Gem &amp; Jewellery</td>
<td>8.16</td>
<td>100</td>
</tr>
<tr>
<td>9.</td>
<td>Handicrafts</td>
<td>31.81</td>
<td>100</td>
</tr>
<tr>
<td>10.</td>
<td>Handlooms</td>
<td>15.98</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL:</strong></td>
<td><strong>1214.58</strong></td>
<td></td>
</tr>
</tbody>
</table>

**SOURCE:** Exports Directory, Directorate of Industries, Delhi Administration, Delhi, 1983, p.9.

The table-7 above reveals the exports potential of smaller sector of Delhi. It will be observed that excepting engineering and chemical goods, the contribution of small units of Delhi in rest of the items is overwhelmingly dominant ranging from 80 to 100 per cent. The small industrial units of Delhi account for 80 per cent of total exports from the Union territory in respect of Plastic goods, leather goods, processed foods and readymade garments. In the exports of sports goods, gem and jewellery, handicrafts and handlooms, the total exports belong to small industries and their contribution is 100 per cent.

The impact of this all-round progress of smaller units is prominently found on the employment generated by the small sector of Delhi as will be borne out from the following.

**EMPLOYMENT GENERATION BY SMALL SCALE SECTOR OF DELHI:**

The large increases in the number of small units, massive capital investment, high growth in the value of production and exports have had their impact on
the employment opportunities generated by small sector of Delhi. The total employment in small sector increased manifold as would appear from the following Table-8:

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment (No.)</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>69266</td>
<td>100.0</td>
</tr>
<tr>
<td>1965</td>
<td>159731</td>
<td>230.6</td>
</tr>
<tr>
<td>1968</td>
<td>192711</td>
<td>278.2</td>
</tr>
<tr>
<td>1972</td>
<td>239006</td>
<td>345.0</td>
</tr>
<tr>
<td>1976</td>
<td>305000</td>
<td>440.3</td>
</tr>
<tr>
<td>1978</td>
<td>350000</td>
<td>505.2</td>
</tr>
<tr>
<td>1979</td>
<td>352000</td>
<td>508.1</td>
</tr>
<tr>
<td>1980</td>
<td>375000</td>
<td>541.3</td>
</tr>
<tr>
<td>1981</td>
<td>450000</td>
<td>649.6</td>
</tr>
<tr>
<td>1982</td>
<td>480000</td>
<td>692.9</td>
</tr>
<tr>
<td>1983</td>
<td>507000</td>
<td>731.9</td>
</tr>
<tr>
<td>1984</td>
<td>533000</td>
<td>769.4</td>
</tr>
<tr>
<td>1985</td>
<td>558000</td>
<td>805.5</td>
</tr>
</tbody>
</table>

SOURCE:
3. Industrial Profile of Delhi, Directorate of Industries, Delhi Admn., Delhi, 1985, p.2.
Table-8 above shows the year-wise growth in the number of jobs created by the small sector of Delhi. It is evident from the data that these units employed 69,266 persons in 1950-51. The employment generation by these small industrial units, however, continuously progressed year after year and the level of employment in small sector rose to 5,58,000 jobs by 1985, yielding an eight-fold increase in employment as compared to 1951 level.

The foregoing discussion reflects that there has been considerable development in the industrial activity of Delhi during the last three decades and more so in the last five years. New dimensions have been given to production activity and small units are now turning out more sophisticated new products as would appear from the following.

**NEW DIMENSIONS IN PRODUCT LINE OF SMALL SCALE UNITS OF DELHI:**

Small industries of Delhi have also diversified their line of products and have entered into the production of a variety of new industrial and consumable products. They now produce sophisticated light engineering goods, machine tools, readymade garments
electrical appliances, electronic equipments and plastic products, etc. They have achieved higher standard of quality. Moreover, they are preserving the heritage of traditional handlooms and handicrafts industries. Some of the small industries have revealed considerable managerial abilities by entering into the production of the highly sophisticated and specialised goods like medico-electronic equipment, electronic engineering components and instruments, hospital equipment, engineering equipment and instruments for technical education and research, etc.

There has emerged a network of small units in Delhi which is manufacturing ultra-modern goods such as coloured televisions, transformers, industrial fasteners, automatic components, electronic calculating machines, precision instruments, etc. In the field of electronics production, Delhi has made a remarkable progress. The number of units manufacturing electronic goods has gone up to 847 in 1981 from only 80 in 1975. According to Economic Times estimates, 9 out of 10 such units of the country are located in Delhi.

It is worth mentioning that in the foregoing remarkable growth and development of small scale sector, the Delhi Small Industries Development Corporation (DSIDC) and the Delhi Administration have played significant role. These agencies are actually the chief promoters and growth stimulators of small-scale sector of Delhi. They have been extending all sorts of promotional, technical and financial assistance to the small industrial units. A discussion on their functional role in the promotion of small industries of Delhi will enrich this study and, hence, it is undertaken in the following paragraphs.

**ROLE OF DELHI SMALL INDUSTRIES DEVELOPMENT CORPORATION IN THE PROMOTION OF SMALL INDUSTRY OF DELHI**

The Delhi Small Industries Development Corporation (DSIDC) played a promotional role in the growth of small scale industries in the Union Territory of Delhi. This Corporation was established by the Delhi Administration in 1971 for the development of small-scale industries in Delhi. The Corporation consists of the following sub-divisions, each
rendering specialised service for the promotion of small industrial units of Delhi:

1. Finance Division
2. Raw Materials Division
3. Marketing Division
4. Exports Division
5. Trade Centre and Emporium Division
6. Construction Division
7. Project and Development Division.

The activities of the D.S.I.D.C. can be broadly classified into two kinds, namely developmental activities and commercial-cum-developmental activities. As a development agency, the Corporation has constructed eight industrial estates wherein more than 600 industrial units have been set up for providing self-employment opportunities to the educated unemployed and technically qualified persons. Twenty-eight community work centres have been constructed in resettlement colonies for providing self-employment opportunities to the weaker sections of society near their places of living. The Corporation has undertaken a scheme for the development of 612 acres of industrial land at Narela.6

As a commercial-cum-developmental agency, the Corporation functions as a raw-material bank. They distribute raw materials worth about Rs. 18 crores annually to small industrial units which produce iron and steel, mutton tallow, fatty acids, chemicals, etc. The Corporation renders marketing assistance to the small-scale industrial units and also assists them in the export and import of raw materials. All these activities are of commercial nature but the Corporation charges only nominal fees with the object of rendering more and more services to the small units.

An important aspect of the Corporation which engages the attention of its management is to make the organisation a financially sound undertaking. As a result of persistent efforts to reduce its expenditure and expand its commercial activities, it has been possible for the organisation to earn a monthly average profit of about Rs. 8 lakhs during the year 1979. The net profit during the first seven months of the same year was Rs. 55 lakhs.

Apart from this, Delhi Small Industries Development Corporation has participated in four international
trade fairs. It has also organised and participated in six local exhibitions, particularly Indian Engineering Trade Fair with the main objective of promoting exports from Delhi. Participation in this international exhibition has created an awareness of the potential of the small-scale industries of Delhi in respect of highly sophisticated engineering products and machine tools besides handicrafts and handlooms.7

The Corporation has been accorded the position of a recognised export house by the Ministry of Foreign Trade, Government of India, for export trading in respect of large number of items. This has greatly eased the problems faced by small units in the matter of exports. The Export Division of the Corporation handles the exports and provides all assistance and information to small units in this respect. The small entrepreneur has not to run from post to pillar for completing various formalities involved in export trade. This has contributed greatly in boosting the export of small industrial sector of Delhi.

7. DSIDC's Annual Reports, New Delhi, 1974-75, p.10.
ROLE OF DELHI ADMINISTRATION IN THE
PROMOTION OF SMALL INDUSTRY OF DELHI:

To give impetus to industries and to regulate their growth, the Delhi Administration has adopted a definite industrial policy for promoting industries in the Union Territory of Delhi. It was felt that small-scale and cottage industries would be the dynamic sector to give a boost to the economy of Delhi.

Delhi Administration has its own definite policy under which only those industrial units are being set up which do not pollute the atmosphere and are not harmful. Under this policy, it has been stipulated that monopoly and concentration of economic power should end. It is planned that thousands of people should start their business themselves and lakhs of unemployed people should get employment in the industrial sector.

With the above objectives in view, a new dynamic policy has been evolved. Based on past experience it is acknowledged that the growth of small-scale industries can give a big push to the socialist concept as well as incentive to private enterprise. The recommendation of the Master Plan is that
industrial employment in Delhi should be contained and should not be allowed to exceed 25 per cent of the total employment. This is with the objective of keeping Delhi essentially a service class metropolitan centre, a dignified capital of the country with a non-industrial character. One of the major recommendations of the Master Plan is to localise new industrial units and shift the already existing ones from the city centre to outlying areas.8

Delhi has a very small rural area because of its metropolitan character. It is not possible for it to depend on large-scale industry and agriculture. Therefore, it is a general policy not to issue any new licence to large industries to be established in Delhi so that areas exclusively kept for agricultural use are not allowed to be used as industrial locations.

In pursuance of the policy objective of promoting small industry and at the same time dispersing their locations in outer Delhi, the Delhi Administration launched a number of promotional schemes which include construction of industrial estates, establishment

of Tool Room and Training Centre at Wazirpur and a Weavers' Colony at Bharatnagar. A description of the provisions of these facilities is given below.

INDUSTRIAL ESTATES:

The Delhi Administration has set up a number of functional industrial estates in Delhi for boosting small-scale and cottage industries, as well as taking them out of the main city of Delhi. These estates have been properly planned and managed and provide great assistance and encouragement to small manufacturers. These estates offer suitable location, accommodation and services for a comparatively large group of industrial enterprises.

The Delhi Administration has set up industrial estates for various industries including electronics, leather goods, auto parts, handicrafts, domestic electric appliances, readymade garments and book binding. A full view of the industrial estates/areas developed by Delhi Administration along with number of units, employment, investment, production and exports of each estate/area, as compiled by the author in
### TABLE 9

Industrial Estates/Areas developed by Delhi Administration with No. of Units, Employment, Investment, Production and Exports of Each Estate/area (1981-82)

<table>
<thead>
<tr>
<th>Name of the Industrial Estate/Area</th>
<th>No. of Units Responded</th>
<th>Employment</th>
<th>Investment</th>
<th>Rs. in Lakhs Production</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Naraina Industrial Area</td>
<td>544</td>
<td>11647</td>
<td>3278</td>
<td>9794</td>
<td>2889</td>
</tr>
<tr>
<td>2. Jhilmil Tiharpur Industrial Area</td>
<td>147</td>
<td>3048</td>
<td>1005</td>
<td>3582</td>
<td>99</td>
</tr>
<tr>
<td>3. Mayapuri Industrial Area</td>
<td>574</td>
<td>11328</td>
<td>3184</td>
<td>8468</td>
<td>977</td>
</tr>
<tr>
<td>4. G.T. Karnal Road Industrial Area</td>
<td>234</td>
<td>3755</td>
<td>1328</td>
<td>2770</td>
<td>2</td>
</tr>
<tr>
<td>5. Wazirpur Industrial Area</td>
<td>425</td>
<td>6347</td>
<td>2343</td>
<td>6200</td>
<td>1230</td>
</tr>
<tr>
<td>6. Okhla Industrial Area</td>
<td>602</td>
<td>12894</td>
<td>4835</td>
<td>12128</td>
<td>3330</td>
</tr>
<tr>
<td>7. Okhla Industrial Estate</td>
<td>155</td>
<td>65840</td>
<td>2586</td>
<td>8767</td>
<td>908</td>
</tr>
<tr>
<td>8. Kirtinagar Industrial Area</td>
<td>218</td>
<td>1367</td>
<td>447</td>
<td>748</td>
<td>250</td>
</tr>
<tr>
<td>9. Badli Industrial Area</td>
<td>31</td>
<td>515</td>
<td>248</td>
<td>463</td>
<td>26</td>
</tr>
<tr>
<td>10. Nagloi and Rohtak Industrial Area</td>
<td>106</td>
<td>1053</td>
<td>361</td>
<td>703</td>
<td>30</td>
</tr>
<tr>
<td>11. Lawrence Road Industrial Area</td>
<td>173</td>
<td>2874</td>
<td>1845</td>
<td>940</td>
<td>118</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>3209</strong></td>
<td><strong>120668</strong></td>
<td><strong>21460</strong></td>
<td><strong>54563</strong></td>
<td><strong>9859</strong></td>
</tr>
</tbody>
</table>
Delhi from the available data upto 1982, is presented in Table-9. It will be observed from the table that large industrial estates at Okhla Industria Area, Mayapuri Industrial Area, Naraina Industrial Area, Wazirpur Industrial Area and others have been developed in which there were 3209 established units giving employment to the tune of 1,20,668 workers. These units produced goods worth Rs. 54,563 lakhs with the investment of Rs. 21,460 lakhs in the year 1981-82. These industrial units have also earned a considerable amount of foreign exchange by exporting the goods. About 180 acres of land has been acquired in the Patparganj area of Shahadra, where industrial estates will be set up for auto and cycle parts, engineering goods, domestic electric appliances, plastic goods, cables and wires industries. The Delhi State Industrial Development Corporation is developing the land at the complex and providing facilities for the setting up of industrial units. In matters of allotment of sheds in industrial complexes and for housing, priority would be given to those lands which have been acquired by the Administration. Apart from this complex, Badli Industrial Estate is to be
expanded and village industries set up in villages.

Besides providing industrial sites, the Delhi Administration has set up a Tool Room and Training Centre at Wazirpur to render training and consultancy services to small enterprises as discussed below.

**TOOL ROOM AND TRAINING CENTRE AT WAZIRPUR**

A Tool Room and Training Centre has been set up at Wazirpur with assistance of Denmark. This is a prestigious scheme with an outlay of Rs. 5.24 crores to which the Government of Denmark has contributed a sum of Rs. 4.20 crores towards the cost of building, machinery and services of seven experts. The daily working expenditure is met by the Government of India. Training is given in tool making to 20 persons per year. The trainees are paid stipend during the period of their training. Six mechanical engineers are recruited for training every year for a two-year course in tool design.  

This Centre provides not only high quality tools but also renders training and consultancy.

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9. Growth of Small Industries in Delhi, Laghu Udyog Samachar, New Delhi, October, 1979, p.65.
services to tools designers. The centre will be of immense use to small-scale units including ancillary and export-oriented units which are in need of quality tools and dies.

This training centre has been playing an important role in Northern India and endeavours to serve all those engaged in the small-scale sector. The Centre will soon achieve an important place amongst the institutions in the capital and become the focal point for training, technology and research. It has assisted in improving the quality of the product of the beneficiary units and in building up a team of trained tool makers and designers for the country.

Establishment of a Weavers' Colony in Bharatnagar is yet another step taken by Delhi Administration in the direction of promoting small industry as discussed below.

**WEAVERS' COLONY, BHARATNAGAR:**

In Bharatnagar, 12 large sheds have been constructed. These are double storeyed buildings, each having approximately 2,000 sq.ft. of floor
space. They have been allotted to 11 handloom societies and one power loom society. A sum of Rs. 2 lakhs has been granted for the purchase of tools and equipment for this centre and 8 new sheds have been constructed. Six more sheds are to be constructed in Nand Nagri for housing weavers' cooperative societies. The Government of India has set up a Weavers' service Centre in the colony with the object of providing improved facilities in dyeing, designing and printing.¹

The Delhi Administration has not lost sight of leather goods industry and has constructed special type of flatted factories for the benefit of leather goods manufacturers.

FLATTED FACTORIES FOR LEATHER GOODS:

Two blocks, each having four storeys have been constructed providing 60 work places on modular basis. Another composite block having 80 work places is in an advanced stage of construction. This centre has provision for common facilities, quality control and raw material depot. Part of the machinery for quality control has been purchased from local market.
and some machinery has been imported. It will also offer other facilities for exports.

In fact, Delhi Administration and Delhi Small Industries Development Corporation take great interest in the development of small units. Even then a number of units are still suffering from many constraints and inhibiting factors. In the following lines an attempt is made to highlight their problems.

PROBLEMS OF SMALL-SCALE INDUSTRIES OF DELHI:

The problems facing the small-scale sector in Delhi are numerous. Some important ones that need special mention are elaborated below:

MULTIPLICITY OF AUTHORITIES:

Multiplicity of authority and shifting of industrial sites to remote areas have been the serious problems for small units. At present if an entrepreneur wants to set up a new unit, he has to seek clearance from at least 28 officers and contact many agencies. To illustrate, for the acquisition of

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land, the entrepreneur has to go to the Development Authority and Directorate of Industries. For power, the entrepreneur has to run to Delhi Electricity Supply Undertaking and New Delhi Municipal Committee; for imported raw materials, he has to run after the Directorate of Industries, Delhi, Small Industries Development Corporation, Chief Controller of Imports and Exports. The need for indigenous raw materials would require going to the Directorate of Industries, Delhi Small Industries Development Corporation and the Commissioner of Civil Supplies.

Need of finance would lead the entrepreneur to the Delhi Financial Corporation, Directorate of Industries and the nationalised banks; for water needs he has to visit the Municipal Corporation of Delhi and New Delhi Municipal Committee. To get the factory licence and telephone, the entrepreneur has to approach the Municipal Corporation of Delhi and the General Manager, Delhi Telephones respectively.

To solve these problems it would be appropriate that a licensing-cum-feasibility cell should be constituted. The cell could call information in a
consolidated form and the cases for setting up new units could be considered. Once the decision is taken, priorities fixed by the Cell, implementation by various agencies involved would be automatic. The cell should be headed by the Chief Executive Councillor or the Chief Secretary and shall have as other members Senior Executives from Directorate of Industries, Delhi Development Authority, Delhi Electricity Supply Undertaking, Municipal Corporation of Delhi, Delhi Telephones, Delhi Small Industries Development Corporation, Delhi Financial Corporation, New Delhi Municipal Corporation and the DFCF as their representatives.

COMPULSORY SITE CHANGES:

One of the major factors affecting the existing units and the growth of new ones is a typical provision in the master plan. The plan stipulates shifting of industries from non-conforming areas. Units that have not shifted have been denied recognition by non-issuance of Municipal Licence. For that matter even additional power required for balancing and modernisation purposes has been denied to these
entrepreneurs.

Further, many units have been shifted to remote places without any provision of basic amenities. According to an estimate by the Directorate of Industries if the mass shifting of industries as per the master plan is implemented, the cost of purchase of land alone would amount to Rs. 360 crores.

Apart from the financial implications, the shifting process has other attendant problems. There would be loss of production. Huge machinery would be rendered unserviceable. And then there is the problem of resettling thousands of workers and making provision of housing and commuting facilities for them. In short, the whole thing is very complex.

Actually, the plan should be reviewed. A phased programme of shifting should be taken up. But this should be drawn up taking note of the availability of industrial land and the provision of other infra-structural facilities. Also,
matters of allotment of land and loans on soft terms for making building and meeting costs of construction as well as grants for operational costs should be given due consideration.

Further, before the units are shifted, provisions of infrastructural facilities should be ensured. The Corporation should bring down the high price of land which it charges from the industrialists. In Gujarat and Maharashtra States industrialists are encouraged by providing land at subsidised rates. But in Delhi they are charging at least Rs. 200 per sq. metre.

**SHORTAGES OF RAW MATERIALS:**

Small-scale units which have been assigned a vital role in national plans in increasing the employment opportunities and growth of new industries are faced with chronic raw material shortage. Some raw materials are distributed by the Government and their price and supply are under government control. Such raw materials cause serious problem when they are not timely and adequately available.
from official agencies since their supplies can not be procured from open market at normal price. If necessary, raw materials should be imported and adequately allocated to small industries because it is expensive and time consuming for individual units to import raw materials. The government should assess the demand and supply position for this sector and ensure constant supply of raw materials at reasonable prices eliminating the middlemen where possible.

**MULTI POINT LEVIES:**

Some industrial units of Delhi have set up sister units in the neighbouring areas of Ghaziabad, Faridabad, etc. In the process of production, the unfinished goods are sent to the neighbouring States and they are subjected to octroi. Again, when these goods enter Delhi a terminal tax is levied. This has a serious bearing on the cost of production and erodes the margin of profit of small units products. Already faced with financial stringency the multi-point levies lowering the profitability of business further adversely affect
the financial health of the small enterprises. The government should ensure that small units are subjected to single-point levy only which is necessary for their healthy development.

MARKETING PROBLEMS:

Small industrialists are also confronted with the problem of lack of marketing facilities. Marketing efficiency is one of the most important pre-condition for the success of an enterprise. This aspect is not receiving due consideration in under-developed economies. Here top priority is given to finance and production aspects. Similarly, quality control, product positioning and market research are still beyond the grasp of small units. This problem has become acute due to increasing competition with the branded and advertised goods from large-scale sector which have their own marketing network using sophisticated techniques.

It is universally recognised that an efficient marketing and distribution network is an important factor for the growth of small-scale industries.
But this aspect is often neglected in the case of small scale industries. If small units produce only a limited range of consumption goods for local demand, marketing is not a big problem, but when their products cover a large section of consumers, marketing assumes great importance. The marketing problems of small units arise not only because of the small size and resources of these units but also by the lack of distribution channels necessary to reach the customers. Marketing experts can play an important role in reshaping the entire marketing approach of the small-scale owner through various professional services offered by them.

The Ford Foundation Team has also observed that "Domestic marketing operations should be closely watched. Efforts should be made by the National Small Industries Corporation (NSIC) to help associations of small industrialists or cooperatives in finding suitable sales arrangements.

through experienced and successful private merchants. It is marketing which helps to increase rapidly much needed entrepreneurial and managerial skills.

According to the all-India census of small-scale industries 1973-74, among the major problems faced by the small-scale units, marketing problems are third in order of importance, following raw material and finance problems. This is equally applicable to situation obtaining in Delhi. Small-scale units have been facing a serious drawback in marketing their products due to the fact that they are operating by and large in unorganised sector. Therefore, the marketing of this sector depends more on technical promotion rather than on brand names. These products are sold directly to consumers as well as through dealers.

In this regard Director General of Supplies and Disposals continues to implement the policy

of purchase preference to the small-scale units with a view to boost up the small-scale sector. Four hundred and nine products are reserved for exclusive purchase from small-scale sector under government stores purchase programme. The government provides preference to small-scale industrial units in respect to such items which are required by different departments of government. In order that the desirous entrepreneurs could sell their products to the government, they have to get their units registered under "price preference scheme" which requires not only time but also money. As regards the benefits from the scheme of concessional supply of raw materials large and medium industries also purchase raw-materials with equal concession which is granted to small-scale industries. The result is that big and medium units are in a position to boost up their sales due to their manufacturing capacity whereas small firms lag behind to avail these facilities.

