CHAPTER VII
CONCLUSIONS AND SUGGESTIONS

In Indian economy, a pivotal place is given to small scale industry recognising it as a means to tackle the problems of unemployment, under-employment, regional disparities, economic backwardness etc. In all the Five-Year Plans, various steps were envisaged for the development of small scale sector. Several institutional agencies are established to aid this sector. Despite innumerable steps undertaken by the Government, sickness in small scale sector has been a regular phenomenon. Lack of adequate working capital has been stated as the main factor responsible for the present state of affairs. Institutional agencies were often criticised for their conservative attitude. On the other hand, small scale industry was blamed for inefficient management, financial indiscipline, ill-equipped organisation etc. Government was also blamed for its step-mother attitude towards small scale industry. Thus, there has been a controversy over the agencies responsible for the present state of affairs in small scale industry. The present study is an attempt to analyse various factors connected with the functioning of small scale industrial units with particular reference to finance. Conclusions arrived at various stages of the study are enumerated below:
Capital may be divided into two categories viz., fixed and working. Major constituents of fixed capital are (1) land and buildings, and (2) plant and machinery. The value of land and buildings and plant and machinery required are dependent on type of industry and size of investment.

General Engineering and Miscellaneous groups of industries required land and buildings worth less than that of Mineral and Metal based industries. Mineral and Metal based industries required more capital for plant and machinery compared to Miscellaneous, General Engineering and Agro groups of industries.

Thus Mineral and Metal based industries required higher volume of fixed capital whereas General Engineering, Agro and Miscellaneous groups of industries required lower volume of fixed capital. Chemical and Forest based industries' requirement of fixed capital was in between the two extremes.

Bigger units required both land and buildings and plant and machinery of higher value demanding higher volume of fixed capital. Thus, size of the units and volume of fixed capital were directly proportional.

Volume of working capital required was dependent on several factors such as quantum of raw material consumed, rate of scarce raw material consumption, period taken by Government to supply, delivery period, credit facilities from raw material suppliers, storage period of finished stock,
sales turnover, provision of credit to customers, retention period etc., apart from type of industry and size of the units.

Agro and Mineral based industries consumed higher volumes of raw material and General Engineering units were consuming lower volumes of raw material.

General Engineering and Metal groups of industries were more dependent on scarce raw material where as Mineral based units were least dependent for the same.

Higher percentage of the units of Chemical based industry were to buy majority of their requirements in open market. Scarce raw material supplied by the Government to General Engineering units were too much erratic.

Delivery period of raw material was very high in the case of Agro and Forest based units. Mineral based units were securing raw material within short periods.

Mineral and Metal based industrial units were to buy their raw material on payment of cash. Credit facilities were available to higher percentage of the units of Agro Chemical and Forest based industries.

Sales turnover was high in the case of higher percentage of the units of Agro based industry followed by Mineral based industry. General Engineering industry had the lowest sales turnover. Moreover some units were involved in job work.
Retention period was very high in the case of Mineral and General Engineering groups of industries. It was more so in the case of units selling their goods to Government Departments.

Agro and Mineral based units required higher volume of cash and were to store huge stocks of inventories.

From the view point of volume of raw material consumption, delivery period, sales turnover, cash balance, quantum of inventory stocks, Agro based units required higher volume of working capital.

General Engineering Chemical and Metal based units required higher volume of working capital because of their heavy dependence on scarce raw material, higher rate of purchases in open market and irregular supply of scarce raw material by Government.

From the view points of long delivery period and longer periods of credit to customers Forest based units required higher volume of working capital.

Mineral based units required higher volume of working capital because of higher volume of raw material consumption, non availability of credit from the suppliers, longer period of storage of finished stocks, higher sales turnover, higher share of credit sales, longer periods of retention etc.
Thus, the influence of various factors was in different degrees in different directions on different types of industries requiring higher volume of working capital. As an aggregate affect of all the above factors, Agro and Mineral based units required higher volume of working capital.

Volume of working capital required was more than that of fixed capital in the case of Agro, Forest, General Engineering and Miscellaneous groups of industries. But it was a reverse situation in the case of Metal and Mineral based industries.

Bigger units required higher volume of working capital because of more quantum of raw material consumption, higher sales turnover, cash purchases, higher share of credit sales, longer periods of retention etc. However the requirement of working capital was comparatively less than the volume of fixed capital required.

Total capital required for the establishment of units belonging to the groups of General Engineering, Forest and Miscellaneous was relatively less than that of Mineral, Metal and Agro based units.

Sources of finance may be broadly divided into two categories viz., internal and external. Internal sources represent the share of funds provided by the owners whereas the external sources represent the share of funds brought in by the owners from external parties. External sources can
inturn be classified into two groups viz., (1) institutional and (2) non-institutional.

External sources played a secondary role in the capital formation of the units. It was more so in the case of smaller units and General Engineering and Forest groups of industries.

