

# The Role of Small Industries Development Bank of India in the Development of Small - Scale Industrial Sector in Kerala

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## Introduction

A country has to embark upon industrialisation for quickening the pace of economic development. The net value of output per person is higher in industry than in agriculture due to the greater scope for internal as well as external economies. Jawaharlal Nehru correctly expressed the need when he said, "Real progress must ultimately depend upon industrialisation". The planners and visionaries have looked upon industrialisation as the main vehicle for improving the living standards of the people. In the beginning of this century, M.Viswesvaraya opined, "industrialise or perish"

The objectives of industrialisation are:

To promote economic development and increase income levels, to increase employment and remove unemployment, to strengthen foreign trade, to stimulate the development of other sectors, to develop strategic industries and to safeguard defensive requirements.

Scholars and economists from the time immemorial have recognized the importance of industrialisation as a means for achieving rapid growth and prosperity. Elaborate discussion on the role of industry in fostering development is found in Kautliya's Arthashastra.

Industrialisation on the whole plays an important role in the development of under developed countries. In a developing country like India the small-scale sector occupies an important place in the industrialisation. In addition to national programmes, governmental, non-governmental and international organisations working in developing countries also consider small enterprise promotion to be an important component of industrialisation and employment creation.

Small business enjoys a tradition of infinite variety and solid achievement. Small business flourished in almost all the ancient cultures. The Arabs, Babilonian, Egyptians, Jew, Greek and Romans excelled at it.

In a resource scarce and labour surplus economy, Small-scale Industries (SSI) have been recognised as an important tool of economic growth because of its capability to provide large-scale employment at low level of capital investment and also for contributing towards dispersed development. Rajiv Gandhi correctly expressed the need for the development of small-scale sector in his speech delivered at the National Convocation on small-scale industry, which was organised by the Federation of Associations of Small Industries of India in New Delhi on Sept. 17, 1986. He said, "Small-scale sector is one of the main legs of our Industrial development". V.P. Singh at the concluding session of National Development Council meeting on June 19, 1990 also expressed the need for development of small-scale sector by saying "It is the small-scale sector which has given a large volume of employment and also boosted our exports." Mahatma Gandhi once said." The poor of the world cannot be helped by mass production, only by the production by the masses .If large number of producers were to exist for wider markets, the entities that produce necessarily be small. It is only the earth that is large. All else is small."

In the words of Nanjappa, small-scale Industry is a "golden mean" which can bring the benefits of modern technology and economic production and can emerge as an important plank to tackle the problems of unemployment, under employment, regional disparities and economic backwardness.

Jayaram Vyas opined small-scale industries have the capacity to achieve economic growth faster in view of their small gestation period, high employment potential and relatively limited financial requirements. In a developing nation like India, where population is high and incomes are low, it is inevitable to develop the small industrial sector, which absorbs more men with low capital. The small-scale industries are assigned a top place

in our country's industrial development programme for the following reasons:

1. In India shortage of capital is a chronic problem and it has to be employed as efficiently as possible to expand the employment opportunities. A given amount of capital invested in a small-scale unit provides more employment than the same amount in a large undertaking. The first All India Census of small-scale industrial units made in 1973-74 revealed that Rupee one lakh investment in fixed assets generated employment to 16 to 20 persons as against only 4 persons in the large-scale sector.
2. Indian economy is agrarian in nature. The increasing labour force in rural areas could not be absorbed in agriculture. Small-scale industries provide employment without affecting main occupation in agriculture.
3. India aims at achieving a socialistic pattern of society, which imparts equitable distribution of wealth and reduction in the concentration of economic power. Income generated in a large number of small enterprises dispersed more widely and a large population derives its benefit. This is due to wide spread ownership and decentralised location of small-scale units. Balanced regional growth is a socio-economic requirement for all round development of the nation, large industries have a tendency to cluster around big cities. It creates economic and social evils like pollution, slums, and shortage of civic facilities. It can be eliminated by setting up SSI units in underdeveloped areas and by providing employment to local people.
4. In the case of small-scale units the gestation period is lesser than large-scale industrial units. SSI units are less dependent on imported machinery and raw materials. They usually use locally available raw materials.
5. Small industries seem to specialise in certain spheres of industrial production. There are many economic activities, which are not suited to large-scale enterprises, but the SSI units specialise in such activities. An efficient small industry sector can substantially enhance the efficiency of large factories by relieving them of the necessity of making certain operations, which for some reason or the other, the smaller unit can provide at a lower cost.
6. On technical grounds also, small-scale industries are favourable. Harrison stated that the cheapest and quickest way of spreading appropriate technology widely is to encourage small-scale enterprises.
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From all these it is clear that the small-scale sector and its development in a developing economy like India is essential. Hence, this sector is awarded a special consideration and proper relevance to our economy.

### Statement of the Problem

In the development dynamic of Indian economy, the small-scale sector, which covers a wide spectrum of industries, occupies an important place. It has undoubtedly grown into one of the most vital sectors of our economy. The small-scale sector including small, tiny and cottage industries with a total strength of forty lakh units plays a vital role in the economy. It not only provides immediate employment on a large-scale but also acts as a tool for ensuring a more equitable distribution of income as well as an effective vehicle for mobilisation of resources including capital and entrepreneurship, which would otherwise remain unutilised. According to the Economic Survey 2001-02 the small-scale sector has played a very important role in the socio-economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP), employment generation and exports. The performance of the small-scale sector therefore has a direct impact on the growth of the overall economy.