The Central Government has given direction to all the government departments including public
sector undertakings, State Government departments and State undertakings to adopt a uniform policy for the purchase of price preference goods from small-scale sector. This purchase policy pursued by the Government has proved to be of much benefit to the small-scale sector.

Small industries of Delhi are also not in a position to adopt high technology. This makes their marketing problem more acute and critical. Most of the small firms have neither the requisite staff with proper marketing skills nor adequate resources to adopt vital marketing techniques such as sales promotion, advertising, establishment of distribution channels and conducting of market research. According to a knowledgeable observer, marketing research and sales promotion are foreign to the typical small factorymanager in India.  

Delhi Small Industry Development Corporation is the suitable agency of marketing which can extend

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its help to small-scale industries of Delhi. The Delhi Administration will do well if it directs the DSIDC to extend marketing assistance to small scale sector of Delhi.

Undue delays in payments against supplies of small units is yet another problem that impinges on the financial health of this sector. It has been noted that many time government department and large public undertakings inordinately delay the payment of bills of small units. The long delays in making payments require to be checked. The shortage of finance has been accentuated by the failure of large units and government departments as well as undertakings to make timely payment of bills to small units against their supplies. In view of the poor bargaining capacity of the helpless small suppliers, the public departments and large firms tend to assign the lowest priority to these payments. Official investigations have brought to light the fact "that some of the giant public sector undertakings have been guilty of this practice."

inordinate delays in clearing payment of small-scale sector have actually been instrumental in causing sickness to small units and also responsible to their failures. Hence, it is necessary that goods are delivered, they must be inspected and payment should be made within short periods.

**FINANCIAL PROBLEMS:**

Small units do not have adequate finance for investment in fixed assets such as land, buildings, plant and machinery. They are not in a position to obtain loans from specialised financial institutions due to their inability to provide required guarantee and also due to cumbersome procedures involved. Moreover, development banks take several months to clear a project and thereafter the actual disbursement takes even longer period. In addition to this, these units supply goods to both government departments and large scale sector but they do not get payments in time as alluded to above.

The Government of India had constituted in 1977 a high-powered committee for examining the
problems of small-scale industries.\textsuperscript{16} This Committee recommended uniformity in the procedure of processing the loan applications by the banks and other financial institutions. It also suggested that the financial agencies should convey their decision regarding loan applications within twelve weeks of the receipt of applications. In spite of all this the problems of small-scale sector still persist.

The mortality rate of new units in Delhi is growing very fast. The main cause of this sickness is the problem of inadequate finance. The demands for finance of old and new units are increasing. But the funds provided to these units have not augmented to keep pace with the demand. As a result of this there is gap between demand and supply of funds. Other than small-scale, the large and medium sectors are often financially stronger. Small industries are unable to approach the available funds because they do not prove to be credit-worthy due to their unsound financial position.

\textsuperscript{16} High-Powered Committee for Examination Bank Credit to Small-Scale Industries, RBI, Bombay, 1978.
Commercial banks for decades had confined their lending activities mainly to trade and large-scale industry and thus neglected the small-scale sector. The position is that credit from banks is either not available at all or unduly delayed. Moreover, these loans are available on unfavourable terms. All these problems are severely telling upon the health of small scale industries sector. For this it is recommended that a suitable legislation be enacted which should prescribe a minimum percentage of banks total credit to flow to small units so as to protect smaller units from financial afflictions.

PROSPECTS FOR SMALL INDUSTRIES OF DELHI:

External demands as well as local demands provide high scope for the manufacture of a large number of consumer goods such as readymade garments, leather goods, cosmetics, soaps, detergents, drugs, pharmaceuticals, electrical goods, packing materials, toys, sports goods and also durable consumer goods like furniture and electrical goods.

It transpires from the foregoing discussion that the scope for large units is rather limited but the
prospects of small-scale and cottage industries are bright. The expansion of existing industries as well as establishment of new units will provide more job opportunities to new generation which is the need of the hour in India. It has been estimated by the National Productivity Council that Delhi's population will grow at an annual rate of 3.5 per cent during the next 15 years. This will call for creation of jobs for the growing population of the territory. The small-scale industries provide the answer to it as they contain enormous job potential. Besides, the growth in population will call for a large number of service industries to cater to its needs. Such industries are flour mills, bakeries, laundries, repair shops to be established in the small sector. Growing need for housing is likely to lead to the spurt in small sector for increasing the production of bricks, sanitary-ware, windows and doors, etc. Hence, the small sector has to stride a big way in future to meet these challenges.

The products of Delhi small industries are getting more popular in foreign countries. In certain line of products, Delhi smaller units are the leading earners
of foreign exchange, e.g. readymade garments, sports
goods, gem & jewellery, etc. Growing acceptance of
these products abroad has brightened the prospects of
smaller units in the Union territory.

The Delhi Administration has also realised the
potential of small units in respect of production,
employment, exports, dispersal of economic power, etc.
Accordingly increasing outlays are being provided in
the Delhi State Five Year Plans for the growth of this
sector. Facilities which are conducive to growth and
promotion of small enterprises are being established
and expanded in the territory. This leads to conclude
that the future holds bright prospects for the develop-
ment and growth of small scale industries. In fact,
the achievement of the objective of egalitarian society
and a welfare State largely depends upon the proliferation
of small sector in India.

CONCLUSION:

Small-scale and cottage industries of Delhi are
known for their excellent products of art and craft
since the days of Mughals and even before. During the
British rule these industries remained neglected and
it was after independence that Delhi emerged as a
centre of modern small-scale industries. Today, Delhi is dominated by small units whose number is fast increasing and so also their share in national production, investment, employment and exports.

Despite the phenomenal growth of small units in Delhi, their impact is not reflected adequately in the industrial economy of Delhi. In fact, the small units face a host of handicaps in the field of production, procurement of raw materials, distribution of finished goods and finance. Such handicaps arise because of the present administrative setup of Delhi which is characterised by numerous agencies with lack of coordination amongst them. The potential entrepreneur has to seek nearly twenty eight types of clearances and has to contact over a dozen agencies. Moreover, the requirement of shifting a small-scale industry from non-conforming area to the industrial estate imposing financial burden, scarcity of housing and transportation and the lack of civil amenities are some other problems. The government's double tax policy is also a major source of inconvenience for small-scale industries of Delhi. Besides, small-scale industries of Delhi are faced with the problem of lack of marketing facilities,
The process of sanctioning loans and credit to small-scale industries by Delhi Financial Corporation is a complex and lengthy one which serves as a repellent rather than an encouragement to the small entrepreneur. The credit facilities from the banks and other financial institutions are far inadequate. Even though the Government of India has paid attention towards ensuring access to easy credit and finance for small scale industries, there is still need of reforming the capital and money market for small-scale entrepreneurs.

In the ultimate analysis it is clear that the serious most and fundamental difficulties of small-scale industries of Delhi are related to the problem of finance, whereas other problems are to some extent subsidiary to it. Accordingly, the problems related to the financial requirements and the sources to meet out them are discussed in the next chapter.
CHAPTER- III

FINANCIAL NEEDS AND SOURCES OF FINANCE OF SMALL SCALE INDUSTRIES OF DELHI

The previous chapter-II focussed on the prospects and problems of small-scale industries of Delhi and some of the prominent features of the economic development have been discovered. In conclusion it was emphasized that finance is the most crucial problem of smaller units. If this problem is solved satisfactorily, the prospects of small industries of Delhi will greatly improve. In this background, the object of the present chapter is to analyse the nature of financial requirements of small-scale units with special reference to Delhi. An attempt is also made to assess the demand for funds of these units. The sources and agencies which are available for meeting -(117)-
the financial requirements of these units are also traced out in the following discussion. The study is split into three Sections. Section-I deals with the need for capital of smaller units and attempts to make an assessment of the demand for funds of these units. Section-II discusses the sources of finance which are available to small industrial units for meeting their financial requirements. Section-III traces the problems involved in tapping these sources for securing financial assistance by small-scale industrial units with special reference to Delhi.

SECTION - I

DEMAND FOR FUNDS OF SMALL-SCALE INDUSTRIES

It needs no elaborate discussion that the small-scale enterprises occupy a pivotal position in the industrial structure of the country. With their enormous potential for increasing the consumable output and extensive capacity for generating
employment opportunities as well as providing self-employment avenues, small industries are the kingpin in the process of economic development. In India, the small-scale industries, in view of their importance in the economy, have been placed in the priority sector for special treatment in several respects of their requirements. However, their existence is fraught with problems of financial stringencies more than any other form of business organisation. Paucity of funds is their perennial problem and most of the afflictions of the small business are the result of the shortage of finance. Every problem of small producer concerning production, or material, quality or marketing, is in the ultimate analysis a financial one. The International Planning Team, in its "Report on Small Industries in India" commented:

"The problems of small industries together form a vast complex ... The credit and finance problems have to be tackled as a part of the whole programme if they are to be solved. For without proper finance there would be no efficient planning, nor purchase of materials, nor production, nor marketing, nor any fair profit, the latter in its turn forming the foundation of the finance itself."1* 

Thus, an adequate, timely and cheaper supply of finance is of vital importance for the small business entities. This ensures better organisation of purchases, production and distribution and ultimately profits for the small venture providing a base for self-finance. The units have smooth sailing and brightened prospects for their development.

DEARTH OF FINANCE:

The dearth of capital in medium and small-scale industries reflects a general shortage of capital for industry in the country. It is the result of a low income level, a small capacity to save and, hence, a lack of capacity to invest. It is the phenomenon of a vicious circle of low productivity, lack of real buying power and absence of investment incentives. Historically, the pattern of industrial development in the country has been such that initial capital for starting industrial undertakings was provided mainly by foreign-based managing agency houses most of whom combined trading and industrial activity. As industries developed profits were made a source of self-finance through plough-back and once the undertakings were stabilised
on a profitable basis, they were able to attract capital from investors. Indian enterprise has developed on this pattern. Investment in new enterprises takes place approximately where savings arose and initial risk capital was provided by the promoters and their friends. For medium and small-scale industries, too, the pattern of financing appears to have been more or less identical. Small and medium scale entrepreneurs in most cases have taken the entire risk of their individual enterprises because they wish to retain personal control over the entire management of their individual undertakings. Personal ownership and control adversely affects the creditworthiness of enterprises in the capital market and lenders feel reluctant to extend financial assistance to such enterprises. Hence, there is an around dearth of capital for small-scale industries in the country.

Moreover, the need for credit and finance in respect of medium and small-scale industries, in general, is obviously inter-related to the problems of production, management and marketing of their products. In large-scale industrial undertakings,
their economic size, efficient management, technical competence, suitable plant and equipment and financial prospects are taken for granted. The position in medium and small-scale industries is, however, entirely different. Lenders lack confidence in the capability of medium or small enterprises to run successfully and profitably. The uncertain nature of stability of these enterprises makes creditors to feel a lurking fear about the repayment of their loans and advances. Lack of confidence in medium and small units, thus, works as a forceful factor in causing general shortage of finance for these units.

Besides the general environment of dearth of capital for industrial sector as outlined above, there are certain factors peculiar to small-scale units including those of Delhi which give rise to demand for funds. These factors are inbuilt in the structural characteristics of small enterprises. The following discussion brings to fore the most significant of them.
EMERGENCE OF DEMAND FOR FINANCE FROM SMALL SCALE UNITS OF DELHI

The need for finance to small industrial units of Delhi, as for others in the country, with a comparatively higher intensity arises because of the character of their organisational structure. The small nature of this form of business makes smaller for them the base of internal finance. Small industries are commonly organised in the form of sole proprietorship or, at best; as partnerships. Small joint stock companies are few and uncommon in the field. The initial capital in a small concern requires to be provided by the individual owner of the business. Generally, this individual owner is a craftsman or a small entrepreneur with a technical and little educational background. The financial capacity of small unit-owner is usually limited. His resources are confined to his person only. He can provide but a very limited amount of capital to the business enterprise. In case of producers of some standing in their field who have made good their financial position already, they could themselves provide the needed capital as the foundation for
their enterprise. But those who have to start from scratch, as a good many of them have to, the necessary capital has to be found for them. This is most crucial factor that gives rise to demand for finance from the small-scale enterprises.

The demand for funds also emanates from programmes of modernisation and expansion of smaller units. The small owner may, of necessity, have to adopt new technology for production since fast technological changes in the methods of production quality and form of product are taking place in the present industrial world. Or, the small entrepreneur may need to increase the scale of his production in order to maximise profits from an escalating demand. In both cases additional funds are needed to procure modern machinery and skill or to add to the existing stock of plant and machinery, tool and equipment in order to expand the capacity for larger production. This is more true a situation in the case of Delhi small-scale industries which are located in a metropolitan city and are most frequently confronted with the problem of modernisation and expansion. The internal generation of funds is, however, negligible for the purpose of undertaking modernisation or expansion by small business with their own funds. This is for the fact
that small units suffer from low profitability. When they buy their own materials they have to buy in retail, losing thereby any savings they might have otherwise enjoyed if they had bought in bulk. But their purchases being limited by their petty scale of production, they must forego commercial economies open to bigger customers. Hence, the cost of production for the smaller units is comparatively higher. On the other hand, marketing through middle men, they do not get a fair price for their products. Thus, cost being higher and revenues lower than they should be, smaller units earn a narrow margin of profit which hardly leaves any surplus after their expenditure which might go towards a capital fund to strengthen their base of internal finance. Thus, for any programme of modernisation and expansion smaller units have to look for external funds and, hence, their demand for credit.

Trade-credit or 'buyers' accommodation' is yet another factor that blocks the flow of funds and gives rise to demand for financial assistance from the small industrial units. The small entrepreneur endeavours to maintain operational continuity
and keep the concern in running form. He should, therefore, buy raw materials, meet labour charges and incur expenditure on marketing of his products. His financial capacity to defray the expenditure on these items is limited to a day or a couple of days. The small unit owner, therefore, depends on quick sales return of the goods produced, which seldom comes true in the present credit-oriented economy. The direct sale of the small units product to consumers involves a distribution network which the smaller units cannot afford to establish or manage. Hence, these units have to sell their goods to medium and large-scale enterprises and they take considerable credit-time to pay for their bills. There occurs a trade-credit gap of atleast a month, or very often more than this, before the sale proceeds are available to small enterprises to serve for inputs again. 'Buyers' accommodation, therefore, blocks the circulation of finance for a period of time and creates a gap that breaks the cycle of production-return-production in the case of smaller units. Meantime to carry on their business activity the smaller units have to seek financing facilities
to keep them in operational position. Thus, bridging up of the time gap between production and sales returns gives rise to demand for funds by the small-scale units.

The foregoing discussion reveals that there is a variety of factors, some general in nature and other specifically related to smaller units, which are influential in giving rise to demand for financial assistance from the small-scale units. This overall demand for funds of the small sector units can be classified into various types of their financial requirements. A description of the different types of capital and credit requirements of small enterprises is attempted in the following discussion.

NATURE OF CAPITAL & CREDIT REQUIREMENTS OF SMALL SCALE INDUSTRIES OF DELHI:

The nature of capital and credit requirements of small-scale industries of Delhi is common and identical with those of other industrial undertakings in the country. Usually, the financial requirements of industry consist of (a) equity or risk capital and (b) borrowed capital, though in many
small units this classification is not so precise and owners' capital is also a borrowed funds. The borrowed capital is again divided into two types: (i) long-term loans and (ii) short-term credit. The proportion between these different types of capital would, in each particular case, depend upon the size and the nature of the manufacturing activity of an individual unit.

(a) Equity Capital

It is the risk capital and is usually provided by the small entrepreneurs themselves. This is at times supplemented by resources raised from friends and relatives either as partners or shareholders. Sometimes, the small unit owners raise short or medium term capital by way of deposits from their friends and other people. Much of this initial capital is generally required for the purchase of fixed assets like land, building, plant and machinery, and the balance for working capital. For small enterprises it is extremely difficult to raise equity capital from the market. Further, small entrepreneurs do not themselves welcome equity
capital from outside, for it involves sharing of management and dilution of control.

(b) Long-term Loan Capital:

Medium and small industries require long-term loan capital to acquire fixed assets for purposes of expansion, renovation or modernisation of their plant and machinery or for acquiring other assets like land and buildings. If an industrial unit is able to provide adequate security in the form of fixed assets it may be in a position to raise loan capital from financial institutions. The smaller units, however, experience difficulties in obtaining long-term loans because the value of fixed assets owned by them is proportionately small compared to the requirements of long-term accommodation.

(c) Short-term Credit:

This type of requirement of medium and small-scale industries is for working capital. The requirement of industries for working capital are proportionately larger than for long-term loans needed for acquiring fixed assets. The short-term credit is required to meet day-to-day running expenses of the
enterprise and satisfies the current needs of the business. It is an integral part of overall industrial management. It serves as the life-blood and the controlling nerve-centre of a small industry.

No industry can be successfully run without adequate money as working capital. It circulates in whole body of the enterprise and is also termed as the circulating capital.

In small industries the need of working capital is more frequent. Adequate working capital is the pre-requisite of a proper organisation of production, for the purchase of raw materials, payment of wages, holding of stocks of finished goods, transportation and for the day-to-day operations. The management of working capital is more important for small-scale industries. In the present atmosphere of tight money conditions small-scale industry depends greatly for its efficiency on the arrangement of working capital. The greater the proportion of working capital, the better the terms on which external capital can be raised.
(iv) **Trade Credit**

The medium and small industries get trade credit for the raw materials and other stores they have to purchase and they have in turn to give credit for goods sold in the market or to large-scale units. It has been found that in a buyers' market the small entrepreneurs are at a disadvantage because the period for which they have to offer trade credit for finished goods is much longer than the time for which they get this facility from the suppliers of raw materials. In the result, the small entrepreneur has to provide finance for the purchase of raw materials, goods in process, and stock-in-trade for the gap-in-waiting which may extend from two to four months. The result of gap-in-waiting is that whereas a large scale unit which is in a position to obtain bank credit on advantageous terms, withholds payment for goods already delivered by small-scale unit, the latter has to borrow funds at exorbitant rates to keep itself going. A large part of the difficulties of the medium and small scale industries arises from this situation. It is, therefore, essential for a small
industrial concern to finance its working capital requirements. Many a time the failure of small concern is due to this deficiency in current finance.

In recent years, the financial requirements of medium and small scale concerns have grown specially acute because of general rise in costs. The small industries of Delhi are not different but form an integral part of the mainstream of the small scale sector in the country. Hence their demand for funds is also affected by the general economic conditions in the country. An attempt is made to measure their demand for funds in the following discussion.

QUANTIFICATION OF DEMAND FOR FUNDS OF SMALL SCALE INDUSTRIES OF DELHI:

The financial requirements of small enterprises as spelt out in the foregoing discussion are reflected in quantitative terms from the capital structure of small-scale units. Capital structure represents the various sources of permanent financing of the business undertakings. These sources fall broadly into two groups—viz., Internal sources of
finance consist of reserves and surpluses, depreciation fund and proprietors' stake (capital) in the case of small-scale industrial units. The external sources of finance comprise equity and preference shares, borrowals from capital markets including long and short-term loans and lately public deposits. Though both internal and external sources of finance together would constitute the aggregate financial requirements of the enterprise, yet it is the external finance which actually represents the quest for funds by the business undertakings. Hence, the external finance represents the actual demand for funds.

The small-scale units are a decentralized group of industries. Exclusive data about the capital structure of smaller units of Delhi is not available in a consolidated and published form. However, a comprehensive picture of the capital structure of small sector units on all-India level is furnished by the recent publication of the Reserve Bank of India. As the small units of Delhi have been taken into account while formulating data on capital structure of small-scale sector all over
India by the Reserve Bank, it is considered pertinent to hold that the same stands good for the group of small sector units of Delhi and is representative of their demand for internal and external finance. Accordingly, the capital structure of small industries as brought out by the Reserve Bank of India is relied upon with respect to small enterprises of Delhi and the same is taken for the purpose of analysis and inferences in this study.

Table-I below presents the capital structure of industries in the small-scale sector and reflects the sources of funds of these units. The extent of external financing as shown by the data on capital structure of the small enterprises signifies the demand for funds. It is the portion of their financial requirements that these small units turn to the capital market and other institutional sources to meet it.

The table clearly reflects that in the capital structure of small-scale units, the ratio between internal and external sources of finance is 3:7. The small-scale units, thus, depend to a greater
TABLE - 1

SOURCES OF FUNDS OF SMALL SCALE SECTOR IN INDIA

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>Amount (in %age)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. INTERNAL SOURCES</strong></td>
<td></td>
</tr>
<tr>
<td>(a) Capital and Reserve</td>
<td>14.2</td>
</tr>
<tr>
<td>(b) Provisions</td>
<td>18.5</td>
</tr>
<tr>
<td><strong>II. EXTERNAL SOURCES</strong></td>
<td></td>
</tr>
<tr>
<td>(a) Capital Issue and Premium of Shares</td>
<td>-</td>
</tr>
<tr>
<td>(b) Borrowings</td>
<td>36.8</td>
</tr>
<tr>
<td>(including deposits)</td>
<td></td>
</tr>
<tr>
<td>(c) Trade and other current liabilities</td>
<td>29.7</td>
</tr>
<tr>
<td>(d) Miscellaneous Non-current Liabilities</td>
<td>0.8</td>
</tr>
</tbody>
</table>


extent on external resources for financing their gross assets formation. Their demand for outside assistance is for 70 per cent of their total financial requirements. Only 30 per cent the small
units are capable to meet from their own resources. The role of borrowed finance in the scheme of external sources is substantial being 36.8 per cent or nearly two-fifth. Trade dues and other current liabilities make their contribution in no less measure. This external source has been financing to the extent of 29.7 per cent the gross assets formation of the small-scale units.

Among the small-scale sector units, it is found that relatively smaller units have to manage larger internal funds than the bigger small-scale enterprises. In other words, the size of small unit is an important determinant of demand for funds. The smaller units need less external finance than the large-size small-scale units. The reasons are not far to seek. The relatively smaller units have their special difficulties. In the first place, a relatively small firm may not be able to demonstrate its chances of success in order to persuade potential lenders; in the second place, the existing lending and financing institutions do not cater for the special problems involved in small business finance, and, in the
third place, the smaller entrepreneurs may not know from where to get money.

