CHAPTER IX
SUMMARY AND POLICY IMPLICATIONS

The Research Problem:

Since 1950s Government of India has appointed a number of committees to look into the financial needs of different sectors of the economy and to assist government and the Reserve Bank of India, to allocate credit in such a way as to achieve balanced development of all the sectors and thereby to promote social justice. All the committees in one way or the other have emphasised priority sector advances. After nationalisation of commercial banks, the strategy was to provide concessional rate of credit for the priority sectors in order to achieve the development of the country in a desired manner and to achieve the goal of social justice, by helping the weaker and neglected sections of the community. In view of this the role of banks and the performance of beneficiaries are an essential factor. Quite contrary to this, the M. Narasimham Committee (1992) suggested the phasing out of directed credit programmes and the credit programme should cover a redefined priority sector, consisting of small and marginal farmers, tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The Committee also
recommended that the credit target for this redefined priority sector henceforth be fixed at 10 per cent of aggregate bank credit as against 40 per cent. This is a retrograde step!

In all developing countries the commercial banks assume greater role by making available the increased flow of funds for working capital to small scale industry and small business. Keeping in view the dependency of the economy on the priority sectors, it is really necessary to find out how far the recommendations of the M.Narasimham Committee report holds good for the situation that obtains now and to identify the problems and prospects of Priority Sector Advances in this context.

There are so many studies which throw light on the impact of priority sector lending on agriculture. But only a few studies are available on priority sector lending to small scale industries. Small scale industries occupy a prominent position in a over-populated developing country like India where shortage of capital is the main drawback. Though the importance of small scale industries was recognised in the First Five Year Plan itself, it was the Second Plan that really initiated a development strategy in respect of Small Scale
Industries. During the First Plan itself the Ford Foundation team of experts suggested a programme for the orderly development of modern SSIs. The Karve Committee also recognised the importance of village and SSIs for obtaining increased supplies of consumer goods and for reducing unemployment and under-employment. Often small industries require preference regarding finance facilities, marketing, quality and scale of production. In view of small scale production and comparatively low investment, small industries cannot stand competition from large and medium industries. Also at the same time small industries occupy an important place in solving many national problems such as unemployment, under-employment, under-utilisation of local resources, shortage of capital and so on, which cannot be tackled by medium and large scale industries.

The main objectives of development of SSIs in India are maximisation of output, creation of employment opportunities, poverty alleviation, import substitution and mobilisation of local resources. The manufacturing sector is characterised by a large share of small firms both in total output and employment. In the context of liberalisation policies adopted by us, it is necessary for the SSIs
to equip themselves technically to meet the new challenges, for which they require more and more capital especially the Working Capital.

**Objectives and Methodology:**

The foremost objective set out for the present study was to assess the trends as well as problems and prospects of priority sector lending. We were more concerned with assessing the impact of priority sector lending on small scale industries. More specifically our objectives were the following:

1. To assess the extent of credit channelled to Small Scale Industries and the extent of its utilisation and repayment.
2. To examine the impact of credit on employment and profitability of the units under study.
3. To assess the prospects of priority lending in the light of the New Economic Policy.
4. And, based on the findings, to make some policy recommendations to re-orient priority lending system.
We achieved these objectives by employing the following methodology.

We chose Karnataka for field study and collected both secondary and primary data. Secondary data was collected from R.B.I. Bulletins, Reports on Trends and progress of Banking in India, Currency and Finance and other related publications, various Committees' Reports, State Level Bankers' Committee housed at Syndicate Bank, Lead Banks of Bangalore District regarding priority sector lending. To fill the gap in published data, we consulted various personnel in different departments of RBI, Canara Bank, State Bank of Mysore, State Bank of India (SSI Cell), Syndicate Bank and obtained statistical information. As far as the information on SSIs is concerned we collected data from various issues of Annual Survey of Industries, Economic Survey (India and Karnataka), NABARD Potential Credit Plan and related publications, various Committee Reports on SSI. Apart from this we also collected essential statistical data from Small Industries Development Organisation (SIDO), Small Industries Service Institute (SISI), Ministry of Industries and Commerce, Karnataka Small Scale Industries Development Corporation (KSSIDC) and District Industries Centre (DIC).
The present study is the outcome of our field survey from a sample of 100 units of Bangalore Urban and rural regions. (70 per cent of the units are beneficiaries and 30 per cent non-beneficiaries). An attempt is made in this Chapter to summarise the findings and to derive policy implications.

