CHAPTER-8

SUMMARY OF FINDINGS, CONCLUSION AND SUGGESTIONS

The study entitled “FINANCING OF SMALL SCALE INDUSTRIES IN BANGALORE URBAN DISTRICT IN POST LIBERALISATION ERA.” was undertaken to evaluate the role played by the national and state level institutions in promotion of entrepreneurial development vis-a-vis Small Scale Industries in the country during the post-liberalisation period, specifically during the period 2005-10. The reason for taking up this study was to know whether the financial institutions are really contributing substantially for the growth and development of Small Scale industries. The government considers that there is a lot of scope for generation of employment opportunities through the Small Scale Industries, because of its vast potential to cover all segment of the population. Efforts are made by both the union and State Governments to promote entrepreneurs development, encourage and support entry of new generation of entrepreneurs in the task of nation building activities.

The Government through its various policies and programmes which are being changed very often based on the changing scenario wants the Small Scale Industries to gain competitive strength and successfully perform its role inspite of facing competition because of liberalisation and globalisation of economy. The entrepreneurs as well as Small Scale Industries are therefore on one side, receive full support from the government and on the other side, face competition from Indian large industries as well as foreign companies which are entering the market due to globalisation of economy and WTO agreements. Under this scenario, it was felt that there is need to study the role played by financial institutions in financing the Small Scale Industries and hence this study was undertaken with following objectives:

1. To study the various policies of the government regarding encouraging of the growth and development of SSIs in the country.
2. To examine the functions and activities of national and state level financial institutions in the growth and development of small scale industries.
3. To study the industrial profile of Bangalore Urban District.
4. To assess the perception of small scale industrialists about the role played by financial institutions in financing their requirements.
5. To give observations and suggestions based on the study.

Both survey method as well as analytical method has been followed in this study. The survey method has been adopted for assessing the perception of entrepreneurs about the role played by financial institutions agencies like National Level, State Level and Commercial Banks. The analytical method is adopted for studying the role of financial institutions.

The data has been collected both from primary and secondary sources. The primary data has been collected from sample entrepreneurs. The data relating to financial institutions has been collected both primary and secondary sources. The information relating to policies and programmes of Government as well as institutions have been collected through the various publications including expert committee reports.

The data relating to perception of entrepreneurs about the financial institutions as well as their own experience has been collected through primary data. For this, random sampling method has been adopted. The sample size is 100. The data was collected by administering a structured questionnaire. The entrepreneurs were selected from Bangalore Urban district based on the number of employees employed by them, which represent cross section entrepreneurs.

The study is basically descriptive. However, numerical information has been collected and analysed by simple statistical tool like means and percentage.

The role played by financial institutions in promotion and development of SSIs has been covered and studied in detail in chapter 6. The term “Role” in this study means the number of the primary and secondary activities performed by institutions. Along with number of activities performed, it was evaluated whether the institution are contributing to the growth of SSI.
SUMMARY OF FINDINGS:

- From the above table it could be analysed that 40% out of the sample had employed total capital between 25 lakhs to 50 lakhs and the remaining 60% of the sample have employed capital to the extent of above 50 lakhs to 500 lakhs.

- Of the sample 85% of the units had less than 20 employees and 15% of them have more than 20 employees. Of them, only 2% had more than 100 employees.

- 22% of the entrepreneurs are between the age group of 20-30 years. 59% are between 30-50 years and only 19% are 50 years and above.

- Of the total sample under study 98% of the samples were male entrepreneurs and only 2% were female entrepreneurs.

- Of the total sample under study, 28% have PUC or a lesser degree, 13% of them have done a basic degree, 58% of them have a diploma degree and 1% has done equivalent degrees.

- out of the sample study 15% of their family background was agriculture based, 18% were service based, 2% were professionals and 65% are into family business.

- It was found that, 92% had prior work experience before becoming entrepreneurs, 4% of them had no work experience at all and remaining 4% had got into this profession as it was their family business.