Table 2 below compares the financial structure of the smaller units according to size. It brings out clearly the influence of size of the small unit on the demand for funds:

**TABLE 2**

<table>
<thead>
<tr>
<th>SOURCES OF FUNDS</th>
<th>ORIGINAL VALUE OF PLANT &amp; MACHINERY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Upto Rs. 1 Lakh</td>
</tr>
<tr>
<td>I. INTERNAL SOURCES:</td>
<td></td>
</tr>
<tr>
<td>(a) Capital and Reserves</td>
<td>42.5</td>
</tr>
<tr>
<td>(b) Provisions</td>
<td>26.3</td>
</tr>
<tr>
<td>II. EXTERNAL SOURCES:</td>
<td></td>
</tr>
<tr>
<td>(a) Borrowings (including deposits)</td>
<td>16.2</td>
</tr>
<tr>
<td>(b) Trade Dues and Other Liabilities</td>
<td>57.5</td>
</tr>
<tr>
<td>(c) Miscellaneous Non-current Liabilities</td>
<td>31.5</td>
</tr>
<tr>
<td></td>
<td>25.5</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**SOURCE:** Report of the Working Group on Small-scale Industries, Planning Commission, Govt. of India, New Delhi, RBI, Bulletin, April, 1983.
It may be observed from the table-2 that internal resources are relatively much smaller in the case of larger units (i.e. those with investment in plant and machinery of above Rs. one lakh). Internal sources accounted for only 27.8 per cent of total funds for the large-size small scale units as against 42.5 per cent in the case of smaller units. Reflecting this, the demand for external finance of large units is much higher at 72.2 per cent as against 57.5 per cent in the case of small size units. Among the sources of external finance, borrowings of the larger units were higher at 39.4 per cent than 31.5 per cent for the smaller units. Similarly, trade dues and other current liabilities were also higher for the larger units at 31.8 per cent than 25.5 per cent for the small size units.

The nexus between the size and the content of internal and external funds component in the capital structure of small scale concerns is also reflected from the ownership pattern of the small-scale industrial sector. It is not only the size of small business organisation that makes difference in the dependence and demand for external funds.
The ownership pattern inter-se the small sector also exerts its influence upon the capital structure of smaller units. The sole-proprietary small business has to rely on the internal funds larger than the partnership firm or small business organised in the form of private limited companies. Likewise, a partnership firm has to generate more internal funds as compared to private limited company. Consequently, the demand for external funds is proportionately affected and it is higher for private limited companies in relation to a firm, and for a partnership in comparison to sole proprietorship. This will be borne out from the following Table-3:

Table-3 clearly reflects the different patterns of financing as emerge from the influence of ownership of the small business. The sole-proprietary concerns meet two-fifth or 40 per cent of their financial requirements through internal sources comprising capital and provisions. Their demand for external funds is for three-fifth or 59.6 per cent of their total financial requirements. As the ownership changes, the pattern of financing
TABLE - 3
SOURCES OF FUNDS OF SMALL SCALE UNITS CLASSIFIED ACCORDING TO TYPE OF OWNERSHIP

<table>
<thead>
<tr>
<th>OWNERSHIP PATTERN</th>
<th>SOURCES OF FUNDS</th>
<th>Proprietor</th>
<th>Partnership</th>
<th>Private Ltd. Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I. INTERNAL SOURCES:</td>
<td>40.4</td>
<td>35.0</td>
<td>25.8</td>
</tr>
<tr>
<td></td>
<td>(a) Capital and Reserves</td>
<td>10.3</td>
<td>25.9</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>(b) Provisions</td>
<td>30.1</td>
<td>9.1</td>
<td>21.8</td>
</tr>
<tr>
<td>II. EXTERNAL SOURCES:</td>
<td>59.6</td>
<td>65.0</td>
<td>74.2</td>
<td></td>
</tr>
<tr>
<td></td>
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gross assets formation undergoes a change too.
The partnership firms provide approximately one-third or 35 per cent of the funds from the internal sources and seek the balance two-thirds or 65 per cent from external sources. Accordingly, their
demand for external funds is higher than that of the proprietary concerns. Small business organised in the form of private limited company has still higher demand for external funds, for its internal source of finance accounts for only one-fourth or 25.8 per cent of the total financial requirements. Private limited companies have to seek three-fourth or 75 per cent of the total funds for their assets formation from outside agencies as against 59.6 per cent by the sole proprietary concerns, and 65 per cent by the partnership firms. Thus, as the ownership pattern changes, the demand for external funds is also affected in the small-scale industrial sector.

The foregoing macro analysis of demand for funds of the small-scale sector is representative of the demand for funds of smaller units in the country. This pattern of demand can be equally applied to industrial units in the small-scale sector in any part of the country. The small enterprises of Delhi also fall in line with the general pattern of demand for funds. The measure of demand as inferred from the above analysis also represents
the consolidated demand for funds of smaller concerns in Delhi. Though the discussion shows that the actual need for external funds shall be influenced by the size of small business as well as by the type of organisation, yet the variations when straightened out average to a proportion of 3:7 between internal financing and the external financing, the latter constituting the demand for funds from the small-scale sector. This pattern of requirements for funds as obtaining on all-India level for the small-scale sector, in general, can be equally applied to small scale units of Delhi, for these units also form a part of the survey conducted by the Working Group on Small-Scale Industries, Planning Commission, Government of India. The Delhi small-scale sector, accordingly, needs external finance to the extent of 70 per cent of their total financial requirements and this constitutes its demand for funds.

In relation to this demand for finance, the small-scale industries of Delhi tap outside sources of finance more particularly the institutional finance which is comparatively cheaper than any other
type of credit available to them. The supply position of finance is discussed in the following Section-II.

SECTION - II

SOURCES OF FUNDS AND SUPPLY OF FINANCE TO SMALL SCALE INDUSTRIES OF DELHI

The demand for funds as emerging from the foregoing analysis is met by the small units of Delhi through different sources. These consist of internal sources, viz. the owners' funds and retained earnings in the form of provision; and external sources, viz. financial assistance from both institutional and non-institutional agencies. Inter-business debtors and creditors accounts, i.e. Trade Dues and Miscellaneous Current Liabilities also serve as a significant source of finance to the smaller units. As this study is concerned with supply of institutional finance to small scale units of Delhi, the institutional agencies which operate in Delhi and provide institutional funds to small
enterprises in Delhi are specially traced out and elaborately discussed in the following paragraphs.

**SOURCES OF INSTITUTIONAL FINANCE FOR SMALL SCALE UNITS IN DELHI**

The sources of institutional finance for small industrial concerns in Delhi are numerous and varied. Delhi being the capital of the country and a metropolitan city, a band of financial institutions has been functioning which extend financial assistance to different sectors of economy including the small-scale sector. Some of these agencies are local in character which have been set up by Delhi Administration and exclusively cater for the financial needs of smaller units located in the territory of Delhi. Other institutions are of national level operating with a network of their branches set up in Delhi and supply loanable funds to small business enterprises of Delhi. Besides, some of the financial institutions extend only long-term financial assistance while others provide short-term credit to these units. Thus, the capital and money market for the small scale units of Delhi consist of the following institutions:
1. Scheduled commercial banks.
2. Delhi Financial Corporation.
3. Delhi Industrial Cooperative Bank.
4. Delhi Khadi and Village Industries (Central Level)
5. Directorate of Industries (State Level)
6. National Small Industries Corporation (State Level)
7. Reserve Bank of India
8. World Bank
9. Life Insurance Corporation of India
10. Indigenous Bankers and money-lenders.

SCHEDULED COMMERCIAL BANKS:

One of the main sources of short-term loan is the scheduled commercial banks. Commercial banks credit is for short period of time (less than one year) but many banks also lend money for longer periods (generally 2 to 5 years). After nationalisation in 1969, banks have entered in the field of providing financial facilities to the small-scale industries of Delhi in a big way.

Scheduled commercial banks, i.e. the State Bank of India and its subsidiaries, 20 nationalised banks, other non-nationalised banks and foreign banks provide loans to small-scale industries of Delhi.
DELHI FINANCIAL CORPORATION:

Delhi Financial Corporation was established in April, 1967, for meeting long-term credit needs of medium and small-scale industries in the Union Territories of Delhi and Chandigarh. The Corporation provides the following three types of assistance to small industries of Delhi:
(a) Short-term loans (for periods ranging for 1 year to 5 years)
(b) Medium-term loans (for periods ranging from 6 years to 10 years)
(c) Long-term loans (for periods ranging from 11 years to 15 years)

The Corporation acts as an agency of the Delhi Administration for sanctioning and disbursing loans to small-scale industries under the State Aid to Industries Act. It also advances IDA (International Development Authority) credit for assisting small and medium scale industries. No single unit can get loan higher than 10 per cent of the paid up capital of the Delhi Financial Corporation or Rs. 10 lakhs whichever is less.
DELI.HI INDUSTRIAL COOPERATIVE BANK:

It is a potential source of credit to small-scale units. Such banks can finance individual enterprises as well as industrial cooperatives. The urban cooperative banks can assist individuals while the central and State cooperative banks can assist industrial cooperative societies.

Delhi State Cooperative Bank provides much finance to small-scale cottage industries. There are several Boards which assist the formation of cooperative societies and these Boards also provide long-term and short-term finance in their respective fields.

DELI.HI KHADI AND VILLAGE INDUSTRIES BOARD:

The Khadi and Village Industries Commission (KVIC) is a statutory organisation established under the Khadi and Village Industries Commission. It started functioning from 1st April, 1975. KVIC extends assistance in various forms to village and cottage industries.

Delhi Khadi and Village Industries Board (DKVIB) provides multi-purpose financial assistance for
construction of small worksheds and buildings, purchase of equipment, machinery and raw materials. Loans are granted at concessional rate of interest of 4 per cent. Moratorium period for repayment of loans is two years in respect of loans for capital expenditure, machinery and building and three years in respect of repayment of working capital in annual instalments. The borrowers is also exempted from furnishing Laldora Certificate or Municipal Corporation Licence, as the case may be, for financial assistance up to Rs. 5,000. Stipendiary courses are arranged to impart training in various village industries in Delhi or outside in collaboration with the Khadi Commission. Free technical guidance is also imparted in the setting up of industrial units. Since DKVIB is not a commercial institution but a development organisation, it does not have its own built-up resources.

THE NATIONAL SMALL INDUSTRIES CORPORATION LTD.

National Small Industries Corporation (NSIC) provides long-term finance to small and tiny industries. The Corporation lends support to small scale industries in different areas such as supply
of machinery on hire-purchase basis to existing as well as prospective units. Special concessional terms have been introduced for units in backward areas and also for those promoted by entrepreneurs from weaker sections of the society.

The NSIC has adopted a 'single-window' assistance approach for export products of small scale industries of Delhi. The Corporation also participates in international trade fairs. Products of small-scale industries are displayed for building up their image as a result of which bulk export orders are obtained.

For the supply and distribution of indigenous and imported raw materials and spare parts, NSIC is acting as the agent of the small units. The Corporation renders assistance by making payment for allotted quantity and delivery of the material on 'off-the-shelf' basis as per the requirements of the units.

FINANCING BY STATE LEVEL INSTITUTIONS:

The various State Governments render financial assistance to small-scale sector, under the State Aid to Industries Act. The Directorate of Industries
of Delhi Administration provides long-term loans to small-scale units of Delhi. The D.O.I's advance block loans to small-scale units up to Rs. 10,000 at a very low rate of interest i.e. 10.75 per cent. The principal is recovered with interest in 10 equal annual instalments.

There is a scheme for grant of interest subsidy to engineering entrepreneurs with the maximum of Rs. 20,000 for a period of 3 years. The quantum of subsidy is the differential between 7 per cent and the normal rate of interest charged by the financing institutions. Subsidies are also granted on rent for flats for leather goods at Wazirpur to the persons belonging to scheduled castes and scheduled tribes under a special component plan.

RESERVE BANK OF INDIA:

The Reserve Bank of India comes to the financial aid of smaller units in an indirect manner with a view to fill the gap, as far as possible, in the supply of finance to small industrial sector. The Reserve Bank of India subscribes to the share capital of other financial institutions extending credit to industries. It also accommodates these institutions
through its refinancing facilities. Besides, the Reserve Bank of India is running a number of schemes for the financial benefit of industrial sector. Important amongst them is the Credit Guarantee Scheme for small-scale industries introduced in 1960. This scheme has been amended from time to time in order to increase the benefits which it may offer to industries. A new scheme came into force on 1st April, 1981, which has been termed as the "appointed date" scheme. With its introduction, the government's Credit Guarantee Scheme for small-scale industries stood cancelled as from March 31, 1981.

The objectives of grant of financial facilities to firms eligible for guarantee cover have been spelt in the scheme. In broad terms, they relate to the acquisition of spares, replacement of fixed assets or equipment like land, building, machinery, furniture and fixtures, vehicles and for working capital requirements, for both production and marketing the products.

The Reserve Bank of India charges guarantee fee under its new scheme at 1½ per cent, credit limit
not exceeding Rs. 25,000 and the rate of three-fourth of one per cent on the amount outstanding on account of the eligible credit facilities provided to borrowers.

**WORLD BANK LOANS TO SMALL-SCALE INDUSTRIES:**

The International Development Agency (IDA) has made available to the Government of India credit in various currencies to the tune of U.S. $ 25 millions. An equivalent of this amount in Indian currency has been placed at the disposal of the Industrial Development Bank of India (IDBI) for refinancing loans disbursed by the Delhi Financial Corporation.

One of the important features of this scheme is the availability of import licence for capital goods. Small units become eligible for foreign exchange under this scheme. The small entrepreneurs get their import applications sponsored through the Chief Controller of Imports and Exports. The extent of IDBI's refinance would be either 80 per cent or 100 per cent of the composite loan, i.e. rupee and foreign currency loan, depending on the size of the industrial unit, location and the quantum of assistance required.
The Delhi Financial Corporation has been granting World Bank Loans for different schemes such as those for ex-servicemen entrepreneurs, scheduled castes and scheduled tribes, technical entrepreneurs and tiny units.

**LIFE INSURANCE CORPORATION:**

Life Insurance Corporation of India (LIC) is not an important source of long-term finance for small-scale units. The LIC provides directly long and short-term finance for large corporate sector. It helps small and medium scale industries indirectly by granting assistance to other institutions for setting up industrial estates for the small entrepreneurs. The Union Territory of Delhi receives this type of assistance from the LIC for its small sector units.

**GOVERNMENT SUBSIDIES AND CONcessions:**

Subsidies and concessions are granted by the government with a view to promoting the growth of industries, especially small scale industries and those in backward areas. The Government of India introduced a cash subsidy scheme in 1971 under which 15 per cent subsidy on fixed capital investment is granted to those units whose capital investment is
below Rs. 1 crores. The payment of subsidy is made to an enterprise when it goes into production.

**INDIGENEOUS BANKERS AND MONEY LENDERS:**

Indigenous bankers and money lenders are very small in number in Delhi. In 1971, their total was 100 which included indigenous bankers and money-lenders both.² They are notorious for several malpractices. They charged very exorbitant interest rates. But now their activities are subject to several restrictions and formalities imposed by the Reserve Bank of India which is exercising indirect control over the business of indigenous bankers through the mediation of commercial banks by laying down guidelines for their dealings with indigenous banks. The role of these bankers and money-lenders is negligible now in the developed capital market of Delhi.

**SOURCES OF INTERNAL FINANCING:**

Besides the above sources of external finance, the small undertakings of Delhi finance a part of their requirements from internal sources too. The self-financing sources employed by these units consist

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of the following:

PERSONAL SAVINGS:

Personal savings constitute an important source of investment in small-scale industries. The benefit of using this money is that no interest has to be paid for it. This type of money is not just money that has accumulated in a savings account. It consists of every thing of value that an individual possesses. The potential entrepreneur may therefore think it preferable to take out a mortgage on personal property. It is one of the methods for obtaining loan, using the property as security.

DEPRECIATION:

Depreciation means spreading of cost of fixed assets over its useful life. Depreciation is notionally a sum which a business concern should put aside from a year's trading in order to maintain its fixed assets. Depreciation recoveries cannot contribute in the long run to a firm's growth. They are destined eventually to replace the firm's fixed assets. But in the short-run depreciation fund is the most flexible source of spending money at the discretion
of the entrepreneurs. However, depreciation is an encumbered source of internal financing. It is a source of internal funds only in respect of the capital allowances permitted on specific types of assets. This amount may be used as long-term and short-term finance of the small-scale units up to the period of the replacement of the tangible assets. It is a significant source of gross savings in small firms. Further, it enables a small firm to keep some of its profits for internal use of the business.

**PLoughing Back of Profits:**

It is the most suitable method of self-financing the fixed and working capital requirements of the enterprise. It is a financial tool with which a part of profit is transferred to reserved accounts and the latter can be used for expansion and improvement of the small-scale unit. The entrepreneur can fall back upon his own resources in times of emergency. An enterprise enjoys good reputation and credit in the market. If his firm has enough retained earnings which means that its reserve position is sound.
TRADE CREDIT

Trade credit is credit granted by one firm to another. It is actually the accommodation of time given for making payments against inter-business transactions. Increase in trade credit is a more important source of capital than is generally recognised. Small and rapidly growing firms are on the whole more likely to be receivers of credit than larger firms. At any time, trade credit appears to represent nearly 20 per cent of net assets and while this denotes valuable savings of working capital, it contributes much to the financing of further investment.

It is important source of short-term financing which is very common to scales of production. It has some merits. Availability of credit is very elastic and flexible. The attitude of business firms is not as rigid as that of banker or money lenders. It is also comparatively more economical as the rate of interest is minimal and even not applicable in mutual transactions of business enterprises.
QUANTIFICATION OF THE SUPPLY OF FUNDS:

The small units of Delhi have been employing both the external sources as well as internal sources of funds, as discussed above, for financing their capital and credit requirements which have been measured in previous Section-1. A quantitative analysis of the supply of funds would reflect the extent of contribution of internal and external sources of finance in satisfying the total demand for funds of these units. No published data is, however, available in a consolidated form relating to the supply of funds to the small-sector of Delhi as a whole which could have reflected the pattern of financing capital and assets formation of these units. To overcome this handicap and to enable this study to authentically pursue the analysis of its problem, fresh ground had to be broken to secure the relevant statistics on the aspect of supply of finance to small-scale units. The author conducted a survey personally to obtain the figures of supply of funds from various sources to these units. A group of 22 small units, at random, was selected
for the survey. The group consists of all sizes of small enterprises of Delhi and is representative of the small-sector units of the Union territory. The survey identified the different sources of finance and noted from the financial records of the 22 units the quantum of assistance supplied by each source/agency to the smaller enterprises of Delhi. The details of the survey are set out in Table-4 below (next page). Secrecy is, however, maintained about the names of enterprises as desired by the owners.

Table-4 presents the position of supply of funds from internal and external sources of finance. It also computes the quantum of funds procured from different agencies by the small-scale units of Delhi. The data reflects that in the internal finance the prominent source is the owner's capital which accounts for a huge chunk of the total supply of funds to small industries of Delhi. Excepting a couple of units, owned capital, though varies in proportion, ranges between 50 and 80 per cent in majority of units. Among the external sources of finance, institutional finance turns out to be the
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**SOURCE:** Compiled by the author on the basis of the survey personally conducted of a representative group of 22 small units of Delhi selected at random for ascertaining their sources of finance.

**NOTE:** Figures in brackets show percentage to total.
significant source. The institutional suppliers consist of the Delhi Financial Corporation, the National Small Industries Corporation, Commercial and cooperative banks. Excepting the commercial banks which have supplied long-term and short-term finance, the other institutions have provided only long-term finance. The source-wise break-up of long-term finance shows that Delhi Financial Corporation (DFC) has contributed biggest dose of finance. Its financial assistance in the total capital of the units under survey is 11.31 per cent as against 4.34 per cent against National Small Industries Corporation, 3.00 per cent from commercial banks, 2.02 per cent from friends and relatives and 0.10 per cent from cooperative societies. The source-wise break-up of short-term finance reveals that the commercial banks have provided the bulk of short-term finance i.e. about 10.05 per cent of total capital. The non-institutional source of supply is the financial accommodation given by the friends and relatives.

A purposeful and more clear assessment of various sources of supply of funds is obtained when variations in individual cases are straightened out
by averaging the percentage contributions made by each source in financing the total requirements of funds of small industries of Delhi. The picture then emerges as shown in Table-5 below:

**TABLE - 5**

PERCENTAGE DISTRIBUTION OF FUNDS SUPPLIED BY DIFFERENT SOURCES TO SMALL UNITS OF DELHI

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<tr>
<th>SOURCE OF FUNDS</th>
<th>AMOUNT (in %age)</th>
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<tr>
<td>Owned capital</td>
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<td>II. EXTERNAL:</td>
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<tr>
<td>Borrowings</td>
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<td>of which:</td>
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<td>(a) Institutional</td>
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<td>(b) Non-Institutional</td>
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<td>TOTAL:</td>
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**SOURCE:** Computed by the author from the data in Table-4.

Table-5 above presents the percentage distribution of funds supplied by different sources to small industries of Delhi. The analysis reflects that the contents of internal source in the supply
of funds is 69 per cent. Funds procured from external source constitute 31 per cent. Borrowals are the main external source of finance. In the total borrowals, the supply of institutional finance accounts for 29 per cent while non-institutional credit constitutes only 2 per cent. Thus, in the supply of funds the internal provisions play a vital role in the case of small units of Delhi. The small entrepreneur has to meet a substantial part of total requirements of business from his own resources.

