

ROLE OF BANK FINANCE IN THE DEVELOPMENT OF SMALL SCALE INDUSTRIES

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ABSTRACT

Different national and state level institutions operating in the country for meeting the credit requirements of the SSIs sector include Small Industries Development Bank of India, Commercial Banks, Regional Rural Banks, Co-operative Banks (State, Central and Primary), State Financial Corporations/ State Industrial Investment Corporations, State Small Industries Development Corporation, National Bank for Agriculture and Rural Development, statutory bodies (KVIC, COIR Board, Handloom Board and Handicraft Boards), National Small Industries Corporations Limited and the like. The Industrial Policy Resolution, Five Year Plans and recommendation of different committees on SSIs focus on the need for adequate and timely delivery of credit to the SSIs sector by commercial banks. The increase in the working capital limits, as suggested by different committees on the financing of SSI units, would ease the flow of bank credit to the small-scale industry. In this paper Role of Bank Finance in the Development of Small Scale Industries in India has been discussed.

KEYWORDS: Credit Requirements, SSIs Sector, Bank Credit, Bank Finance, Small Scale Industries.

Introduction

On the basis of Investment or production, the industrial sector can be categorized into three parts as under:

- **Small Scale Industries:** It refers to the industries which involve the manufacturing of raw materials into the product by use of machine or labour. These are the industries where the investments in the plant and machinery are more than Rs. 25 lakhs but not more than Rs. 5 crores.
- **Medium Scale Industries:** These industries are those where the amount invested in plant and machinery is more than Rs. 5 Crores but not more than Rs. 10 crores.
- **Large Scale Industries:** It refers to those industries which require huge infrastructure, labour and have influx of capital assets. It means all heavy industries like Iron & Steel, Automobile etc. in which investment in plant and machinery is more than Rs. 10 crores

When we study about industrial need of money the study of categorization of industries is must. The requirement of money is the primary function of a Funds Manager for the industrial development whether it is a small scale, medium scale or large scale unit.

Why Small Scale Industries Require Money

The financial requirement of a small scale industry rises because of the following reasons:

- To start business

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- To purchase raw materials
- To start production
- To purchase or establish fixed assets like plant and machinery
- To develop the market
- To meet out the day to day expenses

Meaning and Concept of Small Scale Industries

Small scale industries play an important role in the development of a developing economy like India. It provides ample sources of employment, income generation and utilization of resources. "SSI means manufacturing industries on small scale. In developing countries they play important but in developing countries scarcity of capital is severally limited. So the success of SSI depends upon adequate finance or Bank Facilities. Mahatama Gandhi among the earliest advocates small scale industries. He set up Khadi Industries which is a part of SSI. As we know expansion of Trade and Commerce depends on industrial growth. SSI also play important role in development of economy. Small scale industries require finance for various purposes such as starting business, set up of fixed assets, land and building, other assets like goodwill, trade mark, current and noncurrent assets. In process to manufacture, raw material into finished goods finance is required.

Role of SSI

SSI plays an important role in the development of an Economy as 60-70 percent of total innovation in India comes from small scale industries. Role of SSI in the development of economy is given below:

- Provides employment
- Facilitates women growth
- Mobilization of local resources
- Small scale industries pays for proper or optimal utilization of capital
- Develops entrepreneurship
- Small scale industries promotes export

Scope of Small Scale Industries

Scope of SSI is very vast among them the important ones are as follows:

- Manufacturing activities
- Servicing activities
- Repairing activities
- Construction activities
- Handloom and Handicraft
- Cotton Industries

The small scale industries board was first constituted in 1954 to provide facility and advice to the Government on various policies and other related issues which are related to the development of SSI. Small scale industry services institutions prefer various functions for small scale industries like technical support services and consultancy services, entrepreneurship development programmes, promotional programmes, development efforts

Role of Banks

In order to strengthen the scope of SSI development in the country, Banks and financial institution should come forward to give financial support to small scale industries because the success of small scale industries depends on efficient or adequate finance or banks support. The role of various banks set up specially to promote the growth of SSI to quite unique. These institutions of finance are important in developing countries because of low capital formation, ill organized capital market, gap between need and supply and finance to SSI. In developing countries like India development of SSI is primarily responsibility of the Government or Banks. The growth of SSI and role of banks and financial institutions have great importance that's why the facilities services and policies are formulated or generated for encouragement of SSI adequate finance. Bank play vital role for SSI like commercial banks can also provide funds for meeting short term needs or for working capital. Banks gives credit facilities sanctioned by banks under the study to SSI units. It can be classified into two categories namely:

- Short Term
- Medium and Long term

These two are primarily known as working capital loan and term loan respectively:

- **Term Loan:** are sanctioned for acquiring block or fixed assets (land, building, plant and machinery)
- **Working capital loan:** It is provided for meeting day to day expenses like purchase of raw materials, consumables stores or fuel and other essential needs.

Facilities Given by Banks to SSI

- Cash Credit Facility
- Bill facilities, discounting of bills of exchange
- Consultancy
- Advancing of loans
- Overdraft
- Bank guarantee
- Remittance of funds
- Dispatching deposits
- Debit cards
- Mobile banking etc.

If we compare present banking system with one we had before nationalization, it may be seen that there is complete change in style and patterns of lending. Earlier banking credit was generally available to select classes of people with financial standing for sitting up conventional industries like cloth, sugar, jute, rice mills etc. Now a day's security oriented approach is being replaced by a project and need base approach.

Role of RBI

The RBI like all Central Banks can be called a Banker's Bank because it has a very special relationship with commercial and cooperative banks and the major part of its business with these banks.

Main Function of RBI in Case of SSI

RBI promote the development of financial infrastructure of SSI, it plays a lead role in developing sound financial system to small scale industries. Through these financial institutions like RBI has been providing long term and short term funds to the small scale industries, the large industries and to export sector. It has helped to develop guarantee services in respect of loans to SSI and sick units. Without adequate finance no industry can grow or develop. Finance is life line for each industry.

Conclusion

Indian banking sector has to change its strategy to full fill the financial needs of the society in cost of effective manner it has focus on the need of the customers rather than sell whatever it can. It will have provide fast quick and safe banking services to its customers like small scale industries , medium scale industries or large scale Industries.

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