CHAPTER - 8

SUMMARY, CONCLUSIONS AND SUGGESTIONS
SUMMARY

The Small Scale Industries (SSIs) play an important role in the development of Indian economy by way of value addition, employment generation, equitable distribution of national income, regional dispersal of industries, mobilization of capital and entrepreneurial skills and contribution to export earnings. The development of small scale industries depends upon several factors like suitable raw materials, skilled labour, appropriate technology, efficient management and adequate, timely and cheap finance. The factor of finance has got a greater role to play in the development of small scale industries. In this context, the present empirical research study "Bank Finance to Priority Sector – A Study with Reference to Small Scale Industries in Cuddapah District, Andhra Pradesh", is a modest attempt to trace out the impediments in the provision of timely and
adequate credit to the SSIs by commercial banks. The study covers issues like priority sector financing by commercial banks, perspectives of small industry development, dimensions of SSI sector Cuddapah district, select banks' performance of SSI financing and problems of the entrepreneurs in availing bank credit.

**BANK FINANCE TO PRIORITY SECTOR**

Commercial banks have been playing a crucial role in the process of growth and development of Indian economy. A modern economy cannot function effectively unless they work well as they provide a high way through which the credit flows. The structure of Indian commercial banking is by and large of branch banking type with two sectors - public and private. The commercial banking system has become stronger with 27 public sector commercial banks, 32 private banks, 196 Regional Rural Banks and 29 foreign banks forming the major channel for financial savings of household sector. The progress of commercial banking in India over the last three decades is eventful and significant.

After nationalization the public sector banks have been increasingly motivated towards the speedy achievement of socio-economic objectives with reference to target allocation of credit to various segments of priority sector. Initially there was no specific target fixed for priority sector lending. The banks were advised to increase the share of priority sector advances to 40 per cent of their
total advances. Reserve Bank of India prescribed lower rate of interest for the priority sector advances. Public sector banks over ride the private sector banks in financing the priority sector.

Commercial banks have been playing a vital role in the development of the state Andhra Pradesh. The progress of commercial banks in the state has been satisfactory in terms of number of branches, coverage of rural and unbanked areas. The bankers in the State of Andhra Pradesh took due care in lending to priority sector. The progress of commercial banks in Cuddapah district is far better than that of the state and the country as well. But bank branch expansion in Cuddapah district during the past decade is slowed down.

**INDIAN SMALL SCALE INDUSTRY - AN OVERVIEW**

The small industry is ideally suited to the developing economy of India not because of any sentimental or ideological considerations but on purely economic and social grounds. Since the launching of planning in the country, the SSI sector has grown at a phenomenal rate. This sector comprises 95 per cent of the total industrial units in the country, accounting for 40 per cent of industrial employment and 35 per cent of total exports. The small-scale sector enjoys certain fiscal and other incentives such as exemption in excise duty up to a specified limit,
reservation of 836 items for the exclusive production in the sector, and preferential allocation of scarce and controlled raw materials. Besides, priority sector is provided with credit facilities on concessional terms both for fixed and working capital.

On the arrival of the new millennium many changes have been effected by the Government of India keeping in view the need for developing the country. One among them was a package of sops to uplift the SSIs which are important to develop the nation.

The role of financial institutions assumes greater significance in the development of small scale industries. Substantial quantum of bank credit is extended to SSIs in the form of cash credits, overdrafts, or bill finance to meet their working capital requirements.

Small Scale Sector has proved its performance by recording the highest ever growth rates in terms of production, exports and employment generation in the process of economic development of India. These achievements are particularly creditable against the backdrop of a number of constraints faced by the SSI sector like inadequate flow of incidental credit, higher cost of
credit and growing competition arising out of economic liberalization and reforms

The phenomenal increase in the number of SSIs, investment and employment is indicative of impressive growth of SSI sector in Andhra Pradesh. The principal reason is that the SSIs were encouraged under different plans through various concessions, incentives and reservations. The employment potential of SSIs has progressed up to 1993-94 in Cuddapah district which thereafter declined. The slow down in employment potential is due to upgradation of technical know-how used in SSI sector.

