SUMMARY AND CONCLUSION

History of industrially advanced economies reveals that the growth path of industrialization is both complex and unique for which the industrial growth model of one economy can not be replicated in another. Variegated socio-economic political anatomy peculiar to different areas largely influences industrial progress. Availability of material resources and a vast workforce endowment may be a necessary but not a sufficient precondition for industrial development. National policies and industrial strategies drawn horizontally without any consideration for regional advancement or backwardness fail to overcome region specific constraints. Establishment of large scale industrial units have not succeeded to generate spread-effects so as to accelerate industrialization by harnessing the vast untapped natural and human resources. The state of Orissa stands out as a unique example of the sad failure of all well intended efforts to accelerate the tempo of industrialization.

Being a potentially rich region, the state has remained poor and backward over the decades and largely unresponsive to developmental efforts. Specific assistance programmes for the backward regions of the state have not made any dent in reducing regional imbalance. Thoughtless imposition of policies to set up as many industrial units as possible within a limited period of time has largely remained a number game and has met with limited success in raising the rank of the state in the industrial map of the country.

Many a reason have been adduced for the industrial backwardness of the state. The most important factor inhibiting the industrial growth of the state is lack of infrastructral facilities. The gap between availability and consumption of power in the state has widened over the years. The transport facilities are inadequate for the transportation of raw materials and finished products. Private industries are unwilling to set up units as health and educational facilities are lacking very much. Low equity base and high cost informal finance have forced the small units to rely on institutional sources. Despite significant rise in institutional financial support to the small scale sector complaints about credit inadequacy are common as the
supply of the same falls far short of demand. The financiers usually extend financial support to the industrial units haltingly only after assessing the performance of the borrowing units. This approach has been counterproductive. Insufficient financial support not only erodes profitability but also has the inherent risk of eating up the capital base of the unit. In an attempt to assess the extent of inadequacy of credit, the study has discussed the factors influencing demand for and supply of the same.

Furthermore the cost of available institutional credit to the small scale sector, has been prohibitively high, despite the concessionary interest charged by the financial institutions. Stringent procedural delay in the appraisal of loan sanction lengthens the gap between application and sanction and leads to high transaction cost, hence, resulting high cost of borrowing.

Due to high incidence of sickness among small scale industries the lending agencies are rather hesitant in extending them the required financial support. This apathetic attitude of the lending agencies has been largely the cause of resource crunch faced by the small units. Further, due to large-scale loan default and consequential non-recycling of loanable funds the lending agencies themselves are short of resources. Therefore, while making loan decisions, the lenders are to distinguish between the potential loan defaulters and repayers. The study attempts to highlight the characteristic features of the defaulters, non-defaulters, loosing units and profit-making ones to facilitate immediate sanction of loan to the borrowers with honest intention to use credit productively and make timely repayment.

The study is based on micro level data collected from the small scale industrial units of the state. The sample covering both resource based and demand based sunrise industries is accepted to be a true representative of the small scale sector of the state. The sample units are mainly proprietorships. Demand-based units in the sample are largely ancillaries whereas resource-based units are dominantly independent. Most of the sample firms investigated were 6 to 10 years old. Considering the human capital aspects of the owners, majority of the entrepreneurs are aged between 41-54 years. The scheduled caste and scheduled tribe owners constitute nearly 20 per cent of the surveyed units. The female entrepreneurs included in the
Sample were mainly in the food sector. The entrepreneurs with technical education have largely gone for electrical and electronics units. On the experience count, though the ex-business holders dominate the group, it is encouraging to note that the first generation entrepreneurs without experience do not lag far behind.

Business trait of the enterprises are mainly revealed from the information about its total financial investment, equity capital, debt capital and employment position. The average level of investment of the sample units works out at Rs.12.40 lakhs and the entrepreneurs investing above or below the level are categorized as large and small units, respectively. A similar method of employmentwise classification of the sample units is adopted on the basis of employment of 10 persons per unit.

Investmentwise, the chemical units dominate the large group while in the smaller group food and agro units outnumber the rest. Equity finance is relatively high for electrical and electronics sector and low for the food and agro category. However, funds borrowed by the chemical units are the largest on an average and that of the food and agro units is the lowest. Thus chemical and electrical and electronics sectors are found to be capital intensive; but while the former relies more on debt finance to meet the investment needs, the latter has gone for equity participation. When the average employment level is accepted as the basis of categorization, electrical and electronics units rank first, exhibiting perfect complementarity between labour employment and investment requirement. Another interesting observation is that job creation by demand based electrical and chemical sector largely surpasses that by the resource based food and agro units and those in the 'other' category.

