CHAPTER - X

INTER-INSTITUTIONAL COMPARISONS

10.1 In the foregoing discussions, an humble attempt has been made, to bring into limelight the role played by financial institutions, in meeting the financial requirements of small scale industries in Maharashtra during the last two decades. The role of each financial institution has been studied separately. In this chapter efforts have been made to collect important threads out of earlier discussions. It covers inter-institutional comparisons. Such comparisons would enable to pin-point the overlapping of activities if any.

These comparisons may prove helpful to promoters of small scale industries in respect of finance function. The entrepreneurs will come to know the source which is more reliable and less expensive. The job of the finance manager would become more easier. The lending institutions, would also be benefitted, if they evaluate their roles. Such comparison would enable the student to make important observations.
10.2 For the sake of convenience, inter-institutional comparisons are made separately by grouping them in three categories.

1) State level agencies
2) Commercial and co-operative banks
3) Regional Development Corporations.

In the first group, state level agencies, Maharashtra State Financial Corporation and State Industrial and Investment Corporation of Maharashtra Ltd. have been considered. In the second group State Bank of India, Commercial Banks in Public Sector and urban co-operative banks have been considered. The last group includes four regional development corporations. Industrial Development Bank of India is a national level institution, but its role has been considered in the first category.

STATE LEVEL AGENCIES

10.3 Government of Maharashtra has developed a sound institutional infrastructure, in order to give concerted attention to different aspects of industrial development. Maharashtra State Financial Corporation and State Industrial and Investment Corporation of Maharashtra are the
two institutions which give attention to financial needs of industries. To give financial assistance is their most important objective.

10.4 Both, these two institutions had been facing the challenging task of promoting small scale industries and tiny sector industries, for nearly twelve years. However, State Industrial and Investment Corporation of Maharashtra had to give up this task as the result of some decision forced upon the corporation. The link between small scale industry sector and this institution was, therefore, discontinued. Areas of operation since then, have now become different, in respect of these two institutions. Maharashtra State Financial Corporation is the main State level agency which provides long term finance to medium scale and small scale industrial units. This assistance is for acquiring fixed assets viz. land, building, machinery. State Industrial and Investment Corporation Maharashtra looks after the financial requirements of medium and large scale industry sector. So area of operation, of these two institutions is different. Most of the industrial units in Bombay, Poona, Thane region have received assistance from Maharashtra State Financial
Corporation. S.I.C.O.M.'s policy is to give assistance to units in districts other than Bombay, Pune and Thane. However the 'concrete approach' of these two institutions has resulted in creating industrial climate in and around some districts as Ahmednagar, Aurangabad, Jalgaon, Nagpur, Nasik, Pune, Bombay, Thane etc. These two institutions give direct assistance to their clients.

10.5 Another important aspect of the investment strategy of these two institutions is to give more consideration to industrial development of backward districts. As agents of the government these two institutions implement various incentive schemes. The proportion of assistance going to backward areas is increasing every year. These two institutions have also, so far given attention, towards more diversified growth of industries in our State.

10.6 In addition to financial assistance these two institutions provide some valuable services to their customers. These include project identification, technical consultancy, plant location, marketing services etc. These services guide the borrowing institutions in respect of 'productive use' of available finance. These services
have also increased the confidence of entrepreneurs. The State Industrial and Investment Corporation has established a separate machinery (known as SICOM's cycle) for guidance at each stage. Regional and branch offices of MSFC, also give useful guidance to applicants.

10.7 The working of these two institutions is governed by provisions in State Finance Corporation Act. M.S.F.C. and S.I.C.O.M. can raise funds through different channels, such as share capital, refinance from Industrial Development Bank of India, unguaranteed debentures, guaranteed bonds etc. The borrowing powers are linked with the amount of paid up share capital, and the reserve fund of the corporation. Like commercial and co-operative banks these state level agencies are not allowed to collect deposits from the public. Financial position is the key factor, in the achievement of the lending institutions. If these two corporations adopt more strict policy about recovery of assistance, their financial position would become more sound. The approach at present, in this area is liberal.
10.8 There is some automatic inter-institutional co-ordination between MSFC and SICOM because the managing director of MSFC continues to be the director on the Board of latter institution. The inter-institutional group, comprising chief executives of all financial institutions in the State discusses a number of problems. Maharashtra State Financial Corporation and SICOM share business with each other, in accordance with the standing arrangements reached recently. So the role of these two institutions is supplementary. Each institution has specialised itself in one particular area. This has resulted in abolishing the element of competition.