Kerala is a region where the employment problem is most acute and the development of small-scale industry occupies importance for solving the unemployment problem and for achieving economic growth. In terms of size and factor productivity small-scale sector in Kerala compared poorly with all India figures and other southern states. So the growth of small-scale industry is not remarkable in Kerala. The third All-India Census of small-scale industries has identified Kerala as the state accounting for around one fourth of the country's sick small-scale industrial units. One of the main reason for sickness is shortage of finance. The small-scale industrial sector confronts several problems despite its strategic importance in industrialisation and its immense potential for employment generation. The problem, which continues to be a big hurdle for the development of the sector, is lack of timely and adequate credit. Tamil Nadu had the highest share among the southern states in cumulative disbursements from all-India financial institutions at 7.7 percent up to 2000-01 followed by Andhra Pradesh and Karnataka, which were almost equal at 6.3 percent. Kerala got a meagre 1.5 percent of all-India

financial institutions disbursements. The institutional finance assumes considerable importance in the developing countries because of low capital formation, ill organised capital market, gaps between the need and supply of finance in small industrial units.

Central and state governments have developed a comprehensive network of institutions in the public sector for the promotion of small-scale industries. Among all those provide finance to small-scale industries; the government has set up Small Industries Development Bank of India (SIDBI) to meet the requirements of small-scale sector in particular. The difficulty in getting the right type of finance at the right time and in right quantity continues to hunt the small entrepreneurs and still rank among the major problem faced by small-scale sector in Kerala. By reason of their size they are not in a position to raise equity from the capital market. But no pragmatic effort has been made by individual researchers and government reforms in this area so far. Such a study, is hoped would throw light in the position of SSI in Kerala and also the role played by SIDBI for the overall development of SSI sector in Kerala.

### Scope of the Study

The study of small-scale industries has always been a subject of wide interest and various interpretations. But the scope of the present study is restricted to those units, which fall under small-scale sector as defined under the Industries Development and Regulation Act of the Government of India (1999). A small-scale unit is defined as “a unit engaged in manufacturing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs: 1 crore”. Among the various types of institutions providing financial assistance to SSI units in Kerala, SIDBI has its special importance. Keeping in view the growing importance of the SSI sector in the region and the crucial role of Small Industries Development Bank of India in the development of SSI sector, the present study is confined to the role of SIDBI in the development of SSI sector in Kerala. The study concentrates on its promotional and developmental activities, operational and financial performance, nature and form of assistance, form and structure of the SIDBI aided units, and impact made in the development of small-scale industries are also included in the purview of the present study.

### Objectives of the Study

1. To assess the performance of SIDBI.
2. To identify the form and structure of SIDBI aided units and also the socio-economic profile of the entrepreneurs of such units.

3. To determine the nature and form of assistance disbursed by SIDBI.
4. To assess the impact made by SIDBI on the development of small-scale industries.
5. To evaluate the promotional and developmental activities of SIDBI.

### Hypotheses of the Study

1. Among the financial institutions at the national level, SIDBI has a significant share in industrial financing.
2. There is no difference in the financial performance of SIDBI and other development banks.
3. There is no difference between SIDBI aided units and other agency aided units in the form level of investment, and nature of business.
4. The socio-economic profile of the entrepreneurs of SIDBI aided units is similar to other agency-aided units.
5. SIDBI disburses more long-term loans than other financing agencies.
6. The cost and terms of SIDBI loans are more attractive compared to loans from other sources.
7. Obtaining loans from SIDBI is less difficult compared to other sources.
8. SIDBI has created more impact on the development of SSI than other financing agencies.
9. SIDBI aided SSI units in Kerala are benefited by the Promotional and Developmental Activities of SIDBI.

### Methodology

The small-scale units registered with the district industries centre in Kerala form the universe of the study. Sample units have been determined by using a two-stage procedure. All the districts in Kerala have been divided into two categories on the basis of the norms of the KFC. The KFC has classified the districts of Kerala into two categories – Category-1-Non backward districts (Ernakulam, Palakad, Kozhikode, Kollam, Kottayam, Pathanamthitta) and Category-2-Backward districts (Idukki, Wynad, Alapuzha, Malapuram, Kannur, Kassargod, Thiruvananthapuram and Thrissur), depending on the level of industrial development achieved by the district. Two districts from each category (Category 1 – Ernakulam Kozhikode and category 2- Idukki and Thiruvananthapuram) selected on simple random sampling technique.

### Selection of the Sample Units

SSI units in the selected districts were divided into two categories. They are: Units, which received financial assistance directly or indirectly from SIDBI and units assisted by other agencies. 25 units from each group were selected from selected districts on simple random sampling technique.

Units financed directly or indirectly by SIDBI are selected from the list obtained from SIDBI and KFC. Units financed by other agencies are selected from the list obtained from the District Industries Centres of the selected districts.