From among the external sources, institutional agencies played a major part in the case of majority of the units. It was more so in the case of bigger units. Higher percentage of the units of Mineral and Metal based industries had higher share of funds provided by the institutional agencies. It is really appreciable that the institutional agencies' share in the total borrowings was above 50 per cent in the case of 93.75 per cent of the units of Mineral based industry that were highly dependent on local raw material. Moreover, both Metal and Mineral based industries are modern ones.

Institutional agencies played a part in the capital formation of 75.00 per cent of the units. These agencies' share in total funds of one-fifth of the units was above 50 per cent. They played a major part in the case of units promoted by entrepreneurs with Trade and Service background. Their share in total funds was more in the case of Mineral and Metal based industries.
APSFC provided term finance to 34.82 per cent of the units. Its share in total funds of 3.57 per cent of the units was above 60 per cent. Mineral based units were best served. APSFC provided higher share of funds to the entrepreneurs with Service and Trade background.

Through the scheme of supply of machinery on hire-purchase, NSIC participated in the capital formation of six units constituting 5.34 per cent of the sample. In none of the units, its share in total funds crossed 30 per cent.

APSIDC by providing indigenous machinery to educated unemployed took part in the capital formation of only two units. In either of the cases its share in total funds did not exceed 30 per cent.

Directorate of Industries (Government of Andhra Pradesh) provided funds to four units only. Its share was not even 10 per cent of total funds in the case of three units.

Andhra Pradesh Industrial Infrastructure Corporation, Leather Industries Corporation of Andhra Pradesh Limited did not participate in the capital formation of any of the sampled units.

Andhra Pradesh Backward Classes Corporation provided term loan to a unit raised by a backward casteman. Its share in total funds of that unit was about 10 per cent.
Commercial banks took part in the capital formation of 67 units constituting 59.81 per cent. It provided both term finance and working capital for nine units constituting 8.01 per cent and only working capital to 58 units constituting 51.80 per cent. The share of funds provided by the banks was 30 per cent or more than that of the total funds in the case of 25.89 per cent of the units. Metal and Mineral based industries had higher share of funds provided by banks in total funds. One of the sick units was adopted by State Bank of India under Sick Units Nursing Programme. That unit was provided with all the required finance to continue production. Entrepreneurs with Service and Trade background were better served.

Non-institutional agencies did not participate in the capital formation of 63.69 per cent of the units. Among non-institutional agencies friends and relatives of the entrepreneurs played a part in the case of 24.11 per cent of the units. Their share in total funds was higher in the case of bigger units and entrepreneurs with Industry and Agriculture background.

The role of money lenders and indigenous bankers was insignificant. They supplied funds for about 10 per cent of the units. Smaller units and entrepreneurs with Agriculture background were more dependent on this source.
Thus, in the capital formation of the sampled units, the entrepreneurs themselves borne higher share of burden. External sources played a secondary role. Among external sources, institutional agencies played a major role. Again among institutional agencies, APSFC and Commercial banks were the significant contributors. In the case of term finance, APSFC played a major role and in case of working capital finance, commercial banks took the lead. No institutional agency other than commercial banks provided working capital finance. In aggregate, commercial banks' share of funds was higher than any other agencies in the case of majority of the units. Bigger units and entrepreneurs with Trade and Service background were better served by the institutional agencies. Modern industries like Metal and Mineral based ones had higher share of funds provided by the institutional agencies.

Gestation period was less than two years in the case of about 39 per cent of the units only. Six units constituting 5.34 per cent had gestation period of above five years. Thus, majority of the units had very long periods of gestation.

About 17 per cent of the units were not maintaining any books of accounts and 56.25 per cent of the units were maintaining basic accounts. Only 26.79 per cent of the units were maintaining all books of accounts systematically. Thus, majority of the units were not maintaining proper books of accounts which was essential for efficient management.
Techno-economic survey was undertaken by less than 20 per cent of the units to know commercial, technical and economic feasibility of their respective projects. This reflects the poor background the entrepreneurs had about their projects at the stage of inception.

Capital requirements were to be estimated on a systematic basis with the aid of some expert advice. But 102 units constituting 91.07 per cent had estimated the capital requirements of their respective projects on their own without seeking any expert advice or following standard estimates prepared by Small Industry Service Institute or any other agency. Moreover majority of the entrepreneurs had neither technical background nor industrial background.

As many as 25 units constituting 23.73 per cent had met their working capital requirements fully from their long-term resources. In the case of 7.14 per cent of the units, more than 50 per cent of the working capital requirements were met by long-term resources. On the other hand 52 units constituting 46.43 per cent did not have standard current ratio. Optimum balance was struck by only 19.64 per cent of the units. The above analysis indicates that majority of the units were in two extremes of either absolute dependence on long-term resources or on current liabilities for the acquisition of current assets.

 Majority of the units were not aware of the inventory control techniques. None of the units was maintaining
inventory control. Though some units were interested in having inventory control, they were not able to do so because of inhibiting factors like irregular supplies of raw material, transport bottlenecks etc.

In the case of majority of the units, goods were sold in local areas alone. Not even 10 per cent of the units had involved in export trade. Of course one unit made a landmark in this direction by securing some award from Export Promotion Council for its outstanding performance in export trade.

