CHAPTER VI
SUMMARY AND CONCLUSIONS
Mass poverty, large scale unemployment, and growing inequality in income and wealth distribution are the endemic problems of underdeveloped countries. Indian economy is an underdeveloped economy with vast resources, most of them either unutilised or underutilised. So the imperative of judicious utilisation of scarce resources, particularly capital resources to provide massive employment to teeming millions of population is more than obvious. The industrial sector which possesses relatively high marginal propensity to save and invest, contributes significantly to the achievement of self-sustaining economy. In other words, the major objectives of industrialisation are high growth rate, massive employment generation and equitable distribution of income and wealth. The small scale industries being labour intensive are very much suitable for a country like India to play a catalytic role in overall economic development. The development of small scale industries at a rapid rate of growth is necessary in order to speed up industrialisation on a decentralised and dispersed basis, provide a massive employment opportunities and to reduce inequalities in income and wealth distribution. That is, the small scale industries have a vital role to play in economic development particularly in a country like India which is characterised by underutilised manpower on one hand and scarcity of capital on the other.
Finance is the life blood of any economic activity. It facilitates the process of economic growth and development. When finance is easily available, industrial development can be accelerated as the participation of new entrepreneurs in economic activities depends upon the sources of access of funds on reasonable terms and conditions. The financial requirement of small scale industries may be broadly classified into fixed capital or long term capital and working capital or short term capital. Non-availability of adequate funds at reasonable rates and conditions is one of the major problems of small scale industries in India. The promoters of small scale industries are not backed up with adequate finances of their own. Further, the reinvestible funds generated by the small enterprises are meagre and consequently their ability to self-financing their growth is limited. Thus, the availability of external finance is of crucial importance for the growth and development of small scale industries. It is to be further mentioned that the small scale industries do not have much access to the organised capital market as they are mostly organised on proprietary or partnership basis and are of very small size. Therefore, they have to necessarily depend upon financial agencies, institutional and non-institutional, for their promotion and development. The commercial banks, being more security oriented, did not evince
any interest in financing small scale industries. In other words, the sectoral distribution of credit by commercial banks was weighted in favour of large scale industries, wholesale trade and commerce, rather than agriculture, small scale industry, retail trade and small borrowers. However, after the nationalisation of major commercial banks in 1969, there has been a sea-change in the attitude and approach of commercial banks. After the nationalisation, the commercial banks have made serious efforts to support the promotion and development of small scale industries in the country. To focus attention on the credit needs of certain neglected sectors of the economy and to ensure adequate credit flow to them, the Government has introduced the concept of 'priority sector', which includes small scale industries among others. To ensure adequate and continuous flow of credit to small scale industries, the Government has also multiplied the number of financial institutions. The establishment of State Financial Corporations, Industrial Development Bank of India, Small Industries Development Bank of India and a host of others is a testimony to that. In spite of a galaxy of institutions extending financial support to the small scale industry, there is a gap between the requirement and fulfilment. So the present study is an attempt to assess the role of institutional agencies in financing the small scale industries. The main objectives of
the study are to examine different sources of finance specifically and evaluate the assistance extended by institutional financial agencies to small scale industries. The study limits itself to the financing of small scale industries in Chittoor district. A sample of 246 small scale industrial units has been drawn for a detailed study.

The institutional network to finance small scale industries at national level consists of Industrial Development Bank of India, Small Industries Development Bank of India, State Financial Corporations, Deposit Insurance and Credit Guarantee Corporation, Industrial Reconstruction Bank of India, Export Import Bank of India, National Small Industries Corporation and Commercial Banks. Each of these categories of institutions have evolved a variety of schemes to suit varied requirements of small scale industries. In compliance with the directives of the Government, these institutions have stepped up their credit flow to small scale industries at an increasing scale. The commercial banks' credit to small scale industries has increased from Rs.347 crores in 1969 to Rs.17,689 crores in 1992. Similarly, the deployment of credit by State Financial Corporations has increased from Rs.82.17 crores in 1978-79 to Rs.923.60 crores in 1990-91. These figures are only the indicators of a larger involvement of financial institutions
in the promotion and development of small scale industries in India.