It is a well known fact that because of priority sector advances various manufacturing industries have emerged. Regarding the proportion of loans provided to the industrial sector, the Nayak Committee (1992) reports that, while the large scale units have borrowed upto 19 per cent of their annual turnover from banks as their working capital, SSI units however got only around 8 per cent. The present thesis examines the trends of priority sector advances, growth and performance of SSIs on the basis of the data collected from field study in Bangalore District. While analysing the impact, the overall impact is also examined, followed by an analysis of the situation in urban and rural regions. The variations in the impact on income, employment and productivity of the factors viz., capital and labour, their intensity (ie., K/L ratio) were studied in respect of rural-urban, industrywise, unitwise, product-wise beneficiary and non-beneficiary-wise, to arrive at appropriate conclusions.
Findings:

A detailed account of priority sector advances by public sector banks in the country as a whole and also in Karnataka has been presented in the previous chapters. Also the growth of SSIs in terms of number of units, investment, output, employment and export is also presented in detail for the country as well as the State (Karnataka). We have also presented the profile of SSIs in Bangalore district. The main findings that have emerged are the following:

(1) The Government or the Central Bank in most countries of the world (both developed and under-developed) use directed credit controls to channelise credit to preferred sectors.

(2) The net bank credit of public sector banks in India has increased at an annual compound growth rate of 16.19 per cent during 1969 to 1998.

(3) Advances to priority sector have increased at a faster rate of 19.58 per cent annually during the same period. This is an indication of bank lending towards priority sectors.
(4) The rate of growth of agricultural advances and small scale industries advances is about 19.57 per cent and 18.35 per cent per annum, respectively during 1969 to 1998.

(5) The rate of growth of other priority sector lending showed a comparatively higher growth of 21.5 per cent per annum mainly because of their low base.

(6) *As for Karnataka:*

The total bank advances showed a compound growth rate of 13.18 per cent, total priority sector advances 12.74 per cent, agricultural advances 12.64 per cent, SSI advances 13.62 per cent and other priority sector advances 13.82 per cent per annum during 1983 to 1998.

(7) The number of small scale units in India has risen by more than 7 times, employment in this sector has increased by 4 times, and production has increased by more than 75 times in value during 1973-74 to 1998-99. Values are increasing both at current prices and constant prices.
(a) The annual growth rate of the value of export is the highest i.e., 21.63 per cent, followed by output value, which is 15.88 per cent, and the number of units is 8.43 per cent. Annual trend growth of investment during 1973-74 to 1989-90 is 12.65 per cent.

(b) The percentage share of the small scale sector in the country's total industrial production has increased from 45.9 per cent in 1980-81 to 57.17 per cent by 1997-98.

(c) The percentage share of small scale sector in total output of the country has also increased from 9.6 per cent in 1971-72 to 35 per cent by 1998-99.

(8) Karnataka State occupies the eighth place in the country in terms of value added for all industries. In terms of number of registered SSI units also Karnataka State's position is eighth in India.
(9) As for Karnataka State is concerned:

(a) Total number of Small Scale Industrial units has risen by 40 times during the period 1973-74 to 1998-99.

(b) Employment has increased by 15.3 times and investment by nearly 67 times.

(c) Investment per unit and employment per unit started declining during the period 1983-84 to 1990-91.

(10) Bangalore District stands first in Karnataka State in terms of number of units (22.8 per cent), employment (30.4 per cent) and investment (31.71 per cent) in the small scale industries sector.

(11) Total number of units in urban region is more than that of rural region. The rural survey shows that a particular rural area is dominated by particular type of industry.
(12) Own funds as well as borrowings from public sector banks have occupied a prominent position in the case of fixed capital as well as working capital of sample units.