It can be easily concluded, therefore, that the small-scale units of Delhi do not depend much on institutional finance. Rather, they mostly run their units with their own capital. The apparent reasons for the lack of institutional support for finance are two-fold. The financial institutions because of the nature of their liabilities which create loanable funds for them, observe the yardstick of security, return and liquidity in granting loans and advances to industry. The small units grossly fall short in satisfying these expectations.
of the institutional lenders. There is no certainty of the continuance of small business, their securities are not listed in the stock exchange and, hence, lack marketability, and the small units have low profit margins which can not allow expected return to institutional lenders. The other obvious reason is the tortuous procedure laid down by the institutional lenders for sanctioning financial assistance to small sector units. The small entrepreneur, mostly literate or illiterate as he is, does not find it convenient to carry out lengthy trail of official red-tapism to secure a loan. The time and cost incurred besides the harassment suffered are the deterrent factors for the small entrepreneur to heavily bank upon the financial institutions for financial support. These difficulties in securing institutional finance by the small entrepreneurs of Delhi are discussed in Section-III below.
The small entrepreneurs face a lot of problems in securing finances from financial institutions. There is no doubt that small units as compared to large units are at a considerable disadvantage in financial market. Loans are more expensive and security requirements are generally more rigid. External finance is difficult to find and that can only be obtained on relatively unfavourable terms which small firms can hardly afford. Small industrialists do not always have the same financial expertise as their competitors have. The information and advice about finance may not always be easily accessible to them from the specialised financial institutions. The cost of providing finance to small firms is higher and the risk is more difficult to assess. Moreover, the present system is not able to meet the financial needs of these industries due to the following reasons:
(1) unwillingness on the part of the borrowers to borrow from the institutional agencies and difficulties of credit development banks in lending to small units; (2) The borrowers show their unwillingness due to (a) rigidity of approach on the part of financial institutions (b) complicated nature of information required by these institutions (c) stringent requirements of security (d) technical and economic assessment of loan requests and delay in the sanction of loans.

The quantum of limits granted to units in small-scale sector should not be linked to their total means as a rigid formula but should be based on the genuine requirements of the units from the process of production up to the stage of realisation of sale proceeds from marketing of their goods. The working capital requirements of different units vary according to the nature of manufacturing and the duration of the process. It is, therefore, essential that in dealing with a loan application the official should examine the details of working of the small scale units in order to have overall picture of the
firms including the viability of the units, duration of process of manufacture, the raw material requirements, quality of products and total financial requirements.

There is a communication gap between small scale industries and specialised financial institutions. Only a few small scale units can be contacted at a short notice (as for instance by telephone) and many are not conveniently accessible even by automobiles. The personnel of financial institutions generally find new small borrowers relative unfamiliar to documentation and accounting conventions in the presentation of business plans. Small units for their part often have difficulty in conforming to bank procedures and requirements, specially when lack of proper book-keeping and record maintenance is widely prevalent in these units. Moreover, small firms are often reluctant to provide financial information to credit institutions. The small entrepreneur's fear of 'authority' often creates mutual distrust between him and the banker.

On crucial occasions, financial institutions adopt an indifferent attitude and stand responsible
for converting a healthy unit into a sick unit. Besides, loan applications remain pending for an indefinite period. The very purpose of credit is defeated when not available in time and in required amount. The cumulative effect of all this is that the units go into liquidation when timely loan at concessional interest rate is not available to them.

MAINTAINING BOOKS OF ACCOUNTS:

Small industrial units maintain their accounts according to Indian book-keeping methods through Mudims. The institutional agencies feel that books of accounts are not properly and regularly maintained by these firms. Financial institutions generally point out that this one of the reasons why they are not satisfied with their accounts. It is necessary to note that the Indian system of book-keeping should be given due recognition for all practical purposes. The bank officials do not give due attention on the information based on these books and generally their applications are rejected. Sometime the borrowers fear that if full information is supplied to specialised institutions it may indulge them into trouble, specially in income-tax matters. Financial institutions
seek reports regarding technical feasibility of small firms from two departments, i.e. Small Industry Service Institute and Directorate of Industries, Delhi Administration. Both these departments take long time, sometimes 3 to 6 months in supplying reports to financial institutions. This is one of the major causes for unnecessary delay in the sanction of loans.

LACK OF COORDINATION:

There is a greater need to establish coordination among various departments such as Directorate of Industries, State Electricity Board, Water Works, Municipalities and other agencies in charge of supplying various inputs. This lack of coordination among concerned departments has adversely affected the growth of small-scale industries in the Union Territory of Delhi. A machinery was supplied by National Small Industries Corporation but due to the absence of power connection, it could not be put into early use. A shed was allotted by Directorate of Industries but water connection was not given to the unit. It would be better to establish a separate agency for undertaking such liaison work of small
scale industries either in the department of industries or in Delhi Administration:

MANAGERIAL RIGIDITY:

In fact, no development can be possible unless there comes a change in the behaviour of bank agents because they refuse to oblige for a short period loan over and above a certain limit. They do not care to utilise the discretionary power to the benefit of small-scale industry. Inspite of wide spread publicity that integrity of the borrowers, technical soundness of the project and marketability of the product are the basic requirements for granting credit, the value of tangible security is still the main determining factor. No commercial banks ignore these points.

INTEREST RATES FOR BORROWING:

Interest rates are differentiated on a large variety of criteria such as the size of loans, maturity periods, source of funds, purpose of loans' group of sector to which the borrower belongs or region where the money is to be allocated. The rate of interest of small units is the major problem for getting loan from financial institutions. A distinction
has to be drawn between the absolute level of interest actually paid by small entrepreneurs and the relative level of interest rates charged by institutional agencies as compared to those charged to large units. The absolute level of interest paid by small firms would necessarily vary according to economic and financial conditions prevailing in an economy. Its stage of development, supply and demand condition for credit, rate of inflation and so on. Generally, the provision of adequate financing from institutional sources would help in reducing the overall cost of credit to the small entrepreneur by reducing his borrowing from non-institutional sources at a very high rate of interest.

The State Bank has adopted an interest structure for small-scale units i.e. the rate of interest rising with the increase in the size of loan while nationalised banks are still treating all types of loans at par. Thus, the small units, specially in those areas where State Bank group is not rendering its services, are in disadvantageous position. Those units have to pay higher rate of interest. The
interest rate of nationalised banks, non-nationalised banks and State Bank group should be the same so that small-scale industrial units may be equally benefitted.

CONCLUSION:

The inferences drawn in various sections of this study can be brought together to yield the final conclusion that the need for external finance of small industries of Delhi is acute and large forming about seventy per cent of their total requirements of finance. That despite the presence of a full-fledged institutional structure operating in this Union territory the small units of Delhi face problems in satisfying their demand for funds from them. Some of these problems are inherent in the characteristics of institutional loanable funds while other problems relate to cumbersome terms and conditions as well as tortuous procedures to be followed for securing the financial assistance. As a result, the supply of external funds does not conform to the requirements. Hence, the smaller units of Delhi have to fall back heavily on their own internal resources. The capital
structure of small-scale industries of Delhi has a substantially higher content of owner's equity in comparison to the external contribution evident in the pattern of financing of the small-sector industries on all-India level. The borrowals emerge as the main external source of supply of funds and a major part of these borrowals flows from the financial institutions in the form of long-term and short-term loans and advances. The prospects of development for the small industries depend largely upon the liberal flow of institutional finance which is available at concessional rate to these units and increases their profitability through its impact on cost of production. Accordingly, the next chapter is devoted to the discussion on role of institutional finance (long-term) on the growth and development of small industrial units of Delhi.
CHAPTER - IV

ROLE OF INSTITUTIONAL FINANCE (LONG-TERM) IN THE GROWTH OF SMALL SCALE INDUSTRIES OF DELHI

In the previous chapter needs and sources of finance of small-scale industries of Delhi have been discussed. The study focussed on their long-term and short-term finances. The present chapter deals with the role of institutional finance (long-term) in the growth of small-scale industries of Delhi. It traces the major financial institutions operating at the national and State levels which cater to the long-term financial needs of small-scale units of Delhi. An attempt is also made to present a descriptive and analytical view of the financial institutions of Delhi and their contribution in the demand for funds to Delhi's small scale industry.

But before proceeding to deal with the institutional finance, it is considered necessary

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to enlighten about the financial institutions, the mechanism of their operation and their position in the economic structure of a country. Accordingly, a discussion on the financial institutions follows:

**FINANCIAL INSTITUTIONS:**

A sophisticated financial system assumes special significance in the context of economic development of a nation. For, economic growth depends upon a host of factors and industrialisation is the most important amongst them. Industry, in fact, provides the vital leg on which stands the structure of economic growth. But an industrial base needs adequate supply of finance for the deficient industrial units so as to enable them to thrive and grow for the purpose of increasing the stock of capital goods and expansion of consumable output in future. Surplus financial resources of the economy must, therefore, be diverted to the deficient productive units. The main sectors in the economy which generate the financial surplus include the households, the corporations and the
government. Of these, the household sector accounts for more than 85 per cent of the total generation of surplus financial resources. But the individuals (i.e., savers) who possess the surplus funds are different from those who need their surplus resources (i.e., investors). In fact, the surplus units and the deficient units stand back to back instead of face to face. Financial institutions are positioned in between them to perform a significant function in regard to the industrial growth. These institutions bring the savers into an indirect contact through their intermediation. On the one hand, the institutions collect the scattered financial surplus from individual savers and build a pool of spare financial resources, while on the other, the institutions distribute the financial resources from this pool of funds to deficient investors for financing their productive industrial ventures.

"The transfer of real resources is made possible by a flow of funds from lenders through financial intermediaries to borrowing or deficit units. These funds
are then available to bid for resources that are released from present consumption into the output of capital goods."

INSTITUTIONAL MECHANISM:

Intermediation mechanism followed by these institutions consists of devising and offering to savers a more attractive alternative than the direct purchase of industrial securities by them. That is, by providing savers with assets that are either safer, more liquid or have a higher net return in comparison to securities of industrial borrowers. Very often the financial claims issued by the financial institutions combine more than one of the features of safety, liquidity and higher return in order to induce savers to exchange their loanable funds for claims against financial intermediaries rather than directly against the industrial borrowers' securities. Thus, in essence, the financial intermediaries buy borrowers debt and sell their own liabilities to the surplus units in exchange for loanable funds.

Intermediation function also facilitates the diversion of funds for the productive uses from the

savers to investors. Financial institutions devise lending schemes in diversified forms that suit the portfolio requirements of the lenders. They offer to the investors loans with different maturity periods, interest rates and convenient modes of repayment. Investors whose financial plans are borne out of consideration of tax obligations, net higher return and redemption of their liability find the institutional lending plans matching to their requirements of external finance. Investors are, therefore, induced to borrow from the institutions rather than making direct borrowals from the several scattered individual savers which would be a costly proposition for them.

Thus, commercial and cooperative banks, post offices, life insurance organisation, trusts, provident fund institutions, development banks, etc. are established to finance the industrial and economic development. As accumulators and purveyors of capital, these institutions form the basic structure and an elaborate system of money market for a developing country and serve as 'investment
intermediaries linking the savers and users of capital.

**STRUCTURE FOR INSTITUTIONAL FINANCE IN INDIA:**

In India, the financial institutions have been operating since prior to independence. But their functioning and role was to a limited extent during that period. After independence, the national government embarked upon vigorous programme of economic planning and an era of planned development was ushered in. The financial institutions got a filip in the post-independence period in the wake of the necessity to create resources for financing the country's five-year plans which laid special emphasis on the development of industry. Special attention was, therefore, given to devise a sophisticated financial structure to meet the growing demand for funds arising from the socio-economic and industrial change in the country. Hence, there emerged a capital market in India with a broad-based structure for industrial finance.

The existing capital market of India consists of a variegated network of financial intermediaries.
Some of the institutions cater to the financial needs of different sectors of economy in general while others have been established with a special objective to provide finance to a particular sector of the economy. Likewise, some of them function as primarily savings institutions with their liabilities forming the base for transacting financial business while others are state-owned entities with capital contribution from the State or State Government agencies. Besides, the financial structure in India has also a territorial character. Institutions have been established on all-India plane and have been functioning as a central sources of institutional finance for the whole of the Indian Union. Others have been set up on State or regional basis and their role and operations are limited to that particular region or State only. Yet others are local in character meant for a specified local area. A brief description of these institutions forming the Indian capital market is considered necessary so as to enlighten about the character, territorial operation and broad objectives of them. However, this study restricts itself to the discussion of financial
institutions concerning the industrial sector only.

**NATIONAL LEVEL INSTITUTIONS:**

The Industrial Finance Corporation of India (IFC) was the first of its kind which was set up in 1948 to provide medium and long-term credit to industries. This was followed by the establishment under an Act of Parliament, of the National Industrial Development Corporation which was set up in 1954 for assisting the growth of industries.

As a matter of policy, these institutions provided only loan capital in the initial years. Later, a need was felt for an institution which may be in a position to supply risk capital and to underwrite issues of industrial units. Accordingly, the Industrial Credit and Investment Corporation of India Limited (ICICI) was established as a private limited concern under the aegis of the World Bank.

In view of the need to develop small industrial undertakings, the National Small Industries Corporation Limited was set up in 1955. The next development institution to be set up in 1958 was the Refinance
Corporation for industry, with the objective for extending refinance facilities to banks which provided medium-term loans to industry.

This institutional framework was considered satisfactory for some years but in relation to the investment needs of the economy in the context of rapid economic development under a planned programme, the contribution from these institutions appeared to be insufficient both in magnitude and range of financing. It was against this background that the Industrial Development Bank of India (IDBI) was set up in July 1964 as an apex institution to coordinate the activities of other industrial finance institutions and banks, to supplement their resources and to provide direct financial assistance to industrial projects involving large outlays and long gestation periods.

While the I.F.C.I. and I.C.I.C.I provide both foreign and rupee assistance, the other institutions including the I.D.B.I. grant rupee credit only.

2. Later, it was merged with the IDBI on Sept. 1, 1964.
Assistance from these institutions has been largely available to the private sector industries.

**STATE LEVEL INSTITUTIONS:**

State governments have also set up specialised institutions to help promote industries in the State. These institutions not only extend financial assistance but also provide technical knowhow and expertise to the units operating in the State. The most significant among the State institutions are the State Financial Corporations (SFCs) established under the State Financial Corporation Act of 1951. The SFCs provide rupee credit to the medium and small industries in the State.

The State Governments have also set up State Industrial Development Corporation (SIDCs) to look after the promotional aspect of industrial development in their respective States.

**LOCAL LEVEL INSTITUTIONS:**

As government agencies, institutions have also been established to cater to the demand for finance
of a particular territory. Delhi Finance Corporation, in the context of this study, is one of the institutions of this category. It was set up in 1967. The Corporation's operational jurisdiction extend to the territories of Delhi and Chandigarh. It extends financial and technical assistance to industrial units within these two union territories. The Corporation grants term-assistance specially to medium and small-scale undertakings located or to be located within its area of jurisdiction.

Besides, Department of Industries are the other local level institutions. Their territorial area is a district and they take care of the developmental needs of the units within their respective districts. Industries Departments extend credit as well as technological assistance to small and cottage as well as cooperative industrial units in the district.

The above discussion brings to fore that India has a fairly developed infra as well as super structure for institutional finance. There exists a capital market with a network of financial
institutions for providing funds on territorial as well as sectoral basis for the development and growth of economy.

INSTITUTIONAL FRAMEWORK FOR THE INDUSTRIAL DEVELOPMENT OF DELHI:

The demand for funds of industrial sector of Delhi is, accordingly, financed by the national level institutions, in general, and by territorial institutions in particular. The national level institutions financing the investment demand of Delhi's industrial sector include the Life Insurance Corporation of India, the National Small Industries Corporation and the Commercial banks. The territorial institutions that especially cater to the demand for funds of Delhi's industrial units consist of the Delhi Financial Corporation and the Delhi Directorate of Industries.

FLOW OF INSTITUTIONAL FUNDS TO INDUSTRIAL SECTOR OF DELHI:

Institutional funds flow to the industrial units of Delhi from both the national level institutions as well as the territorial institutions.
However, these institutions extend only long-term finance to investors in Delhi excepting the scheduled commercial banks. Moreover, institutional finance is provided by these institutions to all forms of business entities including the small-scale units. The quantum of flow of funds from each of these institutions to industrial sector of Delhi is measured below. The analysis is confined to the 10-year period of this study from 1975-76 to 1984-85. In the ultimate, an assessment is attempted of the contribution the institutional finance has made in promoting the development of small industrial units of Delhi.

**LIFE INSURANCE CORPORATION OF INDIA:**

The Life Insurance Corporation is one of the largest financial intermediaries in the country. The Corporation belongs to the category of saving institutions whose loanable funds are made up of premia income through sale of life policies. The volume of Corporation’s loanable funds has considerably grown over the course of the decade under study. This will be borne out from the following Table-1
which presents the aggregate financial flows from the Life Insurance Corporation through the period 1975-76 to 1984-85:

**TABLE -1**

GROWTH IN THE AGGREGATE LOANABLE FUNDS OF LIFE INSURANCE CORPORATION (1975-76 to 1984-85)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Loanable Funds (Rs. in Lakhs)</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>25566.41</td>
<td>100.0</td>
</tr>
<tr>
<td>1976-77</td>
<td>27476.52</td>
<td>107.4</td>
</tr>
<tr>
<td>1977-78</td>
<td>28882.91</td>
<td>112.9</td>
</tr>
<tr>
<td>1978-79</td>
<td>29669.75</td>
<td>116.0</td>
</tr>
<tr>
<td>1979-80</td>
<td>31476.55</td>
<td>123.1</td>
</tr>
<tr>
<td>1980-81</td>
<td>22912.33</td>
<td>89.62</td>
</tr>
<tr>
<td>1981-82</td>
<td>36035.46</td>
<td>140.9</td>
</tr>
<tr>
<td>1982-83</td>
<td>39662.18</td>
<td>155.1</td>
</tr>
<tr>
<td>1982-84</td>
<td>46675.18</td>
<td>182.5</td>
</tr>
<tr>
<td>1984-85</td>
<td>56653.56</td>
<td>222.5</td>
</tr>
</tbody>
</table>


The above Table-1 reveals that the volume of loanable funds with the Corporation registered a
consistent growth over the decade except in the year 1980-81 when there was a marginal drop in the size of total credit in comparison to previous year. The aggregate loanable funds which amounted to Rs. 255.6 crores in 1975-76 rose to Rs. 566.53 crores at the end of the decade in 1984-85. This shows a more than two-fold rise in the volume of loanable funds of the Corporation.

The increases in the size of loanable funds of the Corporation emphasize the significance of its role as purveyor of institutional funds. The Corporation being the central source of institutional finance caters to the demand for funds of all regions and States across the country. The Union territory of Delhi also finds place as one of the recipients of finance from the Corporation. The share of Delhi in the total volume of loanable funds of the Corporation is measured below in Table-2.

Table-2 brings out the net outflows to Delhi from the Life Insurance Corporation's investment funds. The data reveals that the Corporation's investments in Delhi multiplied two-and-a-half
TABLE 2
SHARE OF DELHI IN THE AGGREGATE LOANS OF THE LIFE INSURANCE CORPORATION
(1975-76 to 1984-85)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Loanable Funds</th>
<th>Share of Delhi</th>
<th>%age of Delhi to India(Col.3 to 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>25566.41</td>
<td>387.82</td>
<td>1.51</td>
</tr>
<tr>
<td>1976-77</td>
<td>27476.52</td>
<td>361.83</td>
<td>1.31</td>
</tr>
<tr>
<td>1977-78</td>
<td>28882.91</td>
<td>569.44</td>
<td>1.97</td>
</tr>
<tr>
<td>1978-79</td>
<td>29669.75</td>
<td>553.34</td>
<td>1.86</td>
</tr>
<tr>
<td>1979-80</td>
<td>31476.55</td>
<td>552.81</td>
<td>1.75</td>
</tr>
<tr>
<td>1980-81</td>
<td>22912.33</td>
<td>600.82</td>
<td>2.62</td>
</tr>
<tr>
<td>1981-82</td>
<td>36035.46</td>
<td>722.90</td>
<td>2.00</td>
</tr>
<tr>
<td>1982-83</td>
<td>39662.18</td>
<td>685.02</td>
<td>1.72</td>
</tr>
<tr>
<td>1983-84</td>
<td>46675.18</td>
<td>663.99</td>
<td>1.42</td>
</tr>
<tr>
<td>1984-85</td>
<td>56653.56</td>
<td>916.15</td>
<td>1.61</td>
</tr>
</tbody>
</table>


times over the years of a decade of this study.
The share of Delhi, in absolute terms, which stood at Rs. 387.82 lakhs in 1975-76 rose to Rs. 916.15 lakhs in 1984-85. However, the funds flows to Delhi as percentage to aggregate loanable funds of the
Corporation don't show any striking favourable change. The percentage share of Delhi is marked with a fluctuating trend. There have been marginal increases in a couple of years but the overall trend during the course of the decade has not been encouraging. The share of Delhi in total investment of Life Insurance Corporation constituted 1.51 per cent in 1975-76. It rose to 2.62 per cent in 1980-81. In the later years it declined to 1.42 per cent in 1983-84. At the end of the decade in 1984-85, Delhi's share was marginally higher at 1.61 per cent as compared to 1.51 per cent in 1975-76, the beginning of the decade.

An analysis of the yearly net percentage changes in the share of Delhi makes more clear the assessment of Life Insurance Corporation's role in providing institutional finance to Delhi. Table-3 below tabulates the net annual increase/decrease in the outflows of funds to Delhi from the Corporation's loanable pool of funds.

The net percentage changes in Table-3 reveal that the allocation of funds to Delhi by the Life
### TABLE - 3

**NET ANNUAL PERCENTAGE CHANGES IN THE LIC's CONTRIBUTION OF INVESTMENT FUNDS TO DELHI**

<table>
<thead>
<tr>
<th>Year</th>
<th>Delhi's Share in LIC's Loanable Funds (Rs. in Lakhs)</th>
<th>Net Yearly Increases (+)/Decreases (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>387.86</td>
<td>-</td>
</tr>
<tr>
<td>1976-77</td>
<td>361.83</td>
<td>- 6.71</td>
</tr>
<tr>
<td>1977-78</td>
<td>569.44</td>
<td>+57.37</td>
</tr>
<tr>
<td>1978-79</td>
<td>553.34</td>
<td>- 2.82</td>
</tr>
<tr>
<td>1979-80</td>
<td>552.81</td>
<td>- 0.09</td>
</tr>
<tr>
<td>1980-81</td>
<td>600.82</td>
<td>+ 8.68</td>
</tr>
<tr>
<td>1981-82</td>
<td>722.90</td>
<td>+20.32</td>
</tr>
<tr>
<td>1982-83</td>
<td>685.02</td>
<td>- 5.24</td>
</tr>
<tr>
<td>1983-84</td>
<td>663.99</td>
<td>- 3.06</td>
</tr>
<tr>
<td>1984-85</td>
<td>916.15</td>
<td>+37.97</td>
</tr>
</tbody>
</table>

Source: Compiled on the basis of previous Table-2

Insurance Corporation are marked with declining trend. In quite a number of years there have, in fact, been net decreases indicating lower allocations of funds in absolute rupee-term also. Barring the year 1977-78 when the investment allocations for
Delhi saw an unprecedented net increase of 57.3 per cent over the previous year; the percentage changes in allocation in the subsequent years have declined. In 1978-79 and 1979-80, there were net decreases in the allocation of funds by 2.82 and 0.09 per cent respectively. Delhi's share further shrunk in 1982-83 and 1983-84 when the net decreases in the yearly allocation of funds were of the order of 5.24 and 3.06 per cent respectively. In the years 1980-81 and 1981-82 there were marginal increases of 8.68 per cent and 20.3 per cent respectively in the annual investment allocations. In 1984-85, the net increase in financial assistance was 37.9 per cent over previous year, but it was lower as compared to 57.3 per cent in 1977-78.