Channels of distribution were selected by all the units on trial and error basis without any systematic study. Of course, majority of the units were selling their goods directly to the ultimate consumers. It was more so in the case of smaller units.

None of the units was undertaking marketing research. Majority of them were not aware of it.

None of the units was undertaking sales promotion activity systematically. Only 34 units constituting 33.66 per cent had undertaken sales promotion devices. They were also doing them haphazardly without proper planning. However bigger units were better participants in this regard.

None of the units had proper cash planning or management. Some times they posses huge sums of cash and on some other times they hardly posses any balance of cash.
The share of inventories in the current assets was above 60 per cent in the case of majority of the units. It was more so in the case of smaller units. It indicates lower degree of liquidity among the current assets also.

As many as 19 units constituting 16.96 per cent had too high current assets/net sales ratio of above 10 times. It was more so in the case of smaller units. About 12 per cent of the units of investment group I had reported no sales. Thus, both too high ratio and too low ratio were prevalent in smaller units. Too low current assets/net sales ratio indicates the operative inefficiency whereas too high ratio indicates inadequacy of working capital.

Five units were dormant and another five units were involved in job work. As many as 26 units were incurring losses. Among the remaining units that were making profits, the rate of profit on capital employed was less than 10 per cent (the rate of interest allowed by commercial banks on long term deposits) in the case of 34 units constituting 44.74 per cent. Thus, majority of the units were behind the line of satisfactory ratio. It was more so in the case of smaller units.

Capacity-utilisation was nil in the case of 4.46 per cent of the units. It was below 50 per cent in the case of 48.22 per cent of the units. Thus, majority of the units were not utilising even one-half of their installed capacities. Idle capacity was more prevalent in the case of smaller units. Higher capacity utilisation was prevalent in the case of bigger.
units and Mineral based units.

Majority of the units that availed term finance paid the total amount due. However about 45 per cent of the units did not pay total amount due. Amount paid as a percentage to the amount due was higher in the case of bigger units. Of course majority of the defaulting-units were either incurring losses or not utilising their installed capacities fully.

Starting from undertaking the techno-economic survey to the utilisation of installed capacity, almost all the units were not managed properly. In the case of all the units neither financial management nor production management nor marketing management was properly undertaken. This was more so in the case of smaller units.

APSFC, although, was operating various schemes to assist small scale units, no scheme other than the provision of term finance for the acquisition of fixed assets was known to any one of the sampled units. In the same manner, hire purchase scheme operated by NSIC was not known to 37 units constituting 33.36 per cent. Though there were four leather and allied industrial units, none of them was aware of the facilities extended by Leather Industries Development Corporation of Andhra Pradesh Limited. In the same manner, 34 units constituting 30.36 per cent were not aware of the term finance facility extended by commercial banks. The above
analysis indicates that although there were various schemes in operation, very few schemes were known to all the units.

Some type of industrial units engaged in servicing and repairing that were eligible for guarantee facilities under Credit Guarantee Scheme operated by Reserve Bank of India were not eligible for loans from APSFC. More over APSFC is not providing working capital loans though State Financial Corporations in some States like Gujarat are extending the same facility.

Some entrepreneurs, though, were in need of term finance and were aware of the facilities from APSFC, they did not approach the agency due to their fear that they might not be able to comply with procedural formalities. This indicates the bureaucratic set up prevailing in APSFC.

Twenty per cent of the units applied for loans were refused by APSFC for two reasons viz., (1) lack of proper supporting information and (2) inability to produce guarantee. Due to the inherent weaknesses of the entrepreneurs such as lack of proper industrial background, lack of awareness of the managerial techniques, they were not able to provide the required information.

APSFC took more than six months in the case of 27.50 and 79.49 per cent of the units for the sanction and release of the funds respectively. In some cases, the corporation took years together to do the same exercise.
It indicates the inordinate delay in sanctioning and releasing the loan amount by APSFC.

APSFC was providing some concession in margin money for the ancillary units. But for this purpose, the unit was to submit a contract from the proposed parent unit for not less than 5 years to buy 50% of the ancillary unit’s output. It would be naturally difficult for any new entrepreneur to get a contract of that type from the parent unit because the latter hesitates to enter into such contract without testing the sincerity of the former. For the same reason an ancillary unit could secure loan after the lapse of 3 years.

APSFC was sanctioning loans to the units that wanted to construct buildings on rented premises only when they secured contract for a period of not less than 30 years from the landlord. But Andhra Pradesh Industrial Infrastructure Corporation was not in the habit of entering into contract for such a long periods. Because of this reason, one unit was to buy the land outright to avail term loan. This resulted in inordinate delay. The reason behind this phenomenon was the existence of contradictory rules of two Government Departments.

APSFC releases funds only when all the formalities for the erection of machinery are completed. One of them is to get ‘no objection certificate’ from municipal authorities. Municipal authorities made inordinate delay in issuing such certificates to one unit. As a result of this, the unit could
scour the loan amount after the lapse of 25 months.