10.9 Industrial Development Bank of India has also contributed to the industrial development in our country. This development bank provides shelter to lending institutions such as State finance corporations, commercial banks etc. The interests of small scale industries are indirectly protected by this national level development bank. Its role in development of small scale industries is one of 'invisible hand'. 'Refinance Scheme' and 'the scheme of bills rediscounring' are the effective tools which Industrial Development Bank of India uses. The proportion of
assistance, received by our State, under these two schemes is comparatively more. Like state level agencies, this development bank has always encouraged the establishment of industries, in industrially backward regions. So all the three institutions covered in this category are making efforts in the direction of removing regional imbalances. By assuring, the required protection, the Industrial Development Bank of India, is really performing developmental role. Industrial finance is the aim of these institutions, which they are trying to attain directly or indirectly. Assistance has been given to different industry groups as food-process industry, textile, chemicals, engineering, paper and paper products, rubber products, leather and leather products, etc. So more balanced growth of small scale, large scale, medium size industries has become possible in our State. Industrial Development Bank of India has so far fully supported the activities of these two state level agencies. So the role of this development bank is that of a protectionist.
(II) COMMERCIAL BANKS - STATE BANK
AND CO-OPERATIVE BANKS

10.10 Commercial banks, co-operative banks form another segment of organized capital market. This research covers a wide range of lending institutions therefore a selective and restrictive approach has been adopted. Commercial banks are classified as scheduled and non scheduled banks. Similarly, these are classified as nationalised banks and non nationalised banks. In this research the role of public sector banks has been chiefly examined. The study of co-operative banks, in the light of the topic of research, is restricted to urban co-operative banks.

10.11 Some aspects of the working of commercial banks, State bank and its subsidiaries and co-operative banks are common. Their working is governed by the provisions in Reserve Bank of India Act. Commercial banks (including State Bank and its subsidiaries) compete with each other in national market, while the jurisdiction of co-operative banks has remained restricted. The comparisons between commercial banks, State Bank and its subsidiaries, and
co-operative banks can be made in the following areas.

(i) sources of collecting funds.
(ii) interest rate structure
(iii) scheduling of investment of resources
(iv) branch expansion policies

These banks can use many alternative ways to raise finance. Collection of deposits by implementing various savings schemes is one alternative. Banks have introduced many schemes for saving, which suit to the saving ability, and regularity of the people. Nationalisation of twenty leading commercial banks and the introduction of Deposit Insurance Scheme have increased the confidence of investors. So deposits with banks - of all categories are increasing steadily.\(^1\) In addition to savings, interest on loan, assistance from Reserve Bank of India, Industrial Development Bank of India, Reserve Funds are the other alternatives. Co-operative banks, are authorised to collect subscription from their members. Regular repayment of loans on the part of borrowers also add to financial soundness of these banks.

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1. It is necessary to note, availability of banking facilities is one aspect which attracts the savings, but ability to save also depends on various factors, income available, stability of prices in the market, standard of living etc. So, for many reasons savings do not increase in the same proportion of income.
10.12 Interest rates offered and charged is another area in which there is uniformity. Reserve Bank issues directives in this respect. In respect of term loans and term deposits interest rates are similar. In order to encourage development of banking business in co-operative sector, Reserve Bank deliberately keeps some margin. Uniformity in interest rates curtails competition to some extent. It is, however, necessary to note that there is some difference in respect of service charges charged to customers. Purpose of difference in service charges is to keep alive the element of competition within commercial banks, and between commercial banks and co-operative banks.

10.13 Scheduling of investment of resources is another area in which the Reserve Bank uses its powers. As the nation's monetary authority this bank directs investments in particular channel. Social control over commercial banks has resulted in checking their investment strategy. Bank rate, open market operations, increasing reserve ratio are alternatives followed by Reserve Bank. In order to suit the needs of the economy, after nationalisation of major commercial banks, investment in priority sector has
been made inevitable. Therefore the investment strategy in the banking sector appears to be uniform. The approach of major commercial banks is to help the small man in a big way. As a result many of them have developed various schemes of assistance. Many banks have established separate departments to assist entrepreneurs properly. Co-operative banks lag behind in this respect.

10.14 In respect of opening new branches commercial banks have a much wider scope than co-operative banks. Opening new branches in unbanked areas is more advisable. Accordingly, nationalised banks have opened their new branches in remote areas of the country, with priority. The purpose of reforming the policy is to spread banking services all over the country. Under 'Lead Bank Scheme' many commercial banks have accepted the responsibility of taking resource potential surveys of different districts, with the help of District Industries Centres. Economic and industrial development of different districts has become possible as a result of this policy. Availability of trained, experienced enthusiastic branch managers is the problem some commercial and co-operative banks are facing at
present. Attainment of targets given under 'priority sector' has become difficult in some areas, in respect of some banks. So the nature of the problems, which banking sector is facing, is the same all over the country. Impact of credit squeeze policy, on lending assistance to small scale industries can be given as an example. This sector has been experiencing sluggish conditions for the last two years.