Thus, the quantum of Life Insurance Corporation's institutional funds for investment in Delhi has been on a low key. Corporation's financial assistance to industrial sector of Delhi has not grown proportionately to the more than two-and-a-half times growth in the Corporation's lendable funds over the course of the decade under study. The yearly
net increases in allocations of Corporation's funds to Delhi have maintained an overall downward trend.

It is interesting to note that amongst the industrial units most favoured by the Corporation for financial assistance are the medium scale units. This is borne out from the following Table-4 which presents industry-wise break-up of the quantum of funds deployed by the Corporation in the Union territory of Delhi.

Table-4 (next page) shows that the Corporation extends financial assistance in Delhi to a selected batch of industries, viz. cotton textiles, electrical goods, tobacco, food and drinks and paper boards. The first belongs to Delhi's medium industries group while the rest fall under the category of small scale sector. The data indicates that of the total institutional finance flowing from the Corporation, the bulk goes to the cotton textile industry. The share of this industry ranges between 65 to 75 per cent throughout the decade of this study. The remaining 30 per cent approximately is shared by the industrial
<table>
<thead>
<tr>
<th>YEAR</th>
<th>Banks</th>
<th>Cotton Textile</th>
<th>Electrical Goods</th>
<th>Engineering</th>
<th>Food, Drinks and Tobacco</th>
<th>Paper Boards</th>
<th>Miscellaneous</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>0.30</td>
<td>215.00</td>
<td>41.41</td>
<td>103.58</td>
<td>20.03</td>
<td>-</td>
<td>7.54</td>
<td>387.86</td>
</tr>
<tr>
<td></td>
<td>(0.07)</td>
<td>(55.43)</td>
<td>(10.67)</td>
<td>(26.70)</td>
<td>(5.16)</td>
<td>-</td>
<td>(1.94)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1976-77</td>
<td>0.69</td>
<td>188.04</td>
<td>41.41</td>
<td>103.76</td>
<td>20.03</td>
<td>-</td>
<td>7.54</td>
<td>361.83</td>
</tr>
<tr>
<td></td>
<td>(0.19)</td>
<td>(51.96)</td>
<td>(11.44)</td>
<td>(28.67)</td>
<td>(5.53)</td>
<td>-</td>
<td>(2.08)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1977-78</td>
<td>0.69</td>
<td>396.01</td>
<td>41.41</td>
<td>103.76</td>
<td>20.03</td>
<td>-</td>
<td>7.54</td>
<td>569.44</td>
</tr>
<tr>
<td></td>
<td>(0.12)</td>
<td>(69.54)</td>
<td>(7.27)</td>
<td>(18.22)</td>
<td>(3.51)</td>
<td>-</td>
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<td>(100.0)</td>
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<td>1978-79</td>
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<td>372.62</td>
<td>41.40</td>
<td>103.76</td>
<td>27.33</td>
<td>-</td>
<td>7.54</td>
<td>553.34</td>
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<td>(67.35)</td>
<td>(7.48)</td>
<td>(18.75)</td>
<td>(4.93)</td>
<td>-</td>
<td>(1.36)</td>
<td>(100.0)</td>
</tr>
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<td>1979-80</td>
<td>0.69</td>
<td>386.30</td>
<td>41.40</td>
<td>101.32</td>
<td>15.56</td>
<td>-</td>
<td>7.54</td>
<td>552.81</td>
</tr>
<tr>
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<td>(0.12)</td>
<td>(69.87)</td>
<td>(7.48)</td>
<td>(18.32)</td>
<td>(2.81)</td>
<td>-</td>
<td>(1.36)</td>
<td>(100.0)</td>
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<tr>
<td>1980-81</td>
<td>0.69</td>
<td>434.24</td>
<td>41.40</td>
<td>101.39</td>
<td>15.56</td>
<td>-</td>
<td>7.54</td>
<td>600.82</td>
</tr>
<tr>
<td></td>
<td>(0.11)</td>
<td>(72.27)</td>
<td>(6.84)</td>
<td>(16.78)</td>
<td>(2.58)</td>
<td>-</td>
<td>(1.25)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1981-82</td>
<td>0.69</td>
<td>526.07</td>
<td>31.65</td>
<td>101.39</td>
<td>15.56</td>
<td>-</td>
<td>47.54</td>
<td>722.90</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(72.77)</td>
<td>(4.37)</td>
<td>(14.02)</td>
<td>(2.15)</td>
<td>-</td>
<td>(6.57)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1982-83</td>
<td>0.69</td>
<td>509.70</td>
<td>39.68</td>
<td>101.56</td>
<td>15.56</td>
<td>10.0</td>
<td>7.83</td>
<td>685.02</td>
</tr>
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<td>(0.10)</td>
<td>(74.40)</td>
<td>(5.79)</td>
<td>(14.82)</td>
<td>(2.27)</td>
<td>(1.45)</td>
<td>(1.14)</td>
<td>(100.0)</td>
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<td>1983-84</td>
<td>493.34</td>
<td>36.67</td>
<td>101.56</td>
<td>15.56</td>
<td>10.0</td>
<td></td>
<td>6.86</td>
<td>663.99</td>
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<tr>
<td></td>
<td>(74.29)</td>
<td>(5.52)</td>
<td>(15.29)</td>
<td>(2.34)</td>
<td>(1.50)</td>
<td>(1.03)</td>
<td></td>
<td>(100.0)</td>
</tr>
<tr>
<td>1984-85</td>
<td>655.74</td>
<td>36.67</td>
<td>101.87</td>
<td>55.26</td>
<td>9.75</td>
<td>56.86</td>
<td></td>
<td>916.15</td>
</tr>
<tr>
<td></td>
<td>(71.57)</td>
<td>(4.90)</td>
<td>(11.11)</td>
<td>(6.03)</td>
<td>(1.06)</td>
<td>(6.20)</td>
<td></td>
<td>(100.0)</td>
</tr>
</tbody>
</table>

Source: Compiled from the Annual Reports of the Life Insurance Corporation for the period 1975-76 to 1984-85.
units under small-scale group. Engineering industry is most favoured among the small-scale sector. The industry gets 10 to 15 per cent of the Life Insurance Corporation's fund on an average, but its share has been whittling down year after year during the course of the decade under study. Electrical goods, tobacco, food and drinks follow each other in quick succession with an average 7 per cent and 4 per cent share respectively. Paper Board industry is a recent addition since 1982-83 among the recipients of Corporation's assistance. Its average share has been a paltry one per cent in the overall financial assistance of the Life Insurance Corporation.

Thus, the discussion on the flow of institutional finance from Life Insurance Corporation concludes that the role of L.I.C. in financing the small industrial sector of Delhi has neither been growing nor expansive in nature. L.I.C.'s allocations of funds to Delhi have been only marginally higher than one per cent of the Corporation's aggregate loanable funds. The net percentage changes in the funds flows reveal a declining trend in the annual allocations of loanable
funds by the Life Insurance Corporation. Besides, the distribution of L.I.C's loanable funds has not been expansive among the industries in Delhi. Only a selected group of seven industries has been chosen by the L.I.C. for extending financial assistance. Most favoured amongs this band of industries is the medium sector industry which avails: nearly three-fourth of the total L.I.C's allocations of funds for Delhi.

The National Small Industries Corporation is the other national level institution providing financial assistance to Delhi's industrial sector. Its role is discussed below:

**NATIONAL SMALL INDUSTRIES CORPORATION:**

The National Small Industries Corporation (NSIC) set up by the Government of India in 1955 provides long-term industrial finance to small-scale industrial units throughout the country. The Corporation does not give any direct finance. It extends indirect financial assistance to entrepreneurs in the shape of supply of imported as well as indigenous machinery
and equipment on easy instalments. The small industrial borrower is not required to offer any security for its assistance upto Rs. 7.00 lakhs, except to enter into an agreement that the lessor may remain the owner of machine till the payment of last instalment and other dues, if any. On full payment the machine is transferred to the entrepreneur.

During the last ten years of the study, the Corporation has provided support to meet the input needs of small industries in several areas such as supplying of indigenous and imported machines on easy hire-purchase basis, marketing of small industries products, developing proto-types of machines, equipment and tools to be used for commercial production. Only small industries registered with the Directorate of Industries or District Industries Centre are entitled to assistance for the Corporation. The whole amount of hire-purchase value of machinery is payable in 13 instalments. For tiny units or those in backward areas the terms of the Corporation are softer.
The National Small Industries Corporation's assistance to small sector has flown through financing the hire-purchase value of machinery to industrial units. A quantitative analysis of the Corporation's role as financier of fixed assets of small units is attempted below. Table-5 presents the year-wise volumes of hire-purchase financial assistance rendered by the Corporation to small-scale units in the country during the course of the decade 1975-76 to 1984-85 of the study.

**TABLE - 5**

**AGGREGATE HIRE PURCHASE FINANCIAL ASSISTANCE FROM NSIC TO SMALL-SCALE SECTOR IN INDIA (1975-76 to 1984-85)**

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Hire-Purchase Value</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>206.13</td>
<td>100.0</td>
</tr>
<tr>
<td>1976-77</td>
<td>294.30</td>
<td>142.7</td>
</tr>
<tr>
<td>1977-78</td>
<td>249.03</td>
<td>120.8</td>
</tr>
<tr>
<td>1978-79</td>
<td>150.05</td>
<td>72.7</td>
</tr>
<tr>
<td>1979-80</td>
<td>456.41</td>
<td>221.4</td>
</tr>
<tr>
<td>1980-81</td>
<td>831.32</td>
<td>403.3</td>
</tr>
<tr>
<td>1981-82</td>
<td>1151.76</td>
<td>558.7</td>
</tr>
<tr>
<td>1982-83</td>
<td>1754.25</td>
<td>851.1</td>
</tr>
<tr>
<td>1983-84</td>
<td>2156.53</td>
<td>1046.2</td>
</tr>
<tr>
<td>1984-85</td>
<td>1674.82</td>
<td>812.5</td>
</tr>
</tbody>
</table>

**SOURCE: Annual Reports of the NSIC, 1975-76 to 1984-85.**
It is quite evident from Table-5 above that the volume of higher purchase finance of the Corporation has grown tremendously during the decade under study. Excepting the years 1977-78 and 1978-79, the growth in Corporation's financial assistance is quite marked and striking. The size of indirect financial assistance has risen ten-fold over the course of the decade. From Rs. 206.13 lakhs in 1975-76, the volume of funds employed by the Corporation for higher-purchase finance of the fixed assets of small-scale sector in the country increased to Rs. 2,156.53 lakhs in 1983-84, yielding a ten-fold growth. In the subsequent years, however, the aggregate value of indirect finance decreased and amounted to Rs. 1,674.32 lakhs. On the whole, the Corporation's performance over the decade exhibits its growing role in extending indirect long-term institutional assistance to small industrial units in India.

The role of NSIC in providing institutional assistance to small units in the Union territory of Delhi has, however, not been as growing as to be
proportionate to its above-mentioned performance on all-India level. A quantitative review of the share of Delhi in the aggregate hire-purchase financial assistance clearly bears it out. This is presented in Table-6 below:

### Table - 6

SHARE OF SMALL INDUSTRIES OF DELHI IN THE AGGREGATE HIRE-PURCHASE FINANCIAL ASSISTANCE OF NSIC (1975 to 1985) (Rs.in lakhs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Hire-Purchase Financial Assistance of N.S.I.C. (Rs.)</th>
<th>Delhi's Share (Rs.)</th>
<th>%age of Col.3 to Col.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>206.13</td>
<td>76.77</td>
<td>37.20</td>
</tr>
<tr>
<td>1976-77</td>
<td>294.30</td>
<td>4.98</td>
<td>1.69</td>
</tr>
<tr>
<td>1977-78</td>
<td>249.03</td>
<td>21.54</td>
<td>8.64</td>
</tr>
<tr>
<td>1978-79</td>
<td>150.05</td>
<td>19.33</td>
<td>12.88</td>
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<tr>
<td>1979-80</td>
<td>456.41</td>
<td>20.52</td>
<td>4.49</td>
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<tr>
<td>1980-81</td>
<td>831.32</td>
<td>107.48</td>
<td>12.92</td>
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<td>1981-82</td>
<td>1151.76</td>
<td>82.71</td>
<td>7.18</td>
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<tr>
<td>1982-83</td>
<td>1754.25</td>
<td>313.78</td>
<td>17.88</td>
</tr>
<tr>
<td>1983-84</td>
<td>2156.53</td>
<td>416.63</td>
<td>19.31</td>
</tr>
<tr>
<td>1984-85</td>
<td>1674.82</td>
<td>242.18</td>
<td>14.46</td>
</tr>
</tbody>
</table>

**SOURCE:** Compiled from the Annual Reports of NSIC (1975-76 to 1984-85).
Table-6 above computes the values of indirect financial assistance from NSIC to small industries of Delhi both in absolute and percentage terms and compares the same with the total volume of hire-purchase finance of the Corporation. The data brings to fore that the indirect financial flows from the Corporation to Delhi are marked with violent fluctuations. In 1975-76, small industries of Delhi received 37.2 per cent of the total indirect finance of the NSIC. The share whittled down to a nominal 1.6 per cent in the following year. It rose to 8.6 and 12.8 per cent in 1977-78 and 1978-79 respectively, but again had a steep drop to just 4.4 per cent in the year 1979-80. Corporation's contribution to Delhi again rose to 12.9 in 1980-81 but declined to just 7.1 per cent in 1981-82. It recovered and soared to 17.6 per cent in 1982-83 and was all-time high at 19.3 per cent in 1983-84. It declined to 14.4 per cent in the following year. In absolute terms, the Corporation's indirect financial flows to Delhi increased three-fold as against ten-fold rise in the total volume of Corporation's hire-purchase assistance. The share of Delhi which amounted to Rs.76.7 lakhs
in 1975-76 increased to Rs. 242.1 lakhs during the course of the decade.

The overall flow of indirect assistance from the Corporation has maintained a fluctuating trend moving downwards as compared to its contribution in the initial year of the decade. There have been marginal increases in Corporation's contribution in certain years but not in keeping with the growth of NSIC's volume of aggregate financial flows to small sector in the country. The number of beneficiary small units from the Corporation's indirect finance has mostly declined. This would appear from the following Table-7A which presents the

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units</th>
<th>Year</th>
<th>No. of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>26</td>
<td>1980-81</td>
<td>49</td>
</tr>
<tr>
<td>1976-77</td>
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<td>59</td>
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<tr>
<td>1977-78</td>
<td>18</td>
<td>1982-83</td>
<td>101</td>
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<tr>
<td>1978-79</td>
<td>14</td>
<td>1983-84</td>
<td>120</td>
</tr>
<tr>
<td>1979-80</td>
<td>13</td>
<td>1984-85</td>
<td>71</td>
</tr>
</tbody>
</table>

SOURCE: Compiled from the Annual Reports of the NSIC, 1975-76 to 1984-85.
strength of small industrial units financially assisted by the N.S.I.C. in Delhi. It would appear that excepting for a brief period of four years from 1981 to 1984, the number of units getting fixed assets finance from the Corporation is coming down. The recipient units numbered 26 in 1975-76 but their strength reduced to just 7 in the following year and was only 13 in 1979-80. The number of units rose from 49 in 1980-81 to 120 in 1983-84, but the strength again dropped steeply to 71 in 1984-85. This indicates not an expansive role of the Corporation in the small sector of the Union territory of Delhi.

Thus, the discussion sums up to the conclusion that the quantum of National Small Industries Corporation's allocations of indirect finance to small units of Delhi has been fluctuating downward. The share of small units of Delhi has not grown proportionate to growth of Corporation's total volume of indirect finance indicating that the Corporation has paid more attention to small units elsewhere in the country. The number of beneficiary units is also not growing in strength. This leads to the assessment
that the Corporation has played only a limited and intensive role instead of a growing and expansive one to help finance the development and growth of small industrial units of Delhi.

The small sector of Delhi has, therefore, to lean for the satisfaction of their demand for funds towards the Delhi Financial Corporation. An attempt is made to measure and assess the part played by the Delhi Financial Corporation (DFC) in the sphere of financing the small industries of Delhi and thereby contributing to the growth and development of small sector in the union territory of Delhi.

**DELHI FINANCIAL CORPORATION:**

The Delhi Financial Corporation assumes special significance as a financial institution, for it has direct concern with and an obligation to provide finance to small industrial units of Delhi. The Corporation as a technical institution was established in April, 1967. Its operational area spreads over two union territories, viz. Delhi and Chandigarh. It has been established by the Government with the object of providing medium and
long-term loans to industrial concerns located or to be located in the union territories of Delhi and Chandigarh. The Corporation has also been envisaged to function in a coordinated and effective manner along with other industrial development agencies and the Directorate of Industries, Delhi, so as to achieve its overall objectives. Apart from providing term loans to the small industry, it also extends assistance, in special circumstances, to the medium scale industries. The Corporation has also been implementing various social-oriented schemes of the government aimed to assist the specific categories of entrepreneurs in Delhi on more liberal terms.

The Corporation advances loans to small and medium scale industries which are technically feasible and financially viable. The projects may be set up in Delhi or Chandigarh and promoted as public limited companies, private limited companies, cooperative societies, partnership units or proprietorship units. The project for finance should be in accordance with industrial policy of Delhi or Chandigarh as the case may be.
PURPOSE OF ASSISTANCE:

Financial assistance is provided for creation of fixed assets such as purchase of land, construction of building and purchase of plant and machinery. World Bank loans are also provided for the import of machinery. The purposes for which financial assistance is extended are for (i) setting up a new industrial project, (ii) Renovation and modernisation of existing plant and machinery, (iii) expansion or diversification, (iv) shifting of existing units from non-conforming to conforming areas.

CRITERIA FOR ASSISTANCE:

Loans are granted to the industries which are generally engaged or proposed to be engaged in any of the following industrial activities: (i) manufacturing, preservation or processing of goods, (ii) hotel industries; (iii) maintenance, repair, testing or servicing of machinery of any description, (iv) assembling, repairing or packing any article with the aid of machinery or power and (v) providing special or technical knowledge or other services for the promotion of industrial growth.
QUANTUM OF ASSISTANCE:

The Corporation has fixed the quantum of financial assistance for sanction to industrial units according to the form of business. The assistance is limited to 15 lakhs in case of proprietary and partnership concerns and Rs. 30 lakhs in case of limited companies, private limited companies and cooperative societies.

SECURITY AND REPAYMENT OF LOANS:

Loans are advanced against the security of fixed assets, viz. land, building, plant and machinery of industrial concern by way of first registered mortgage in Delhi. In special cases, collateral security in the form of fixed assets can be obtained. Personal guarantees of the directors of public limited and private limited companies and office bearers of a cooperative society is also accepted. In case of loan against machinery alone the Corporation asks for independent sureties who should be income-tax assesses and acceptable to the Corporation.

The duration of repayment is generally 5 to 12 years, depending upon the profitability of each
project. Principal alongwith interest is repayable in half-yearly instalments. Initial moratorium is generally 1 to 2 years.

**FLOWS OF FUNDS FROM D.F.C:**

The operation of the Delhi Financial Corporation within the above-mentioned scope of activities have no completed over two decades. The Corporation has been a key institution in generating and providing financial assistance to industrial units of Delhi and Chandigarh. The contribution made by the Corporation in channelling institutional funds is traced out below:

The growing volume of the assets of Corporation provides a measure of its operational capacity in quantitative terms. This is presented in Table-7 below which computes the changes in the volume of assets of the Corporation over the period of ten years under study. It is evident from the statistics of assets that the Corporation's growth has been approximately three-fold during the decade. The aggregate value of its assets which was 10.25 crores was higher by nearly three times at Rs. 28.38 crores in 1984-85. Moreover, the rise in the DFC's assets
### TABLE 7-B

**GROWTH IN THE ASSETS OF D.F.C.**  
(1976 to 1985)  
(Rs. Cr.)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Value of Assets</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>10.25</td>
<td>100.0</td>
</tr>
<tr>
<td>1976-77</td>
<td>12.66</td>
<td>123.5</td>
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<td>12.69</td>
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<td>17.54</td>
<td>171.1</td>
</tr>
<tr>
<td>1980-81</td>
<td>19.92</td>
<td>196.3</td>
</tr>
<tr>
<td>1981-82</td>
<td>21.59</td>
<td>210.6</td>
</tr>
<tr>
<td>1982-83</td>
<td>24.91</td>
<td>243.0</td>
</tr>
<tr>
<td>1983-84</td>
<td>27.10</td>
<td>264.3</td>
</tr>
<tr>
<td>1984-85</td>
<td>28.38</td>
<td>276.8</td>
</tr>
</tbody>
</table>

**SOURCE:** Compiled from the Annual Reports of D.F.C. 1976 to 1985.

has been consistent throughout the decade. The increases in the size of the assets of D.F.C. indicate that the Corporation has an important role to play in solving problems of finance of the small scale sector of Delhi. An insight into its financial operations brings out its role in
TABLE 8
SANCTIONS OF LOANS AS PERCENTAGE TO ASSETS
OF D.F.C.
(1976 to 1985)
(Rs. in Cr.)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Value of DFC's Assets</th>
<th>Amount of Loans Sanc-3 to Col.</th>
<th>%age of Col.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>10,25</td>
<td>3.60</td>
<td>35.1</td>
</tr>
<tr>
<td>1976-77</td>
<td>12.66</td>
<td>3.88</td>
<td>30.0</td>
</tr>
<tr>
<td>1977-78</td>
<td>12.69</td>
<td>3.18</td>
<td>25.0</td>
</tr>
<tr>
<td>1978-79</td>
<td>14.90</td>
<td>4.50</td>
<td>30.2</td>
</tr>
<tr>
<td>1979-80</td>
<td>17.54</td>
<td>4.74</td>
<td>27.0</td>
</tr>
<tr>
<td>1980-81</td>
<td>19.92</td>
<td>5.01</td>
<td>25.1</td>
</tr>
<tr>
<td>1981-82</td>
<td>21.50</td>
<td>7.40</td>
<td>34.2</td>
</tr>
<tr>
<td>1982-83</td>
<td>24.91</td>
<td>7.77</td>
<td>31.2</td>
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<td>1983-84</td>
<td>27.10</td>
<td>9.31</td>
<td>34.3</td>
</tr>
<tr>
<td>1984-85</td>
<td>28.38</td>
<td>11.66</td>
<td>40.0</td>
</tr>
</tbody>
</table>


financing the small units of Delhi. Table-8 presents the size of loans sanctioned in relation to growth in assets of the Corporation which provides a measure to assess its role in quantitative terms.
Table 8 reveals that the financial assistance sanctioned by the Corporation has not grown proportionately to the growth in the assets of the Corporation. Loans sanctioned as percentage to aggregate value of assets have a fluctuating but downward trend whereas the growth in assets shows a constantly upward trend. In 1975-76, the amount of sanctions was 35.1 per cent of the assets. It fell to 25.1 per cent in 1980-81 while the value of assets in the same year doubled from Rs. 10.25 crores in 1975-76 to Rs. 19.92 crores in 1980-81. By the end of the decade in 1984-85, the loans sanctioned accounted for 40 per cent as against 35 per cent in the initial years 1975-76 in relation to the value of assets. This works out to only a 5 per cent increase in the Corporation's financial flows during a period of 10 years, or on an average half per cent growth per annum, as against approximately 200 per cent increase in the size of assets over the same period. In absolute terms, however, the increases in the amounts of loans sanctioned touched a three-fold mark. The amount of loans sanctioned which was Rs. 3.6 crores in 1975-76 moved up to Rs. 11.6 crores
in 1984-85.

