CHAPTER VII

PROBLEMS FACED BY THE BORROWERS

7.1 INTRODUCTION

Today, Salem town has occupied a prime place in the industrial map of Salem District because of the liberal financial facilities extended to small scale industries by Siruthozhil Branch of State Bank of India, Salem. The small entrepreneurs in Salem Town are highly appreciative of the positive role played by this branch in the promotion of small scale industries. The credit facilities extended by this branch have enabled many people to launch small scale industries. The small entrepreneurs who have been traditionally depending upon loans from private money lenders and indigenous bankers at exhorbitant interest rates are now approaching this branch for their credit.
needs. However, these entrepreneurs are not without problems. An attempt has been made in this chapter to highlight the bank credit problems of the small entrepreneurs and the possible solutions to overcome these problems.

7.2 INADEQUATE CREDIT LIMIT

Eighty seven percent of the sample units have reported inadequate credit limits sanctioned by the bank for their working capital needs. The study points out that the bank is strictly adhering to old norms without taking into account the practical and pragmatic issues like increase in costs of raw materials and overheads. The study reveals that 90 percent of the working capital intensive units like ready-made garments, dyeing factories, furniture work, PVC pipe manufacturing and pesticides were affected heavily and more than 50 percent of the fixed capital intensive units like lathe works,
printers, steel industries were also affected by the insufficient credit limits. Similarly, the seasonal business units require more credit facilities during the busy season, as for instance, binding works require more funds during June and July, the months of reopening of schools and colleges. Availability of bank finance has not been commensurate with their needs to such units. Occasionally the bank comes forward to raise the credit limits but only against increased stock and that too for a short period. As a result small entrepreneurs have had no alternative but to meet their remaining credit requirements from the informal credit structure where finance is available at exorbitant rates of interest.

The bank can take into account the constantly increasing cost of raw materials, labour overheads and other inputs. Credit requirements of seasonal business can also be considered in times of need. Growth prospects
of the units can also be taken into account for enhancing the credit limit. The credit limits sanctioned can be reviewed every year.

7.3 POOR TERM LOAN FACILITIES

Restriction on term loan facilities to small scale industrial units is a great stumbling block in the promotion of these industries. 52 percent of capital intensive sample units like printing industry and lathe works expressed their difficulty in getting term loans sanctioned, as they depend exclusively upon the term loan facilities for their prosperity. The details of the bank's participation in term loans revealed that the share of term loan in total advance granted to small scale industries towards their working capital. Even this share of term loan facility is declining year after year in recent years. When the bank refuses to sanction term loans, the borrowers have to approach the Financial Institutions like TIIC and
Often this dual arrangement (Financial Institutions for Term Loans and the Bank for working capital finance) resulted in delays causing an entrepreneur heavy expenditure in the form of interest on idle investment on installed plant and machinery waiting to commence production. This factor has been the cause for many a unit in the sector to be born sick.

Therefore, all applications requiring term loans can be entertained by the bank without fail and within the shortest possible period, by increasing the share of term loan facilities in total advance to small scale industries.

7.4 DELAYED SANCTIONS

Delay in sanctions is a great bottleneck in the development of small scale industries. A borrower may be put under considerable difficulties if there is considerable delay in the sanction of loans. At
times, the borrower may even be forced to seek alternative sources of funds at higher costs. The borrowers approach the bank for credit only due to paucity of funds and providing timely assistance will go a long way for the survival of the units. Delayed credit can be taken as a denied credit. In some cases, unduly delayed sanctions lead to the sickness of the unit. The time lag between the application for and dispersal of loan is very long, particularly in Government Schemes. It perhaps, may be due to the fact that the selection authority (DIC) and the sanctioning authority (Bank) are different. The Task Force in DIC does not take any interest after forwarding the selected list of borrowers. After sanctioning, the bank takes a long time for the disbursal of the loan due to some problems like inadequate staff and political pressure. In some cases, where the required limit exceeds the discretionary power of the branch manager, the applications have to be forwarded to the Regional Office and obtain permission, causing undue delay.
In order to overcome this difficulty faced by sample units, it is recommended that effective delegation of necessary sanctioning power to the branch manager should be ensured. In order to reduce the time lag in sanctioning the loans for Government sponsored schemes, an effective co-ordination can be maintained between the selection authority and sanctioning authority. The procedure for the disposal of applications should be strictly followed.