### Collection of Data

Both primary and secondary data were used for the study. Primary data required for the study have been collected from small-scale units by using structured interview schedule. Relevant information has been collected by holding discussions with various officials of SIDBI. The draft interview schedule designed for the purpose was first tested by conducting a pilot survey among a sample of 10 units, which had availed financial assistance from SIDBI and other agencies in Ernakulam district. The interview schedule was restructured and finalised after making necessary alterations on the basis of the experience and feedback obtained in the pilot study. The collected data have been consolidated using districtwise, organisationwise and investment levelwise classification.

The secondary data have been collected from the following sources. SIDBI report on small industries sector, Annual reports of SIDBI, Publications of Ministry of Small-scale industries and Agro & rural industries. Statistical statements relating to small-scale sector published by National Institute of Small Industry Extension Training (NSIET), IDBI Reports on Development Banking, various publications of SIDBI, Report of the study group on development of small-scale enterprises, Plan documents of both central and state governments, Study Report of Planning Board and Department of Economics and Statistics, academic studies conducted in related fields in different Universities, books and journal dealing with the subject.

Websites of SIDBI and IDBI and other related sites have also been referred to collect the latest information. The collected data have been analysed with the help of appropriate technology.

### Period of the Study

Since the introduction of the new economic policy of Liberalisation in the mid 1991, the SSI sector had to pass through a very hard phase in the 90's. So the study covers a period of 12 years from 1990-91 to 2001-02. The survey for the study has conducted during 2002-03.

### Method of Analysis

In social research it is customary to use the before and after approach or with or without approach for investigating a research problem. The present study uses with or without approach.

### Tools of Analysis

Secondary data on the growth in number of small-scale units, production, employment and export

have been analysed with arithmetic technique like average annual growth rate and percentages. State wise performance of SSI in India is studied by using multidimensional scaling graph. The financial performance of selected development banks was evaluated mainly with the help of accounting ratios. The variations in the ratios of selected development banks in different years were tested by applying coefficient of variation. The perception of SSI units towards SIDBI was collected by administering pre-tested schedules. The socio economic profile of entrepreneurs of sample units, the quantity of loan, the cost and terms of loan, easiness in obtaining loan, impact of financing in the case of SIDBI aided and other agency aided units and their association were tested by using the Chi-square test. The difficulty experienced in obtaining loan, causes for committing default, causes for postponement of modernisation and reasons for dissatisfaction were analysed by using the ranking method. Graphs were also used to indicate the trend of essential variables.

### Measurement of Linkages

There are two types of linkages that are backward linkage and forward linkage. Both types of linkages has been calculated for the sample units using a three-point scale. The maximum score of three is given to units, which procure materials/sells the output locally or within the district. The lowest score of one is assigned to units that procure materials/sells the output outside the state. Units that procure materials/sells the output outside the district but within the state are given two points. The scores received by each unit are aggregated to get the total linkage for the unit. The units are then classified into three categories i.e. low medium and high depending on the total score of the unit. Units up to two points are rated low, units with score three and four are rated medium and units with five or more points are rated high in the linkage creation.

The alternatives available under the variables are assigned weights using a five-point scale. The most important factor identified by the respondent unit is assigned five points, the next important factor four points and so on. The lowest score one is given to the least important factor. Only the first five responses under each variable are weighted in this manner. The scores assigned to each alternative are then aggregated. The alternative recording the highest score is ranked first, the next highest score is ranked second and so on.

### Limitations of the Study

The study suffers from certain limitations. They are:

1. Some of the entrepreneurs were hesitant to give correct information pertaining to sales, profit etc. In such instances it was necessary to resort to indirect methods for gathering information.

2. The form and pattern of statistics and records varied from unit to unit which render their comparison difficult.
3. The researcher found wide variations in the data collected from the sample units and the data collected from official sources.

However in spite of the apathy of the entrepreneurs in providing sufficient and relevant information and the reluctance on the part of the SIDBI officials to provide information, every possible effort was made to find out their attitude/perception in various areas in an objective manner. The best use of the data available has been made to make the study purposeful.

### **Scheme of the Study**

The study has been divided into nine chapters.

Chapter 1 is the introductory one and describes the introduction of the study, statement of the problem. It also outlines the scope, objectives, hypothesis, sample design, data collection methods, and tools of data analysis, the period and limitations of the study. Chapter II Presents the review of different studies on SSI conducted in India and Kerala. Chapter III provides an overview of SSI in India. It deals with the importance of SSI in the world, definition of SSI in other countries, scope of SSI in selected countries, changing definitions in India, SSI development in India, growth trends, development under the Five Year Plans, small-scale sector in Kerala. Chapter IV outlines a brief review of the operations of SIDBI. It covers various schemes of SIDBI and institutional framework for assistance of SSI and state wise assistance, industrywise and purpose wise assistance sanctioned by SIDBI. Chapter V deals with financial performance of SIDBI. It includes a comprehensive study of the operations of SIDBI and also financial performance comparison of selected development banks. Chapter VI deals with the pattern and form of organisation of the sample units. The socio economic profiles of the entrepreneurs of sample units are also highlighted in this chapter. Chapter VII analyses the nature and form of assistance disbursed and easiness in getting the assistance and impact made by SIDBI on development of SSI units in Kerala. Chapter VIII includes the problems of small-scale industries and evaluation of the promotion and developmental activities of SIDBI. Chapter IX presents the findings of the previous chapters, conclusions and makes a few suggestions for improving the services to the small-scale industries.