10.15 The grip of private money lenders has not been completely abolished in money markets because there are a number of obstructions in the way of commercial and co-operative banks. These banks cannot act freely and disburse funds available to them. Commercial banks and co-operative banks have as their aim, reduction of the gap or gaps between loans sanctioned and loans recovered but the experience of co-operative banks is much better than commercial banks. So in general it can be commented that banks are facing a number of odds and uncertainties on different issues. If one expects some improvement in their present performance, a stable monetary policy is necessary. Then in real sense they would be in a position
to work as development banks. Some break through of the present vicious circle (low incomes - low savings - unproductive and wasteful investments - irregular recoveries owing to external pressures) is necessary.

(III) REGIONAL DEVELOPMENT CORPORATIONS

10.16 In order to carry benefits of industrialisation to remote, backward areas of our State, more effectively, State government has established four regional development corporations. The role of these corporations in financing small scale industries has been examined separately (in Chapter No.9). The purpose behind their establishment is to arrange the orderly growth of industries and promoting them in their respective regions. Memorandum and Articles of Association of regional corporations declare their objectives. These are - (i) aiding and assisting entrepreneurs to set up their projects (ii) act as entrepreneurs by setting up own projects, utilising the resources available in the respective region. The first objective is consistent with the objective of M.S.F.C., SICOM and other financial institutions. The second objective is important as it includes an setting example before new entrepreneurs.
10.17 Regional development corporations encourage entrepreneurs by providing industrial sheds having different amenities. These corporations have established mini industrial estates at different places. This service is not provided by other development banks or development corporations. Other institutions mainly provide consultancy services, e.g. commercial and co-operative banks do not undertake the work of potential surveys. So creating mini industrial estates is a special type of service given by regional corporations to small scale industries sector.

10.18 State level and regional level development corporations offer voluntary support to the State Government in the implementation of various schemes. These include seed capital scheme, capital incentive scheme, scheme for educated unemployed persons etc. The Maharashtra Industrial Development Corporation and Regional Development Corporations jointly share the responsibility as to the creation of infrastructure facilities. The activities of regional development corporations are supplementary to the activities of other institutions. Industrial development of Western Maharashtra, Kokan, Vidarbha and Marathwada
has become possible because of the support provided by R.D.C.'s to state level agencies. Decentralisation of responsibility, of industrial development among the various agencies is the policy of the State Government. The present achievements in respect of industrialisation is the outcome of this policy. How the decentralisation policy is implemented to the lowest level can be studied with the help of the example that our State Government has set.

10.19 There is one major deficiency in the working of regional development corporations. This deficiency is in respect of utilisation of funds. It has been observed that the major portion of the funds provided to implement different schemes, are remaining unutilised. Sometimes applicants fail to collect amounts sanctioned from respective institutions. As a sort of remedy, institutions like Maharashtra State Financial Corporation have to levy a charge known as commitment charges. Some commercial banks also charge 'penalty interest' to defaulters. So the problem of unutilised resources, under different schemes seems to be common for four regional development
corporations as well as for other lending agencies. Not a critical or fault-finding attitude is going to improve matters. Instead of these, positive criticism will be of great help. Appreciation of their achievements at the same time would encourage them to face more challenging task.

10.20 Inter institutional comparisons and a detailed, special study of each institution has enabled us to test and examine the hypothesis stated earlier. It can be, now stated firmly that there is some definite relationship between institutions giving financial assistance and the growth of small scale industries in Maharashtra State. This relationship is positive. Demand for funds comes from small scale industry sector and various agencies referred in this research, meet these requirements. Small scale industries are given special consideration in their investment plans.

Assistant in other forms has built in confidence among new entrepreneurs. Activities of these institutions are many dimensional and have resulted in creating the atmosphere which is conducive to industrial
development in our State. If we take into account their setting in the period of existence, the hazardous path that lies stretched before them, then the performance of these institutions is really remarkable. All institutions are directly or indirectly responsible for the establishment, promotion and development of small scale industries. For the distinguished and prominent place of our State, on industrial map of India, the significant role played by these financial institutions is responsible. So the hypothesis stated in earlier stages (Introduction) has been tested. These institutions are not free from problems. A brief review of these problems has been taken in the concluding chapter of this research. It also covers some important conclusions.

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CHAPTER - XI :

IMPRESSIONS OF BORROWERS ABOUT INSTITUTIONAL FINANCE

In the earlier chapters, the analysis of the performance of the various institutions has been included. The whole analysis leads to the same conclusion i.e. there is some definite relationship between Small Scale Industries and various financial institutions. This relation is reciprocal. In this Chapter I wish to examine the other side i.e. reactions of the borrowers to the working of these institutions (qualitative aspect of demand side), and quantitative aspect of demand side.

For the purpose of examining the other side it was decided to undertake an opinion survey. The opinion survey was conducted in three stages.