Commercial Banks and the Andhra Pradesh State Financial Corporation (APSFC) are the major players in extending institutional finance to small scale industries in Chittoor district. Of course, the regional rural bank and cooperative banks also supplement to a limited extent the efforts of commercial banks and APSFC in financing small scale industries in the district.

As at the end of March 1993, commercial banks had 151 branches, regional rural bank 71 branches, cooperative banks 22 branches and APSFC one branch in Chittoor district. The deposits of all banks in the district stood at Rs.57,100.51 lakhs as at the end of March, 1993 as against Rs.9,024.37 lakhs at the end of December, 1981. The total amount of advances of all commercial banks in the district stood at a level of Rs.5,992.00 lakhs in December, 1981 which rose to Rs.31,062.97 lakhs by the end of March, 1993. As far as credit to small scale industries is concerned, the amount outstanding as at the end of March, 1993 was Rs.2,951.00 lakhs as against Rs.1,579.00 lakhs at the end of September 1986. During the year 1992-93, the total advances to small scale industries in Chittoor district were to the extent of Rs.734.01 lakhs, of which the working capital and term loans
were Rs.115.22 lakhs (15.7%) and Rs.618.79 lakhs (84.3%) respectively. Fourteen out of 26 banks extended only term credit to small scale industries during the year 1992-93. The Vysya Bank Ltd, APSFC, Indian Bank and Nedungadi Bank Ltd, mostly participated in term financing. However, the proportion of SSI advances in the total bank credit is just about 1.79 per cent as at the end of March, 1993. Further, the proportion of SSI advances in the total priority sector advances in the district was also just 2.54 per cent as at the end of March, 1993. It shows that the credit flow to the SSI sector in the district is very low as compared to other major constituents of the economy, particularly agriculture. No doubt agriculture is the main-stay of the people in the district. But taking into account the limited employment opportunities available in the agricultural sector, it is highly desirable that increasing amounts of credit should also be directed towards small scale industries. This would ensure absorption of surplus agricultural labour in small scale industries.

It is disquieting that most of the institutional credit to small scale industries has remained overdue. The percentage of overdues to demand in the case of credit to small scale industries stood at 76.22 per cent, while that of total bank credit stood at 53.78 per cent as
at the end of March 1992. In other words, the recovery of bank credit to small scale industries is lagging far behind that of other sectors of the economy.

The analyses of sample units reveal that a large segment of the sample units are engaged in food products. Since agriculture is a predominant occupation in the district, the proportion of units engaged in food products is obviously very high. A majority of the sample units have been in existence for not less than 6 years. Further, about 73 per cent of the sample units are proprietary concerns. Regarding the educational and occupational background, a majority of the chief entrepreneurs of the sample units had the formal education above 10th standard and many of them are with commercial and business background. About 66 per cent of the entrepreneurs have been self-motivated to start their respective units. The developmental agencies like commercial banks and financial institutions could motivate the entrepreneurs to a limited extent. In about 64.4 per cent of the cases, trade and business background was the main motivating force behind the setting up of industrial units. The facilities, concessions, incentives etc., offered by the Government could motivate the entrepreneurs to a limited extent. Most of the sample units are providing employment for less than 21 persons each. It is further noted that
except a small segment of the sample units, all the units are making profits and some of them very high profits.

Financial structure management is an important subset of financial management. The capital structure which is an important part of financial structure refers to long term sources of finance such as preference capital, debentures, long term borrowings and equity capital. Firms with unplanned capital structure may prosper in the short-run, but face difficulties in raising funds and economising the use of funds in the long run. A firm should always strive to achieve optimal capital structure.