### **Major Findings of the Study**

#### **Growth of Small-Scale Industries**

The study from 1974 to 2002 reveals that the growth in the number of SSI units in India is more than

eight times. The period from 1990-91 to 2001-02 shows a declining trend in the growth rate of the number of units in India. The growth rate is above five percent till 1995-96, but this comes down to 2.08 percent during 2001-02. Average annual growth rate in number of units during this period is only 4.97 percent. The growth rate in production from SSI sector also shows a declining trend. The average annual growth rate is 14.12 percent. The growth in number of employment shows an above 3 percent growth rate in all years except 1998-99. The average annual growth rate is 3.89 percent.

The growth rate in export from SSI sector shows a declining trend. However the average annual growth rate is 15.06 percent. The performance of SSI in different states of India is analysed. For an effective comparison, the states are divided into two groups on the basis of industrial development. They are major states and other states. Among the major states Maharashtra and among the other states Himachal Pradesh perform better in respect of the five variables analysed. The share of SSI in total export is 29.7 percent in 1990-91 and this rose to 36.3 percent in 1993-94 and came down to 29.84 percent in 2001-02. The average share of SSI in total during the period is 32.81 percent. The average share of export in total SSI production is only 9 percent.

#### **Growth of Small-Scale Industry in Kerala**

The growth rate in the number of units in Kerala shows a declining trend. The average annual growth rate in the number of units during this period is 11.86 percent. The growth rate of investment in SSI units also shows a declining trend. Average annual growth rate during this period is 15.44 percent.

The growth rate in production shows a decreasing trend. The average annual growth rate is 14.75 percent. The growth rate in employment is 16.35 percent in 1990-91 and came down to 4.99 percent in 2001-02. The average annual growth rate is 8.78 percent. The average annual growth rate of SSI units in India was 4.97 percent but in Kerala it was 11.83 percent. The percentage of SSI units in Kerala to India was 3.75 percent in 1990-91; this went up to 7.50 percent in 2001-02. Districtwise analysis of SSI units in Kerala shows that Ernakulam had the highest average share in number of units. Wyanad had the lowest share. Thiruvananthapuram, Kollam, Kottayam, Ernakulam and Thirur accounted for more than 50 percentage of the SSI units during the period under study. The findings mentioned above reveal that the small-scale industries in India as well as in Kerala are not able to sustain their growth rate in the post liberalization era.

### Operational Performance of SIDBI

Of the total assistance disbursed by AIFIs in the last five years an average of 77.42 percent is disbursed by All India Development Banks. Among the All India Development Banks SIDBI is in the third position and its disburse average is 9.54 percent of the assistance disbursed by the AIFIs.

In the statewise per capita assistance of All Financial Institutions the share of SIDBI is found to be highest in Tripura and lowest in Maharashtra. In Kerala the average share in per capita assistance of SIDBI is only 19.45 percent. The share of SIDBI in all India per capita assistance is only 5.94 percent. The statewise percentage share of SIDBI assistance in total assistance of AIFIs shows that among the big states Bihar has the highest share (41.37 percent), and among other states highest share goes to Nagaland (75.03 percent) and in Union Territories the highest share is claimed by Chandigarh (58.40 percent). It is also found that 51 percent of the states, the share of SIDBI finance is only less than 20 percent. In schemewise assistance by AIFIs it is found that SIDBI has considerable share (80.49 percent) in refinance and bill finance (direct discounting 43.80 percent and rediscounting 32.72 percent). In rupee loan (2.10 percent), foreign currency loan (0.04 percent) and working capital loan (0.67 percent) the share of SIDBI is very low. The industrywise analysis of AIFIs assistance reveals that 84 percent of the industries, the share of SIDBI assistance is less than 25 percent. Only in three industries the share of SIDBI assistance is more than 50 percent.

It is found that 73 percent of the assistance to the infrastructure sector is provided by IDBI and ICICI. The share of SIDBI in financing the infrastructure sector is only 3.53 percent. It is found that the average growth rate in sanction (13.65 percent) and disbursement (12.18 percent) of SIDBI is less than that of AIFIs (17.35 and 17.29 percent). The percentage of disbursement to sanction of AIFIs (69.90 percent) is less than that of SIDBI (70.93 percent). It is found that SIDBI provided more assistance for modernisation/ balancing equipment purpose (9.77 percent), and for new business (9.71 percent). The share of SIDBI for the purpose of rehabilitation of sick units is only 3.64 percent.

From the above findings it is clear that among the financial institutions at the all India level SIDBI has no significant share in industrial financing. So the first hypothesis, which said that, SIDBI has significant share among the financial institutions at the all India level in industrial financing does not hold good. Credit sanctioned by SIDBI in all India level shows the growth rate of 13.65 percent. In Kerala the average growth rate is 17.66 percent. The growth of sanction is higher than the growth rate at all India level. In 2001-02 SIDBI assistance in Kerala as well as India shows a negative growth

rate. In Kerala loan disburses on an average 78.61 percent of sanction but at all India level it is only 71.17 percent. It is found that 41.8 percent of the loans have been disbursed in Maharashtra, Gujarat, Tamilnadu and Karnataka. When compared to the neighboring states, Karnataka and Tamilnadu the share to Kerala is very low. It is found that more than 50 percent of the refinance is provided through State Finance Corporations and around 40 percent are through Commercial banks.

