Widespread poverty, rapid growth of population, underemployment and growing inequality in income and wealth distribution are the endemic problems of underdeveloped countries. Indian economy is an underdeveloped economy, with its 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 possess 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. In India, the small scale industries, being labour intensive, are very much suitable to play a critical role in the overall economic development. The rapid growth of the development of small scale industries is necessary in order to speed up industrialisation, to decentralise industries to provide massive employment opportunities and to reduce inequalities in income and wealth distribution. That is, the small scale industries have to play a significant role in economic development particularly in a country like India which is characterised by underutilised manpower on the one hand and scarcity of capital on the other.

In any economic activity, finance is the life blood. It makes easy the process of economic growth and development. When finance is easily available,
industrial development can be accelerated. The participation of new entrepreneurs in economic activities depends upon the sources, of and access to the funds on reasonable terms and conditions. In small scale industries, the financial sources may be broadly categorized into two types viz, fixed capital or long term capital and working capital or short term capital. To the small scale industrial sector, one of the major problems is non-availability of adequate funds at reasonable rates and conditions. The promoters of small scale industries are not backed by adequate finances of their own. Moreover, the reinvestible funds generated by the small enterprises are meagre and, therefore, their ability to self-finance their growth is limited. Consequently, the availability of external finance plays a prominent role in 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. Consequently, they have to necessarily depend upon financial agencies, institutional and noninstitutional, for their promotion and development of small scale industries. 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. In 1969, after the nationalization of 14 major commercial
banks, there has been a drastic 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 of India 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 investigation is an endeavour to assess the role of institutional agencies in financing the small scale industries. The main objectives of the present study are to investigate various sources of finance and specifically to assess the assistance extended by institutional financial agencies to small scale industries. The present study limits itself to the financing of small scale industries in the Cuddapah district of Andhra Pradesh. A sample of 360 small scale industrial units has been drawn up for the present study.

At the National level the institutional network to finance small scale industries consists of State Financial Corporations, Commercial Banks, Small
Industries Development Bank of India, Industrial Development Bank of India, Deposit Insurance and Credit Guarantee Corporation, National Small Industries Corporation, Industrial Reconstruction Bank of India, and Export Import Bank of India. Each of these categories of institutions has 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 rate. The commercial banks' credit to small scale industries has increased from Rs. 347 crores in 1969 to Rs. 29482 crores in 1997. Similarly, the disbursement of credit by State financial Corporations has increased from Rs. 82.17 crores in 1978-79 to Rs. 6260.20 crore in 1991. These figures are only indicators of a major involvement of financial institutions in the promotion and development of small scale industries in our country.

In the Cuddapah district, APSFC and the commercial banks play a major role in extending the institutional finance to small scale industries. Of course, cooperative banks and regional rural banks also supplement to a limited extent the efforts of commercial banks and APSFC in financing small scale industries in Cuddapah district.
In the Cuddapah district, during the year 1993, commercial banks had 85 branches, regional rural bank 67 branches, cooperative banks 11 branches and APSFC one branch. The deposits of all banks stood at Rs. 7580400 thousands as on 31st of March, 1999 as against Rs. 3823786 thousands at the end of March, 1994. The total amount of advances of all commercial banks in the district stood at a level of Rs. 2293286 thousands in March, 1994 which rose to Rs. 5310208 thousands by the end of March, 1999. As far as credit to small scale industries is concerned, the amount outstanding as at the end of March, 1997 was Rs.415410 lakhs as against Rs. 2195.85 lakhs at the end of September 1988.