7.5 SECURITY ORIENTED ADVANCES

Loans are, invariably, sanctioned against collateral securities in the form of house or land. The collateral is often of much higher value than the element of risk faced by the bank. If not, third party guarantee is insisted upon. Working capital finance is made against stock and term loans are granted against the assets created out of the finance. It
clearly reveals that the financial assistance is provided based on security and not on need and repaying capacity. The concept of need based approach is yet to be bought in practice.

So, it is recommended that conservative approach should be given up by the bank in granting loans. The purpose of a loan should be the main criterion for sanctioning loans. Further, the entrepreneurs should be allowed to draw funds up to the value of the collaterals.

7.6 HEAVY MARGINS INSISTED

Marginal requirements of the bank cause much concern to the small scale industrial units. Marginal requirements stipulated by the bank vary from 20 to 25 percent. These marginal requirements are found to be high in 16 sample units.
It is recommended that the bank may relax the margin by 5 percent i.e. the present limit may be reduced to 15 to 20 percent, so as to enable the borrowers meet the increased cost of machineries.

7.7 PAYING MORE VISITS TO THE BANK

Ten percent of the respondents under the Government Schemes like Integrated Rural Development Programme, Differential Rate of interest and Self Employment for Educated Unemployed Youth expressed their grievances that they had to visit the bank more than 10 times for getting the loan sanctioned. This situation forced them to borrow from money lenders to meet their immediate requirements. After obtaining the loan from the bank they have to direct 30 percent to 40 percent of the borrowed fund for repaying the money borrowed from the money lenders. This reduces the amount available for meeting the purpose for which such loans have been sanctioned.
In order to remove this difficulty, it is recommended that bank should strictly follow the procedure regarding the disposal of applications and the borrowers' visits should be reduced much by providing proper guidance. The banker should also inform the customer the probable period of waiting required before he may receive intimation regarding his loan application.

7.8 CHANGE OF STAFF

In this study, 14 sample units have ventilated the inconveniences and hardships experienced by them due to the frequent transfer of Field Officers, who take more time in understanding the existing problems and conditions of the units. Without understanding the actual problems and performance of the borrower the new Field Officer is, at times, forced to be strict in implementing the rules and guidelines.
In order to remove this hurdle, it is recommended that frequent transfers of Field Officers should not be made. A Field Officer should be allowed to serve at least for a period of six years in the same office.

7.9 ABSENCE OF SPECIALISED STAFF

Out of 50 sample units studied, three units (6 percent) expressed that no specialised staff in the field of small scale industries is appointed for proper guidance of the units. Though the Field Officers are guiding the units with regard to operation of accounts and maintaining stock position, units are deprived of technical advice in improving operational efficiency of the unit, reducing the cost of production.

In order to solve this problem, it is recommended that the organisational structure of the bank may include a specialised officer,
having thorough knowledge and vast experience in the field of small scale industries to offer needed guidance and counselling for the units. In addition he can be assigned the duties like appraisal of projects and loan application and assessment of credit needs. It will also relieve the Chief Manager, Deputy Manager and other Field Officers at some of their responsibilities in this regard.

7.10 MARKETING PROBLEM

Twenty four percent of the sample units disclosed that they were suffering from poor marketing facilities. Because of inadequate market for their products, due to sharp competition, they were unable to repay the borrowed funds in time.

Hence it is suggested that financial assistance should be extended not only on the basis of production but also to improve the marketing arrangements of the units.

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7.11 PROVISION FOR ESCALATION

When an industrial unit applied for a credit facility which is beyond the discretionary power of the Chief Manager of the bank, the application is forwarded to Regional Office for appraisal and sanction. It is possible, due to certain administrative difficulties and a number of letter correspondance by way of clarifications, the sanction may get delayed. In the mean time, it is quite natural that the cost of project would go up because of escalation in prices of various inputs. Naturally the borrower needs more funds than what he has applied for.

In order to remove this difficulty, expressed by 2 percent of the sample units studied, it is recommended that there should be adequate provision for escalation in cost in the project appraisal.