1) by taking personal interview of President of Small Scale Industries Associations in Maharashtra.

ii) by issuing a separate questionnaire for small scale industries associations in different districts.

iii) by issuing a questionnaire for small scale industries in Poona District. These two separate questionnaires are included in the thesis, at the end.
In order to select small scale industry association, a technique of random sample has been used. For selecting small scale industry borrowers in Poona the same technique has been used. The replies given in personal interview and replies given to questionnaire reveal some interesting facts about the availability of assistance. In order to collect adequate primary data, 36 questionnaires were sent to small scale industry associations in different districts in western part of Maharashtra i.e. Bombay, Solapur, Sangli, Kolhapur, Karad, Jalgaon, Bhusawal, Nasik, Poona. 60 questionnaires were sent to Small Scale Industry borrowers in Poona. The reactions of the borrowers and their associations are summed up in two parts:

(a) qualitative aspect of demand side.
(b) quantitative aspect of demand side.

Qualitative aspect of demand side:

1) In respect of these institutions it is opined that, they serve the multiple number of economic sectors and thus the small scale industries get negligible share in their finance. Commercial banks and Co-operative banks give financial assistance to agriculture, transport, education, wholesale and retail trade etc. So these institutions are
of composite nature. Looking to the vast universe of small scale industries, the assistance rendered by the banks is very insignificant.

2) Institutions like Regional Development Corporations in Maharashtra perform the role of entrepreneurs. Western Maharashtra Development Corporation, Koken Development Corporation as well as the other regional Corporations have undertaken some industrial projects. The policy of starting their own projects is criticised by some borrowers. This policy creates shortages in the funds available for lending purposes. This also diverts their attention from the original role.

3) In respect of Maharashtra State Financial Corporation the general complaint has been about the supply of working capital. Except upto Rs.25,000/- under composite loan scheme, this institution does not consider applications for working capital. So borrowers are required to approach different institutions for meeting working capital needs and term loans. Another complaint is that for sanctioning loans, 2-3 months are required. Considering the urgency of the borrowers this time lag is very wide. As a result they resort to traditional sources.
4) The borrowers are harassed about the security requirements. Some of the borrowers think of giving up the business in favour of a job for want of adequate security. Demanding historical information of business is another way of harassment. Supply of historical information consumes lot of time and energy and results in delay in submission of loan application. Scrutiny of paper evidences further makes delay in sanctioning loans.

5) The most significant observation is about the political and other influence over sanctioning of loans. Loans are not sanctioned objectively on the basis of available information and economic soundness of the firm. Some borrowers have opined that only because of their influence over the people connected with sanctioning loans they could get loans. This influence sometimes reduces the harassment.

6) Another complaint of the borrowers is that commercial and co-operative banks collect deposits from the people. Some part of it is maintained as cash reserves. Some part of the funds collected, is used for investing in other institutions in the form of shares, debentures etc. So funds available are not fully used for lending purposes. This also creates shortage of funds.
7) Terms and conditions laid down by the institutions create many problems to the borrowers. Loans are obtainable only at the security of machinery. Working capital is not adequately available; the documents are sometimes misplaced. So there is some negligence as to the urgency in sanctioning loans. The 'obliging attitude' of the staff of these financial institutions reduces the freedom of the borrowers. They insist upon "particular sources" i.e. unfair dealings for easy sanctioning of loans.

8) Borrowers complain about the indecent treatment given by the people in administration. This is quite humiliating for the "small" but enterprising entrepreneurs. Proper guidance is not provided to the borrowers and the various forms are clumsy and irrelevant information is asked and borrowers have to pay heavily for the mistakes committed in supplying information. The administration of these institutions shows no concern over the future progress or failure of business.

9) The reliance on banks for meeting current expenditure has been to the extent of 55%. Out of 50 questionnaires received 28 expressed their satisfaction about the treatment given by urban co-operative banks. Number of borrowers from
cottage and small industries from underdeveloped areas is very small. The number of borrowers from developed areas is comparatively much more. The percentage of small industry borrowers with total number of borrowers is 1.8%. Still large number of small units have been left out of the coverage of bank finance and finance of the institutions. Operational rigidity in the procedures, rules and regulations makes regular supply of finance difficult. Eventhough co-operative banks are capable of rendering valuable services, the jurisdiction in which they are required to work is limited, e.g. district central co-operative banks.

10) The proportion of working capital in the total financial requirements is more, for meeting current expenditure these units require some capital and rather unfortunately borrowers' experience is not good in this area. Inadequate supply of working capital, and delay in sanctioning such loans, indirectly force the borrowers to procure finance from money lenders, which is very costly.