Entrepreneurs are to contribute their margin money to get the funds released from APSFC. One unit which got the loan sanctioned could not avail it for want of margin money.

NSIC had taken more than a year to release machinery. The administrative charges leviable on the loan amounts are exorbitant.

APSSIDC decided to supply machinery from a company other than the one mentioned by an applicant without assigning any valid reason. Of course, on the persistent demand of the entrepreneur, the corporation supplied the machinery from the specified supplier. The Corporation provided funds after a lapse of 18 months from the date of application in the case of both the units that got assistance.

Commercial banks denied loan facility to 27.17 per cent of the units which applied. Rate of refusal was as high as 75 per cent in the case of artisans. About 47 per cent of the units were not sanctioned the full amount applied. The rate of sanction to the amount applied was higher in the case of entrepreneurs with Agriculture background.

Lack of adequate security (collateral) and inability to provide third party guarantee were the reasons for the refusal or under-sanction in the case of 75 per cent
of the units. The above facts clearly reveal that the banks are more security minded rather than production oriented.

To provide term finance, commercial banks took more than six months in the case of 66.67 per cent of the units. Most disappointing fact is that the time lag between date of application and of release of funds was more than a year in the case of 22.22 per cent of the units.

In the case of working capital finance, time lag between the date of application and the date of sanction was six months or more in the case of 31.34 per cent of the units. One of the reasons for such long delays in sanctioning loans was improper scrutiny by branch office personnel. Persons at the receiving counter in the branch offices were mere post offices and were forwarding applications without proper scrutiny. At latter stages, central offices were raising queries thereby leading to long delays in sanctioning loans. Time lag between date of application and of release of funds was six months or more in the case of 35.82 per cent of the units. However the time lag between date of sanction and of release of funds was below 30 days in the case of 76.12 per cent of the units. Moreover 26 units that got term finance from APSFC also secured working capital from commercial banks. Both the institutions took their own time in sanctioning and releasing funds. Thus, commercial banks were making inordinate delay in sanctioning loans but in the release of funds they were taking less time comparatively.
Though it has been stressed that banks are to finance on accounts receivable, none of the units could secure that facility. Higher margins were retained by banks against the security of inventories, leading to the reduction of share of funds to the units. Moreover stocks of raw material were used to be valued at cost price, controlled price or market price which ever was lower. This had an adverse effect on the units using scarce raw material who were to buy in the open market at an extra price of 25% - 100% over controlled price.

There is no provision for extending clean facilities even for short-duration to 'bridge-over' assistance for meeting urgent needs of small scale units.

First instalment fell due earlier to the commencement of commercial production in the case of 22 units. Thus, they were put to hardship by fixing unrealistic instalment schedules.

Instalment periods were fixed by any institutional agency uniformly for all borrowers units. But it was found that smaller units had opted for short periods of instalment whereas bigger units for long periods of instalment. Thus, the policy adopted by institutional agencies in the case of fixing instalment period was not in accordance with the convenience of the units.
Institutional agencies levied penal interest on the defaulter units. In the case of units which were incurring losses, instead of nursing them, they were penalised with higher interest. Some defaulter units were served notices to auction the assets which were pledged to them. Both the above policies are not desirable for the development of small industry.

Follow up action by NSIC, APSFC, APSSIDC, Directorate of Industries (Government of Andhra Pradesh) was not adequate. Many of the units were not inspected by the respective agencies' personnel as per the rules and regulations. It was also reported that the agencies' personnel had the habit of writing reports without inspecting the borrower units. Of course, commercial banks' personnel were visiting borrower-units frequently. However follow up action of the institutional agencies was not satisfactory.

None of the 39 units using scarce raw material was meeting its requirements fully from Government supply. About 30 per cent of those units were completely dependent upon open market. And other 25.64 per cent of the units were buying more than 75 per cent of their scarce raw material requirements in the open market. Only 17.95 per cent of the units were securing about 75 per cent of their requirements from the Government. But, bigger units were securing higher share of their requirement in the controlled market.
One notable feature was that some units were getting any quantum of the so-called scarce raw material, allocated only to actual users by the Government, in the open market by paying premium.

MMTC was demanding bank guarantee for 1/8 of the estimated cost of annual requirements of a unit. This was an uphill task in the case of entrepreneurs with poor financial background.

Local dealers were not obliging to supply cement to the units as per the orders of Deputy Director of Industries despite the intervention of District Collector. Thus, the units were left to buy in the open market by paying 150% - 175% of the controlled price.

Government of Andhra Pradesh neither supplied raw material nor allowed a unit to acquire from other states which led to the sale of machinery at loss after keeping it idle for five long years.

Government was supplying scarce raw material irregularly to 29.63 per cent of the units. This was more so in the case of General Engineering industry and smaller units.

Mineral-based units were to store their finished goods for long periods due to the non-availability of railway wagons. And there is no agency to provide warehousing facilities to store inventories.
Out of the existing schemes such as (1) Central Government Purchase Programme, (2) Export Aid to Small Industries (EASI), (3) Direct Marketing Assistance of APSSIDC, (4) Direct Export Assistance Scheme of Andhra Pradesh State Export & Import Corporation and (5) Andhra Pradesh State Government Purchase Programme, only two were known to the sampled units.

