National Small Industries Corporation
As Country Bankers

Neither banks nor State Finance Corporations are of much help to small industries, as they are unable to offer the kind of security which the lenders demand as collateral. Here, the National Small Industries Corporation will start with an advantage.

As it will be interested not only in financing but in assisting small-scale and village industries to secure raw materials, to produce and to market the products more efficiently and to modernise the system of production, it should be possible for the Corporation to lend on terms on which neither banks nor State Corporations are able to lend.

IF the first Plan had a bias towards agriculture, there is now a conscious effort in the draft Plan-frame to change the structure of the economy. According to the investment pattern, the share of mines, factories and small enterprises in the national income will increase from 17.7 per cent in 1955-56 to 21.4 per cent in 1960-61, and that of agriculture will decline from 48.9 to 46.3 per cent.

Heavy industries receive the greatest emphasis. But those who argue that the tentative framework for the second Plan is too ambitious, or that it would involve undue sacrifices and hardships, need the reminder that the second Plan will not materially change the structure of the economy, though it is aimed at laying the foundation for such a change in the future.

A closer examination of the Plan-frame will also dispel another popular misconception. Though investment in consumer goods industries is small in comparison with that in heavy industries, the Plan-frame envisages a 25 per cent increase in the output of consumer goods. Small-scale and village industries receive due emphasis but not at the expense of the organised consumer goods industries. In the production of additional manufactured consumer goods, small enterprises get roughly the same share as factory establishments. Expansion in the latter is presumed to be achieved mainly through a fuller use of existing capacity; no significant increase in their installed capacity is envisaged. Even so, the Plan-frame includes an investment of Rs. 100 crores in factory consumer goods compared with an outlay of Rs. 200 crores in small-scale and village industries during the Plan period.

Though organised consumer goods industries are thus not neglected, there is greater emphasis on small-scale and village industries. Net output (of consumer goods, producer goods and construction activities) of small enterprises is estimated to rise by 40 per cent, over the Plan period. On the assumption that employment in this sector increases, say, by one-fourth as against a two-fifths increase in output, small establishments are expected to absorb about 30 lakhs additional persons. The large employment potential of this sector explains the emphasis laid on it.

Financing related to Organisation

This is the broad background against which arrangements for financing the expansion of small-scale and village industries have to be assessed. Unlike those of the organised sector, the financial problems of small establishments are intimately associated with the technique and organisation of their production and marketing. This aspect of the problem is duly emphasised in the Memorandum prepared by the Panel of Economists, Planning Commission. It is necessary, the economists argue, to have a Common Production Programme that will provide a secure market for the products of these industries, and at the same time provide for gradual improvement of technique and skill.

Economists' Memorandum

"Details of such a programme", the economists emphasise, "will need careful working out, but it can be stated at this stage that there will have to be organised on a regional and a national scale co-operative and other forms of organisation for the supply of raw materials and finance and for the marketing of finished products of the workers engaged in hand industries. A beginning will also have to be made in setting up a special sales organisation for these industries. At the same time, every attempt will have to be made to set up increasingly efficient norms of work, and facilities and incentives provided for reaching these norms. All these imply a tremendous challenge to the organisational talent of the country, and on the degree of success with which this challenge is met will depend the success of the whole scheme of a socialistic pattern of society, with employment for all and decentralisation and wide distribution of both economic activity and economic advantages/"

Even those who are critical of the emphasis on small-scale and village industries in the Tentative Framework will not accuse New Delhi of lack of awareness of the pre-requisites for the proposed expansion of small establishments. Though the Shroff Committee did not lay stress on the problems of organisation or marketing, it recommended an all-India Corporation for financing small-scale industries. Almost while the Economists' Panel was drafting its memorandum, Government announced its acceptance of the related recommendation of the Shroff Committee. From the details of the plans already announced by Government, it is clear that it is not only interested in making arrangements for the supply of credit to small-scale industries, but is anxious to ensure that their expansion on lines indicated above in the quotation from the economists' memorandum.

Functions of the Corporation

To help planned expansion of the capital structure of small-scale industries, a National Small Industries Corporation has been established recently. Responsibilities entrusted to this Corporation show that Government accepts the assumptions of the economists behind the expansion programme of small-scale industries in the Plan-frame. Besides giving and underwriting loans, the Corporation is expected to provide technical and managerial assistance, to help in the introduction of modern methods of manufacture and marketing, and to accept orders from large-scale industries and Union and State Governments in order to sub-contract them to small-scale industries. Four multi-purpose Institutes of Technology
The recently constituted Railway Equipment Committee is now examining the steps to be taken to attain self-sufficiency in the production of Railway Equipment to the maximum extent possible. To enable industrialists closely to examine and make proposals for expansion of existing factories and for the establishment of new industries in the Country, Railway Equipment Showrooms are being set up at Bombay, Calcutta, Madras and Delhi.