More than 30 percent of the disbursement is to service and electricity generation industries. Maximum share (20.88 percent) went to service industry and minimum share (0.22 percent) to fertilisers industry.

### Financial Performance of SIDBI

SIDBI is at the top with a mean ratio of 90.88 percent. This is followed by IDBI (81.92 percent) and IFCI (81.31 percent). IIBI has the lowest mean ratio (75.49 percent). The mean ratio is highest for IIBI (21.11 percent) IFCI follows with a ratio of 18.33 percent. The ratio of IDBI is 17.70. SIDBI is at the bottom with a mean ratio of 8.90 percent. Among the selected development banks, the Interest Expense to Total income ratio is the lowest for SIDBI (66.39 percent), followed by IIBI 74.02 percent and IDBI 79.18 percent. IFCI tops the list with mean ratio of 86.82 percent. IDBI leads the list with ratio of 6.20 percent. SIDBI ranks second with an index of 6.31 percent. The other two Development banks are far behind with IIBI in third position (9.15 percent) and IFCI at the bottom (17.87 percent). Interest Expense to Interest Income is the lowest for SIDBI (73.05 percent) followed by IDBI 96.65 percent, IIBI 98.05 percent and IFCI 105.55 percent. The overall index is 92.46 percent. Among the selected development banks, it is lowest for SIDBI 10.33 percent, followed by IDBI 11.83 percent and IIBI 11.94 percent and highest for IFCI 11.98 percent. IFCI is at the top with a mean ratio of 13.54 percent. This is followed by IIBI (13.86 percent) and IDBI (12.78 percent). SIDBI has the lowest mean ratio of 12.41 percent. SIDBI leads the list with a mean ratio of 113.93 percent. IDBI ranks second with a mean ratio of 95.90. IIBI in the third position with a mean ratio of 87.80 percent and IFCI has the lowest ratio of 84.08 percent. The mean ratio is highest for SIDBI (2.35 percent). IDBI follows with a ratio of 0.30 percent and IIBI 0.23 percent. But IFCI is in a weak ratio of -0.48 percent. In the case of all selected development banks except IFCI the Non-Interest Expense is less than Non-Interest Income. The mean ratio of IFCI is -0.79 percent. It is followed by SIDBI 0.02 percent and IDBI 0.50 percent and IIBI 1.11 percent. The mean ratio is highest for SIDBI (11.81 percent). IDBI follows with a mean ratio of 11.16 percent and IIBI with a mean ratio of 11.37 percent. But IFCI is in the red

with a ratio of -4.95 percent. From the above findings, it can be observed that majority of ratios indicating financial position is better in the case of SIDBI. So the second hypothesis, which said that, there is no difference in the financial performance of the IDBI, IFCI, IIBI and SIDBI, stands cancelled. Compared to other selected development banks SIDBI has a better financial performance.

### **Form and Structure of Sampled Units and Socioeconomic Profile of the Entrepreneurs**

The distribution of the sample units by the form of organisation shows partnership firms and companies dominate the SIDBI aided group while partnership firms and proprietary concerns are the principal form of organisation in the other group. The classification of the sample units by size of investment shows SIDBI assisting units fall in all the size categories while other agency aided units flows more towards the smaller size categories. The distribution of sample units by nature of industry shows rubber, plastic, food, engineering, and electrical units dominate both SIDBI aided group and other agency aided group. The distribution of the sample units by the year of establishment reveals that most of the SIDBI aided units have been established after 1990. In the case of units assisted by other agencies approximately an equal number of units established before and after 1990.

The distribution of the sample units by size of direct employment reveals that SIDBI lending operation is more oriented towards both units employing less than 25 workers and units employing between 25 to 50 workers. The credit flowing from other agencies is directed towards units employing less than 25 workers. The distribution of sample units on the basis of indirect employment shows that only less than 25 persons are indirectly employed by units in SIDBI aided groups and other agency aided groups. Based on these findings, the third hypothesis, which said that, there is no difference between SIDBI aided units and other agency aided units in the form, level of investment, and nature of business does not hold good.

### **Socio Economic Profile of Entrepreneurs**

It is observed that an overwhelming majority of entrepreneurs in both groups are males. It is found that majority of the entrepreneurs in both groups belong to the age group of 40 to 50 and 50 to 60. It is seen that the entrepreneurs in both groups are well educated. Most of them are either college educated or technically qualified. It is evident that most of the entrepreneurs in both groups have more than three years of experience in the same business field. It is observed that 46 percent of the entrepreneurs are motivated by previous experience and 42 percent are motivated by self-employment in the SIDBI aided group. While 71 percent of entrepreneurs in

the other group are motivated by their previous experience. The above-mentioned findings confirm the fourth hypothesis, which said that, the social background of the SIDBI aided units is similar to the other agency-aided units. The analysis reveals that SIDBI has disbursed more amount of loan than other agencies. It is found that SIDBI disburses only term loans. Both the kinds of loans are prevalent in the other agency-aided group with the term loans dominating. In the SIDBI aided group, bulk of the loans have been disbursed for purchasing fixed assets. Whereas in the other group most of the loans have been for financing both fixed capital and working capital. These findings validate the fifth hypothesis, which said that SIDBI disburses more long-term loans than other financing agencies.