The efficacy of financial assistance depends upon actual disbursals in relation to financial assistance. The disbursals constitute the net financial flows to the industry. The percentage relationship of disbursals to sanction is a measure of Corporations's efficacy as industrial financier and also of its efficiency in the administration of financial assistance. This will be reflected from the statistics given in Table-9 below:

**TABLE - 9**

PERCENTAGE RELATIONSHIP BETWEEN SANCTIONS AND DISBURSALS OF LOANS FROM DELHI FINANCIAL CORPORATION (1976 to 1985)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Amount of Loans Sanctioned</th>
<th>Amount of Disbursements</th>
<th>Percentage of Col. 3 to Col. 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>3.60</td>
<td>2.54</td>
<td>70.6</td>
</tr>
<tr>
<td>1976-77</td>
<td>3.88</td>
<td>2.05</td>
<td>52.8</td>
</tr>
<tr>
<td>1977-78</td>
<td>3.18</td>
<td>1.73</td>
<td>54.4</td>
</tr>
<tr>
<td>1978-79</td>
<td>4.50</td>
<td>2.78</td>
<td>61.7</td>
</tr>
<tr>
<td>1979-80</td>
<td>4.74</td>
<td>3.20</td>
<td>67.4</td>
</tr>
<tr>
<td>1980-81</td>
<td>5.01</td>
<td>3.55</td>
<td>70.9</td>
</tr>
<tr>
<td>1981-82</td>
<td>7.40</td>
<td>4.08</td>
<td>55.2</td>
</tr>
<tr>
<td>1982-83</td>
<td>7.77</td>
<td>4.75</td>
<td>61.2</td>
</tr>
<tr>
<td>1983-84</td>
<td>9.31</td>
<td>5.18</td>
<td>55.6</td>
</tr>
<tr>
<td>1984-85</td>
<td>11.66</td>
<td>6.08</td>
<td>52.2</td>
</tr>
</tbody>
</table>

**SOURCE:** Computed from the Annual Reports of DFC 1976 to 1985.
Table-9 above shows the percentage relationship between the sanctions and disbursements of DFC's financial assistance to industries. The data reflects that the percentage of disbursements has been declining and the actual outgo of funds to industries has come down to half of the sanctioned amounts. It whittled down to 52.2 per cent in 1984-85. In absolute terms, the volume of disbursements rose from 2.54 crores in 1975-76 to Rs. 6.08 crores in 1984-85 yielding a hike of two-and-a-half times. As against this, the quantum of sanctions grew three-and-half times from Rs. 3.6 crores in 1975-76 to Rs. 11.6 crores in 1984-85, during the decade under study. Thus, the year-wise quantum of disbursements has also not grown at the same pace as the size of the amount of sanctions.

The declining role of disbursements have, in effect, rendered the higher amounts of sanctions ineffective. In real terms, the net disbursements constitute the effective flow of finance from the Corporation to industries. Hence, a comparison of net amount of disbursements with the volume of assets will reflect that the net flow of finance has, on
an average, been half of that which the loans sanctioned have shown with the aggregate value of assets as computed in Table-10 below. The flow

**Table - 10**


<table>
<thead>
<tr>
<th>YEAR</th>
<th>Value of Assets</th>
<th>Amount of Disbursals</th>
<th>Percentage of Disbursals to assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>10.25</td>
<td>2.54</td>
<td>24.28</td>
</tr>
<tr>
<td>1976-77</td>
<td>12.66</td>
<td>2.05</td>
<td>16.19</td>
</tr>
<tr>
<td>1977-78</td>
<td>12.69</td>
<td>1.73</td>
<td>13.63</td>
</tr>
<tr>
<td>1978-79</td>
<td>14.90</td>
<td>2.78</td>
<td>18.65</td>
</tr>
<tr>
<td>1979-80</td>
<td>17.54</td>
<td>3.20</td>
<td>18.24</td>
</tr>
<tr>
<td>1980-81</td>
<td>19.92</td>
<td>3.55</td>
<td>17.82</td>
</tr>
<tr>
<td>1981-82</td>
<td>21.59</td>
<td>4.08</td>
<td>18.89</td>
</tr>
<tr>
<td>1982-83</td>
<td>24.91</td>
<td>4.75</td>
<td>19.06</td>
</tr>
<tr>
<td>1983-84</td>
<td>27.10</td>
<td>5.81</td>
<td>21.43</td>
</tr>
<tr>
<td>1984-85</td>
<td>28.38</td>
<td>6.08</td>
<td>21.42</td>
</tr>
</tbody>
</table>

**SOURCE:** Annual Reports of the DFC for the period 1976 to 1985.

of effective funds from the Corporation works out to range between 15 to 20 per cent of the total
value of assets per annum on an average. The small size of the contribution speaks itself of the inadequacy as well as efficacy to solve the problem of finance of deficit industrial units whose number is on the increase every year in the territorial area of Delhi Financial Corporation. It also brings out a low-key role of the Corporation as a purveyor of institutional finance to small-scale industries.

As has been mentioned earlier, the Corporation's jurisdiction extends over the small industrial units located in two union territories, viz. Delhi and Chandigarh. It is important to split the aggregate flows of Corporation's funds and measure the share-quantum of finance that flows from the Corporation to industries exclusively in the territory of Delhi. It will be in keeping with the context of this study and enable to trace out the part played by the Corporation in financing the growth and development of the small industries of Delhi. No separate data, however, is available in the Annual Reports of the Delhi Financial Corporation splitting the aggregate
financial flows between Delhi and Chandigarh for the period of decade under study. The Corporation has started publishing the break-up of its funds flows between Delhi and Chandigarh from the year 1984-85, which is taken as the basis for this study. The distribution of gross financial assistance from the Corporation between Delhi and Chandigarh is computed below in Table-11.

**TABLE - 11**

REGION-WISE ANALYSIS OF FINANCIAL ASSISTANCE FROM D.F.C. (as on March 31, 1985)

<table>
<thead>
<tr>
<th>REGION</th>
<th>GROSS SANCTIONS Amount of Loans (Rs. in Lakhs)</th>
<th>NET DISBURSALS Amount Disbursed (Rs. in Lakhs)</th>
<th>%age of Col.2 to Col.1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>DELHI</td>
<td>2620</td>
<td>2100</td>
<td>2009</td>
</tr>
<tr>
<td>CHANDIGARH</td>
<td>345</td>
<td>308</td>
<td>242</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2965</td>
<td>2408</td>
<td>2251</td>
</tr>
</tbody>
</table>

%age to Total:

<table>
<thead>
<tr>
<th>REGION</th>
<th>%age to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>DELHI</td>
<td>68.36</td>
</tr>
<tr>
<td>CHANDIGARH</td>
<td>11.64</td>
</tr>
</tbody>
</table>

SOURCE: Computed from the Annual Reports of DFC for the years 1984-85.
It is significant to note from Table-11 above that the share of Delhi in the gross finance is preponderantly higher. The funds flows to the industrial sector of Delhi constituted nearly 90 per cent of the gross sanctions of loans. The same rate prevails in the case of actual disbursals to industries of Delhi. The percentage relationship between sanctions and disbursals is also comparatively higher. The actual outgo of funds to small sector of Delhi was 76.6 per cent as against 70 per cent of Chandigarh. Of the total industrial units which availed the financial assistance, 1775 or nearly 90 per cent belonged to the territory of Delhi while 217 or 10 per cent were located in Chandigarh. Thus, the industries of Delhi are the main beneficiaries of D.F.C's institutional funds.

The small-scale industrial sector of Delhi consists of various forms of business organisations. They have been organised as sole-proprietary concerns, partnership firms, joint stock companies and also as cooperative societies. Financial assistance from the Corporation flows to all types of small business concerns. The share of each form of business
enterprise will reflect the preferences of the Corporation and the direction of flow of funds according to type of organisation. It will also reveal the role of institutional finance in the development of different forms of business organisation. The contribution of DFC according to type of business is presented in Table-12 below:

**TABLE - 12**

PERCENTAGE ANALYSIS OF DFC's FINANCIAL ASSISTANCE TO SMALL INDUSTRIES OF DELHI ACCORDING TO FORM OF BUSINESS (1975-76 to 1984-85)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.86</td>
<td>12.87</td>
<td>58.28</td>
<td>0.04</td>
<td>25.66</td>
<td>0.27</td>
<td>100.0</td>
</tr>
<tr>
<td>2</td>
<td>1.73</td>
<td>12.46</td>
<td>56.57</td>
<td>0.03</td>
<td>28.95</td>
<td>0.24</td>
<td>100.0</td>
</tr>
<tr>
<td>3</td>
<td>1.82</td>
<td>12.92</td>
<td>55.39</td>
<td>0.03</td>
<td>29.60</td>
<td>0.21</td>
<td>100.0</td>
</tr>
<tr>
<td>4</td>
<td>2.00</td>
<td>13.04</td>
<td>52.93</td>
<td>0.03</td>
<td>31.79</td>
<td>0.19</td>
<td>100.0</td>
</tr>
<tr>
<td>5</td>
<td>1.71</td>
<td>13.13</td>
<td>52.96</td>
<td>0.04</td>
<td>32.00</td>
<td>0.16</td>
<td>100.0</td>
</tr>
<tr>
<td>6</td>
<td>1.46</td>
<td>15.67</td>
<td>50.22</td>
<td>0.02</td>
<td>32.47</td>
<td>0.14</td>
<td>100.0</td>
</tr>
<tr>
<td>7</td>
<td>16.45</td>
<td>18.46</td>
<td>49.63</td>
<td>0.07</td>
<td>30.94</td>
<td>0.12</td>
<td>100.0</td>
</tr>
<tr>
<td>8</td>
<td>0.75</td>
<td>24.78</td>
<td>45.40</td>
<td>0.07</td>
<td>28.95</td>
<td>0.10</td>
<td>100.0</td>
</tr>
<tr>
<td>9</td>
<td>0.50</td>
<td>25.06</td>
<td>42.92</td>
<td>0.09</td>
<td>31.34</td>
<td>0.06</td>
<td>100.0</td>
</tr>
</tbody>
</table>

SOURCE: Computed from the Annual Reports of the DFC from 1975-76 to 1984-85.
The data in Table-12 brings to fore that partnerships are most favoured by the Corporation for financial assistance in comparison to other forms of business undertakings. On an average, one-half of the total credit of the Corporation is annually directed towards partnership concerns. Proprietary concerns have secondary preference of the D.F.C. Sole trade receives, on an average, one-fourth of the total credit. Private companies come next in order and the quantum of financial assistance to them has been rising and has become two-fold during the decade. From 12.8 per cent in 1975-76 the contribution to private limited companies increased to 25.06 per cent in 1984-85. The share of public limited companies has declined from more than two per cent to less than one per cent over the decade. Cooperative societies have received a negligible amount, their share being a small fraction of one per cent per annum. Moreover, it has declined from 0.27 per cent in 1975-76 to just only 0.06 per cent in 1984-85. Thus, the Corporation’s role as financier of small industry has been largely for the partnership form of business concerns. But, of
late, a shift is noticed in recent years in favour of business undertakings organised in the form of private limited companies. The Corporation has played a secondary role in the case of proprietary concerns. Its role is negligible towards joint Hindu Family concerns, public limited companies as well as cooperative industrial sector.

Hence, the above statistical analysis and discussion sums up to the conclusion that the Delhi Financial Corporation has played a limited role in financing the growth and development of small industries of Delhi. Its contribution has been lop-sided as regards form of business organisation and quite small in bridging the gap between demand and supply of funds of the small-scale sector of Delhi. The net flows of funds from the Corporation to this sector have neither been substantial and growing in quantum nor reflected any significant increases in volume over the decade under study. The role of D.F.C. as purveyor of institutional funds has also not been compatible with the yearly increases in the number of small units in Delhi.
The small-scale industries are a State subject under the constitution. The State Aid to Industries Act casts an obligation upon the State Governments also to render financial, technical and other assistance to the small-scale sector through its own agencies. State Department of Industries have been established to carry out the State obligation vis-a-vis the small industries. The Directorate of Industries, Delhi, as an agency of the Delhi Administration accordingly offers financial and other assistance to small industries of Delhi. The role of this agency in financing the growth and development of small enterprises in Delhi is reviewed below:

DELHI DIRECTORATE OF INDUSTRIES:

The Directorate of Industries, Delhi, is the principal agency of Delhi Administration which is responsible for the growth and development of small-scale industries of Delhi. It extends both financial and technical assistance to smaller units. The Directorate operates through a network of its offices spread over the union territory of Delhi.

Industrial loans under the Delhi Administration State Aid to Small and Cottage Industries Rules 1956
are granted for the purchase of raw materials and for utilisation as marketing capital. It also helps the small units in the procurement of electric power, transportation facilities and industrial estates. Loans are granted upto Rs. 50,000 in the case of private entrepreneurs and upto Rs. 2 lakhs in the case of industrial cooperatives. The loans are given at low rate of interest and repayable in easy instalments over a period of 10 years. The role played by the Directorate in financing the small-sector of Delhi is analysed below. Table-13 presents the year-wise flows of financial assistance from the Directorate of Industries to small-scale units of Delhi for the 10-year period of this study.

It is quite evident from Table-13 that the financial assistance provided by the Directorate of Industries to small business in Delhi has whittled down over the years. From Rs. 40 lakhs in 1975-76 the amount of loans sanctioned reduced to Rs. 16 lakhs in 1981-82. It stood at Rs. 18 lakhs in 1984-85. The indices of growth reflect a negative trend in financial flows and reveal that the volume of loans sanctioned reduced to less than half during the
TABLE -13
FINANCIAL FLOWS FROM THE DELHI DIRECTORATE OF
INDUSTRIES TO SMALL INDUSTRIAL SECTOR OF DELHI
(1975-76 to 1984-85)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Loans Sanctioned</th>
<th>Indices of Growth</th>
<th>Loans Disbursed</th>
<th>Indices of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>40.00</td>
<td>100.0</td>
<td>39.68</td>
<td>100.0</td>
</tr>
<tr>
<td>1976-77</td>
<td>30.00</td>
<td>75.0</td>
<td>30.00</td>
<td>75.6</td>
</tr>
<tr>
<td>1977-78</td>
<td>30.00</td>
<td>75.0</td>
<td>29.94</td>
<td>75.4</td>
</tr>
<tr>
<td>1978-79</td>
<td>20.00</td>
<td>50.0</td>
<td>19.93</td>
<td>50.2</td>
</tr>
<tr>
<td>1979-80</td>
<td>20.00</td>
<td>50.0</td>
<td>17.10</td>
<td>43.1</td>
</tr>
<tr>
<td>1980-81</td>
<td>30.00</td>
<td>75.0</td>
<td>29.63</td>
<td>74.6</td>
</tr>
<tr>
<td>1981-82</td>
<td>16.00</td>
<td>40.0</td>
<td>15.88</td>
<td>40.0</td>
</tr>
<tr>
<td>1982-83</td>
<td>16.47</td>
<td>46.1</td>
<td>18.20</td>
<td>45.8</td>
</tr>
<tr>
<td>1983-84</td>
<td>20.50</td>
<td>51.2</td>
<td>20.30</td>
<td>51.1</td>
</tr>
<tr>
<td>1984-85</td>
<td>16.00</td>
<td>45.0</td>
<td>18.00</td>
<td>45.3</td>
</tr>
</tbody>
</table>

SOURCE: Computed from the Annual Returns of the
Directorate of Industries, Delhi, from
1975-76 to 1984-85.

course of the decade. Same is the case with net
disbursements which have been retrogressive in character.
Moreover, the quantum of sanctions has been of
smaller sizes not compatible with the growth in the
strength of small sector units of Delhi. Thus, the role of Directorate of Industries has been very small. The financial flows from the Directorate can not be characterized as growth-stimulant for the small business units of Delhi.

A cumulative picture of the long-term institutional funds flowing to the industries in Delhi will be of significance in the summing up of this study. This will prominently reflect the comparative role of financial institutions offering industrial finance in Delhi. Table-14 below presents the net long-term financial flows from different types of institutions to business undertakings in Delhi for the decade 1975-76 to 1984-85.

Table-14 computes the contribution of financial assistance both in quantitative and percentage terms, of various institutions to the industrial units of Delhi. The table presents a comparative view of the role of these institutions in extending long-term funds to these units. It is reflected that Life Insurance Corporation ranks first with largest contribution of funds and accounts for, on an average, half
### TABLE - 14

NET DISBURSALS OF LONG TERM INSTITUTIONAL FUNDS TO INDUSTRIES OF DELHI
(1975-76 to 1984-85)  
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>D.F.C. of Industries</th>
<th>N.S.I.C</th>
<th>L.I.C.</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>201.92 (27.77)</td>
<td>76.77</td>
<td>408.65</td>
<td>727.02</td>
</tr>
<tr>
<td>1976-77</td>
<td>192.95 (31.23)</td>
<td>4.98</td>
<td>387.86</td>
<td>617.77</td>
</tr>
<tr>
<td>1977-78</td>
<td>137.95 (25.02)</td>
<td>29.94</td>
<td>361.83</td>
<td>551.26</td>
</tr>
<tr>
<td>1978-79</td>
<td>232.48 (27.63)</td>
<td>19.94</td>
<td>569.44</td>
<td>841.19</td>
</tr>
<tr>
<td>1979-80</td>
<td>275.11 (31.76)</td>
<td>17.10</td>
<td>553.34</td>
<td>866.07</td>
</tr>
<tr>
<td>1980-81</td>
<td>336.35 (32.75)</td>
<td>29.63</td>
<td>552.81</td>
<td>1025.98</td>
</tr>
<tr>
<td>1981-82</td>
<td>378.50 (35.11)</td>
<td>15.88</td>
<td>600.82</td>
<td>1077.91</td>
</tr>
<tr>
<td>1982-83</td>
<td>461.94 (30.45)</td>
<td>18.20</td>
<td>722.90</td>
<td>1516.82</td>
</tr>
<tr>
<td>1983-84</td>
<td>372.98 (24.94)</td>
<td>20.30</td>
<td>685.02</td>
<td>1494.98</td>
</tr>
<tr>
<td>1984-85</td>
<td>499.98 (35.10)</td>
<td>18.01</td>
<td>663.99</td>
<td>1424.14</td>
</tr>
</tbody>
</table>

**NOTE:** (Figures in brackets are percentages to totals)

**SOURCE:** Computed from the Annual Reports of DFC, NSIC, LIC, and Annual Returns of the Directorate of Industries for the year 1976 to 1985.
of the total institutional finance received by the business concerns in Delhi. But L.I.C's contribution in terms of percentage has declined from 67.6 per cent in 1978-79 to 46.4 per cent in 1984-85, while in absolute terms it has increased from Rs. 408.6 lakhs to Rs. 663.9 lakhs. Delhi Financial Corporation comes next which accounts for, on an average, 30 per cent of the total institutional funds floated in Delhi. The annual contribution of D.F.C. maintains a growing trend among the financial institutions. From 27.7 per cent in 1975-76, the funds supplied to small concerns rose to 35.1 per cent in 1984-85 in the aggregate institutional funds. This is mainly because the D.F.C. is a territorial institution specially created to finance the small sector of Delhi. National Small Industries Corporation (NSIC) stands third in the institutional group whose average annual contributions have fluctuated between 10 and 20 per cent. The Directorate of Industries, Delhi, follows NSIC. Its contribution has declined both in absolute as
well as percentage terms. From Rs. 39.68 lakhs or 5.45 per cent in 1975-76, the financial flows from the Directorate dropped in 1984-85 to Rs. 18.01 lakhs or 1.26 per cent of the total institutional finance for Delhi.

CONCLUSION:

The foregoing discussion sums up to the conclusion that financial institutions are a pre-requisite for industrial development. For institutional finance occupies the most important position in the development and growth of industries, more particularly the small and tiny ones amongst them. The study reveals that there exists in India a network of financial institutions at national, regional and territorial level. They offer a developed capital market for supplying funds to the deficit industrial units.

The study finds that the financial institutions providing long-term finance to small industries of Delhi comprise the L.I.C., N.I.S.C., D.F.C. and the Directorate of Industries of Delhi. An analysis of the operations of these institutions over the
course of the decade 1975-76 to 1984-85 of this study has reflected that their role has neither been expansive nor growing. During the decade, while the number of small units in Delhi multiplied considerably, the number of units beneficiary of the institutional funds shrank in strength. The institutions have, thus, remained unexpansive compatible to the increasing demand for finance emanating from an expansive small industrial sector of Delhi.

Statistics of funds flows bring to fore that the yearly volume of long-term financial assistance flowing from these institutions has maintained a fluctuating trend moving downwards. The net funds supplied have neither grown in quantum to any significance in a decade nor has their growth been as much as the growth in the volume of their own assets.

