RECOMMENDATIONS

1. The study reveals that nearly 54.9% of the working capital is in the form of inventories i.e. raw materials, semi-finished goods, and finished goods. Excessive inventories of raw materials, goods in process, and finished goods of substantial amounts should be a matter of concern. During inflationary conditions, increase in inventories, as a conscious management decision to take advantage of scarcity conditions, is good, but under normal conditions, excessive inventories continue to incur expenditure by way of interest on borrowed funds, occupying costly space and also becoming worthless with the passage of time due to deterioration in quality. Hence, the small scale sample units should try to keep the inventory at a reasonable level.

2. It is apparent from the study that current ratio and acid test ratio of the sample small scale units were 1.08 : 1 and 0.49:1 respectively. Thus, short-term liquidity of the small scale unit is a matter of concern for the small entrepreneurs as it indicates the shortage of working capital. The failure of small scale units to meet its obligation, due
to lack of sufficient liquidity, will result in bad credit rating, loss of creditor’s confidence or even in law suits resulting in the closures of the unit. On the other hand a very high degree of liquidity is also bad; idle assets earn nothing. The firm’s funds are unnecessarily tied up in current assets. Hence, the small scale units should try to keep a proper balance between liquidity and lack of liquidity.

3. Accruals being cost-free source of short-term finance, should be used as much as possible. But an industrial unit should not stretch the payment so much that it damages the reputation of the firm and in the case of wages and salaries outstanding. It should not be so delayed that it lowers down the morale of the workers. In the case of chemical and mineral based industries accruals accounted for more than 16% and 10% of the working capital finance respectively as against the average of less than 8% of all the industries taken together.

4. On the whole the small scale units under study used short-term funds to finance their current assets on cent percent basis. Although short-term financing involves less cost, but it is more risky than long-term financing. By using short-term financing to
finance its current assets, the sample small scale units run the risk of renewing the borrowings again and again particularly in case of permanent current assets. It will have to raise new short-term funds as the debt matures, if the small scale units finance its permanent current assets with short-term debts. It may be difficult for the small scale units to borrow during stringent credit periods. At times, the units may be unable to raise any funds and consequently, its operated activities may be disrupted. Hence the small scale units should try to strike a balance between risk-return-trade-off while using short-term and long term financing to finance current assets.

Most of the units in the sample hold the opinion that they receive inadequate credit from banks and therefore, the method of credit needs to be re-examined. The small scale industrial units have obtained only 22% of the working capital requirements from banks. The banks and financial institutions should ensure that the small scale units receive adequate credit so that they can function as viable small scale unit.

The commercial banks normally stipulate the
margins on the basis of the financial requirements of small scale units. If small scale entrepreneurs are not able to introduce the required capital in future, then it is suggested that this high margin should not be fixed and financial assistance should not be denied merely because the necessary margins are not forthcoming.

7. The commercial banks should not insist on collateral security by way of immovable property or third party guarantee. No application should be rejected merely for want of collateral security.

8. The amount of term loans sanctioned by commercial banks to the small scale sector in Haryana has not been encouraging. In fact, the term loan constituted about 2.4% of the total assets of the small scale sector. The need for modernisation warrants commercial banks to sanction more such loans in the state. Further term loans for longer periods, say five to ten years, be sanctioned instead of smaller period so as to facilitate small scale units to repay the loan in easy instalments. Further a very high margin between 30 to 40 percent is retained by commercial banks. This might be reduced to 10 to 15 percent.
The banks should ensure that the project reports are assessed carefully. There is an urgent need for an independent evaluation agency to be set up by the commercial banks and financial institutions at the state level. By setting up such agencies both the commercial banks and financial institution in the state of Haryana can rely on the assessment of project report prepared by this agency. In order to make the services of this agency more wide spread, it will be desirable to open some branches in important towns of Haryana. The agency can also prepare status report and studies of various industries regarding different aspects such as availability of raw material, extent of sickness and nature of competition in various industries.

The Haryana Financial Corporation should increasingly assist the units which are proprietary concern because these are the units which are starved of funds because the entire capital has to be provided by a single person. A shift in the attitude of the corporation is necessary so that many units which are proprietary in nature can be benefited.

The Haryana Financial Corporation has made remarkable progress in the financing of small scale
units. Though the corporation has introduced many schemes for the benefits of small-scale and large scale industries, only one scheme is more in practice i.e. granting term loans, whereas the other schemes have not made the necessary impact on small scale units. The corporation should encourage the small entrepreneurs to enter into the capital market guaranteeing the issue of shares. At the same time the corporation should increasingly subscribe the shares of small scale units so as to ensure that funds are made available on permanent basis for those units which are sophisticated and involve huge capital outlay.