The size of capital requirement varies from industry to industry and also from firm to firm depending upon their production targets and capabilities. About 65.45 per cent of the sample units are reported to be having total capital of less than Rs.5 lakhs each. Only a very small segment of the sample units is in the total capital range of Rs.20 lakhs and above. A bifurcation of total capital into fixed capital or long term capital and working capital or short-term capital reveals that about 76 per cent of the sample units have fixed capital of less than Rs.5 lakhs each. Similarly, about 53 per cent of the units are reported to be in the working capital range of less than Rs.1 lakh. But, the average fixed capital and the average
working capital stand at Rs.3.76 lakhs and Rs.1.6 lakhs respectively. In other words, the proportion of fixed capital in the total capital is about 70 per cent. The industry-wise analysis reveals that the average total capital employed is highest in cotton textiles (Rs.34.22 lakhs), followed by transport equipment & parts (Rs.18.94 lakhs). In all other industries the average total capital employed is less than Rs.10 lakhs. The proportion of fixed capital in the total capital is highest in paper products & printing (80%), followed by food products (75%), non-metallic mineral products (71%), hosiery & garme (70%), basic metals (70%), metal products (70%) and transport equipment & parts (70%). With the exception of one industry, i.e., beverages & tobacco, the proportion of working capital is less than 50 per cent.

The financial institutions traditionally played an insignificant role in financing small scale industries. As a result, a majority of these units depended more on their own funds as well as funds borrowed from non-institutional agencies. One of the earliest measures to relieve from the burden of non-institutional financial sources was to enlarge the flow of credit to small scale industries not only from commercial banks but also from other credit institutions through provision of a degree of protection to the institutions against possible losses.
There are three principal sources of finance to small scale industries in Chittoor district. They are owners, commercial banks and others which include, private finance corporations, chit funds, friends, relatives and money lenders. The Andhra Pradesh State Financial Corporation (APSFC) also plays an important role in financing small scale industries. It is observed that the owned funds and funds borrowed from commercial banks and other private agencies have constituted the total capital in a majority of small scale units. The analysis of financial assistance received by small scale industries from different sources towards long term capital needs, reveals that the commercial banks and APSFC have respectively accounted for 57 per cent and 30 per cent of the total borrowed long term capital of small scale industries. In other words, the role of non-institutional sources in long-term financing of small scale industries is minimal. Out of the total long-term capital, owned funds constitute about 48 per cent. Put differently, the proportion of long term borrowed funds in the total long term capital employed is about 52 per cent. However, this proportion is not the same for all types of industries. It is more than 70 per cent in the units engaged in machinery & parts and it is less than 40 per cent in the units engaged in paper products & printing.
Apart from internal sources, commercial banks, APSFC and other private agencies are the chief sources of working capital funds to small scale industries. The proportion of borrowed funds in the total working capital is about 47 per cent which is much lower than the proportion of borrowed funds in the total long-term capital. In other words, the borrowed funds have a bigger role in the long-term financing of small scale industries. Of the various external sources of working capital funds, commercial banks have contributed about 60 per cent and the APSFC has provided about 9 per cent. Therefore, commercial banks and APSFC have together provided about 69 per cent of the total borrowed funds for working capital needs of small scale industries. In other words, the contribution of non-institutional agencies towards working capital is also significant at 31 per cent of the short-term borrowed funds. A further analysis of total capital by sources of finance reveals that the commercial banks have contributed to the extent of 29.06 per cent, the APSFC 12.14 per cent and other agencies 9.11 per cent. That is, the ratio of borrowed funds to own funds is more than 100 per cent, indicating higher proportion of debt component in the total capital employed by the small scale industries. This corroborates the view that there is a substantial flow of borrowed funds particularly from the institutional agencies for the growth of small scale
industries in Chittoor district. However, what the small scale industries have got from institutional agencies is much less than what they deserve and require in view of their great potential of employment generation, utilisation of local resources, augmenting the income levels of lower strata of the society, and narrowing down the disparities between the rich and the poor.