Interestingly, the performance of the Delhi Financial Corporation and the Delhi Directorate of Industries, which are territorial institutions for Delhi's small sector, has been below the mark. The net flows from the former have been in the range
of 15 to 20 per cent of its value of assets while the long-term funds supplied by the latter have dwindled to less than half both in quantum and percentage over the course of the decade. The study has also pointed out the prejudices of financial institutions on the basis of forms of business among the small industries. Partnerships have been preferred more than any other form of small business organisation for financial support. Thus, the role of long-term finance has not been conducive to the development and growth of small sector of Delhi.

Apart from long-term finance small industries need short-term funds, too, for meeting their working capital requirements. The flow of short-term funds from the financial institutions and its role in the growth and development of small industries is discussed in the following chapter.
CHAPTER V

ROLE OF INSTITUTIONAL FINANCE (SHORT TERM) IN THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES OF DELHI

The discussion in the previous chapter concludes that the supply of long-term finance has been incompatible with the growing strength of small industrial units of Delhi. The quantum of long-term finance has also not been of the measure as to significantly contribute towards the development and growth of small business units in Delhi. The role of financial institutions supplying long-term funds to the small-scale sector of Delhi has, thus, been found neither expansive nor growing to meet the demand for funds created by the enlarging size of the small-sector of Delhi.

Besides long-term finance, small business units also seek short-term assistance for carrying
out everyday operations. Short-term assistance is a vital factor on which stands the operational efficiency of the concern. Uninterrupted flow of short-term funds favourably influences the profitability of the enterprise. It also helps to strengthen the capacity of the business to generate internal funds for self-financing. The need for short-term finance is all the more great in the case of small business houses because they are beset with problems of shortage of funds for meeting their day-to-day expenses and to keep the concern going. Institutional short-term assistance is comparatively cheaper in cost and it is extended at a specially concessional rate to the smaller units which fall in the priority sector of the economy. Short-term funds from financial institutions act as cost-reducing factor for small industries and enable them to competitively exist in the market. Hence, adequate availability of institutional short-term assistance plays no less important part in the development and growth of small business undertakings. Accordingly, this chapter makes an attempt to analyse and discuss
the role of financial institutions in supplying short-term funds to small-scale units in Delhi and its impact on the growth and development of these industrial units. But before dwelling upon the flow of short-term assistance from various financial institutions it is thought necessary to enlighten about the significance of short-term finance for the small business units.

NEED FOR SHORT-TERM FINANCE:

Loan capital requirements of small enterprises are for long-term as well as short-term periods. Long-term borrowings are required to finance acquisition of fixed assets for purposes of expansion, renovation or modernisation of their plants and machines or for procuring additional assets like land, and buildings.

Short-term financial requirements of small scale industries are to meet the needs of working capital, that is, for acquiring raw materials and stocks, payment of wages, goods in process and stock-in-trade as well as for meeting the marketing
expenses. The working capital requirements of small-scale industries are larger than for long-term loans needed for acquiring fixed assets. This is for the fact that their own resources for working capital are very meagre.

An important form of short-term finance is 'Trade Credit' or 'Suppliers' Accommodation' for small-scale enterprises. Trade credit actually supplements the working capital to a significant extent. Small-scale units need trade credit for the raw materials and other stores they have to purchase. These units, in turn, have to give credit for the goods sold in the market or to large-scale units which have a leverage over smaller units. The size of requirements of trade credit will depend upon the market conditions. In a buyers' market these enterprises are at a disadvantage because the period for which they have to offer trade credit for finished goods is much longer than the time for which they get this facility from the suppliers of raw materials. In consequence, the small industrial producers have
to provide finance for the purchase of raw materials, goods in process and stock-in-trade for the 'gap in waiting' which may extend from two to four months. Because of this, their requirements for short-term finance are comparatively larger for the small-scale enterprises.

SHORT TERM INSTITUTIONAL AGENCIES FOR SMALL-SCALE SECTOR OF DELHI:

The institutional agencies which are operating in the Union territory and provide term finance to industrial undertakings in Delhi include Life Insurance Corporation, National Small Industries Corporation, Delhi Financial Corporation, the Directorate of Industries and the scheduled commercial banks. A review of the operational activities of these institutions in the previous chapter has revealed that not all these intermediaries have been providing long as well as short term finance. Moreover, these agencies are divided into categories of suppliers of indirect and direct term assistance.

The Life Insurance Corporation indirectly contributes to the financing of small-scale

industries by way of contributing to the shares and debentures of State level industrial development agencies which, in turn, provide financial assistance to smaller units, and by granting loans for the construction of industrial estates. These sheds in industrial estates are usually allotted to small entrepreneurs and help provide premises for industrial operations for which they would have otherwise sought financial assistance to build them.

The National Small Industries Corporation (NSIC) provides only long-term industrial finance to small business concerns in the country. The Corporation extends indirect finance to small units in the shape of supply of imported as well as indigenous machinery and equipment on hire-purchase basis.

The Delhi Financial Corporation (DFC) and the Directorate of Industries (Delhi) are local agencies, which also extend only long-term assistance to the small sector units. Both of them extend direct assistance by way of granting loans
Commercial banks are the only financial institutions which emerge as the supplier of short-term assistance to small enterprises in Delhi. The bulk of the short-term assistance flows to these units from banking sector. Moreover, the assistance is direct and offered to the small business undertakings through the sanction of loans. An attempt is made below to analyse the flow of short-term assistance from scheduled commercial banks to small-sector units of Delhi and also to assess their role in the growth and development of small business in Delhi.

FLOW OF SHORT TERM ASSISTANCE
FROM SCHEDULED COMMERCIAL BANKS:

As the largest repositories of institutional funds, the commercial banks are classified as an important apparatus for economic development of the country. This casts upon them an obligation to commit their investible funds towards the accelerated growth of industry. The guiding directives issued by the Reserve Bank of India require the commercial banks to be liberal in
extending finance to the small-scale units on easy and concessional terms. Moreover, the banks have been directed to enhance the share of small sector upto 40 per cent in their total volume of credit.

The banking sector forms the largest network of financial institutions operating in Delhi. This is evident from the following Table 1:

**TABLE - 1**

GROWTH OF BANKING SECTOR IN DELHI (1975 to 1984)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>S.B.I. Group</th>
<th>Nationalised Banks</th>
<th>Other Commercial Banks</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>110</td>
<td>347</td>
<td>137</td>
<td>594</td>
</tr>
<tr>
<td>1976</td>
<td>137</td>
<td>385</td>
<td>158</td>
<td>680</td>
</tr>
<tr>
<td>1977</td>
<td>153</td>
<td>414</td>
<td>181</td>
<td>748</td>
</tr>
<tr>
<td>1978</td>
<td>163</td>
<td>443</td>
<td>204</td>
<td>810</td>
</tr>
<tr>
<td>1979</td>
<td>166</td>
<td>453</td>
<td>209</td>
<td>828</td>
</tr>
<tr>
<td>1980</td>
<td>174</td>
<td>592</td>
<td>91</td>
<td>857</td>
</tr>
<tr>
<td>1981</td>
<td>193</td>
<td>610</td>
<td>97</td>
<td>900</td>
</tr>
<tr>
<td>1982</td>
<td>199</td>
<td>622</td>
<td>105</td>
<td>926</td>
</tr>
<tr>
<td>1983</td>
<td>200</td>
<td>630</td>
<td>108</td>
<td>938</td>
</tr>
<tr>
<td>1984</td>
<td>221</td>
<td>648</td>
<td>113</td>
<td>982</td>
</tr>
</tbody>
</table>

**SOURCE:** Delhi Statistical Handbook, Bureau of Economics and Statistics, Delhi Administration, Delhi.
Table-1 above presents the spread of banking network in the Union territory of Delhi. The data reflects that there has been considerable expansion of bank offices in Delhi over the course of the decade 1975 to 1984. The banking sector registered a two-fold growth during the period. From a total of 594 banking units operating in Delhi in 1975, their number swelled to 982 by 1984. The expansion of banking network is indicative of increasing significance of banks as financial intermediaries and of their social commitment to finance the development of industries in Delhi, particularly the small ones which are plagued with shortage of capital.

The flows of institutional funds from the banks to the industrial sector of Delhi over the course of the decade under study is measured in the following Table-2. Their relationship with the total credit extended by the banks on all-India plane to industrial sector is also worked out in the Table. The percentage relationship between them reflects the role of bank finance in the development of industries in Delhi.
TABLE - 2
PERCENTAGE RELATIONSHIP BETWEEN SCHEDULED COMMERCIAL BANKS CREDIT AND SHARE OF DELHI (1975 to 1984)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Bank Credit (Rs. in Lakhs)</th>
<th>Share of Delhi (Rs. in Lakhs)</th>
<th>%age between Col.3 &amp; 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>1007146</td>
<td>118659</td>
<td>11.78</td>
</tr>
<tr>
<td>1976</td>
<td>1355310</td>
<td>239652</td>
<td>17.68</td>
</tr>
<tr>
<td>1977</td>
<td>1532725</td>
<td>261817</td>
<td>17.08</td>
</tr>
<tr>
<td>1978</td>
<td>1831009</td>
<td>294357</td>
<td>16.07</td>
</tr>
<tr>
<td>1979</td>
<td>2134591</td>
<td>338468</td>
<td>15.85</td>
</tr>
<tr>
<td>1980</td>
<td>2238126</td>
<td>304655</td>
<td>13.61</td>
</tr>
<tr>
<td>1981</td>
<td>2938179</td>
<td>345532</td>
<td>11.75</td>
</tr>
<tr>
<td>1982</td>
<td>3507194</td>
<td>393744</td>
<td>11.22</td>
</tr>
<tr>
<td>1983</td>
<td>3686058</td>
<td>356619</td>
<td>9.67</td>
</tr>
<tr>
<td>1984</td>
<td>N.A.</td>
<td>380218</td>
<td>N.A.</td>
</tr>
</tbody>
</table>


The above table-2 reveals that the percentage of Delhi in the overall loans and advances of the
banks has consistently come down over the course of the decade 1975-76 to 1984-85. The gross amount of loans and advances to industries of Delhi which was Rs. 1,18,659 lakhs in 1975 and formed 11.78 per cent of the total bank credit of Rs. 1,00,7146 lakhs was higher only in the year 1976 when it increased to Rs. 2,39,652 lakhs or 17.68 per cent of the gross bank credit of Rs. 13,553,10 lakhs. In the subsequent years, however, the scheduled banks contribution to Delhi kept on declining in percentage terms. From 17.68 per cent of the gross bank credit in 1976 the financial flows to Delhi consistently shrank each year of the decade and it was just 9.67 per cent in 1983. In absolute terms, however, the total banking funds applied to Delhi shot up threefold from Rs. 118659 lakhs in 1975 to Rs. 380218 lakhs at the end of 1984. Thus, while the amount of loans and advances to Delhi in rupee terms increased over the decade, the percentage share of Delhi in relation to total bank credit maintained a declining trend. This indicates that banks have committed proportionately lesser investible funds in Delhi.
The credit-deposit relationship obtaining in Delhi further reflects the role of bank finance in the growth of industrial sector of Delhi. Table-3 presents the figures of total deposits mobilised by the commercial banks from Delhi and the total amounts of loans and advances made to industrial units in Delhi over the period of the decade 1975-76 to 1984-85.

**TABLE - 3**

**BANK DEPOSIT & CREDIT RATIO IN DELHI (1975 to 1984)**

(\text{Rs. in lakhs})

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Total Deposits of Delhi</th>
<th>Total Credit to Delhi Industries</th>
<th>Credit-Deposit Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>128001</td>
<td>118659</td>
<td>0.9</td>
</tr>
<tr>
<td>1976</td>
<td>173421</td>
<td>239652</td>
<td>1.4</td>
</tr>
<tr>
<td>1977</td>
<td>212721</td>
<td>261817</td>
<td>1.2</td>
</tr>
<tr>
<td>1978</td>
<td>271871</td>
<td>294357</td>
<td>1.1</td>
</tr>
<tr>
<td>1979</td>
<td>311961</td>
<td>338468</td>
<td>1.08</td>
</tr>
<tr>
<td>1980</td>
<td>327184</td>
<td>304655</td>
<td>0.9</td>
</tr>
<tr>
<td>1981</td>
<td>431854</td>
<td>345352</td>
<td>0.7</td>
</tr>
<tr>
<td>1982</td>
<td>499123</td>
<td>393744</td>
<td>0.7</td>
</tr>
<tr>
<td>1983</td>
<td>527906</td>
<td>356619</td>
<td>0.6</td>
</tr>
<tr>
<td>1984</td>
<td>616931</td>
<td>380218</td>
<td>0.6</td>
</tr>
</tbody>
</table>

The above Table-3 presents the deposit-credit ratio as obtains in the Union territory of Delhi. The data reveals that the ratio was higher than unity from 1976 to 1979, but consistently dropped in the subsequent years of the decade. The credit-deposit ratio of higher than unity indicates that the financial outflows have been higher than the financial inflows. In other words, the banks have loaned out more funds than the deposits held by them. The financial assistance extended by the banks to all types of industries in Delhi was higher than the deposits mobilised by the banks from Delhi during the years 1976, 1977 and 1978. The credit-deposit ratio marched upward from 0.9 in 1975 to 1.4 in 1976 when the amount of loans and advances was considerably higher at Rs. 239652 lakhs as against total deposits of Delhi which stood at Rs. 173421 lakhs. The ratio was higher than unity upto 1979. But then came a slump in bank credit operations in Delhi in later years and the credit-deposit ratio consistently moved below unity upto the end of the decade. From 1.08 in 1979, the credit-deposit ratio fell to 0.6 in 1984. The
The downward movement in credit-deposit ratio is manifest of a lower outflow of bank loans and advances in comparison to inflows of deposits. The bank credit to industrial units in Delhi which used to be higher got reversed in proportion during the decade and whittled down to just half of the total deposits in Delhi. This clearly indicates that the role of banks in financing the industrial sector of Delhi has been on the shrink.

A prominent reflection on the part played by the banks in supplying finance to small scale industries can be had if the share of small sector is exclusively taken out of the aggregate loans and advances made by banks to all types of industries. Table-4 below measures out the share quantum of small-scale sector in the total flows of bank-credit on all-India plane.

Table-4 presents the net flows of funds directed by banks to small-scale sector out of their total credit operations and computes their relationship in terms of percentages for the period of the decade under study. The data reveals that though
TABLE - 4

SHARE OF SMALL INDUSTRIAL SECTOR IN THE AGGREGATE BANK CREDIT

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Bank Credit to Industries</th>
<th>Share of Small-scale Sector</th>
<th>%age of Col.3 to Col.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>1007146</td>
<td>84343</td>
<td>8.3</td>
</tr>
<tr>
<td>1976</td>
<td>1355310</td>
<td>114743</td>
<td>8.4</td>
</tr>
<tr>
<td>1977</td>
<td>1532725</td>
<td>142108</td>
<td>9.2</td>
</tr>
<tr>
<td>1978</td>
<td>1831009</td>
<td>170280</td>
<td>9.2</td>
</tr>
<tr>
<td>1979</td>
<td>2134591</td>
<td>215631</td>
<td>10.1</td>
</tr>
<tr>
<td>1980</td>
<td>2238126</td>
<td>263276</td>
<td>11.7</td>
</tr>
<tr>
<td>1981</td>
<td>2938179</td>
<td>313647</td>
<td>10.6</td>
</tr>
<tr>
<td>1982</td>
<td>3507194</td>
<td>395308</td>
<td>11.2</td>
</tr>
<tr>
<td>1983</td>
<td>3686058</td>
<td>446431</td>
<td>12.1</td>
</tr>
<tr>
<td>1984</td>
<td>N.A</td>
<td>N.A</td>
<td>-</td>
</tr>
</tbody>
</table>


The share of small-scale sector in total bank credit has been rising, with little fluctuations, the increases have been very marginal. On an average,
the total credit flows to the small sector of the country have remained only 10 per cent of the aggregate loans and advances of the banks during the period of the decade. The share of small-sector in 1975 was Rs. 84343 lakhs out of total bank credit of Rs. 1007146 lakhs and accounted for 8.3 per cent of total loans and advances. This moved up through the decade except in 1981-82 when the share percentage marginally dropped. In 1983, the small sector received Rs. 446431 lakhs out of the total bank credit of Rs. 3686058 lakhs which accounts for a share of 12.1 per cent for the small sector.

Thus, the scheduled commercial banks credit to small sector, as a whole, has been of limited character. Their role in financing the small sector has been passive and remained confined to a narrow base of 10 per cent of their total loans and advances. The banks have also fallen short of achieving the target fixed under R.B.I's directives to them for raising the base of loans and advances to small sector upto 40 per cent of their aggregate loanable funds.
The place which the small industries of Delhi occupy in the credit operations of the banks is of purposeful importance for this study. This will be indicated by establishing a relationship between the aggregate bank credit and the net loans and advances made by the commercial banks to small enterprises of Delhi. Table 5 below computes these figures for the period of the decade 1975 to 1984.

**TABLE - 5**

PERCENTAGE SHARE OF DELHI SMALL SCALE UNITS IN THE AGGREGATE BANK CREDIT (1975 to 1984) (Rs. in lakhs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Aggregate Bank Credit</th>
<th>Share of Small Units of Delhi</th>
<th>%age of Col. 3 to 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>1007146</td>
<td>6440</td>
<td>0.6</td>
</tr>
<tr>
<td>1976</td>
<td>1355310</td>
<td>8642</td>
<td>0.6</td>
</tr>
<tr>
<td>1977</td>
<td>1532725</td>
<td>10485</td>
<td>0.6</td>
</tr>
<tr>
<td>1978</td>
<td>1831009</td>
<td>13274</td>
<td>0.7</td>
</tr>
<tr>
<td>1979</td>
<td>2134591</td>
<td>17276</td>
<td>0.8</td>
</tr>
<tr>
<td>1980</td>
<td>2238126</td>
<td>21626</td>
<td>0.9</td>
</tr>
<tr>
<td>1981</td>
<td>2938179</td>
<td>26572</td>
<td>0.9</td>
</tr>
<tr>
<td>1982</td>
<td>3507194</td>
<td>30735</td>
<td>0.8</td>
</tr>
<tr>
<td>1983</td>
<td>3686058</td>
<td>37605</td>
<td>1.0</td>
</tr>
<tr>
<td>1984</td>
<td>N.A.</td>
<td>44517</td>
<td>-</td>
</tr>
</tbody>
</table>

**SOURCE:** Banking Statistics, Basic Statistical Returns, RBI, Bombay; and Statistical Tables Relating to Banks, RBI, Bombay.
The above table-5 measures the share of small-sector of Delhi in relation to the overall bank credit in percentages as well as in absolute rupee terms. The computations reflect that the flow of bank assistance to small business of Delhi forms only a flee-bite part in the aggregate loans and advances of the scheduled commercial banks. On the annual average basis, the volume of funds flows to small industries of Delhi has been less than one per cent of the total banks credit. Though the banks have been releasing additional funds every year, yet the percentage increases have been very marginal in the share of smaller units. In 1975, the share-percentage of these units was 0.6 in the aggregate bank credit. It rose to 0.7 per cent in 1978 after remaining stagnant in 1976 and 1977. Again the share of smaller units rose to 0.9 per cent in 1980 and was unchanged in 1981. It dropped to 0.8 per cent in the following year but was an all-time high at one per cent in 1983. Thus, the banks' contribution to small-scale sector of Delhi rose from 0.6 per cent in 1975 to one per cent in 1983, yielding an increase of only 0.4
per cent over the course of a decade. Thus, the overall flow of finance from the banking sector to small units is not borne out to be of any significant encouragement to smaller enterprises.

The funds ear-marked by the banks in their total credit operations for Delhi represent their assistance to the industrial sector of Delhi as a whole. This includes the loans and advances made by the banks to all types of business enterprises—large, medium and small. The loans and advances received by small-scale industries in Delhi out of the total credit operations of the banks in the Union territory will further enlighten about the role of bank finance in meeting the demand for funds of these units. Table-6 below excludes quantitatively the share of small units in the total term-assistance flowing from banks to all industries in Delhi and also shows their mutual relationship in percentage terms.

Table-6 (next page) makes the important revelation that the supply of bank finance to small industries of Delhi constitute a very little
### TABLE - 6

**PERCENTAGE SHARE OF SMALL UNITS IN THE TOTAL BANK CREDIT TO ALL INDUSTRIES OF DELHI (1975 to 1984)**

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Total Bank Credit to All Industries in Delhi</th>
<th>Share of Smaller units of Delhi</th>
<th>%age of col3 to col.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>118659</td>
<td>6440</td>
<td>5.4:</td>
</tr>
<tr>
<td>1976</td>
<td>239652</td>
<td>8642</td>
<td>3.6:</td>
</tr>
<tr>
<td>1977</td>
<td>261817</td>
<td>10485</td>
<td>4.0</td>
</tr>
<tr>
<td>1978</td>
<td>294357</td>
<td>13274</td>
<td>4.5</td>
</tr>
<tr>
<td>1979</td>
<td>338468</td>
<td>17276</td>
<td>5.1</td>
</tr>
<tr>
<td>1980</td>
<td>304655</td>
<td>21626</td>
<td>7.0</td>
</tr>
<tr>
<td>1981</td>
<td>345352</td>
<td>26572</td>
<td>7.6</td>
</tr>
<tr>
<td>1982</td>
<td>393744</td>
<td>30735</td>
<td>7.8</td>
</tr>
<tr>
<td>1983</td>
<td>356619</td>
<td>37605</td>
<td>10.5</td>
</tr>
<tr>
<td>1984</td>
<td>380218</td>
<td>44517</td>
<td>11.7</td>
</tr>
</tbody>
</table>

**SOURCE:** Banking Statistics, Basic Statistical Returns, RBI, Bombay; and Statistical Tables relating to Banks, RBI, Bombay.