Units selling to Government Departments unanimously deplored the long delays in realising their bills. Sometimes the bills were kept pending for more than six months.

Main reasons for poor participation in export trade were (1) non-availability of qualitative raw material (2) non-existence of quality control departments in the sampled units (3) lack of awareness of the demand for their products (4) lack of publicity in foreign markets and (5) inability of the entrepreneurs to participate in trade fairs conducted by the Government of India from time to time.

Small-scale units were to bear losses incurred in export trade due to fluctuations in foreign exchange rates. Though it is a common phenomenon, small units were hardly sound to bear such risks. Units engaged in export trade were put to hardships because of undue delay in shipment at Madras port.
Lack of adequate working capital finance was a primary factor in the case of 30 per cent of the units and a secondary factor in the case of 35.21 per cent of units for under-utilisation. In the case of smaller units dearth of working capital funds was more responsible for under-utilisation. Here it may be reminded that 60.87 per cent of the units that had approached banks for working capital finance were either refused or under-sanctioned.

Shortage of raw material was responsible for under-utilisation in the case of 28.00 per cent of the units as a primary factor and 21.13 per cent of the units as a secondary factor of influence. Majority of the units of Chemical based industry were more affected for want of raw material. Here it may be recalled that none of the units (34.82 per cent of the sample) that were dependent on scarce raw material were securing their requirements fully from the Government.

Lack of demand was responsible for under-utilisation in the case of 25.00 per cent of the units as a primary factor and in 8.45 per cent of the units as a secondary factor of influence. Bigger units were affected more due to lack of demand. It was also the same situation in the case of Agro and Forest based industries. Here it may be recalled that not even 20.00 per cent of the total sample units undertook Techno-Economic Survey to test commercial, technical and economic feasibility of their respective projects. Demand for the end products of Agro based industry was falling appreciably.
in slack seasons. The small scale units ability to adopt the policy of product diversification is doubtful. Hence fall of demand in the case of one product had a large bearing on the functioning of the units.

Shortage of power supply and lack of transportation facilities were affecting sizable number of units in utilizing their installed capacities. Mineral based industry was more affected by these factors.

Thus, several factors were responsible for idle capacity in small scale industry. Of course among them, lack of adequate working capital finance was more responsible. It was more so in the case of smaller units. Commercial banks, the lone institutional agency providing working capital finance either refused or under-sanctioned the loans to 60.87 per cent of the units. In addition to this, over 90 per cent of the units did not estimate capital requirements systematically. None of the units had proper cash planning, proper inventory control, proper production management and proper marketing management which ultimately affect inflow and out flow of funds. Neither institutional agencies nor small scale industry can be blamed for this. The former can be found fault for its conservative attitude and the latter for its inefficient management.
Share of institutional finance in total borrowings was 50 per cent or more in the case of 71.43 per cent, 84.65 per cent, 88.24 per cent and 100.00 per cent of the units of the investment groups I, II, III and IV respectively. The share of institutional finance in total borrowings was higher in the case of bigger units.

Refusal rates was as high as 61.54 per cent in the case of investment group I. But no unit of either group III or group IV was refused by APSFC. Thus, refusal rate was higher in the case of smaller units.

APSFC sanctioned loans within six months in the case of 40.00 per cent, 76.19 per cent, 75.00 per cent and 83.33 per cent of the units of investment groups I, II, III and IV respectively. The agency took more than four months to release funds from the date of sanction in the case of 80.00 per cent, 75.00 per cent, 50.00 per cent and 16.67 per cent of the units of investment groups I, II, III and IV respectively. From the date of application to the date of release of funds was more than a year in the case of 16.67 per cent, 50.00 per cent, 55.00 per cent and 60.00 per cent of the units of groups IV, III, II and I respectively. Thus, it can be seen that bigger units were sanctioned and released loan within short periods.

APSFC participated in the capital formation of 11.63 per cent, 48.78 per cent, 47.06 per cent and 55.55
per cent of the units of investment groups I, II, III and IV respectively. Thus, APSFC participated in the capital formation of higher percentage of the units of higher investment slabs.

Commercial banks refused loans to 52.94 per cent, 16.67 per cent, 7.14 per cent and none of the units of investment groups I, II, III and IV respectively. Thus, it can be seen that rate of refusal was higher in the case of smaller units.

Amount sanctioned as a percentage to the amount applied was 75 or more in the case of 25.00 per cent, 73.34 per cent, 68.85 per cent and 100.00 of the units of groups I, II, III and IV respectively. Thus, the rate of amount sanctioned was low in the case of higher percentage of the units of lower investment slabs. Of course group III deviated from the above path.