11) About the rates of interest charged against assistance given there were no complaints. Borrowers have opined that rates of interest are lower than non institutional
finance, there is uniformity in interest rates. Financial institutions follow the policy laid down by Reserve Bank and therefore there is no reason for complaining.

12) Average time between sanctions and disbursements (first instalment) is another area of dissatisfaction. Financial institutions like M.S.F.C., commercial banks have given very limited sanctioning powers to their branch offices. Borrowers are repeatedly required to visit regional offices which are not opened in all the districts in Maharashtra. This increases the cost of borrowings. So borrowers are required to sacrifice valuable time as well as money before receiving loans.

13) Another complaint is about the "service charges" or "processing fees" for disposal of loan applications. Commercial banks, M.S.F.C. charge such fees. These charges or fees are not uniform for all institutions. Similarly not uniform for different loan applications in the same institution. Processing fees in M.S.F.C. are - Rs.50/- mini loan scheme, Rs.100/- for applications of educated unemployed; Rs.150/- for young Technician Assistance scheme. So processing fees increase with the amount of loan, which is not justifiable. Loan sanctioning process remaining the same the fees should be equal.
14) Commercial banks, MSFC, have developed many schemes of assistance. Regional Development Corporations are not behind in this race, but too many schemes have created administrative problems. Similarly on the part of borrowers too many schemes have created confusion. There is overlapping of schemes e.g. scheme for educated unemployed people. Commercial banks, MSFC as well as RDC's implement this scheme. So there is confusion in respect of approaching the proper institution. It is observed in case of W.M.D.C. that funds available remain unutilised, under some schemes. So the nature of complaints is very common. Out of the 96 questionnaires sent (individual borrowers and associations) majority have answered punctually and without reservation. The general complaints are about the types of securities asked for, processing of application, indecent treatment, time gap between loan sanctioning and disbursement, complicated loan application forms, harassment on the part of employees of these institutions etc.

The questionnaires sent covered many aspects like nature of business, nature of products, proposed investment, various details of capital required and the opinion of the borrowers about the procedure adopted for granting loans,
rate of interest, extent of financial assistance made available to them. After the scrutiny of replies received, overall dissatisfaction about the working of banks and financial institutions has been noticed. The existing financial institutions suffer from built-in prejudice in dealing with small scale industries. Improvement in the quality of service is the "minimum expectation" on the part of borrowing units. So the present situation is like an iceberg - major portion of financial needs is still in deep waters, neglected owing to one reason or the other. However, noticing only the complaints of borrowers would be unjustifiable. Actually financing small scale industries is a three legged race i.e. government financial institutions and small scale industry borrowers are the partners of of this race. Lending institutions also complain about the "ability of using funds skillfully" on the part of borrowers. Improper utilisation of funds is experienced by most of the banks and financial institutions.

In the following table the analysis of major complaints is given. This analysis can be used for measuring the quality of services on the part of borrowers.
## Analysis of Major Complaints on the Part of Borrowers

<table>
<thead>
<tr>
<th></th>
<th>Out of 50</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inadequate supply of capital:</td>
<td>32</td>
</tr>
<tr>
<td>2</td>
<td>Loan sanctioning procedure complicated and time consuming:</td>
<td>36</td>
</tr>
<tr>
<td>3</td>
<td>Time required for sanctioning loans - unfair:</td>
<td>37</td>
</tr>
<tr>
<td>4</td>
<td>Rate of Interest satisfactory, no complaints noticed about the rate of interest:</td>
<td>--</td>
</tr>
<tr>
<td>5</td>
<td>Policy in respect of repayment of loans - most of the borrowers praised liberal policy adopted by MSFC and commercial banks. Policy of giving rebates against regular repayment upheld by many borrowers:</td>
<td>--</td>
</tr>
<tr>
<td>6</td>
<td>Time gap between sanctioning and disbursement of loan is more; it is necessary to minimise this gap by taking corrective steps:</td>
<td>28</td>
</tr>
<tr>
<td>7</td>
<td>Service charges or processing fees excessive and unfair. It is a sort of &quot;indirect taxation&quot; on borrowers comparatively in more proportion than service efficiency:</td>
<td>36</td>
</tr>
<tr>
<td>8</td>
<td>Indecent treatment and harassment of the borrowers by the employees of banks and financial institutions</td>
<td>39</td>
</tr>
</tbody>
</table>
These complaints are registered directly by answering the questionnaire, some complaints are recorded through their association. The response to the enquiry was generally satisfactory. My another observation is that the respondents are more free in conversation but there is some element of reservation while replying the questions in writing. The views which have been expressed by the borrowing firms are significant. These views indirectly indicate the gaps in institutional financing at present.