Part of the total allocations of bank credit to all types of industries in Delhi. The bulk of the
bank credit is received by industrial units, other than smaller ones. The data reveals that, on an annual average, seven per cent of the total bank credit to Delhi industrial sector flows to smaller units. The remaining large chunk of 93 per cent of the bank funds is offered to business enterprises in other sectors. Moreover, the percentage increases in the case of smaller business undertakings have been slow as well as marginal and marked with fluctuations during the decade under study. In 1975, the small units got Rs. 6440 lakhs out of Rs. 118659 lakhs or 5.4 per cent of the total bank credit flows to the Union territory. This share of small enterprises dropped in subsequent years till 1980 when it rose to 7.0 per cent claiming Rs. 21,626 lakhs out of Rs. 304655 lakhs of total bank credit to all industries in Delhi. With the exception of 1982 when the share again dropped, the percentage share of small sector of Delhi received marginal increases and accounted for 11.7 per cent or Rs. 44517 lakhs in a total allocations of bank credit of Rs. 380218 lakhs for Delhi in 1984. This yielded a total increase of only
six per cent, or only a half per cent rise each year, in the financial assistance extended by the banks to small sector units of Delhi, out of their total operations of loans and advances in the Union territory.

Thus, the flow of short-term assistance from the banks to industries of Delhi has been very limited. Besides, the share of small-sector has been found very meagre in the total allocation of bank credit to all industries in the Union territory.

FACTORS RESPONSIBLE FOR LIMITED ROLE OF BANKS IN FINANCING SMALL INDUSTRIES:

The inadequate supply of the institutional term-finance from banks has become problematic for the small business enterprises. The factors responsible for the limited financial flows of funds from banking sector need to be explored. The causes found out by this study are discussed below:

ATTITUDE OF BANKS:

In Delhi, a large section of industrial society still remains outside the approach of the commercial
banks. It is partly the reluctance of the bankers to reach the small entrepreneurs that have kept them away from the organised banking sector. These firm owners can be brought to the banking fold through a change in the attitude of the bankers towards the small depositors coming to the banking institutions with very small amounts. The banking industry under the new set up has to play a prominent role in involving those persons who are the middle income groups. They have remained outside the realm of scheduled commercial banks. The Indian banking industry, therefore, can deal just one per cent of the total population as bank customers. This certainly is a poor reflection on the operational efficiency of the Indian banking sector.

**SECURITY ORIENTED**

The policy of the banks is to secure the advances to small scale industries of Delhi with all available security and in particular with the assets in the industrial units. No proposal should be turned down, if it is otherwise viable, purely on the ground that adequate collateral security is not forthcoming. In other words where the
proprietors/partners are not in a position to furnish any security other than what is available to the industry and the venture is technically feasible and economically viable. Further security should not be insisted upon. Rigid adherence to the terms of banking loans in lending operations has been responsible for keeping away from commercial banks of the small entrepreneurs.

DELAY IN PROCESSING A SCHEME:

The entrepreneurs quite often complain that the banks have a tendency to reject their proposals on flimsy grounds. The bank officials often test the tenacity of the entrepreneur by raising various objections not at the same time but on many occasions. The objects relate to the doubts of the scrutiny officials on the scheme. Sometimes they may ask for satisfactory proof of their market study findings. At others, they may question how the owners could think of achieving maximum producing capacity in a particular month. They may also question the raw material cost which might unfortunately rise during the period of scrutiny. They may raise the question
of the enterprise's competitors. It is the duty of the entrepreneurs to display utmost patience and perseverance in handling such bothersome and time consuming scrutiny. They should always remember that they are under test. This test will enable them to raise the confidence of the sceptic scrutinising officials of the banks.

Some dealys emerge due to the enterprises' own laziness in getting down to work and justifying the earlier figures. In fact, after a few exhaustive sessions with the banker, the owners get disgusted and frustrated and delay the submission of the original scheme by a few weeks. It certainly suits the busy scrutinising officer.

**INCREASING THE COST OF SCHEME DUE TO DELAY:**

Delay at various stages of processing of an application enhances the cost of scheme to small units. If the delay takes place at an initial period, on account of bankers' scrutiny, the only item of increase in cost of scheme will be the higher conveyance charges for more visits to the bank. If the delay takes place at an intermediate stage that is between the sanction and disbursement of the
loan, interest paid for debt possibly incurred by
the entrepreneur for depositing cash amounts as
advances to suppliers of machines and to solicitors
for legal expenses etc., will augment more than
what was estimated in the scheme. If the delay
occurs on final stage for starting the plant, it
will not only push up interest charges on account of
loans from banks but also a default as far as
commitment to suppliers of raw materials and to the
buyers of the finished goods are concerned.

It has been observed that delay faced by small
units in receiving payment of their bills affect
their liquidity and also overall functioning. The
lack of proper rediscounting facility in respect of
loans to small industry further restrains the banks
from granting loans to small-scale industries of Delhi.

The small entrepreneurs do not like the
elaborate enquiries and detailed investigations by
commercial banks because of their secretive outlook.
The pledging of securities, insistence of banks on
high margins and delay in sanction and disbursement
are the main factors which are responsible for the
small firms to avoid the bank credit.
In reply to Banking Commission's questionnaire, many commercial banks reported that most of the small units do not maintain books of accounts properly. It is usually found disorderly and in haphazard way. Therefore, it is very difficult to judge the functioning and performance of small scale units while processing their loan applications. There is justification in this contention of the banks to some extent. However, it is desirable that the accounts maintained by the small entrepreneurs on Indian system in Bahikhatas should be given due weight by the banks in extending loans and credits to the small units.

The impact of shortage of institutional finance has been on the soundness of the financial health of small industries of Delhi. The paucity of funds has caused sickness amongst the enterprises in small sector. The extent of sickness amongst these industries will be borne out from the following:

**INCIDENCE OF INDUSTRIAL SICKNESS**

The rate of growth in sickness of small-scale industries in Delhi is much faster than the rate

at which the sick units are being revived. Many small industries are now not capable of withstanding the normal market fluctuations or a slightly adverse economic situation due to their exceptionally weak financial structural resistance capacity.

The statistics in Table-7 below shows the position of sick units in Delhi due to financial stringency manifest in the accumulation of arrears of credit outstanding against them.

**TABLE - 7**

**REPRESENTING THE MAGNITUDE OF INDUSTRIAL SICKNESS OF SMALL SCALE INDUSTRIES OF DELHI**

(Outstanding credit of scheduled commercial banks to sick industrial units as at the end of December)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>OUTSTANDING CREDIT (Rs. in Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>3.29</td>
</tr>
<tr>
<td>1977</td>
<td>3.12</td>
</tr>
<tr>
<td>1978</td>
<td>7.19</td>
</tr>
<tr>
<td>1979</td>
<td>9.94</td>
</tr>
<tr>
<td>1980</td>
<td>8.29</td>
</tr>
<tr>
<td>1981</td>
<td>7.68</td>
</tr>
</tbody>
</table>

**SOURCE**: Report of the Committee to Examine the Legal and Other Difficulties Faced by Banks & Financial Institutions in Rehabilitation of sick Industrial Undertakings and suggest Remedial Measures including changes in law; RBI, Bombay 1984, p.124.
The data given in table-7 clearly show the actual picture of industrial sickness of Delhi. At the end of December 1976 the problem of industrial sickness seems to have acquired larger dimensions as going to onward. In 1976 the sickness was Rs. 3.29 crores as against of Rs. 9.94 crores in 1979. It means that the magnitude of industrial sickness of small scale industries of Delhi was increasing by 200 per cent, from 1976 to 1979. But from 1979 to 1981 the dimensions of sickness declined by 33 per cent. In 1979 the sickness was of the order of Rs. 9.94 crores but reduced to Rs. 8.29 crores in 1980, and was further decreased to Rs. 7.68 in 1981 yielding a percentage of 17 and 20 respectively.

CONCLUSION:

The above discussion leads to the conclusion that commercial banks are the only institution among all other functioning at Delhi that provide short-term institutional finance to small entrepreneurs in the union territory. That despite a large expansion in the network of banking sector in Delhi, the short-term funds directed to small sector
industries have been quantitatively very meagre. The annual average of bank credit to smaller units in Delhi is even lower than the yearly average of credit provided by banks to small sector on all India level. The yearly increases in bank finance to smaller units in Delhi have also been found proceeding at a snail's pace. Inadequacy and slow growth in the supply of bank funds has rendered the role of institutional assistance very limited which can hardly be characterised as conducive to growth and development of small-scale industries. In fact, the shortage of institutional finance has turned to be an important factor instrumental in deteriorating the financial health of smaller enterprises. It has been a cause of industrial sickness amongst small-scale units and responsible for the failure of smaller concerns in many cases. Some concrete measures are called for to improve the flow of finance to small-sector whose survival is vital for the development of the country as a whole. The next chapter, accordingly, is devoted to suggestions and recommendations in relation to conclusions drawn in respect of the role of institutional finance for small industries of Delhi at various stages in this study.
Small-scale enterprises occupy a pivotal position in the industrial structure of a country. With their enormous potential for increasing the consumable output and extensive capacity for generating employment opportunities as well as providing self-employment avenues, small industries are the linchpin in the process of economic development of a nation. They are instrumental in optimising the rate of industrial growth. The experience of the industrialised economies like those of the United States of America, the countries of Western Europe and Japan shows that small industries can greatly help in achieving sustained economic growth. That Japan today is a powerful industrial competitor in the world market is mainly because of its network
of small-scale units in various fields. It is now widely acknowledged that industrial development cannot be achieved by establishing and promoting only large-scale units.

The study reveals that giant industrial organisations are not an answer to the poverty-stricken societies of development countries like India. Large-scale enterprises cannot pull out the people from the deep abyss of poverty and galvanise the whole society into an advance industrial nation. Large industries alone cannot provide enough employment for a larger population of India, nor can they ensure the country's sustained economic and social development.

The study emphasises the significant role of small units in the developing countries like India with teeming population and scarce capital resources but possessing enormous unexploited human talent and natural wealth. For such nations small enterprises have specific advantages as they are the best means for the optimum exploitation of their natural and human resources. Being labour-intensive
small units present an opportunity to absorb a larger number of work force at minimal capital investment. They have greater mobility to spread themselves far and wide in every part of the country, and a better media for the flourishing of entrepreneurial talent of individuals as compared with large units where advance technology and heavy capital requirements are dominant factors and entrepreneurial qualities are not of so much consequence.

The study discloses that in recent years the development and performance of the small-scale industries in India has been phenomenal. There has been a spectacular spurt in the number of units as well as value of investment in the small scale sector of India. The contribution of small units constitutes 8 to 9 per cent in the net national product and half of the total industrial production in India emanates from the small industrial sector. These units account for a share of 22.5 per cent of the total industrial exports in India and 80 per cent of the total industrial workforce is absorbed in small enterprises. Small units have been producing more than 5000 varied items of
mass consumption.

The study finds that Delhi being the Union territory, the capital of the country and a metropolitan commercial centre is the hub of small industrial sector in India. While in Bombay and Calcutta, the industrial structure is dominated by large and heavy industries, in Delhi it is dominated by numerous small units. The study found their number in 1985 at 62,000 registered/unregistered units. Delhi holds promise of future growth for these units, for this metropolitan city is itself a big consuming centre and also the biggest distributional market in Northern India. The growth of this sector also received impetus in recent years due to the inclusion of the Union territory of Delhi in the 20-point programme announced by the late Prime Minister Smt. Indira Gandhi. The programme lays emphasis on providing facilities to small-scale units as a special case and on priority basis.

The study makes the interesting revelation that despite a favourable climate and an excellent
operational ground for smaller units in the Union territory of Delhi, these units are beset with multifarious problems which have afflicted their operational and physical health. These problems range in a wide spectrum, from the availability of infra-structural facilities like water and power to procurement of inputs, management of human and material resources and distribution of outputs. The analysis of these problems made in the study shows that a few of them are non-monetary and relate to general shortages of basic facilities in the country, but the majority of problems of small units of Delhi are monetary. In fact, every problem of small producer concerning production or material, quality or marketing, is in the ultimate analysis a financial one. The existence of small units of Delhi is, thus, fraught with problems of financial stringencies more than any other form of business organisation. Paucity of funds is their perennial problem and has seriously affected their prospects of growth and development.

The study analyses the demand for funds of small-scale industrial sector of Delhi and concludes
that small units need to finance 70 per cent of their capital requirements from external sources. The study reflects that institutional finance is particularly preferred by these units as it is comparatively cheaper than any other type of credit available to them. The sources of finance in the capital market of Delhi comprise a band of financial institutions, viz. Delhi Financial Corporation, Delhi Directorate of Industries, National Small Industries Corporation, Life Insurance Corporation of India, scheduled commercial banks, Delhi Industrial Cooperative Banks, Delhi Khadi and Village Industries Board, Indigenous bankers and money lenders. Some of these agencies are local in character set up by Delhi Administration and exclusively cater for the financial needs of smaller units located in the territory of Delhi. Other institutions are of national level operating with a network of their branches set up in Delhi and supply loanable funds to small business enterprises. Besides, some of the financial institutions extend only long-term financial assistance while others provide short-term credit to these units.
The study reveals that while long-term finance is extended to smaller units by all the local and national level financial intermediaries operating in the capital market of Delhi, the short-term funds are provided by a single institution, viz. the scheduled commercial banks.

The study makes the significant conclusion that on the supply side the total financial assistance received by the small industries of Delhi from the capital market, both long-term and short-term, aggregates to 29 per cent as against a demand for 70 per cent of financial assistance from these units. This leaves a wide gap for the smaller units of Delhi between their demand and supply of funds. The small enterprises have to lean on non-institutional sources to satisfy a substantially large part of their demand for funds. The meagre quantum of institutional finance provided by the capital market of Delhi clearly reflects on the contribution of financial institutions in the development of small industries of Delhi.

The study, thus, concludes that the role of financial institutions in the development and
growth of small industrial sector of Delhi has neither been expansive nor growing. It is revealed that during the decade under study, while the number of small industrial units in Delhi multiplied considerably, the number of units beneficiary of the institutional assistance shrank in strength. The institutions have, thus, remained unexpansive compatible to the increasing demand for finance emanating from an expansive small industrial sector of Delhi. Statistics of funds flows bring to fore that the yearly volume of financial assistance flowing from the numerous institutions functioning in the capital market of Delhi has maintained a fluctuating trend moving downwards during the period of the decade under study. The net funds supplied have neither grown in quantum to any significance in a decade nor has their growth been as much as the growth in the volume of their own assets. Interestingly, the performance of the Delhi Financial Corporation and the Delhi Directorate of Industries which are teritorial institutions for financing the Delhi's small industrial sector, has been below the mark. The net flows from the former have been in
the range of fifteen to twenty per cent of its value of assets, while the financial assistance extended by the latter have dwindled to less than half both in quantum and percentage over the course of the decade. Besides, there is a wide gap between the sanction and disbursals of assistance by the Delhi Financial Corporation. The declining size of disbursals have, in effect, rendered the higher amounts of sanction ineffective. The disbursals whittled down during the decade to just fifty per cent of the sanction of financial assistance.

The study makes the interesting revelation about the prejudices of financial institutions in the sanction of assistance on the basis of form of business among the small industries. Partnerships have been preferred more than any other form of small business organisation for financial support. On an average, one-half of the total credit of the Delhi Financial Corporation is annually directed towards partnership concerns. Proprietary concerns have secondary preference in the credit portfolio
of the Corporation. Sole-trade receives, on an average, one-fourth of the total credit. Private companies come next in order but the quantum of financial assistance to them has of late been found rising. The share of public limited companies has, however, been on the decline and the Corporation gives least preference to them.

The study further concludes that despite a large expansion in the network of banking sector in Delhi, the short-term funds directed to small-sector industries have been quantitatively very meagre. The annual average of bank credit to smaller units in Delhi is even lower than the yearly average of credit provided by banks to small-sector on all-India level. The yearly increases in bank finance to smaller units in Delhi have also been found proceeding at a snail's pace.

The study further concludes that the apparent reasons for the lack of institutional support for finance are two-fold. The financial institutions, because of the nature of their liabilities which create loanable funds for them, observe the yardstick of security, return and liquidity in granting
loans and advances to industry. The smaller units grossly fall short in measuring up to the institutional yardstick and fall short in satisfying the expectations of institutional lenders. There is no certainty of continuance of small business, their securities are not listed in the stock exchange and, hence, lack the institutional requirement of marketability, and the small units have low profit margins which cannot allow expected return to institutional lenders. The other obvious reason is found in the tortuous and cumbersome procedures laid down by the institutional lenders for sanctioning financial assistance to small-sector units. The small entrepreneur, mostly literate or illiterate as he is, does not find it convenient to carry out the lengthy trail of red-tapism to secure a loan. The time and cost incurred, besides the harassment suffered are the deterrent factors for the small entrepreneur to heavily bank upon the financial institutions for financial support.

The study finally concludes that the inadequacy and slow growth in the supply of institutional funds
to small industrial units of Delhi has rendered the role of institutional assistance very limited which can hardly be characterized as conducive to growth and development of small-scale sector of Delhi. In fact, the shortage of institutional finance has turned to be an important factor instrumental in deteriorating the financial health of small enterprises of Delhi. It has been a cause of industrial sickness amongst small scale units and responsible for the failure of smaller concerns in many cases. Some concrete measures are called for to improve the flow of institutional finance to small industrial units of Delhi which is considered essential for the development and growth of these units. This study makes the following suggestions to this end. Some of the recommendations are general in nature for small industrial sector as a whole and their benefits would flow to smaller enterprises of Delhi also. Other suggestions are specifically made for the small-scale sector units of Delhi.

An Apex Financial Institution, exclusively for the small-scale industries should be established as a first step towards easing out the smaller
units from financial stringency. The institution may be designed on the lines of the Agricultural Refinance Development Corporation. The Apex Institution should be the principal agency for (i) translating industrial development programme for the small-scale units into bankable proposition, (ii) coordinating the programmes of various other institutions engaged in providing finance to the small-scale decentralised units, (iii) assisting the development of new institutions to provide support facilities and (iv) providing finance and refinance facilities to such institutions.

The apex institution, it is suggested, be set up with an initial capital of Rs. 50 crores to be subscribed jointly by the Reserve Bank of India, the Industrial Development Bank of India and the scheduled commercial banks. The Reserve Bank of India should have the largest share in the institution. As the institution will be engaged in the promotional and developmental activity of the vital priority sector of small industries of our economy, no dividend can be expected from such an institution for an initial period of ten years.
It should also be tax exempt during this time. When formed, it will provide the necessary focus for ensuring a larger flow of credit to the small sector industrial units.

Also, there is need for (a) comprehensive legislation concerning the growth and development of small-scale industries. The legislation besides covering important areas such as compulsory registration of small enterprises, provision for ensuring supply of inputs, construction of sheds for small-scale units, etc. must also elaborately provide for financing aspect of the small units. For instance, delay in making payment by larger units require to be checked. The shortage of finance has been accentuated by the failure of large units to make timely payment of bills to small units against their supplies. In view of the poor bargaining capacity of these helpless suppliers, the large firms tend to assign the lowest priority to these payments. Official investigations have brought to light the fact that "some of the giant public sector undertakings have been guilty of this practice" (Economic Times, New Delhi, 13.7.1984).
The melody of course is not confined to public sector. Under conditions of recession and financial stringency, many larger units in the private sector face heavy odds. But that is no excuse for denying small units their dues. Inordinate delays in clearing payment of small-scale sector have actually been instrumental in causing sickness to smaller units and also responsible to their failures. Besides ensuring timely payments, the legislation should also provide for the course of action against wilful defaulters.

The Legislation should also deal with the saving institutions which are concerned with and extend financial support to small-scale industrial units. Clear guidelines require to be laid for the saving-oriented financial institutions to be liberal in meeting the demand of the priority sector of our economy. It is desirable that a percentage is fixed of their total credit to be directed for assistance to the small-scale units. Fixing of such percentage should be based in relation to the total demand for external funds of this sector. The legislative measure shall increase the flow of institutional
finance comparatively at a lower cost to small industries and thereby boost the profitability of these units.

There is a need in the Union Territory of Delhi for a close coordination between the activities of institutions concerned with providing financial assistance to smaller enterprises of Delhi. The task can be assigned conveniently by establishing a Coordination Cell attached to the Delhi Financial Corporation. A co-ordinated approach towards financing the smaller units can better serve these units and should effectively contribute to their growth and development.

Banks are the largest repositories of financial resources and they have the largest network of their branches in the Union territory of Delhi. Small scale industries have been assigned prime importance in our planning and, hence, an increasing amount of bank credit must flow into this sector. The banks, however, have not contributed up to the target fixed by the Government for them. Against an standing directive to them to push up credit to small-sector upto 40 per cent of their total loanable funds,
they have actually been able to disburse around 20 per cent so far. There is still scope for the banking sector to enhance its financial support to small industries.

There is need that the Delhi Financial Corporation should step up the flow of funds to small units in quantum compatible with the growth in its assets. Its operations should be expansive in nature so that it covers under its financial assistance programme the growing number of small units in Delhi. By reducing its administrative overheads, the Corporation can release funds for increasing the volume of its assistance to smaller units. Besides, the Corporation should narrow down the gap between its sanctions and disbursals which is at present considerably wide. The Corporation is the chief institution of finance to Delhi’s small business and it can enhance its role as purveyor of funds to a great extent if the ratio between sanction and disbursal is brought as near to unity as possible.

There is also need to streamline the procedures for the procurement of financial assistance from the institutions. The current cumbersome procedures
be made simple and within the comprehensive ability of the small entrepreneur who barely knows the three R's. A two-pronged strategy can be adopted for the purpose. The institutional staff should be so trained as to inculcate in them a growing awareness to be considerate and sympathetic towards the development of small business with an understanding that on these industries rests the upliftment of the weaker sections of our society and the ultimate advancement of our country. On the other hand, the steps be taken to educate the small entrepreneurs to make them aware of the policies and programmes of the Government and institutions aimed at the development of small sector industries. The holding of entrepreneurial development and education programmes by the Delhi Financial Corporation, the Delhi Directorate of Industries and the commercial banks is strongly recommended. √

There is also felt the need to express a word of advice to small unit-holders of Delhi. Small entreprenureurs do not maintain suitable books of accounts and other records. They do not find it convenient or just do not have the necessary facilities.
This makes it difficult for the institutional lenders to gather relevant data for evaluating them and arriving at credit decisions. Small entrepreneurs must, therefore, maintain accounting records which would help them getting financial assistance easier and quicker.

Finally, a Monitoring Committee, to serve as watchdog at the Delhi Territorial level be constituted to ensure that the credit extension limits, recommended to be fixed for the financial institutions in respect of the small-scale units of Delhi, as well as other facilities with regard to production, marketing, etc. extended to them, are duly met. The Monitoring Committee should consist of representatives from the local government, financial institutions and the small-scale sector. This will have an encouraging effect on the flow of institutional finance to small-scale units of Delhi.
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