Commercial banks took more than six months in the case of 83.75 per cent, 16.67 per cent, 7.70 per cent and none of the units of investment groups I, II, III and IV respectively. Commercial banks released funds within a month to 50.00 per cent, 80.00 per cent, 84.62 per cent and 100.00 per cent of the units of investment groups I, II, III and IV respectively. The time lag between date of application and of release of funds was six months or above in the case of 68.75 per cent, 33.33 per cent, 15.39 per cent, 12.50 per cent of the units of
investment groups II, III, IV and XV respectively. Thus, commercial banks took longer periods to sanction and to release loans to smaller units.

The share of funds provided by commercial banks in total funds of 20.93 per cent, 17.07 per cent, 41.18 per cent and 54.55 per cent of the units of investment slabs I, II, III and IV respectively was 30 per cent or more. Thus, the share of funds provided by commercial banks was higher in the case of higher percentage of the units of higher investment slabs. Of course group II deviated from the above path.

To test the phenomenon of institutional agencies' bias towards bigger units loan operation of NBIC, APSSIDC, Directorate of Industries (Government of Andhra Pradesh) has not been taken into account as they extended loans to a few units.

Thus, the above discussion clearly indicates that bigger units were better served by institutional agencies in almost all the spheres. At the same time smaller units ability to abide by rules and regulations is also doubtful. Of course the institutional agencies can not leave the smaller among small-scale units to fend on the basis of the units' failure to comply with rules and regulations. To help them, institutional agencies have to liberalise terms and conditions at least for the units of investment group I.
Suggestions:

As it has been noticed in the preceding sections, neither institutional agencies nor the Government nor the small scale units alone can be held responsible for the failure of small scale industry. It was a result of not only conservative attitude of institutional agencies and step-mother attitude of the Government but also of inefficient management of the units in all spheres. Hence pumping of funds by the agencies alone can not solve this problem, a broad based approach is to be followed right from the selection of the potential entrepreneurs to the stage of self-reliance. The following suggestions may form a basis to tackle the problems encountered with the growth of small-scale industry.

1) The Selection of potential entrepreneurs plays a vital role in accelerating the pace of industrialisation. The Government can favour the selection of persons with Trading and Industrial family background and those with technical qualifications, as they can be easily stimulated to take up industrial ventures. This does not mean that people from other walks of life are to be ignored. But it is only to eliminate tom and dick to enter into the field thereby avoiding too many failures. After the selection, the candidates must be asked to choose the type of industry they wish to set up. While doing so, the Industries Department has to guide
them by providing all necessary facts such as demand for different products, the availability of raw materials, requirement of fixed as well as working capital, technical know-how needed and other related aspects. Once the entrepreneur selects a particular type of industry, the Industries Department has to assess his capabilities to establish and to run the business taking into account his financial, technical, occupational and managerial background. Once the Department comes to the conclusion that a particular type of industry can be taken up by the entrepreneur, an in-depth study of techno, economic and commercial feasibility of the proposed project has to be conducted. Once the proposed project was found viable, the entrepreneur should be imparted such training as he may be require to run his business efficiently. The entrepreneur must be provided training starting from how to maintain books of accounts systematically to production management, financial management and marketing management. To impart practical knowledge, the potential entrepreneurs are to be taken to well established industrial units. Training of the above sort gives clear idea of what is what to the potential entrepreneurs. The suggested measures will be more relevant if pre-entrepreneurial training is made compulsory. During the period of training, the prospective entrepreneur may be paid stipend which may be sufficient to maintain himself. To reduce unwieldy rush, scrutiny of the potential entrepreneurs has to be made systematically.
2) With regard to the entrepreneurs who are already running units, they may be provided some training in all areas of Management through short term courses either at Small Industry Extension Training Institute or at Small Industry Service Institute periodically. So that they would be able to attend and try to know the recent techniques of Management. For the benefit of those who can not go out, training courses may be run periodically at all important growth centres.

3) As many entrepreneurs are trailing behind in marketing management they are not in a position to study the existing pattern of channels of distribution and to decide which is more feasible. It is therefore desirable to undertake a nation-wide survey of distribution channels for small industry products by SBT or NSIC and to suggest the right channel for various products.

4) Entrepreneurs do not posses thorough knowledge of the potential markets for their products. Generally the industrialists vision would be limited either to his District or at most to his own State (as found in the present study). So, it is advisable for Small-Scale Industrial Development Corporation of a particular State to function as an agent for its counter part in another State to findout the potential markets for a product and link up with National Market.
5) Small-scale entrepreneurs are not aware of the modern marketing techniques and their utility in business. APSSIDC has to extend its Free Marketing Consultancy Service to the small-scale units which may not otherwise be within their reach. Adequate efforts are to be made to strengthen the consultancy service by involving few more institutions including District Industries Centres so as to enable the small industrialist to enjoy the facility without much difficulty.

6) At present there is no agency which provides warehousing facilities to store the inventory stocks of small-scale units. For this purpose, the Central and State Governments should undertake the task of constructing warehouses exclusively useful for small units.

7) Lack of demand for the products of some industrial units is a regular phenomenon. To reduce the dimension of this problem, Government may regulate the promotion of the same type of units and see that the existing units do not suffer for want of market. Government may also help them in exploring the new markets through market research and investigation. Further, fresh registration of similar type of units may be discouraged until the existing units are strengthened.