DESIGN AND METHODOLOGY

Financing of small scale industries by commercial banks was started in the late sixties. For a long time, commercial banks were inclined to consider small scale industries a risky proposition. It is only after nationalisation of banks, the credit flow to small scale industries began in the form of term loan and working capital. Two aspects that are very important from the angle of credit are its adequacy and timely availability. SSIs require financial support on credit terms more than any other industrial category.

The review of literature points out to the existence of inter-bank and inter-regional variances in small industry financing because of
differing lending practices, follow-up procedures and recovery efforts of commercial banks. Further, it is observed that the supply of credit to SSIs is inadequate, costly and not timely. It is in this context, felt appropriate to examine the role of commercial banks in financing small scale industries in Cuddapah district.

Selection of banks and their branch offices and SSI units financed by these bank branches is confined to four important towns - Cuddapah, Proddatur, Rajampet and Rayachoty - in Cuddapah district in view of time and resource constraints on the part of the researcher. 5 public sector banks out of 14 are drawn into the sample based on the consideration of their magnitude of financing small scale industries. In the study area these 5 select banks with 18 branch offices have financed 945 SSI units with an outstanding credit of Rs.1132.83 lakh. Of these 945 SSI units 20 per cent sample covering each one of the select banks is drawn at random totaling to 189 units. But, 19 SSI units in spite of the best efforts of the researcher did not respond positively and cooperate with her. The sample for the study, therefore, constitutes 5 PS banks, 18 branch offices and 170 SSI units representing cross section of different lines of activity.

**SMALL SCALE INDUSTRY IN CUDDAPAH DISTRICT**

Cuddapah district continues to be one of the most backward districts in Rayalaseema region with uneven rainfall and vast dry
tracts. The total geographical area is 15359 Sq.Kms., consisting of three revenue divisions, 51 mandals, 749 gram panchayats, 958 revenue villages and 3706 hamlets. The economy of the district is predominantly agrarian in nature. Around 75 per cent of its population is engaged in agriculture and allied activities for their livelihood. The agricultural resources of the district are providing raw materials for a wide range of agro-based industries such as rice mills, flour mills, dal mills and ground nut oil mills, fruit processing, turmeric polishing units etc. Cuddapah district is also endowed with rich mineral resources and it is a part of "Cuddapah basin" famous for mineral wealth particularly barites, asbestos, limestone, clay etc. But these resources have not been fully tapped.

All the nationalized commercial banks in the district are financing industrial development and SSIs in particular. But lack of full fledged infrastructural facilities and poor maintenance of existing ones made the pace of the industrial progress slow in the district. Further, faction politics, lack of entrepreneurial skills and marketing abilities are cited as the reasons for the under development of large and medium and small scale industries in the district. Irregular power supply is also a major problem. Due to this, the existing industries are not able to run their units to the maximum capacity and the entrepreneurs are not coming forward to establish new industries in the district. Few large and medium scale industries producing cement
and chemicals are established in the district to make use of the mineral resources available.

The district with vast mineral and agricultural resources has facilitated the growth of small scale industries. There are 8906 Small Scale Industries presently registered with DIC, Cuddapah with a capital investment of Rs.7,640.85 lakh providing employment to around 39,633 persons. Efforts are continuing for identifying and developing small scale and tiny industries in the district as there is scope for the same. The District Industries Centre, Cuddapah came into existence with effect from 1st November, 1978. The DIC is playing the role of catalyst in the development of small scale industries in the district.

INSTITUTIONAL FINANCE TO SMALL SCALE INDUSTRY IN CUDDAPAH DISTRICT

The credit delivery system in Cuddapah district comprises 14 public sector banks, one regional rural bank, one DCCB and 3 private banks besides APSFC. The total bank net-work in the district as on March, 1999 stood at 171 branches. Of these, 93 are commercial bank branches, 66 RGB branches and 12 DCCB branches. SSI prospects in the district gained momentum as the district is endowed with lot of mineral resources. Keeping this in view, substantial allocations are made to this sector under District Annual Action Plans. Targets are fixed for each bank on the basis of their operation and past performance. Many SSIs are still depending upon non-
institutional sources for their financial requirements. It is because of their inability to approach the bank, failure to develop the project report with all details and lack of security to get funds from banks. Banks generally insist upon 20 per cent of entrepreneur's contribution in the investment of industrial units. The SSI entrepreneurs find it very difficult to meet this norm.