(13) The productivity of capital is appreciable in surveyed units i.e., capital output ratio is less than 3.99 in majority of sample units.

(14) Certain problems commonly faced by all sample units are not allowing them to prosper to an expected extent. To mention a few problems, power, labour, shortage of working capital, non-availability or high price of raw-materials, delayed payment from customers, security insisted by banks while lending and so on.

(15) All India data revealed that in March 1973 nearly half of the total bank credit sanctioned was unutilised and it has declined to 17.96 per cent by 1999, whereas the amount of unutilised loans in the SSI sector has declined from 38.76 per cent to 20.43 per cent during the same period, even though both have increased in absolute terms.
(16) State level data also revealed that the amount of unutilised SSI credit is less than that of the unutilised total bank credit as in the case of national level data.

(17) Only one unit out of 100 sample units reported under-utilisation of sanctioned limit. Remaining beneficiary units were in need of more working capital than the sanctioned limit.

(18) Gross Non-Performing Assets (NPAs) to gross advances of public sector banks in India have declined from 23.2 per cent in 1992-93 to 15.9 per cent by 1998-99. The share of standard assets to gross advances has increased from 76.8 per cent to 84 per cent during the same period. It is clear from the declining trends of NPAs that the credit management and recovery of loans is improving year by year. But NPA percentage is too high even now. In an efficient banking system it should be less than 5 per cent, to be ideal one or two per cent.

(19) NPAs of public sector banks in India in priority sectors was 50 per cent in 1995 and has declined to 43.7 per cent by 1989 and NPAs in non-priority sector has increased from 46.8 per cent to 53.4 per cent during the same period. This
shows that the recovery performance in the priority sector is improving, while it is declining in the non-priority sector.

(20) Majority of the sample beneficiaries are having cordial relationship with banks.

(21) Average gross profitability of all units in urban sample is 18.79 per cent whereas for rural units it is 16.5 per cent.

(22) There is wide variations in the industrywise as well as unitwise profitability of both rural and urban units.

(23) Improper planning, non-availability of adequate funds for working capital, diversion or mis-utilisation of funds by the beneficiaries, non-availability or high priced raw-materials, rejection of the products by the customers, under-utilisation of the installed capacity, delayed payment from customers, competition and other problems of marketing are the factors responsible for low profitability or loss.
(24) Sample data revealed that the profitability of the majority of beneficiary industries is more than that of the non-beneficiaries. In a few cases non-beneficiaries are earning higher profit.

(25) Frequency distribution of profitability indicated that except for 3 units all other units are earning profits.

(26) The high capital-sales ratio of the sample units may be due to several reasons as given below:

(i) Low-capital intensity nature of the industry.

(ii) The tendency of acquiring second hand capital assets at low prices.

(iii) Upgrading the assets in house at low cost.

(iv) The impact of inflation on sales values.

(27) Profit Investment Ratio of sample units shows wide variations in industry wise and unit wise analysis. Except for 2 units, the ratio for all remaining units is positive and justifies the objective of earning profit through investment.
(28) Overall profitability is positive in 60 units out of 70 sample units in urban region and it is positive for all 30 units surveyed in rural region which indicates the usefulness of investment.

(29) Small scale industries are the high priority sectors as they help the country in solving unemployment problem by providing self-employment opportunities to different categories of population.

(30) Average employment per unit is more in urban units than in rural units, but when we take into consideration capital investment, rural units are more labour-intensive than its urban counterparts.

(31) Rural units fare better than urban units in terms of capital and labour productivity. Available data revealed that sample units are labour intensive units and the productivity of labour justifies our hypothesis.
(32) The impact of New Economic Policy is as under:

(i) Financial sector reform has resulted in the decline of priority sector advances in general and advances to small scale industries in particular, which justifies our hypothesis.

(ii) Deregulation of interest rates has increased the cost of borrowing for SSIs.

(33) Capital-Investment Policy, Import Liberalisation Policy, Trade Policy, Technology Policy have created an environment of severe competition for small scale industries. Now, it is difficult for the SSIs with their low bargaining power to compete with well equipped large scale companies and Multinational Companies both in the input and output market.