8) It has been observed that none of the units could get the scarce raw materials required from the Government fully. To solve this problem, Government should take enough
care while issuing licenses to those units that depend upon scarce raw material. While doing so, the availability and requirement of the scarce raw material is to be taken into account. Government should establish raw material supply centres at 'District Levels' instead of at 'Regional Levels' as at present. The Functional Manager (DIC) for raw material may be directed to assess the required quantum of raw materials for the units situated within the District on a rational basis and report the same to State or Central Government periodically. At the same time he should inform the units about the probable quantities of supply in forthcoming months. This strategy would not only reduce the possibilities of the units running in short of raw material but also enable the entrepreneurs to prepare their production schedules in advance. Here it may be pertinent to maintain buffer stocks of raw material (particularly scarce) by the Government so as to maintain regular supply of stocks to small units without any interruption.

9) Instead of completely depending on the Government without any effort the small units may form into an association and try to bargain their requirements of scarce raw material from the Government. As a group they may also obtain import license and see that their requirements are met regularly through systematic and well planned imports.

10) Need for furnishing bank guarantee for 1/8 of the annual requirements of raw material set by MMTC must be
waived off. These terms preclude the units with meagre financial background to utilise available opportunities.

11) If any dealer does not oblige the orders of the Government for the supply of raw material to any small scale unit, his licence must be cancelled. But this decision should be taken based on systematic investigation into the affairs.

12) When the State Government is not in a position to supply a particular type of raw material, it should leave the option for the small-scale units to obtain the same elsewhere. It should not stand in the way of the unit for securing the material through other means.

13) After the allocation of scarce raw materials, Government should be vigilant on their usage. Frequent visits by the Personnel of District Industries Centre or any other competent authority could reduce the possibility of selling scarce raw material in the open market without using for production purposes. Vigilance must be more intensive where the difference between controlled price and open market price is very high.

14) Preference may be given for small-scale industrial units while allotting railway wagons or shipment of goods etc. This in turn help the small units in avoiding undue delays, reduction of storage costs, demarrages, risks etc.
15) Power supply to small scale units has to be ensured at least for one shift regularly throughout the year.

16) All Government Departments and Public Sector Undertakings may be instructed to pay bills to the small scale units within three months from the date of receipt of goods. If any institutions does not pay within that period it may be levied interest at the rate of not less than the rate charged by commercial banks on working capital loans unless such a regulation is made, small scale units would be put to lot of hardship.

17) Institutions such as State Trading Corporation have to conduct surveys abroad and convey the specifications of the products having greater demand in overseas market. They can advise the small industrialists to plan out their products accordingly. Small Industry Service Institutes may be asked to provide all technical help that is necessary in developing the products upto the standards required so that the entrepreneurs may be relieved of greater strain in bothering about product planning and development.

18) The Government should take up the responsibility of providing qualitative raw material which may suit the requirements of small industries having export potential, timely and adequately. The Government may also supervise the activities of the units effectively so that qualitative products can be developed. This inturn will help the
industrialist to develop a product up to the expectations and may be able to meet the production schedule promptly. This will create confidence in the minds of overseas customers and better business relations can be established. This may also lead to increased export trade.

19) Since the very success of export trade depends on quality, the Government must make earnest efforts by providing all possible assistance to the entrepreneur in developing a qualitative product. As the establishment of quality control departments individually is out of the reach of a small scale unit, District Industries Centre can start it and suggest ways and means to maintain the quality of the products.

20) The Government of India has to provide the facility of publicity through its agencies like BTC for all the export worthy small industries' products. Since finances of the small scale units are meagre, the Government can reimburse the expenses incurred by the units in participating trade fairs. International Market Trade Fairs may also be arranged by the Government at all important centres exclusively for small industry products so as to provide a fillip for their marketing.

21) At times an entrepreneur has to bear the risk of revision of exchange rates. This may often lead to reduction of importer currency value thereby getting lower
amount for the products sold in International Markets. To help the small industrialist, who can not afford to bear such risk, Government may bear such loss.

22) To develop brand image, small industrialists producing same type of product can themselves be grouped into a consortium and have a common brand. The difficulty of difference in quality can be easily coped up by adopting specific guide lines. They can also be regulated through stringent if any, measures like penal fee, debarring the membership etc., fails to adhere to the specified rules. The Government or Federation of Associations of Small Scale Industries (FASSI) can recognise the consortium and see that the code of conduct shall be maintained although.

23) Several schemes were introduced by different institutional agencies but not known to many entrepreneurs. It is not enough if a scheme is introduced. It must be known to the people for whom it is meant. Otherwise the scheme would be an obsolete one. For this purpose wide publicity must be given for various schemes in operation so as to be made known to all the units. This can be done through mass media like radio, news papers, cinema. At the same time, window display can be made at all important places where the public gather normally. But the places chosen for this purpose may be those where industrialists and businessmen assemble.
24) All types of units which are eligible for guarantee facilities under Reserve Bank of India's Credit Guarantee Scheme are to be brought into the scope of APSFC's loan operation.