The number of SSI units registered with DIC multiplied over the study period. Also, the number of SSI units receiving bank credit registered an increase but the percentage of SSI units getting bank finance has declined sharply. The share of commercial banks' finance to the total investment of SSI units registered a gradual increase in absolute values. But in percentage terms the increase is marginal. There has been more or less an equal increase in the share of banks' financing of SSIs on par with that of the investment in SSI units of Cuddapah district.

The main focus of DCCB is financing agriculture. Though, earlier DCCBs were participating in lending to SSI sector, later on they stopped to finance SSIs in view of NABARD instructions. RGB's finance to SSIs is negligible. The RGB having its net work in rural and semi-urban areas is concentrating mainly on agricultural advances. Only five branches of RGB located in urban areas are participating in SSI financing.
The major share of financial assistance from APSFC is to small scale sector. It provided loans in the district for activities like groundnut seed crushing units, slab polishing, pulverizing mills, footwear, sericulture, transport vehicles; milk processing, nursing homes, hotels, motels, commercial complexes and poultry farms. About 96.62 per cent of the loans lent to SSI sector in the district is in the form of term loans. The financial assistance in the form of working capital is marginal. Significant progress is observed in disbursement of loans to SSIs by the Cuddapah branch of APSFC. The recovery of overdue from SSIs by APSFC is more effective than the loans provided to medium industries.

SSI FINANCING AND PERFORMANCE OF SELECT BANKS

The select banks' CD ratio with the exception of Andhra Bank are higher than the district and national levels. The deposit share of State Bank of India is better followed by Syndicate Bank and Andhra Bank. SBI has an edge over the other banks as it has more branches in the district when compared to other banks. All the 5 select banks' deposit share put together is higher than rest of the banks. The credit share of Bank of Baroda and Punjab National Bank is ahead of their deposit share in the district. SBI and Syndicate Bank too maintain better credit share in the district.
The performance of Bank of Baroda in financing priority sector is far from satisfactory. SBI alone exceeded the district level average in respect of priority sector financing. Viewed from this angle, all other select banks are lagging behind. The year-wise number of SSI units financed by the select banks has steadily progressed. During the same period the amount lent to SSIs by these banks has also doubled.

In selecting the SSI borrower the sample banks consider entrepreneur's managerial competence, technical competence, past experience, demand for the product, and feasibility report of DIC. But importance given to these factors vary from one bank to the other. The factors such as nature of the products, proximity to raw materials, availability of skilled labour and market potential are considered by all the select banks while determining the viability of the SSI units. It is obvious that there is no deviation among the select banks as regards the factors considered for determining the viability of SSI units.

The recovery of overdue from SSIs is inconsistent and ineffective in the sample banks with the exception of SBI. All the select banks are concerned over their recovery performance and are following similar measures to recover
the overdue. In recent years, select banks are encouraging the borrowers for one time settlement of overdue. Verifying end use of credit and evaluating stock levels, production and sales are undertaken by all the select banks. No select bank verifies the books of accounts of SSIs because of lack of specialized bank staff.

**EMPIRICAL ANALYSIS**

The researcher has selected 170 SSI units of diversified nature financed by 5 major banks in Cuddapah district. A schedule is administered to the sample respondents to obtain their opinions on SSI financing by commercial banks. The results of the empirical analysis are detailed under conclusions of the study.

**CONCLUSIONS**

The following conclusions have emerged from the study.

- At all India level the statutory norm of 40 per cent of total advances to priority sector has never been accomplished by the public sector banks, though they advanced more loans to priority sector than the private sector banks could. However, the RBI norm of 40 per cent of bank advances to priority sector was surpassed by a large margin in Cuddapah District. But the same cannot be said about directed lending to different components of priority sector financing by commercial banks in Cuddapah district and the national level as well.
At the national level the rate of growth of public outlays for the SSI during the plan period have recorded an uptrend, implying the significance accorded to SSI Sector. But the bank credit to SSI sector is far less than the Nayak Committee's norm of 20 per cent turnover of assisted units. Further, deployment of credit to the SSI sector is uneven over a period of time.