During the year 1992-93, the total advances to small scale industries in Cuddapah District were to the extent of Rs. 866.76 lakhs, of which the working capital and term loans were Rs. 143.24 lakhs (16.5 percent) and Rs. 723.52 lakhs (83.47 percent) respectively. Fourteen out of 26 banks extended only term credit to small scale industries during the year 1992-93. The Vysya Bank Ltd, APSFC, and the Indian Bank mostly participated in term financing. Yet, the proportion of small scale industrial advances in the total bank credit is just about 1.79 per cent at the end of March, 1999. Moreover, in the district, the percentage of small scale industrial advances in the total priority sector advances was also just 2.54 per cent at the end of March, 1999. It shows that in the district the small scale industrial credit flow is very low as compared to other major constituents of the economy, particularly agriculture. It is a well known fact that, in the district agriculture is
the mainstay of the people. 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 to note that most of the institutional credit to small scale industries has remained overdue. The proportion 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 at the end of March 1999. In other words, the recovery of bank credit to small scale industries is lagging far behind recoveries from other sectors of the economy.

The data of sample small scale industries reveals that a major proportion of the sample industries is engaged in food products. Since, in the district, agriculture is the main occupation, the percentage of small scale units engaged in food products is obviously very high. A large percentage of the sample units have been in existence for not less than six years. Besides, 73 per cent of the sample units are proprietary concerns. Regarding the educational and occupational background, a major proportion of the chief entrepreneurs of the sample units had formal education upto 10th standard and many of them have a
commercial and business background. About 66 per cent of the entrepreneurs have been self-motivated to start their respective units. A few entrepreneurs had been motivated by the commercial banks and financial institutions to start their respective units.

Trade and business background of the entrepreneurs (64.4%) was the main motivating force behind the setting up of industrial units. A few entrepreneurs had been motivated by the facilities, concessions, incentives etc., offered by the Government. The Major proportion of the sample units are providing employment for less than 21 persons in each unit. It is also stated that some of the entrepreneurs are earning very high profits, and except a small proportion of the sample units, all the units are making 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 differs from industry to industry and also from firm to firm depending upon their production targets and capabilities. About 67.50 per cent of the sample industrial units are reported to be having total capital of less than Rs. 5 lakhs each. Only a very small proportion (2.78 per cent) 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. Likewise, about 52.50 per cent of the units are reported to be in the working capital range of less than Rs. 1 lakh. However, 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 80 per cent. The industry-wise analysis reveals that the average total capital employed is the 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 the highest in paper products & printing (80%), followed by food products (75%), non-metallic mineral products (71%), hosiery & garments (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 in
The financial institutions traditionally played a 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 small scale industries 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.

In the Cuddapah district there are three major sources of finance to small scale industries. 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 54.44 per cent and 29.72 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. But 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 72 per cent in units engaged in manufacturing machinery & parts and it is less than 42 per cent in units engaged in making 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 37 per cent and the APSFC has provided about 19 per cent. Therefore, commercial banks and APSFC have together provided about 71 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 in terms of sources of finance reveals that the commercial banks have contributed to the extent of 37 per cent, the APSFC 19.46 per cent and other
agencies 11.83 per cent. That is, the ratio of borrowed funds to owner funds is more than 100 per cent, indicating a 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 the Cuddapah district. But, 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 in employment generation, in the utilisation of local resources, in augmenting the income levels of lower strata of the society, and in narrowing down the disparities between the rich and the poor.

An attempt is also made to study the problems and perceptions of small entrepreneurs with regard to institutional credit. About 48.33 per cent of the sample units have so far availed institutional credit only once: 23.33 per cent two times; 12.78 per cent three times, 10 per cent four times; and 5.56 per cent five times. Further, about 58.99 per cent of the units have availed credit of less than Rs.1 lakh each. It is a small segment of the sample units (4.16 per cent) 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 heartening to note 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 the 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. But about 44 per cent of the respondents felt that too many formalities have to be observed 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 (68.13 per cent) have also stated that there was so much delay (6-12 months) in the sanction of credit by APSFC. In contrast, 10 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 were also instances in which the small entrepreneurs 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 those from APSFC. The causes of delay, as expressed by the entrepreneurs, are observing 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) **When the institutional agencies fail to supply adequate amounts of credit**
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.

(2) **It is widely felt that there is too 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.

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

(4) 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.

(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 the 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 suggestions 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.