### **Cost and Terms of Loan**

SIDBI aided units are found to have spent a significantly higher amount for obtaining loans than other agency aided units. Most of the units in both groups found the interest rate is high. Comparatively more number of SIDBI aided units feel that the rate of interest is high. In many cases SIDBI aided units have disbursed the loans in two or more instalments. In contrast to this, other agencies have released the loan in a single instalment in most of the cases. Bulk of the SIDBI aided units are found to enjoy more than 6 months gestation period with a good number enjoying more than one year. Majority of the other agency-aided units are found to have less than one-year gestation period with a big chunk of units given less than 6 months. It is seen that most of the beneficiaries in both groups are found to be satisfied with the gestation period. Many of the SIDBI aided units did not receive the required amount of loan while majority of the other agency-aided units received more than 90 percent of the loan amount required by them. It is seen that short-term loans are not granted to the SIDBI aided units, while most of the other agency-aided units received more than 90 percent of their short-term loan requirements. Based on these findings the sixth hypothesis, which said that, the cost and terms of SIDBI loans are more attractive compared to loans from other sources stands disproved. There is no significant difference between the groups in the magnitude of disparity between the amount applied and sanctioned. It is seen that most of the units in either group have obtained the loans within 9 weeks from the date of application. Most of the beneficiaries in both groups are satisfied with the treatment received from the officials. It is seen that most of the units in either group have not faced any difficulty in getting the loans. Among the units facing difficulty, difficulty in furnishing security appears to be the major problem faced by the units in both groups. Complicated procedure appears to be the second problem faced by SIDBI aided units. This is

followed by delay in commercial production, too many documents and inconsistent behaviour of officials. Units assisted by other agencies rank delay in commercial production as second, followed by complicated procedure, too many documents and inconsistent behaviour of officials.

It is observed that the disparity in the amount applied and sanctioned by the SIDBI aided units and other agency-aided units is not significant. Units in both groups are satisfied with the cooperation of the officials and majority of units in both groups are not facing any difficulty in obtaining loans. The analysis does not support the seventh hypothesis, which said that, obtaining loans from SIDBI is less difficult compared to other sources.

### **Impact made by SIDBI on the Development of SSI**

In terms of profit earned the SIDBI aided units are more profitable than the other agency aided units. It is seen that the units aided by SIDBI have more value addition than the other agency aided units. It has been observed that there is no difference in the average capacity utilised by SIDBI aided units and other agency aided units. The main reason for underutilisation of capacity of units in both groups is the low demand for the product. Bulk of the units in either group is found to have created only medium level of linkages. Out of the four variables analysed to study the impact made by SIDBI on SSI units, significant difference is found in two variables. That is the average profit earned by SIDBI and value addition by SIDBI is more than the other agency-aided units. No significant difference is found with regard to capacity utilization and linkages created by two groups of units. So the eighth hypothesis states that, SIDBI has created more impact in the development of SSI than other financing agencies does not hold good.

### **Problems of Small-scale Units**

It is found that majority of the units in both groups are prompt in repayment. In the case of units that have committed default, low demand for the products has been cited as the major reason by units in both groups. Competition is cited as the second reason. Tight repayment schedule, insufficiency of working capital, delay in commercial production are the causes of default in the diminishing order of importance in the case of SIDBI aided units. In the case of units assisted by other agencies insufficiency of working capital, delay in commercial production and tight repayment schedule are the causes for the default in the order of importance. Majority of SIDBI aided defaulted units reported that the institution initiated legal proceedings. But the other agency aided defaulted units reported that they received expert advice to escape from the situation. It is seen that majority of the units in both groups

are not facing any problem with regard to the supply of raw materials. It is observed that most of the units in the SIDBI aided group are facing marketing problem. In the case of other agency-aided units also a good number of units are facing marketing problem. It is seen that the marketing problems faced by units in both groups are similar. Competition appears to be the major problem, low demand for the product ranks second. The other problems in the order of importance are credit sales, financial problem and poor quality of raw materials. Most of the units in either group are not receiving institutional assistance in marketing. Majority of the units in both groups are not interested in the modernisation of their units. Out of the units interested in the modernisation in both groups the main cause for delay or postponement of modernisation is the lack of finance.