At the district level commercial banks are ahead of all the banks in financing SSIs. The APSFC has gradually increased its lending to small scale sector. Commercial banks are ahead of all other categories of banks in financing small sector in Cuddapah district. The APSFC has gradually increased its share of lending to small scale industry. The DCCB altogether stopped financing the credit needs of SSI units in the district. The RGBs financial assistance to SSI sector is marginal.

The credit deployment of commercial banks to SSI was appreciable upto 1996 in Cuddapah district. Thereafter, banks could not achieve credit targets set for SSI. In fact, the achievement fell far short of the targets set, the reasons being:

(i) absence of specific norms of lending to SSIs; (ii) loans to SSIs turned out to be NPAs on large scale; and (iii) willful diversion of funds to other sectors of lending so as to increase the capital adequacy norm.
Significant differences exist between the units registered with DIC and the units receiving financial support from commercial banks in Cuddapah district. Burgeoning NPAs in loan portfolio of banks to SSI units made the bankers over cautious in extending credit to SSI enterprises. Further, high transaction costs due to delay in processing of loan applications and indifference of bank officials compelled some of the SSI entrepreneurs to go for alternative source of finance.

The share of SSI advances in net bank credit is less at the district level than at the national level, implying lower credit flow to SSI sector in the district. The reasons for this being: want of eligible and viable proposals, delay in sanctions due to technical reasons, political interference, borrowers' intention to secure bank credit for their units through the Government-sponsored schemes so as to avail incentives and subsidies and lack of trained personnel in bank branches for credit appraisals.

Even after the adoption of prudential norms in the wake of financial sector reforms, the overdue continue to be more than 50 per cent of loans advanced to SSI sector in the district. The recovery of advances from other categories of priority sector is relatively better than that of the advances to SSI.
The deployment of funds in the district by the select banks is satisfactory as against the national scenario. Among the sample banks, priority sector lending is more effective in SBI followed by Syndicate Bank. Compared to the national average, all the sample banks performed well in financing priority sector, with the exception of Bank of Baroda.

The recovery percentage of SSI overdue is not only low but also inconsistent in select banks, when judged against the district level average. Among select banks, the recovery performance is relatively better in SBI.

In the pre-liberalization period, there was an accelerated growth of SSI units in the past decade in the district, taking advantage of liberal bank finance and incentives offered to SSI sector by the government. In contrast during post-liberalization era growth of SSIs units has slowed down at the national level, but remains unabated in the Cuddapah District.

In majority of cases the product line choice is based on the entrepreneurs' past experience with its production and marketing. Government incentives did not influence materially the entrepreneur in selecting the product.
Entrepreneurs from forward castes are benefited under SSI financing. The reasons for the limited number of beneficiaries mostly from SC and ST groups are; (i) absence of awareness of the government schemes; (ii) inaccessibility to bank finances and; (iii) procedural complexities involved in obtaining bank loans. The respondent borrowers conveyed that social status of the borrowers is not considered while sanctioning loans by banks.

All the entrepreneurs of small-scale units belong to the educated class. Majority of the small scale manufacturing units were established by non-technical persons having high school level education and got trained in that particular line of activity. Servicing units were promoted largely by persons having university / technical education. Sizeable number of entrepreneurs had business background prior to their entry into small business. People with diverse family background have taken up small business entrepreneurship.

In establishing SSI units, friends and relatives of entrepreneurs exerted greater influence. Many of the SSI entrepreneurs opt either for rental or leased accommodation in view of huge investment involved in acquiring own premises. Partnership form of organization is popular for running sample SSIs followed by sole proprietorship.
In establishing SSI units DIC also played a significant role in motivating the entrepreneurs whereas banks have not a considerable role in this regard. Economic motive is behind the starting a small scale enterprise, others being recognition and prestige. Be own boss is not a significant motive.