(34) In the context of NEP, the credit needs of SSIs has increased in order to equip themselves technically and to compete with large scale as well as Multinational Companies.
(35) Ancillarisation is one answer for output market competition, but that is also not possible in all cases, as large units and Multinational Companies insist on bulk supply.

(36) Industrial Licensing Policy has kept open various industrial activities for the small scale sector also.

(37) Credit is the only source of capital funds available for SSIs, whereas large scale units have different sources such as foreign capital, shares and debentures etc.

(38) It is not so easy for SSIs to either develop technology or to undertake technology transfer due to lack of funds, whereas large units can benefit in this regard.

(39) Tiny units are the hard hit section of SSI as a result of New Economic Policy.
(40) Some of the sample unit owners felt that they are facing problems as a result of New Economic Policy. Some did not feel because they are not aware of the New Economic Policy.

Hence, it may be stated that the small scale sector is the high priority sector as they are capable of providing self-employment as well as wage employment, which also results in the reduction of inequality in the distribution of income and they can be established with available capital resources in the country as they are low capital based industries. They are also capable of utilising local resources. In the context of government's drive to cut percentage of man-power in public sector undertakings, self-employment is the only answer for increasing unemployment and poverty. Small scale sector plays a vital role by providing self-employment to the unemployed mass. Another interesting fact here is, under self-employment, the entrepreneur selects that particular activity in which he is really interested and also has some knowledge and experience, both of which are necessary for the success of the enterprise. With this the objective of suitable person for suitable job is also satisfied.
Policy Recommendations:

In summary it may be stated that to promote small scale industries it is very much necessary to have a comprehensive policy supported by proper and adequate availability of credit by commercial banks so that units can work up to their capacity.

Considering the findings of the field survey, problems and suggestions of both banks and beneficiaries, we would like to give some policy suggestions in order to make priority sector lending more beneficial to the target industrial units.

1. The financial needs of the SSI vary according to the orders they receive from customers. Therefore, banks have to consider this point while providing loans. In order to enable the SSIs to meet the demands during peak period at least temporary borrowing arrangements should be made, and flexibility in lending is the need of the day.

2. In the context of increased need for credit from priority sectors, commercial banks should provide more financial assistance to these sectors.
(3) In order to bring coordination between Working and Fixed Capital loans, it is necessary for the banks to provide composite loans.

(4) In the context of increased competition and increased credit needs of SSIs it is necessary to continue with concessional rate of interest.

(5) Commercial banks should open specialised branches to deal with SSI credit.

(6) To make available credit facilities in a better manner, specialised banks should prepare credit plan for that particular area.

(7) Special attention should be given for assisting tiny units.

(8) Many of the small entrepreneurs are not in a position to borrow from banks due to their inability to provide proper security. Considering the viability of the project and needs of the entrepreneur there should be relaxation regarding security.
(9) Proper monitoring of the credit issued is most important. The major cause for the failure of SSIs is misutilisation or diversification of funds. So due attention should be given for efficient monitoring.

(10) Banks should identify the sick units as far as possible in the beginning stage itself and immediate measures should be taken for their rehabilitation.

(11) Delayed payment from customers, particularly from public sector undertakings, is a major setback for the development of SSIs. So proper policies should be formulated for regular payments. Delayed payment from any customer should be penalised.

(12) In the context of Liberalisation and Globalisation Policies it is essential for the SSIs to modernise their process of production in order to meet the challenging competition. This, of course, requires huge amount of capital. So, banks have to make proper arrangements to bear this increased responsibility in order to back SSIs.
(13) To insist foreign investors and Multi-National Companies (MNCs) to invest a minimum percentage of their capital in SSI units.

(14) To appeal to MNCs and Foreign Companies to give preference for SSI products while purchasing the necessary components for their units.

(15) To encourage SSI units to obtain ISO-9000 as such, by providing them the necessary facilities to achieve this.

(16) The Government Organisations can make arrangements for supplying of advanced technology on lease cum sale basis.

(17) SSIs should be provided with better input linkages for optimum utilisation of their installed capacity.

(18) To encourage the establishment of Co-operative and Regulated Markets in the SSI sector.