QUANTITATIVE ASPECT OF DEMAND SIDE

The questionnaires sent to borrowing units covered questions about the capital required. After analysing the responses it has been noticed that supply of funds is not according to demand. The annual reports of different institutions also support this fact. There is always some gap between loans demanded, loans sanctioned and loans actually disbursed. There are complaints about inadequacy in supply of funds. There is overall dissatisfaction about the quality of services, as well as about the quantity of funds supplied. For measuring the actual gap between 'demand' for funds and 'supply' of funds, certain approximations about the demand should be available.
As mentioned in chapter III, there are many difficulties in calculating accurate demand for funds.

However certain approximations can be made about the quantitative aspect of demand side on the basis of some assumptions:

1) assuming stable growth rate per annum in respect of number of registered units.

2) assuming that every year growth rate in respect of unregistered units is the same.

3) assuming that average demand for capital, per unit ranges from Rs.1.5 lakhs to 5 lakhs; irrespective of the nature of product it is manufacturing.

4) assuming that demand for capital for existing units and proposed units would increase by 10% because of increase in prices of raw materials, labour charges, overhead expenses etc. The quantitative estimates of the capital needs can be calculated as shown in the following table:
TABLE : 49. TABLE SHOWING ESTIMATES OF CAPITAL NEEDS:(ALL INDIA)

<table>
<thead>
<tr>
<th>Average demand for capital for base year</th>
<th>Number of Registered Units(India) figures in lakhs.</th>
<th>Assuming equal number of unregistered units, figures in lakhs</th>
<th>Total Estimated demand for capital Rs.Crores</th>
<th>Increase in demand per year Rs.Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-82 Rs.5 lakhs</td>
<td>5.72 (x2)</td>
<td>11.44</td>
<td>57200</td>
<td>---</td>
</tr>
<tr>
<td>1982-83 Rs.5.50 lakhs</td>
<td>5.96 (x2)</td>
<td>11.92</td>
<td>57464</td>
<td>264</td>
</tr>
<tr>
<td>1983-84 Rs.6.00 lakhs</td>
<td>6.20 (x2)</td>
<td>12.40</td>
<td>57752</td>
<td>288</td>
</tr>
<tr>
<td>1984-85 Rs.6.50 lakhs</td>
<td>6.44 (x2)</td>
<td>12.88</td>
<td>58064</td>
<td>312</td>
</tr>
<tr>
<td>1985-86 Rs.7.00 lakhs</td>
<td>6.68 (x2)</td>
<td>13.36</td>
<td>58400</td>
<td>336</td>
</tr>
<tr>
<td>1986-87 Rs.7.50 lakhs</td>
<td>6.92 (x2)</td>
<td>13.84</td>
<td>58760</td>
<td>360</td>
</tr>
<tr>
<td>1987-88 Rs.8.00 lakhs</td>
<td>7.16 (x2)</td>
<td>14.32</td>
<td>59144</td>
<td>384</td>
</tr>
<tr>
<td>1988-89 Rs.8.50 lakhs</td>
<td>7.40 (x2)</td>
<td>14.80</td>
<td>59552</td>
<td>408</td>
</tr>
<tr>
<td>1989-90 Rs.9.00 lakhs</td>
<td>7.64 (x2)</td>
<td>15.28</td>
<td>59984</td>
<td>432</td>
</tr>
</tbody>
</table>

By using the technique of extrapolation the demand for next five years 1985-86 to 1989-90 can be calculated.  
Notes :-  
1) Average demand for the year 1981-82 based on master list - Project Profiles as referred in Chapter III.
2) Average demand per unit given for other years is based on assumption of 10% rise in prices, under inflationary conditions.

3) Number of registered units for India, for 1979-80 (3.92 lakhs) 1980-81 (4.54 lakhs) 1981-82 (5.72 lakhs) so average increase comes to 60000 (i.e. 62000 + 118000/3) but assuming, same trend would not be continued. 1981-82 onwards growth assumed to be 24000 units per year for registered units. Increase in unregistered units assumed to be the same i.e. 24000 per year.

4) Total number of industrial units when multiplied by 'estimated demand' for per unit give us the minimum quantitative estimates of the capital needs of small scale industries sector.

5) Actual increase in the capital requirement per year and it shows that financial institutions would be required to increase their financial strength by the shown amount against respective year and so the requirements of this sector would be fulfilled.

a) According to column No.3 as there is increase of 48000 units per year, demand for capital will be increased by 240 crores as the demand of capital based on year 1981-82.
b) According to column No.1, estimated demanded capital is increasing by 50 thousand rupees per year. Therefore another Rs.24 crores will increase in demand for capital per year.

6) So in the next five years i.e. 1985-86 to 1989-90 the pressure of demand for capital would increase by nearly Rs.2000 crores i.e. minimum estimated increase in demand (Rs.59,984 Crores - Rs.58,064 Crores = Rs.1,920 Crores). This also indicates the task ahead before the financial institutions.