Majority of the respondents were inconvenienced due to cumbersome procedure in obtaining bank credit. Financing under the government schemes routed through banks involves more cumbersome procedure as the respondents have to go to the pillar to pole by visiting various offices. Emphasis on guarantee, complex procedural formalities and undue delay in processing the loan application made the procedure more complicated. Absence of proper co-ordination between government departments and banks further added to the problems of the respondents in loan accessing.

Most of the manufacturing and processing units resort to loan facility either through cash credit or overdraft so as to meet revolving working capital needs. Demand loan facility is mostly preferred in miscellaneous and servicing units as they require one time credit facility.

Majority of the respondents are not happy with the scale of finance secured from the commercial banks. The reasons for inadequacy are: (i) yawning gap between the loan amount
sought and actually sanctioned; (ii) under-estimation of mortgage value of the assets of assisted units; and (iii) the inability of the respondents to adhere to repayment schedules.

> Low rate of interest on loans is the prime reason for borrowing from the banks. But majority of the sample entrepreneurs felt that the present rates of interest are reasonable and need to be further slashed. Consultancy services by banks to SSI entrepreneurs do not carry much weight with the respondents. Further, the entrepreneurs are dissatisfied with repayment schedule of the concerned banks.

> Three - fourths of the respondents used the loans for intended purposes which led to enhanced incomes. The rest of the beneficiaries could not do so, despite infusion of capital into their organization by bank borrowers.

> The most serious problem reported by the select entrepreneurs is severe competition. Liberalization and globalization of Indian economy has lead to intense competition. The next problem experienced by SSIs is shortage of capital. Banks failed to meet all the capital requirements of the entrepreneurs. Hence, they were forced to borrow at exorbitant rates of interest from alternative sources, which ultimately landed the SSI entrepreneurs in debt-trap. The other two serious problems confronted by them are: increasing prices of raw material; and
use of inappropriate technology. A few of the minor problems confronted by the respondents are: shortage of skilled labour, and power shortage coupled with high power tariffs.

**SUGGESTIONS**

The foregoing conclusions as to the financing of SSIs by commercial banks in Cuddapah district of Andhra Pradesh point to various deficiencies. A package of measures is suggested for making the SSI financing more effective and result-oriented. These measures are to be considered for implementation of three different levels — commercial banks, entrepreneurs and Government.

**MEASURES AT THE COMMERCIAL BANKS’ LEVEL**

- **Reducing the Delay in Sanctions**

Inordinate delay, in a few cases extending to years, in the sanctioning of loans by the commercial banks is noticed. The indecision of these institutions mars the initiative of entrepreneurs. Therefore, there is need to fix and adhere to, time limits for sanction and disbursement of the loans to SSI units so as to ensure timely credit.

In this contest it may be pointed out that as per the RBI guidelines, the duration for sanction and disbursal of loan for all SSI applicants who sought loans from the banks ranging between Rs.25,000/- to Rs.1 crore should be two weeks. But this period starts only after the borrower fulfills all the formalities necessary for getting the loan from the bank. But borrowers recall the time lag from the
date of submitting the application for the loan though many formalities are pending. Hence, they expect the bank to sanction the loans within two months after submitting the application which they feel timely. Time lag between 2-6 months from the borrower point of view is delayed. Any delay after 6 months is termed by them as 'inordinate delay'. Borrowers will be contended if the time lag involved is less than two months after making the application for the bank loan. The time lag involved can considerably be reduced at three stages: application completion and submission; processing of application; and disbursal of loan.

**The following measures may be considered for the reduction in time lag between making the application and getting the loan sanctioned.**

- Firstly, the delay in sanction and disbursal of loans can be minimized with differentiation of size of the unit in terms of investment proposed which is as follows:

  - Between Rs. 25,000 - Rs. 1,00,000 = 2 weeks
  - Rs. 1,00,000 - Rs. 5,00,000 = 3 to 4 weeks
  - Rs. 5,00,000 - Rs. 10,00,000 = 4 to 6 weeks
  - Rs. 10,00,000 and above = 8 to 10 weeks

- In many cases of SSI lending, putting more stress on quality of the proposal and integrity and character of the borrower is the need of the hour than emphasizing on collateral security and
third party guarantee against the loan sought. It would surely lower the time lag as the borrower is relieved of the trouble of furnishing collateral security and third party guarantee.