On account of stringent rules for releasing of funds, a wide gap exists in sanctions and disbursement of funds. It is, therefore, advised to follow such pattern where even advance payment to suppliers be made by the corporation.

In order to minimise delays in sanction and disbursement of loans, the corporation should take initiative in the establishment of an independent technical agency in the state. The corporation should also strengthen its technical appraisal cell.

The expenditure on publicity is very low in
the Haryana Financial Corporation as compared to other financial corporations in the country. It should give wider publicity to its schemes especially in the backward areas of the state.

15 The study reveals that quite a large number of units under study were not aware of the various facilities offered by different institutions especially set up for the purpose. The government should take effective steps to acquaint them about the institution and the assistance they provide to small scale units.

16 The small scale units have to go through cumbersome formalities in order to obtain machinery on hire-purchase from National Small Industries Corporation because of too much centralisation at the headquarters. This is likely to involve a lot of delays and hence small units may be affected. The Nature should decentralize its job of processing of the applications at the regional office level up to a particular amount.

17 The working group II set up by Banking Division of the Ministry of Finance in 1978, recommended the group felt that there is an urgent need to lay down the specific steps to ensure that all proposals up to Rs 1 lakhs are disposed off within the stipu-
lated time of 30 days by the banks. The recommendation was made for District Industries Centres. Working Committee are of the view that the time limit of this type should be stipulated for all institutions dealing with Small scale industries. The concerned authorities should see that the processing of application is not delayed beyond the stipulated time.

18 In order to minimise widely reported delays in sanctioning of loans, streamlining of the administrative procedure and fixing of a time schedule is suggested. Loans have not been sanctioned in accordance with the needs of the small entrepreneurs. This has resulted in misutilization of funds. Hence a need based approach should be adopted in making advances.

19 Although effective sanctions have been made for 150 small scale units, actual disbursement have taken place for 51 units only. This is likely to cause great hardship to small scale units because funds are not made available quickly. This will increase the project cost and hence the corporation should consider to make quick disbursement of loans sanctioned so as to enable the units to commence manufacturing activity immediately.
The study revealed that the respondents under reference were not conversant even with the most important principle of financial management. The importance of the knowledge of financial management has gone unrecognised by the Government as well as the small scale units. While lending money to small scale units the financial institution insist upon the fulfilment of every thing except this requirement. Similarly the small scale units follow certain norms of financial management not because the lending institution compel them to do so. There is a great need to bring to their knowledge the fact that SSI should finance fixed capital requirements and requirement for core current assets with long term funds only. Maintenance of high current ratio, preparation of funds flow statement, capital budget, and cash budget etc will help them more than any thing else. They should be told that the industrial history of every country is full of instances where business units failed not because they had a poor turnover but because they could not manage their current assets properly. The large companies overcome this problem either by appointing persons who are expert in financial management or by asking the related officer to
attend seminars, conferences, summer school and classes in financial management. But the small scale units neither appoint financial experts nor afford costly seminars in financial management. The time has come when the government should realise the importance and make arrangements for imparting knowledge in financial management to small scale industrialists, either free of cost or at a very reasonable cost.

21 Some of the small scale units do not disclose full information about their working operations. The institutional agencies are advised to collect such information from the entrepreneurs, particularly from smaller among the small scale. An independent technical agency may be established in state with collaboration of financial institution for this purpose.

22 The non-access to organised capital market and the tendency to retain family ownership are important grounds for low capital base of small scale industries. Labour intensive industrial units particularly in the agro based sector should be allowed a tax rebate which will help in strengthening the capital base of such units.
Most of the small scale units maintain their accounts in the Indian system of accounting i.e. Mahajani Bahi Khata System. Shortage of qualified personnel to maintain accounts in this system has been felt by these units. It is suggested that the Federation of Small Scale Industries of Haryana should introduce a regular training programme in the field of accounting to train personnel.

There is a need for revolutionary dynamism in bank finance requiring personnel with dynamic outlook and promotional approach, particularly in branches at the growth centres of small scale industries in backward area of Haryana.

In order to promote small scale industries engaged in the production of ancillary items, which require higher technology the Government has defined it seperately. The study reveals that only three units are in the form of ancillary units among 245 units selected for sample. It is a matter of concern for all parties related to it particularly the government. The Government should give wider publicity and set up more and more ancillary complex with the help of industrialists to promote ancillary units, instead of only defining and extending the upper limit of invest-
ment in plant and machinery. More and more monitoring incentives should be given to entrepreneurs to set an ancillary unit in the ancillary complex.

Financial discipline on the part of small scale units is must to induce greater finance by banks to the small scale sector. Hence, they should lend their utmost co-operation to the commercial banks and financial institutions.