The importance of various functional parameters on the demand for and supply of credit has been assessed by adopting two-stage least squares method. Demand for institutional credit is found to be rising with increase in output and total investment whereas a rise in equity base reduces reliance on institutional finance. A positive relationship between the rate of interest and demand for credit shows that loan demand is not constrained by interest cost as it is subsidised and kept low.

This is not true of large investment. Large investment demand is constrained by high rates of interest. Only investmentwise small units are not responsive to the rate of interest as
their investment requirement is relatively small. Therefore, it is worth noting that though the rate of interest is administratively kept at a low level, it constrains high level of investment requirement of both investmentwise and employmentwise large units. Units employing less labour force also require larger amount of credit for mechanization.

Larger volume of output calls for larger credit requirement not only for the sample as a whole but also for all sizes and categories of units excepting employmentwise large units, electrical and electronics category and food and agro based units. In the case of employmentwise large units wage cost rather than output seems to be the prime determinant of credit requirement. The food units due to high cost of credit as reflected by a positive correlation between rate of interest and the volume of loan have not gone for larger amounts of credit, even if the level of output is increased. The electrical and electronics sector prefers to adjust with equity funds which is sufficient to meet its investment needs.

Equity participation substitutes credit demand for the sample as a whole, but is found to be complementary in the case of investmentwise small units. Similar relationship is observable in chemical, electrical and electronics, food and 'other' category of units. In all these cases, larger equity support is required to meet the margin requirement of large loans. The other sizes and categories of units have relied upon equity support to avoid high interest cost of borrowing.

Demand for credit also increases with investment requirement, largely in the case of units with high investment needs. The units employing relatively less number of labour are with low working capital requirement. They arrange for initial large investment through equity finance and borrow less only to meet low working capital needs. This is true of the electrical and electronics sector with high investment need. The food and 'other' units also trod along the same path as their investment needs are relatively small.

On the supply side, rate of interest and equity support exert a negative influence on loan supply. The borrowers refrain themselves from borrowing large amounts at high interest rates and therefore, the sanction of loan by the lending institutions become less. Units with high equity participation are also not favoured by the lending institutions as loans may lead to excess and uneconomic investment. However, profitable units find favour with them.
It is observed that rate of interest is not a constraint on credit acquisition by units employing large number of workers and all categories but food and agro based units. As the supply of credit is highly insufficient to meet the pressing demand of the SSI units, the borrowers hardly bother for interest cost. But units with less labour employment are found to be concerned for interest cost as they need more credit to finance mechanisation of their units and therefore, the flow of institutional finance in large amounts to these units has slowed down at high interest rate.

The lenders are found not to be influenced by the level of output of the small units while making loan decisions. Demand for the products of these units being uncertain and fluctuating, the lenders apprehend more default than repayment, and therefore, are discouraged to finance large output. In the case of some categories of SSIs like other category, the supply of loan has not gone up with increase in output because of low demand for loan as these units meet their additional financial requirements through equity finance.

Reasoning out as above, it is no strange that a definite pattern could not be traced in the relation between the profitability of the borrower and supply of loan by the lenders. Profits of the SSI firms fluctuate widely over time so much so that a profit making unit may turn into a losing one within months. While increased volume of profit seems to be favourably influencing the supply of loans to units with less labour employment, reverse is the case of those in the 'other' category. Increased profitability of units employing more labour and that of the mechanical and electrical category receives some favour as regards credit supply.

Looked at from the credit supply point of view, equity base of an industrial unit is expected to have a favourable impact on the supply of credit to it. The lending institutions will be inclined to supply more credit to units with more own funds as the borrowers are capable of meeting margin requirements of large loans. This is found to be true of the sample considered as a whole, category and size wise. However, when labour employment is small, equity support does not ensure larger supply of loan, as these units with low wage bills do not opt for debt financing. Similar is the case with the 'other' category of units whose investment needs are relatively less. This trend is also visible, though, less prominently, in the case of mechanical units.
The self-protective attitude of the lenders is evidenced from their hesitation to sanction large loans except for the capital component of investment. The sanction of large loans to investmentwise large units is less. For the same reason, the electrical sector does not receive adequate credit. High investment requirements of less labour employing units are supported by larger credit supply and this also indicates that the lending institutions do not favour labour intensity.

To sum up, different financial parameters affect the credit demand of various sizes and categories of the SSI differently. True, most of the coefficients are not statistically significant in the estimated equation for credit demand. However, the relations signified by their coefficients have been analyzed. The empirical finding reveals that larger demand for credit is constrained by larger interest cost of borrowing. Moreover, employment intensive units demand more credit to meet their wage cost. When the objective is to escalate employment generation through the establishment of small units, allocation of larger amount towards this category of industries viewed favourable.