- Further the application if divided in two (i) application with out collateral security and (ii) application with collateral security whose classification should be based on size of investment. The filling of application in such a case by the borrower is made easy and processing of application at the bankers’ end effective and minimizes processing time.

- Practice of holding regular meetings amongst banks and government agencies to discuss individual cases helps to establish better rapport and coordination, thereby reducing time lag substantially.

- The loan proposals sponsored by DIC involve considerable time lag. In order to reduce time lag considerably in such cases DIC should make available to the banks their approval note at the earliest possible time which includes information concerning viability of the project, availability of inputs like raw material, technical and marketing.

- Limits to sanction loans at branch level may be enhanced up to Rs. 25 lakh. Over and above this limits, the application may be cleared at regional level only and need not be referred to divisional office.
**Simplifying Procedure for Credit Appraisal**

The procedure for sanction of loans by banks is cumbersome and involves many procedural complexities. Consequently long period of time is consumed from the date of registration of the unit to its grounding. As the banks' financial assistance is not timely, the entrepreneurs are forced to source funds from non-institutional agencies at higher rates of interest. To avoid the high costs of project financing, loan sanction and disbursement procedures should be simplified.

"Lending is an art and not a science". The credit decision depend on the sound judgment of banker and the judgment can be more accurate if the banker possess adequate knowledge and skills in the analysis of factors affecting the working of small scale industries and their earning potential. Credit appraisal involves various stages such as : application, documentation, viability appraisal and final documentation. **The following measures may be considered for simplifying the procedure for credit appraisal of SSI proposals by the banks:**

**Application Stage**

Application forms differ in their content from bank to bank and thus, cause unnecessary anomalies. The first information should be comprehensive enough for taking a correct decision of lending as the correctness of evaluation is directly dependent upon the extent of the
information available. But no useful purpose will also be served by collecting a mass information, most of which may not be relevant in many cases. In case of small units requiring a small amount of finance, it may prove cumbersome and futile to collect vast information, which may not be required for appraisal, and may simply prove superfluous.

Annexure I shows the simplified application designed by the researcher after verifying the applications of 5 select banks.

- **Documentation Stage**

  Once there is a prima facie case for acceptance of the proposal additional documentary evidence, confirming the facts stated in the application form, may be required.

  In case of new units, a copy of the project report indicating the economies and feasibility of the project in detail and, for the existing units, a scheme of expansion or the justification for the advances are needed. While verifying the documents, the banks will have to ensure that legal formalities if any are complied with.

  It is too difficult for a small SSI borrower to provide third party guarantee and to produce the assurance certificate from raw material supplier. So, the documentation of property i.e., land and buildings, plant and machinery and statements of balance sheet [in case of existing unit] is sufficient to the banker. Pledging/hypothecating
assets of the unit against the loan taken is easier than furnishing third party guarantee.

- **Viability Appraisal**

After getting the documentary evidence and ensuring the compliance of legal and other formalities, the loan application will have to be processed further for appraising the viability of the project and evaluating the credit worthiness of the borrower.

Appraising managerial and technical competence of the borrower, nature and condition of primary security as well as collateral if any; ensuring that the unit will not face any dearth of infrastructural facilities, like raw material, power or fuel, skilled labour and technology, cost of machinery, assessment of demand and supply for the product and making enquiry about the selling and distribution arrangements, opinion report from the earlier banker or from customers are some of the issues dealt with in conducting project viability appraisal.

No doubt such an evaluation of the proposed SSI unit may be essential from the point of view of the banker. But the small SSI borrower finds it very difficult to provide information carrying all the aspects of viability appraisal. Hence insistence on the following may be dispensed with:
- Assurance certificate from suppliers of raw material to the proposed unit [Sources of supply of raw material change from time to time and conditions too change].
- Statement of demand and supply [as it is only rough appropriation to satisfy the banker and not valid in the realistic situation].
- Insistence on third party guarantee

Further, the banker should take the minimum possible time to conduct the viability appraisal of the proposed project. Effecting training may be provided to the bank staff for updating their skills to conduct the viability appraisal.