### **Opinion About Services Rendered by the Agency**

Most of the units in both groups are satisfied with the services rendered by the agency. The dissatisfied beneficiaries in the SIDBI aided group cited tight repayment schedule as the main cause, non-cooperation of the institution is ranked second. The other causes in the order of importance are very long procedure, schemes are not suitable and bad treatment of the staff. Non-cooperation of the institution is the main cause in the case of other agency-aided units; the other causes in the order of importance are very long procedure, tight repayment schedule, schemes not suitable and bad treatment of the staff. Six variables are analysed to study the awareness about the promotional and developmental activities of SIDBI. More SIDBI aided units are aware of the programme but the difference is significant only in the district of Kozhikode. In Kozhikode more SIDBI aided units have awareness of the rural industries programme than the other agency aided units. In other districts the difference is not significant. More SIDBI aided units in all districts have awareness about the programme. But the difference is significant only in the district of Thiruvananthapuram. However, majority of units in both categories are not aware about the programme. Majority of units in both groups are not aware of this programme. Comparatively more units in SIDBI aided group have awareness of this programme. But the difference is significant only in the district of Ernakulam. The difference is significant only in the district of Ernakulam. However majority of units in both groups are not aware of this programme. It is found that 34 percent of the SIDBI aided units are aware of the programme. But in the case of other agency aided units only 15 percent have awareness of this programme. Majority of the units in both categories are not aware of the programme. district



wise analysis reveals that there is no difference among the groups with regard to the awareness of the information dissemination programme of SIDBI. The variables analysed above reveal that there is no significant difference between the SIDBI aided units and other agency aided units in the awareness of the promotion and development activities of SIDBI.

### Benefits of Promotion and Development Activities of SIDBI

It is found that only few units in both groups are benefited by **Benefits of Rural Industries Programme**. There is no significant difference with regard to the benefits of rural industries programme between SIDBI aided units and other agency aided units. **Small Industry Management Assistance Programme** benefits only few units in both groups. Significant difference is not observed between the groups in the benefits of the small industry management assistance programme. **Skill cum Technology up Gradation Programme** does not benefit majority of the units in both groups. Out of the units benefited by this programme majority are the SIDBI aided units. **Programme on Environment and Quality Management** benefits only few units in both groups. Among the units benefited by this programme more number are in the SIDBI aided group.

It is found that only few units in both groups are benefited by **Market Promotion Programme**. There is no significant difference between SIDBI aided units and other agency aided units with regard to the benefits of market promotion programme. **Information Dissemination** programme does not benefit majority of the sampled units in both groups. There is no significant difference between the groups in the benefits of the information dissemination programme. Based on these findings the ninth hypothesis, which said that, all SIDBI aided units in Kerala are benefited by the promotional and developmental activities of SIDBI stands cancelled.

Thus, the major conclusions of the study are:

1. The share of SIDBI in financial assistance disbursed by AIFI is only 9.54 percent.
2. The share of SIDBI in per capita assistance sanctioned by All Financial Institutions in India is only 5.94 percent.
3. The state wise assistance by AIFI shows that 51 percent of the states the share of SIDBI finance is less than 20 percent.
4. The scheme wise assistance by AIFI reveals that the share of SIDBI in rupee loan, foreign currency loan and working capital loan is very low. It has a significant share only in refinance and bill finance.
5. The industrywise assistance of the AIFI shows that 84 percent of the industries, the share of

SIDBI finance is less than 25 percent. Only in three industries the share of SIDBI assistance is more than 40 percent.

6. Of the total assistance by the AIFI to the infrastructure sector, the share of SIDBI is only 3.53 percent.  
Based on the above analysis the hypothesis, which states that, among the financial institutions at the all India level SIDBI has significant share in industrial financing does not hold good.
7. Interest expense is the major item of expenditure of the development banks. Interest expense to total income ratio of SIDBI is lower than the other selected development banks.
8. SIDBI has a high spread to working fund ratio. It shows that high margin is available to the bank in interest transaction.
9. The net profit to owned fund ratio of SIDBI is higher than the other selected development banks. The cost of borrowed fund of SIDBI is lower than the other selected development banks.
10. A low interest expense to interest income ratio is preferred in the case of development banks, SIDBI has a low interest expense to interest income ratio. The credit to borrowings ratio of SIDBI is higher than the other selected development banks. It reveals that SIDBI is successful in converting the borrowings to lending. All these prove that SIDBI has a better financial performance than the other selected development banks. So the second hypothesis stating that there is no significant difference in the financial performance of IDBI, IFCI, IIBI and SIDBI stands cancelled.
11. The SIDBI aided units and other agency-aided units differ in the pattern of ownership, size of investment, nature of industry, year of establishment, status under SSI and their current status. These two groups also differ in the provision of direct and indirect employment. All these lead to the conclusion that the third hypothesis stating that there is a difference between SIDBI aided units and other agency-aided units in the form, level of investment, and the nature of business holds good. Majority of the entrepreneurs in both groups are male and the majority of the entrepreneurs in both groups belong to the age group of 40 to 60 and there is no difference between two groups in the level of education of entrepreneurs. A good number of entrepreneurs in both groups are experienced. These reassure the fourth hypothesis that the background of the entrepreneurs of SIDBI aided units is similar to that of the other-agency aided units.
12. It is observed that more amount of loan is disbursed by SIDBI than all other financing agencies.