Supply of credit is largely dependent on the investment requirement of the units. Financial institutions prefer to support units with less labour employment as it entails low wage bill, and larger capital-intensity and this speaks of their preference for capital component in financing. This actually affects the employment-generation capacity of the SSI sector. Macro-economic objectives like employment generation receives a secondary consideration. But larger credit support is extended towards these units, even at a lower rate of interest, only when they do not have sufficient equity support but are profitable enough to prove their creditworthiness.

Considering the product category, it is observed that the lending agencies largely supply more credit to resource-based units, mainly in the 'other' category even if they are less profitable, primarily because of their low equity base. However, credit supply to these units is increased at higher interest rates. But the high investment requirement of the demand-based large operating units do not obtain the requisite support from financial institutions because of their aversion to sanction large loans. This reflects the failure of the financial institutions to adopt a "need based approach".
Human capital traits seem to be playing a significant role in determining both credit requirement and acquisition. Our findings reveal that sanction of credit to older units is less. These units demand less credit due to increased recycling of internal funds. If they fail to do so, the lenders grow suspicious of their creditworthiness and restrict sanction of loan. Expectedly, women entrepreneurs demand less amount of credit as they are usually risk-averse and are engaged mainly in units with low investment needs. Entrepreneurs with general education obtain less credit compared to their demand. From the analysis of the trait factors it is apparent that units employing large number of workers receive credit support only when they are owned by highly qualified borrowers in the general line.

The empirical results show that demand for credit from the institutional sources is not constrained by high interest charges. Neither interest cost nor the transaction cost of loan restricts demand for credit. Similar is the impact of the two borrowing cost parameters on total investment of the units. But the thirst for finance of the SSI units remains unquenched. This is mostly due to inadequacy of supply of credit and credit market imperfections for which cost of borrowing fails to reflect the interplay of the underlying market forces. The lending agencies rely more on certain rules of the thumb while taking any loan decision. In the process they ensure that perfect risk coverage in loan sanction. While risky units could not be charged a higher rate of interest in the presence of administrative rules, transaction costs for them may increase through more stringent appraisal.

Expectedly, with increased proportion of equity to total asset, transaction cost of borrowing is reduced as a strong equity support shortens the procedure of loan appraisal. It is also revealed that entrepreneurs with business experience, operating profitable units, are considered less risky borrowers.

It is interesting to observe that volume of sales is of little importance in determining the riskiness of loan to an unit as sales of the SSIs are inherently fluctuating and unpredictable.

The financial institutions find lending to the small scale units unprofitable due to low administered interest rate and large incidence of default. It is observed that small units largely encounter working capital rationing imposed by the banks. Therefore, the study attempts to observe how the constraint affects total investment and hence, output. It is found that
increased proportion of bank finance to other finance has a negative impact on investment and this is largely because of the uncertainty involved in obtaining the same. Moreover, it is interesting to note that transaction cost of borrowing also decreases with increase in the proportion of bank finance to other finance, vindicating thereby, the much established contention that larger loans are less risky and therefore are subjected to less screening. Uncertainty involved in obtaining bank credit constrains bank finance to influence output favourably.

Uncertainty associated with bank finances arises mainly because of wide spread non repayment of loans by the small units. With less funds to recycle, banks encounter a profit constrained investment schedule which forces them to go for more stringent loan decisions so that productive resources are not concentrated in a few hands or with those without any genuine interest to repay. Therefore, an attempt has been made here to distinguish loan repayers from non repayers through discriminant function with different financial parameters as the explanatory variables. These findings will help the lenders in screening the applicants and sanctioning loans to sincere borrowers so as to ensure speedy recovery of loans. Similarly, profitable units have been separated from those incurring losses so that institutional finance could be restricted to the worthy ones.

Of the explanatory variables considered, working capital-sales ratio appears to have highest discriminatory power in distinguishing profitable unit from a loss-making one and a loan repayer from a non-repayer. High working capital-sales ratio which portends failure is high both for the losing and the defaulter groups. Similarly, low value of profit-equity ratio is indicative of the unit's precarious financial position and hence likelihood of non repayment. The first hypothesis is supported by the empirical findings of the study. Therefore, less credit should be sanctioned to a unit when its working capital-sales ratio is high. Considering the impact of profit-equity ratio, it is observed that high profit does not always lead to large repayment as the small firms find it easier to reinvest profit or divert the same for personal consumption. However, larger loans sanctioned to these units seem beneficial from macro economic angle. Continuous monitoring and follow up measures on the part of the financial institutions will ensure recovery of loans.