A banker can bear with a borrower who is unable to pay due to circumstance beyond his control but he cannot do with a borrower who is unwilling to pay. Therefore, borrowers character is more important than credit worthiness.

> **Synchronization Between the Loan Amount Sought for and Sanctioned**

Yawning gap was observed between the amount applied for by the entrepreneurs and the amount actually sanctioned by the banks. Since many entrepreneurs are unsure of receiving the amount of loan applied for, they are forced to search for alternative sources of borrowings. Banks shall earmark necessary outlays in their credit
portfolio for SSI financing to meet the credit needs of SSI entrepreneurs on adequate basis.

➢ **Security and Guarantors**

To enable the borrowing SSI units to offer the required security and to enlist guarantors, they should be told clearly about the lending bankers' requirements in this regard at the initial stage of making the loan applications. They need to be educated in the concepts of security and guarantors for availing banks loans.

➢ **Opening of more Specialized SSI Branches**

To cater to the needs of small scale industrial units, commercial banks should set up a separate cell for attending exclusively the requirements of SSI units. To ensure adequate quantity and quality of credit to SSI units, it is necessary to establish more specialized branches at least one at the district level.

➢ **Reviewing the Performance of Assisted SSI Units**

Banks should continuously monitor the performance of SSI units through regular review of their accounts and stock levels to prevent diversion of borrowed funds.

➢ **Extension of Financial Assistance to Agencies Involved in Marketing of SSI Products**

Banks may consider to lend liberally to agencies involved in promoting and marketing SSI products. Marketing of SSI products under a single brand needs to be encouraged and excise duty
exemption should be extended to SSI products marketed by large industrial/trading houses.

➤ **Transparency in Credit Rating**

Interest charged to the assisted SSI units is according to credit ratings given by the bank staff. These credit ratings lack transparency since the ratings are kept confidential. Hence, the credit rating should be made known to SSI entrepreneurs enabling them to improve the operational and financial performance of their units so as to obtain better credit rating and thereby lower interest rates.

➤ **Training to Field Staff of the Banks**

Banks should provide adequate training to their field staff concerning SSI lending in the areas of project appraisals, cash flow forecasts, working capital estimation, etc.

➤ **Delegation of Powers to Bank Managers**

Branch Managers have to be delegated with adequate sanctioning powers for clearing the loan applications at their end to enable adequate and timely provision of credit SSI units.

➤ **Implementation of Nayak Committee Recommendations**

Credit sanctions to SSI should be as per Nayak Committee recommendations to avoid inadequacy of finance.
MEASURES AT THE ENTREPRENEURS' LEVEL

Much of the effort for the successful running of units depends upon the SSI entrepreneurs. The following aspects need to be taken care of by the entrepreneurs.

➢ Reduced Dependence on Bank Credit

It is evident from the study that some of the SSI units depend heavily for their survival on the bank finance. But the committee on financial sector reforms recommended the phased reduction of priority sector credit from the existing 40 per cent of total credit to 10 per cent only. If this recommendation is accepted by the Government, priority in bank lending accorded to SSI also gets diluted. Therefore, small scale units should generate funds from internal sources to finance their working capital needs. In brief, they should learn to live on their own.

➢ Co-operating with the Bankers

The entrepreneurs who have availed the loans from banks shall understand the banks have to recycle the funds for larger good. Therefore they should use the borrowed funds for intended purposes with caution and efficiency. With this, the unit's income generating capacity increases and the entrepreneurs can adhere to the repayment schedule. Further they shall also cooperate with the bankers in reviewing the performance of their units by prompt and timely submission of necessary statements and accounts.
Participation in DIC Programmes

The DIC, in association with bankers and other agencies is conducting various programmes for educating the present and prospective entrepreneurs. The SSI entrepreneurs should take advantage of these programmes by taking them seriously and participating in them actively to enhance their skills for running their enterprises successfully.