- It was found that, the main cause for leaving the earlier job for getting into this profession was 28% felt that they earned low salary, 38% of them felt that they had no job satisfaction, 5% left the job because of the closure of the company in which they worked and 29% of them left their earlier job for starting their own business.

- It was found that, only 10% of the sample under study has undergone training and remaining 90% have not undergone training.

- 62% are aware of such training programmes and 38% of them are not aware of such training programmes.
During the study it was found that, out of the sample undertaken for the study 64% of them were influenced by their friends, 26% of them by their relatives, 4% of them through newspapers and the remaining 6% of them through contact from other sources.

It was found that, 75% of them had a work of experience of 1 to 10 years, 20% of them have a work experience of 11 to 20 years, 3% have work experience of 21-30 years, and 2% have a work experience of 31 to 40 years.

Of the total samples, it could be analysed that, the project idea was got through friends to the extent of 30%, family business another 10%, previous job experience contributed 40%, self venture contributed to the extent 10% and the remaining 5% was through clients and DIC helped around only 5% of the sample under study.

From the data analysed it was found that, the extent of borrowed capital in the initial capital was, upto Rs. 5 lakhs was 24%, between 5 lakhs and 10 lakhs was 36%, between 10 to 25 lakhs was 30% and above 50 lakhs was 10%

Of the sample under consideration, 27% of them have invested their own funds to the extent of 5 lakhs, 40% to the extent of 5 to 10 lakhs, 25% to the extent of 10 to 25 lakhs, and 8% to the extent of 25 to 50 lakhs.

It was found that, only nearing 5% of them got the assistance of DIC to establish the enterprise and the balance 95% of them did not get the assistance of DIC during the course of establishment of their concern.

49% of the sample felt that non-availability of financial resources discouraged them to become entrepreneur in the beginning, 14% of them felt lack of experience in the field, 9% of them felt that lack of technical skills, 18% of them felt that lack of awareness about the government schemes and 10% of them felt that discouragement of family members had discouraged them to become entrepreneurs.

47% of the respondents felt that finance was received by them in time. 10% of them felt that it was delayed by one week, 22% of them felt that it was delayed
by one month, and the remaining 21% of the respondents out of the sample felt that it was delayed by more than a month time.

- 58% of the respondents felt that procedure followed by financial institutions in assistance of loan was highly procedural. 7% of them felt that it was cumbersome, 20% of them felt that it has to be simplified and 15% of them felt that they were unsatisfied with the entire procedure out of the total sample size of 100 SSI units.

- It was found that the experience what they felt during the loan being sanctioned was 18% of them felt it was good, 8% felt it was excellent, 24% of them felt it was satisfactory and 50% of them felt it was unsatisfactory out of the total sample of 100 SSI units.

- It was found that most of the entrepreneurs seek the assistance of nationalised banks and KSFC for procuring funds. 42% of them have availed loan upto 5 lakhs, 28% of them availed loan between 5 to 10 lakhs, 20% of them availed between 10 to 25 lakhs, 7% of them availed loan between 25 to 50 lakhs and the remaining 3% of the sample units have availed more than 50 lakhs from banks.

- When entrepreneurs were asked in general the internal problems faced by them along with financial problems, the respondents have ranked their problems since it was a multiple choice question asked. According to it the sample under study have ranked that there is lot of marketing related problems as the major problem, followed by that is the non-availability of raw-material, followed by that is lack of power, next being lack of finance and the last one is the absenteeism of workers.

- When entrepreneurs were asked about the overall experience they had during the period of seeking financial assistance from the institutions, the respondents have ranked their problems since it was a multiple choice question asked regarding their experience in availing loan from financial institutions. According to it, the sample under study have ranked that the entrepreneurs felt that, the short repayment period for the loan availed by the entrepreneurs was ranked as the major problem in procurement of funds from the financial institutions. Followed by this was the penalty fee which they paid for defaulting the
payments were too high. The next was that they were not sourced as per the requirement of fixed capital being asked by them from the institution, followed by this was that they felt red-tapism activity was disturbing them to avail loans from the financial institutions. Following this was they felt that the Government was assisting them marginally for getting assistance from the banks, the next being shortage of working capital and high rate of interest charged for the loans provided by the institutions.