This demand position compared with the supply position gives negative variance i.e. supply of capital always less than capital demanded. Similarly the extrapolated demand on the basis of growth rate of small units indicate the expectations in future about the possible role that these institutions will have to play, to be upto the mark. The quantum of loans actually supplied so far by the major financial institutions under survey is not adequate.
Conclusion:

On the basis of data collected through questionnaires from borrowing units it can be observed that there is some room for improvement in respect of 'quality of services' and 'quantity of funds' on the part of financial institutions. There would be increasing pressure of demand for funds in the near future. If we consider the other side, (i.e. certain weaknesses on borrowing side), it can be stated, that there is scope for improving as to 'ability of calculating exact capital needs' as well as for improving ability as to 'effective utilisation of funds'. Periodical evaluation on both sides is therefore necessary. Both borrowing as well as lending institutions should remember that there is no 'saturation point' for level of efficiency.
CHAPTER - XII :

CONCLUSION AND RECOMMENDATIONS

The discussions in the earlier chapters (i.e. one to nine) have contributed in studying the problems of small scale industries and the problems of financial institutions. It is, according to the objectives laid down in the earlier stages of this research. These chapters have also contributed to testing the hypothesis mentioned earlier. There is some definite relationship between small scale industries and the financial institutions. These institutions have so far played significant role in financing small scale industries sector.

Institutional financing has become very common and popular in Maharashtra during the last twenty five years, because self sustained business units can be rarely developed. Many factors, make it necessary for the entrepreneurs to rely on external sources. So an industrial unit of any size and nature, and institutional finance are inseparably connected. On the basis of experience so far, many entrepreneurs look forward to institutional finance with anxiety. Similar are the views about borrowing units. So institutional financing is in the midst of suspicious
atmosphere. The main problem is therefore, sustaining good feelings and confidence about each other. Improvement on both sides is necessary, in order to meet the challenging tasks in the near future. So following are some recommendations:

1) Considering that several parts of the State are in the category of the least developed areas and that adjoining States are keen to attract units from Maharashtra the State Government should refrain from taking any action which will shatter the confidence of entrepreneurs. The Government failure to live up to its promise paralyses small scale units, e.g. withdrawal of Sales Tax exemption, without due notice. Such unexpected withdrawal of concessions force small units to close shutters and move to other States. Everytime representatives of the small scale sector should be taken into confidence and the Government should settle the issues amicably.

2) Establishments of small units in 'green zones' without obtaining 'non agricultural land' certificate is another sign of indiscipline on the part of small scale industrial units. Such units, located outside municipal areas get freedom from certain restrictions and because of
their non registration, District Industries Centres cannot control their activities. It is reported that around Pune and other metropolitan cities there are nearly hundreds of such units. Registration of small scale industries should be made compulsory. Some machinery should be set up for locating unregistered units at each district level. Activities of unregistered units should be declared unauthorised. The task of locating such units and their reporting should be entrusted to industrial inspection wing.

3) It it necessary to define clearly the concept of sick units. Unless clear definition of sick units is made known to the lending institutions, rehabilitation of such units would be a difficult task. Periodical revision in such definition is also necessary because market conditions always change. Reserve Bank of India can collect nationwide information of small scale sick units, periodically and form definition of sick units, some time limit should be set up for revival of such units. It is recommended that banks should periodically, say at quarterly intervals, apprise their Boards of Directors of the position of lendings to small scale sector by submitting a comprehensive memorandum, which should, interalia, indicate
regionwise and industrywise classification of credit facilities granted to small scale industries, the organisational arrangements made for monitoring and counselling the extent of sickness (number of units, amount involved), the causes for sickness, corrective measures taken and the results achieved, etc. A copy of the relevant Memorandum may be sent to Reserve Bank for information.

4) Co-operative banks have shown consistently better performance in financing small scale industries. Industrial co-operative bank should be set up at each district level. In order to support the activities of commercial banks, 'lead bank scheme' should be extended to co-operative banking sector also. So that sharing responsibility of industrial development of each district would be possible.

5) Each financial institution should set up its own statistical wing entrusted with the task of maintaining records of applicant business units. Some classification of such records as new applicants, regular borrowing units, sick units is necessary so as to minimise the time gap in handling each case. Application forms can be printed in different colours so locating required application would
be easier task. Another recommendation is that application forms in 'regional languages' should be available. Maintaining records properly, would minimise the task of collecting basic information of the unit everytime. So it will not be necessary for the applicant to furnish historical information repeatedly.

6) For embarking on a programme for development of small scale industries, means must be devised to meet their requirements of capital and credit. The approach should be two-fold. First the competitive position of these enterprises should be strengthened by making available the non financial aids and facilities, i.e. technological, managerial, marketing. Secondly financial assistance should be provided in order to arrange long term capital and working capital on terms which are more or less equal to those available to large scale industries.