13. SIDBI aided units are granted only term loans while other agency aided units received short term, long term and both. SIDBI granted the loan only for purchasing fixed assets while other agency granted loan for purchasing fixed assets meeting working capital requirements and both. This validates the fifth hypothesis that SIDBI disburses more long-term loan than all other financing agencies.
14. The cost of obtaining loan from SIDBI is higher than other agencies.
15. The rate of interest of SIDBI loans is higher when compared to that of the loans of other agencies.
16. SIDBI disburses loans in two or more instalments, while other agencies disburse the loan in one or two instalments.
17. SIDBI aided units enjoy a longer gestation period than other agency aided units.
19. SIDBI aided units are not received sufficient long-term loan from SIDBI and short-term loans are not granted to them. So this leads to the conclusion that the sixth hypothesis that the cost and terms of SIDBI loans are more attractive when compared to loans from other sources stands disproved.
20. Disparity in the amount applied and sanctioned by two groups of units are found to be not significant.
21. SIDBI needs more time to sanction the loan than the other agencies.
22. Majority of units in both groups are satisfied with the co-operation of officials and not facing any difficulty in obtaining loan. The analysis does not support the seventh hypothesis stating that obtaining loans from SIDBI is less difficult when compared to other sources.
23. SIDBI aided units earned more profit than other agency aided units. SIDBI aided units have more value addition than other agency aided units but there is no significant difference in the mean capacity utilization of SIDBI aided units and other agency aided units. Other agency-aided units create more linkages. On the basis of this the eighth hypothesis stating that SIDBI has created more impact than other financing agencies does not hold good.
24. Majority of the units in both groups are not aware of the rural industries programme of SIDBI. Most of the units are not aware about human resource development in SSI programme. Majority of the units in both groups are not aware about the technology up gradation programme, programme on environment and quality management, market promotion programme and information dissemination programme.
25. Most of the units in both groups are not benefited by the Rural industries programme,

Small Industry Management Assistance Programme, Technology Upgradation and Programme on Environment and Quality Management, Market Promotion Programme and Information Dissemination. On the basis of this the ninth hypothesis stating all SIDBI aided units in Kerala are benefited by the Development and Support services of SIDBI stands cancelled.

### **Recommendations**

In the course of the study a large number of drawbacks, shortcomings and problems have come to light. The researcher likes to give the following recommendations for solving these problems. This will help in remoulding and reshaping the policies and techniques of operations of the SIDBI in Kerala.

1. More composite loans should be provided to the SSI units, so that the entire requirement of small units is met by single documentation, security and charge creation process. This facility should be extended to all SSI units requiring loans.
2. In order to avoid delay and red tapism the powers of the competent authorities for sanctioning of loan should be enhanced liberally. The expenses to be incurred by the borrower should also reduce.
3. Rate of interest on borrowing by SSI units should be further reduced to bring them on a par with those prevailing in other countries. This will improve the efficiency and performance of SIDBI aided units in the international market and home market.
4. Necessary steps are to be taken to reduce the number of instalments in releasing the sanctioned amount.
5. Keeping in view the rising price of land, cost incurred for the construction of building and purchase of machinery the limits of loan under various schemes that are being operated by SIDBI should be suitably increased from time to time.
6. Necessary steps are to be taken to avoid the delay caused due to procedural requirements in sanctioning loan. So as to ensure that the projects are implemented in proper time.
7. It has been observed that the SIDBI still believes in security-oriented approach in advancing loans. The most important difficulty faced by the sample units is the difficulty in furnishing security. SIDBI should evolve a need based instead of security based financing policy for assisting the SSI sector.
8. In the event of default the SIDBI should provide required help to the defaulted units to survive instead of initiating legal proceedings or other hard steps.

9. The changed economic scenario, in the post liberalization phase, SSI units have great weakness in marketing. So it is felt that, there is need to provide more marketing assistance programme to SSI.
10. It has been observed that the SIDBI charge penalty in case of earlier closing. Necessary steps are to be taken to avoid this penalty.
11. Objectives of the promotion and development programmes can be achieved only if the SSI units are informed about it. Majority of the SSI units are not aware of the promotion and development activities of SIDBI. So steps should be taken to make the people aware by conducting programmes in association with the SSI entrepreneurs associations in the industrial estates.

### **Contribution of the Researcher and Areas for Future Research**

The literature on small-scale industries includes a number of scholarly works on different dimensions. That is the studies examining the general problems and prospects of small-scale units, evaluating financial performance of institutions financing SSI units, financial problems of SSI units and studies analyzing the role of various financial institutions in financing the SSI units and on sickness of small-scale industries. In the case of SIDBI there are a number of research studies and a number of research papers but a detailed research work focusing specifically on the role of SIDBI in the development of small-scale industrial sector in Kerala are rare. In this context the present work is a humble attempt to explore the role of SIDBI in the development of small-scale industrial sector in Kerala. The methodology based on extensive database helps to bring out certain unique and interesting observations. The major findings and suggestions given in this study may help the Small Industries Development Bank of India in tuning their strategies for the small-scale industrial development in Kerala.

No research is complete in all respects. But a serious work generates a large number of inferences and also helps to identify a few research areas for future research. During the course of the study the researcher could identify certain research gaps, such as role of commercial banks in financing SSI in Kerala, human resources management of small-scale industries, technological changes in the small-scale industry in Kerala, the role of SIDBI in micro finance in Kerala etc. where future research can be continued.