➢ It was found that Nationalized banks were the most popular source of SSI financing. The reason was low rates of interest which gives them capital at low cost. The service fee and bank charges were also less which results in low cost of financing than the other source.

➢ When the respondents were asked about any suggestions they wanted the financial institutions to inculcate they opined the following:

a. Obtaining adequate finance was the biggest obstacles faced by SSIs in their growth followed by burden of heavy taxes on them. It was suggested by them that easy financing schemes should be provided. Rate of taxes should also be decreased; so that it can help in the growth of SSIs across the nation.

b. They faced the problem in raising finance due to the delay made in the sanctioning the loan. The bank employees’ work very slowly and usually an application takes a lot of time for approval. It was also found that the entrepreneurs felt that business and insufficient collateral were another problem faced by them.

c. The most common reason given by the entrepreneur for rejecting an application was that enterprises could not provide enough guarantees. Bank rejects an application because they believed that it was not a profitable venture. Generally applications are got rejected because of poor credit history as banks lie on the past performance of enterprises before granting loans.

d. Most of the respondents were demotivated for applying for finance through bank because of lengthy process involved and because they were
turned down earlier. Some of the respondents did not apply for the assistance as it requires too much of documentation.

CONCLUSION:

Over the period of time it has been proved that SSI are dynamic, innovative and most importantly the employees of first resort to millions of people in the country. India has a vibrant SSI sector that plays an important role in sustaining economic growth, increasing trade, generating employment and creating new entrepreneurship in India. But the SSI sector faces a lot of obstacles in obtaining adequate finance. Government of India has laid down various schemes for SSI through recommendations given by various committees. But due to few obstacles these schemes are not as effective as they should be. The review of research has showed that SSI sector plays an important role in the economic development of the country but obtaining adequate finance has emerged as a major problem faced by SSIs. The need, scope and objectives of the study provided further framework for further research. The basic purpose of conducting the study was to study the implementation of various schemes laid down by the committees in financing SSIs by the financial institution. The data was collected from SSI units and through few of the state and national level financial institutions. Various tools of data analysis and interpretation were used for carrying out the research. The major findings were that financing through banks were most popular source of financing SSI in Bangalore Urban District. The SSI financing schemes provide credit to this sector, but the procedures involved is lengthy. Moreover, too much of documentation is required. Insufficient collateral and biasness are also the major problems. The re-orientation program, workshops and seminars should be organised at the District Level to provide latest information to the SSIs about various financing schemes offered by the financial institutions, as most of the respondents are not aware about it. New credit products could be developed for meeting the unexpected working capital requirement of SSIs in hassle free manner and in a short time. The process followed in sanctioning the loan and documentation required is cumbersome; hence it is required to make the process easier.
SUGGESTIONS:

Based on the evaluation made the following suggestion are offered:

1. Many of the financial institutions giving assistance to the SSI are not known to the people. Most of the entrepreneurs who are running SSI are not aware of the existence of many of the financial institutions and their activities. Today almost all institutions both business and educational institutions are becoming popular only because they advertise their products and activities exhaustively in print and electronic media. As against this, absolutely there is no such advertisement regarding the financial institutions including the supporting institutions like DICs. There is a need for creating awareness about the various schemes and committees formed for promoting entrepreneurship development initiated by Government so that the programmes will have real meaning. Mere good policies and programmes are not sufficient. They should reach the people. As such it is suggested that the Government at centre as well as at the State Level to take up this advertising/awareness programmes on a continuous basis.

2. The basic problem or issue which was observed in the process of evaluation study is that there is no consistency in the performance of primary activities of the institutions though policies, committees and programmes are formulated by experts taking into consideration all the requirement, it looks that there is no single institution which could exercise the role of monitoring the activities and ensuring implementation of various policies and programmes. Just like RBI & SEBI there is need to have apex body to ensure implementation of various policies and programmes because most of the programmes are funded by central Government and implemented by State Government.