The Bombay Showroom of Railway Equipment containing over 1000 exhibits of stores not manufactured in India or manufactured in insufficient quantity, has been set up between platforms 8 and 9 at Victoria Terminus and will be open from 17th June, 1955 to all interested persons from 10.00 a.m. to 5.00 p.m. on weekdays and from 10.00 a.m. to 2.00 p.m. on Saturdays.
are also being established to help the Corporation. They will develop modern tools, machinery and manufacturing methods, undertake research work on raw materials and investigate problems of finance and marketing.

With the creation of this Corporation, arrangements for the supply of credit to the private industrial sector would seem to have been completed. It is evident that the Industrial Credit and Investment Corporation will be the major supplier of long-term finance to the organised sector of industry. It is to perform the functions of the consortium of banks and insurance companies envisaged by the Shroff Committee. Two other institutions will supplement the National Small Industries Corporation in its work of supplying credit to small-scale and village industries. In the rural sector mainly, though the urban sector is not excluded from its scope, the small establishments will receive accommodation from the State Bank of India as well. In the urban sector, the State Financial Corporations will supply credit to medium and small-scale industries. Even as there is a case for a readjustment of the activities of the IFC of India, the functions of the State Corporations might also be reviewed. Their activities may well be confined to medium industries, so that the long-and short-term credit requirements of small-scale industries become the Joint responsibility of the State Bank and the National Small Industries Corporation in both urban and rural sectors.

Possible Pitfalls

Elaborate arrangements are being gradually introduced to supply credit to small-scale and village industries. But the experience of the State Corporations provides a warning of the possible pitfalls. Though these Corporations have been in existence for a very short period, it is clear that they require some fundamental changes if they are to succeed in stimulating the development of small-scale and village industries. They function today on the assumption that their responsibility is to supply long-term credit, while, for working capital, the small establishments should seek the aid of banks.

Unlike the organised sector of industry, this watertight differentiation of short-and long-term financial needs is not wholly applicable to small industries. Through experience, the Bombay Corporation has discovered that it can increase its usefulness by supplying working capital to small and medium industries. This is a lesson for the National Small-Industries Corporation.

Sometime ago the West Bengal State Statistical Bureau made a survey of the working of small establishments in Calcutta, which threw up certain interesting facts relating to the finances of small-scale industries. These industries depend mainly on private sources for credit. This problem is discussed later. But the working of State Financial Corporations gives warning of some of the hurdles which the National Small Industries Corporation will face. The former seem unable to lend money to small-and medium-scale industries at below 7½ to 8 per cent. There are reasons why small establishment do not approach banks or the Corporations for loans. But establishments which are organised enough to be able to secure loans from the State Corporations will naturally prefer to seek accommodation from banks at a lower cost—at between 5½ to 6½ per cent. This is one of the reasons why the State Corporations want exemption from tax liabilities. There are indications that the National Small Industries Corporation will have ample resources. But if it is to achieve the objects for which it has been established, it must be prepared to lend to small-scale industries at, say, 5 per cent. Thus alone will the Corporation be able to compete with banks, as well as enable small-scale industries to secure credit supplies at reasonable costs.

Difficulty of Collateral

A more important question is whether the small-scale industries will be attracted to approach the Corporation for accommodation. Neither banks nor the State Corporations are of much help to these industries as they cannot offer the kind of security which the lenders demand as collateral. Here, the National Small Industries Corporation will start with an advantage. As the Corporation will be interested not only in financing, but in assisting small-scale and village industries to secure raw materials, to produce and to market the products more efficiently and to modernise the system of production, it should be possible for the Corporation to lend money to small establishments on terms on which neither banks nor State Corporations are able to lend.

To attain the objective, the National Small Industries Corporation will have to emulate the ways of the "country banker". There are two ways of doing banking business. One way is to depend on the bill of exchange. With plans for warehouses, it should, theoretically, be possible for all the organisations now being formed to supply credit to industry, to lend money in the form of discounting of warehouse receipts. There is a case for greater utilisation of railway receipts for similar purposes. From the report of the All-India Rural Credit Survey, it would seem that this is one of the ways in which the Committee expects the multi-purpose co-operative society to help the village community under the supervision and auspices of the State Bank. Though the bill of exchange—that is, banking through the system of discounting—has certain advantages in monetising the economy, as well as in integrating the monetary sector of the economy, cash credits can perform the basic purpose of supplying adequate credits with equal efficiency. But cash credits are not as fool or knife-proof as the bill of exchange. They imply intimate personal relations between the lender and the borrower. Cash credits also imply the lender's intimate knowledge of the borrowers' business methods and practices. For credit supplies to small-scale and village industries, the apparatus has now been set-up. Whether it will function smoothly depends on whether the National Small Industries Corporation can adapt itself to the peculiar needs and idiosyncracies of small-scale industries.
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Mill: Delisle Road, Bombay 13.
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