An attempt is also made to study the problems and perceptions of small entrepreneurs about institutional credit. About 51.20 per cent of the sample units have so far availed institutional credit only once; 21.54 per cent two times; 12.60 per cent three times, 9.76 per cent four times; and 4.88 per cent five times. Further, about 54.47 per cent of the units have availed credit of less than Rs.1 lakh each. It is a small segment of the sample units (4.47%) which availed institutional credit to the extent of Rs.10 lakhs and above. In other words, a majority of the units have availed themselves of small amounts of loans from institutional credit agencies. It is praiseworthy that all the units are reported to have completely utilised the institutional credit for the purpose for which the credit had been sanctioned. It is also observed that a large majority of the sample units have not changed for further credit the institutions from which they had first borrowed. It is revealed by at least 54 per cent of the respondents
that low interest is the main advantage with the institutional loan. In other words, the interest factor has got a larger bearing on availing of institutional credit. However, about 44 per cent of the respondents felt that there involved too much of formalities in getting institutional credit. A sizeable number of respondents have also stated that the bank officials, being urban-oriented, are indifferent to the just cause of small entrepreneurs. A large proportion of the sample units (63.8%) have also stated that there was much delay (6-12 months) in the sanction of credit by APSFC. In contrast, about 72 per cent of the sample units reported that they had got their loans from commercial banks in a period of less than 6 months. There are also instances in which the small entrepreneurs have got their loans sanctioned by the commercial banks within 2 months. Thus, it is to be mentioned that the time lag between the application and sanction is much lower in the case of loans from commercial banks as compared to that of the loans from APSFC. The causes of delay as expressed by the entrepreneurs are too many formalities in the process of sanction, indifferent attitude of bank officials, non-cooperation of government officials wherever they are involved, non-compliance with the requirements of the loan process by the borrowers, etc. It is further reported by a large chunk of the sample units that the bank officials made
regular follow-up to ensure proper utilisation of credit. But the system of follow-up and supervision of the end use of credit seems to be not effective as it has not resulted in regular repayment of credit.

In the light of the aforementioned findings and conclusions, the following suggestions are made.

(1) The institutional credit flow to small scale industries is very low vis-a-vis other major sectors of the economy. Therefore, much attention should be paid by the policy makers at the apex level and the institutional agencies at the grass-root level towards increasing the credit flow to the small scale sector.

(2) The non-institutional agencies still do have their presence felt in financing small scale industries, particularly working capital. Therefore, efforts are to be made by the institutional agencies to supplant the role of private money lending agencies so as to relieve the small entrepreneurs from the clutches of usurious agencies and from the possible debt trap.

(3) When the institutional agencies fail to supply credit in right quantities and in right time, the entrepreneurs may resort to borrowing from private money lenders. Further, when the entrepreneurs find the
amount of credit inadequate for the purpose for which the credit is sought, they may divert the credit proceeds to other purposes. Therefore, the institutional credit agencies should appraise the projects in realistic terms and sanction adequate amounts of credit.

(4) It is widely felt that there is so much delay in the sanction and disbursement of institutional credit. Credit delayed is credit denied. The untimely supply of credit may lead to diversion and misuse of bank funds. Too many formalities, indifferent attitude of officials, and involvement of multiple agencies are reported to be the main factors responsible for the delay. So it may be suggested that the credit institutions should look seriously into the matter and reduce the delay by waiving superfluous formalities and also by delegating necessary powers to the officials working at the grass root level.

(5) Proper follow-up and supervision of the end use of credit may go a long way in effective utilisation of credit and regular repayment of loans. In view of the fact that a large proportion of credit to small scale industries remains overdue, the credit institutions
need to overhaul and strengthen the follow-up and supervisory machinery at the branch level.

The back-drop of the suggestions as mentioned above are the pointers to some of the maladies of the institutional credit system in the country and the suggestions may be considered as remedies. The suggestions, if implemented with all earnestness and sincerity, will go a long way in making the institutional credit system more responsive to the needs of small entrepreneurs in the country.