MEASURES AT THE GOVERNMENT LEVEL

Modifying the Definition of SSI

Of the several ways of defining a small scale unit, Government of India has chosen maximum investment limit in plant and machinery for identifying units as small for their promotion and development. Incentives and subsidies are accorded to them on this basis. Growing units and units adopting sophisticated technology involving high investments stand to lose with the adoption of investment ceiling criterion, since they are deprived of benefits after crossing the investment ceiling limit. There is an inherent disincentive for the growth and technological sophistication of SSI sector. Therefore, there is an urgent need to redefine the small units on "turnover" basis in place of the present norm of investment in plant and machinery. Further SSI units graduating to medium units should be allowed to enjoy benefits of incentives and subsides so as to make them vibrant and growth-oriented.
Banning Large Scale Units from Producing Items Reserved for Small Industry

Government has a product reservation policy which earmarks certain products to be manufactured exclusively in SSI sector so as to protect it from the large scale industry in the competitive product market. The list of reserved items is revised from time to time by the Government. Consequent upon the liberalization policy pursued since 1991, the number of reserved products has been pruned drastically. Besides there is no restriction on the production of any item reserved for small industry, if large units are already in the field of production of those items. Due to this, the policy of reservation is not much helpful to the growth of small units. Therefore, the Government should formulate a policy of withdrawing the production by large scale units in a phased manner in the areas reserved for small sector. Similarly, more number of items should be reserved for the exclusive production by the SSI sector.

Strengthening the Role of DIC

The District Industries centre programme was initiated as a centrally sponsored scheme to provide support services under a single roof to small scale entrepreneurs in the widely dispersed rural areas and small towns. The DICs are expected to help in the promotion of small scale industries right from the project identification to the monitoring of their performance. They are also
expected to act as a conduit between the entrepreneurs and financing agencies, but these expectations have not come true and the functions assigned to them are not fulfilled properly. The DICs are looking only into the registration process of small enterprises but no other assistance is provided to them from DIC. Hence, the Government should take the following measures to strengthen the role of DICs.

- Authority to survey the industrial potential of the district and to draw the list of products or items to be reserved for small scale units.
- Powers to recommend for financial sanction to the units which need assistance from banks and development financial institutions.

> **Improving the Collection of Debts due to Small Scale Enterprises**

Unless the Government amends the law putting the dues to SSIs on the same footing as revenue or statutory dues, the problem of overdues from large units may not be solved. It is gratifying to note that the Government is entertaining an idea of amending the Companies Act of 1956 to make a special provision for the declaration of dues to the SSIs in the balance sheets of debtor companies. The disclosure was recommend as mandatory by the Abid Hussain Committee on the small scale sector in order to put pressure on companies to repay the dues to the small scale sector on time.
Eliminating the Scarcity of Raw Materials

For eliminating the scarcity of raw materials, SIDO should be entrusted with the task of procuring and supplying all types of raw materials at concessional prices to the SSI units. Also, provision should be made to supply the raw materials on credit basis. For ensuring fair and equitable distribution of raw materials, SIDO should open raw materials deposits at all the important centers of the state.

Fixation of Norms for SSI Financing

At present the share of priority sector in total advances is 40 per cent. Of this 40 per cent, the banks can lend to various constituent segments of priority sector in any magnitude they wish, since there is no specified percentage of advances prescribed to each of these segments. It is, therefore necessary for the Government and RBI to fix minimum percentage of advances to each of these segments, including SSI, so as to ensure equitable flow of institutional credit to varied segments.

Developing the Infrastructure

Existing infrastructure for SSI sector is not only insufficient but also improperly maintained. The Government should take necessary steps for further improvement and proper maintenance of
physical and social infrastructure which enables SSI units to reap the benefits of external economies of scale.

➢ **Organising Technology Clinics**

TechnologyclinicsshallbeorganizedatregularintervalsbyDIC, SISI, NSIC to update the technology used in the small scale industry.

➢ **Support of State Government**

State Government shall continue providing subsidies in the form of training, technology and market assistance to ‘tiny units’ on continuous basis and to ‘other SSI units’ on one-time basis.