3. Of late, entrepreneurs are not happy with the functioning of financial and other supporting institutions. The study reveals that the most of the SSIs are not happy because most of the entrepreneurs feels that the interest rates charged for the loans borrowed are very high, there is lot of Red-tapism and the repayment period is a short duration and also the demand for the requirement of funds is not met as per the expectations of the entrepreneurs and the margin money is very high. Therefore, the financial institutions have to be much more transparent in their functioning and to curb corruption; within the institution the internal
check and internal control should be very vigilant. The service fee should be reduced so that the entrepreneurs will not feel the pinch of slightly higher rate of interest. The percentage of margin money should be quite reasonable. So that the declining trend of entrepreneurs seeking financial assistance through such institutions can show a growth curve.

4. The process followed in sanctioning the loan and documentation required is cumbersome; hence it is suggested to make the process easier by reducing paper work that is the entrepreneurship should be allowed for on line submission through user friendly software.

5. Since financing remains a key hindrance to the growth of SSI in India. Though the government in recent years has set aside policies that have improved the credit delivery at a subsidised cost, severe constraints still exists for small units in raising finance. Several factors, such as lack of collateral and information asymmetry are responsible for this. To leverage the full growth potential of SSIs and give them greater fund raising options, alternative means of financing such as factoring services and SME Exchanges have to be promoted. By doing this listing would lend transparency to the governance process of SSIs and impact discipline in their functioning and thereby SME Exchanges becomes an important source of finance.

6. SSIs are one of the core constituents of our economy in terms of their contribution to the country’s industrial production, exports employment and creation of an entrepreneurial base. Despite contributing significantly in terms of value addition in India, they are having some major structural problems. These major structural problems which was observed under the study was, the financial institutions felt high risk perception resulting in avoidance by many institutions and banks to lend loans, as the entrepreneurs have unstructured information flow, lack of expertise knowledge in the field, lack of collateral and historically high default rates etc.

Therefore, it is advisable that all the SSIs registered should be insisted to go for credit rating through agencies like CARE and CRISIL as credit rating speaks volumes. Through such ratings, funding options are increased as they are widely recognised by banks, Financial Institutions and other investors. It also helps in faster processing of loan applications by banks and Financial Institutions.
7. The Financial Institutions are constantly working towards the welfare of the SSIs, as it provides financial assistance through which it is encouraging young entrepreneurs who possess the required skills and talent to start new businesses. The Financial Institutions has made it possible by providing numerous schemes with respect to owning machinery, Vehicle, building, equipment etc., Though these functions have been carried out by the institutions, to provide a better satisfactory services as expected by the SSIs, they have to venture out for additional banking facilities like leasing, hire-purchase, providing of merchant banking services etc., The Financial Institutions can also act as venture capitalists, as most of the entrepreneurs are discouraged in the initial stages to start the business due to high risk involved in investment.

8. The financial institutions though implementing the directives laid down by the Government with respect to promotion and development of SSIs while providing financial assistance under various schemes, the entrepreneurs still have the fear of approaching the institutions for financial assistance as they feel that the security/margin money required as per the guidelines are too high. Therefore, the financial institutions can also come up with various other schemes for generating assistance to entrepreneurial activities by considering the available security for sanctioning of loans in time.

9. The Bangalore Urban District profile data was collected through primary and secondary data, it was found that DIC in the Bangalore Urban District has divided the District into three Taluks namely, Bangalore North, Bangalore South and West and Anekal Taluk and each of these Taluk are allocated funds under the PMRY schemes, which showed that the number of person seeking assistance has marginally decreased during the period. It is suggested that efforts should be made to attract more number of people to take up entrepreneurship under the scheme through encouraging them to attend training programmes conducted by DIC. Therefore, it is suggested that DIC, through conducting training programmes at different places like in universities, colleges particularly in management institutes, engineering colleges, and polytechnics on a regular basis along with the regular courses in the form of “Add on Course” could encourage more number of persons to take up self-employment under the scheme.