7) If government is really interested in development of small scale industries in backward areas, then discrimination between 'new units' and 'old units' should be avoided. 'Sales tax exemption' given to units in backward areas can be given as example. Government of Maharashtra introduced
'sales tax exemption scheme in 1979'. The benefit of the scheme was given to units established in 1979 to 1983. Units established before 1979 and after 1983 are overlooked by the government. Government is making discrimination by declaring units established before 1979 and after 1983 'as not eligible' for sales tax exemption. This discrimination is against the principle of justice and equality. From government's point of view all units are equally important, therefore it is recommended, that without any discrimination in backward (areas) regions following concessions should be given:

1) exemption from purchase and sales tax to units having turnover upto Rs.10/- lakhs.
2) exemption only from sales tax, to such units having turnover more than Rs.10 lakhs.
3) for units established in 'B' and 'C' zones limits as to turnover can be adjusted. Year of establishment should not be the criteria, while giving exemptions to small scale industries, because comparatively recently set up units experience more difficulties than old units.

8) Availability as to estimates of demand for capital, in small scale industries sector is important. So that
lending institutions would come to know the task before them. It is therefore recommended that a separate 'data bank' should be established for collecting information from the industrial sector. In respect of small scale industries, collection of data - unitwise, productionwise, regionwise, should be collected. A separate wing should be established to make analytical study of sick units. Such study would make possible policy determination, decision making in respect of sick units. If accurate data about registered units all over the country would be made available then calculation of capital requirements would be possible. Such estimates about capital needs would be more accurate.

9) Strengthening the financial soundness of lending institutions is one of the problems. Commercial banks and Co-operative banks can collect savings of the people as deposits. Other institutions cannot freely collect deposits from the public. For improving financial position of lending institutions, units which are well settled and which have procured finance from institutions like MSFC, SICOM, Regional Development Corporations should be allowed to deposit surplus funds with these institutions. This
would lead to create additional funds. Borrowing units should consider this as a part of moral responsibility to help other needy new units through these institutions. It will be a sort of 'pooling funds' for entrepreneurs mutual help.

10) Government departments have been directed to make purchases from small scale industries, as a part of Government's policy to support the growth of small scale industries. But some entrepreneurs, in their personal interviews have criticised the policy of government departments to make the payments late. The average time required for clearing the bills is nearly 8 to 12 months. Delay in clearance of bills results in to blocking of capital of small scale units. Some corrective action is necessary if government wants to support these units. In this respect it can be recommended that, in order to maintain the credit standing of these units, government department should issue "green cards" or "credit letters" to units regularly supplying some goods to them. So, such credit letters or green cards would enable them to procure their requirements from the market. 40 percent in the form of cash payment and 60 percent amount of the bill in the
form of credit letters would reduce the seriousness of the problem. This sort of action would give some relief to small scale industries and would curtail the demand for funds.

11) Another area which needs some attention is 'development of new schemes of assistance'. Making additions in the number of schemes just gives opportunity to these institutions to "blow their own trumpet". Instead of developing new schemes more attention should be given to effective implementation of existing schemes. At present small scale industries are required to approach different institutions for meeting their short, medium and long term capital needs. It is necessary to fill up the gap by establishing an institution catering to all sorts of financial needs. Units which are regular and prompt in payment of loans, would be benefitted, in case they require development funds.

12) In respect of 'deployment of funds', it is noticed that financial institutions suffer from built in prejudice in dealing with small scale industries. They are required to serve the multiple number of economic sectors as agriculture, transport, industry, small
business, etc. and thus the small scale industries get assistance in small proportion as compared to their needs. The assistance rendered by the banks, and financial institutions is very insignificant. Therefore it is recommended that a separate Co-operative Bank exclusively for small Industrial Units in Maharashtra should be established. This bank would be able to utilise the Credit Guarantee Scheme and Refinancing facilities more fully, which is now being made available to very small number of Small Scale Industries Units. This separate Co-operative Bank exclusively for S.S.I.Sector in Maharashtra will be highly useful to improve and ease the situation in other inputs like Raw Materials, Marketing, Quality, Technology, etc.

13) It has been noticed from the replies given that the role of small scale industry associations in solving the problems of their members has been insignificant. Except collecting annual subscription, these associations do not care about the problems of their members. Some associations have replied that, members independently solve their own problems. The policy of the associations is not conducive, considering the interests of their
members. It is therefore recommended that each association should arrange periodical conferences, symposium, and represent their members. Through proper representation problems can be discussed with government officials. At least it would be possible to bring to the notice of the government the areas where more attention is necessary. This is important particularly for sick units. Small scale industry associations should regularly collect the data of sick members. Regular reporting to government departments, would enable to take preventive as well as positive measures. So more active participation of associations is a dire need.