25) Terms and conditions for any loan must be simple, specific and understandable even to a layman. Ambiguous and complicated rules are to be deleted. All institutional agencies have to provide assistance for the entrepreneurs at all stages till the disbursement of loan is over.

26) APSFC has to avoid the practice of asking for third party guarantee as the assets are to be pledged until the loan amount is cleared off completely. Same practice may be adopted by the institutions which provide term loans.

27) The need for the provision of collateral security to obtain working capital loan is to be waived off by the commercial banks as the loan amount is always released on the provision of inventory stocks and bills by keeping enough margin.

28) APSFC, NSIC, APSSIDC, Directorate of Industries (Government of Andhra Pradesh) and Commercial banks made inordinate delays. The provision of credit must not only be adequate but also timely. All the institutional agencies taking the note of importance of timely credit should sanction and release funds within short periods. At the receiving
counters of applications forms, commercial banks should employ people with adequate technical background to scrutinise and find out any deficiencies in the application forms furnished so as to eliminate the possibilities of raising queries by regional office or Central Office at a latter stage.

29) State Financial Corporations and commercial banks can have coordination in sanctioning loans. As it is noticed in the present study, many units are securing term loan from APSFC and working capital loan from commercial banks. In those cases, scrutiny of the application of a particular unit is being made twice. Instead of this, by forming coordinated committee with the representatives of both banks and APSFC, the application can be scrutinised jointly. This will reduce undue delays in sanctioning loans.

30) In a growing inflation, the prices of machinery and equipment tend to change. Resultantly the credit requirement may not be the same if considerable time is taken in processing, sanctioning and disbursing the loans. So provision may also be made for price escalation so that any change in price structure may automatically be adjusted without the need for revised estimates. Same is the case with the assessment of working capital.

31) Reserve Bank of India has to issue orders to all commercial banks to release loans on accounts receivable
also. As long as the debtor of a particular small scale unit is a sound party there would be no problem what so ever in realising the amount. Discretionary powers may be given to the branch managers without the need to wait for the orders of regional office up to a particular limit i.e., Rs. 50,000/-.

If the branch manager feels that the debtor to whom the goods are sold, is not a sound party he can reject to release the loan amount. Issue of loan on accounts receivable in the case of small scale units is more necessary because of their unfamiliarity with bills of exchange.

32) Branch managers may be empowered to provide clear loan as a bridge over assistance depending upon the genuineness of each case. This would relieve some hardship on the part of small industrialist.

33) In the case of the units using scarce raw material, loan amount may be sanctioned based on the actual price paid by the entrepreneur or the market price which ever is feasible to the bank.

34) No worthwhile project may be turned down by any institutional agency for want of margin money. It is more so in the case of term loan. Directorate of Industries (Government of Andhra Pradesh) or APSSIDC has to participate in the formation of equity capital in such cases. But this facility may be provided only to those projects which are found viable and more labour intensive. Such facility will ensure
that no worth while project will suffer for want of funds. It is advisable for NSIC to keep the administrative charges on the barest minimum. If possible, the Government may bear the same.

35) Contradictory terms and conditions prevailing in two Government Agencies as in the case of APSFC and APSSIDC, must be changed immediately. Otherwise the situation may be disastrous to the entrepreneurs.

36) State Government has to issue relevant orders to Local Authorities not to make undue delays in issuing 'No Objection Certificates' to small scale units.

37) Without any valid reason and consent of the entrepreneur, machinery from a manufacturer not specified by the entrepreneur, should not be supplied by NSIC or APSSIDC.

38) Repayment schedule should be fixed by any institutional agency taking the factors such as nature of industry, probable period of gestation, financial background of the entrepreneur, income generating capacity of the project etc., into account. Grace period must not lapse earlier to the commencement of production. Instalment period is also to be fixed taking the consent of the entrepreneur into account. It may be better if the instalment amount is kept low in the initial years and may be increased as the age of the unit passes on.
39) Institutional agencies have to take up systematic follow up action. If the agency has come to know that some persons were writing reports without inspecting the units, stringent action has to be taken against them. Agencies' personnel may be provided all the training required to look into the management of the borrower units. Institutional agencies may also have consultancy cells to provide guidance to the borrower units in times of distress.

40) When a particular borrower unit could not repay the loan as per schedule, institutional agency has to conduct an in-depth study. If it is found that the unit could not pay on genuine reasons despite its viability it can undertake the unit for nursing programme. Without proper investigation, the agency should not resort either to levy penal interest or to auction the assets of the unit. Such positive attitude would enhance the confidence of the borrower units.

To conclude, though the problem of small scale industry is multi-dimensional one, it is revolving around the availability of adequate finance, more so with working capital. Unless the financial institutions mend themselves and move hand in hand with small scale industry in solving its problem sympathetically as a friend, philosopher and guide, the much talked of rural industrialisation, balanced regional development etc., will become a distant dream.