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The study was basically related to exclusively focus on institutional finance for small scale industries to give reasonable assurance in maintaining harmony in business operations. Mainly, the institutional financing for the small scale industries is affected by enterprise level (internal) and institutional level (external) factors. Results of the study reveal the need for strengthening enterprise base for the greater level of accessibility to formal sources of finance. Here, in this study researcher found financial resources mobilization practices of small scale industries. An attempt is also made to measure the enterprise level and institutional level factors influencing the small scale industries access to institutional finance. Major findings, suggestions and conclusion of the study have been presented in the ensuing pages of this chapter.

6.1 Major Findings of the Study:

The research was evolved mainly to study the entrepreneurs’ perception towards institutional financing and to study the enterprise level and institutional level factors influencing access to institutional finance. The following observations have been made and which were illustrated in detail in the following pages. Observation was made in several aspects, dimensions and procedures by highlighting those findings which are having paramount importance.

One thousand three hundred and sixty three Small Scale Industries of Karnataka were the sample units, out of which 820 of them were micro, 513 were small and 30 were medium scale enterprises.

I. The demographic study of these small scale industries entrepreneurs revealed the following.

1. Majority (55.25 per cent) of the respondents belong to the age group of 30-50 years, followed by the age group 50-70 (35 per cent). Only 6.74 per cent and 2.0 per cent of the respondents are below the age of thirty and above the
age of 70 respectively. That means to say over 90 per cent of the respondents belong to the age group of 30-70 years and only around 52 per cent respondents are in the age group below 50 years.

2. Majority (86.24 per cent) of the respondents are male and only 13.76 per cent of the respondents are female. Hence, majority of the SSIs in the Karnataka are owned and managed by male.

3. Majority (92.82 per cent) of the respondents are married. Only 7.18 per cent of the respondent entrepreneurs are un-married. Thus, majority of the entrepreneurs are married.

4. Majority (82.72 per cent) of the respondents are Hindus, followed by 9.11 per cent of Muslims and 4.7 per cent of Christians. And remaining 3.47 per cent of the respondents belong to other religion. It depicts that Hindus constitute the major part of the respondents.

5. Only 36.15 per cent of the respondent entrepreneurs are qualified upto Pre-University Level. 14 per cent of respondents are Graduates and 13.56 per cent of them are Post Graduates and only 0.50 per cent of entrepreneurs are illiterates. The education level of entrepreneurs ranges from Illiterates to Post Graduation level. Thus, 36.15 per cent of the respondents are educated upto Pre-University Level. Hence, majority of the entrepreneurs are qualified upto PUC.

6. Majority (87.56 per cent) of the respondents are coming from nuclear family set-up, whereas comparatively few about 12.44 per cent respondents are from joint families. Thus, nuclear family member are more into business than joint family.

7. Only 42.63 per cent and 59.57 per cent of the respondents’ father and mother are illiterates respectively. About 28.94 per cent and 13.54 per cent of the respondents’ parents are educated upto primary school level. 12.37 per cent and 10.61 per cent respondents’ father and mother are studied upto SSLC level. Remaining respondents’ parents have possessed other forms of education.

8. Majority (55.23 per cent) of respondents’ parents’ occupation is business. Followed by 14.89 per cent, 13.72 per cent and 12.97 per cent of
respondents’ parents are doing private practice, agriculture and involving in some other activities respectively. Only 3.19 per cent of the respondents are employees. Hence, the majority of the respondents are second generation entrepreneurs and they are striving to carve the niche in their ventures.

9. Majority (83.42 per cent) of the respondents are doing business similar to their family business. Only 16.58 per cent of the respondents are into unique type of business when compared to their family business. Therefore, majority of the respondents are continuing their family business.

10. Majority (64.25 per cent) of the respondents’ family income is below Rs. 1,00,000, p.a., Followed by 17.2 per cent, 5.55 per cent and 5 per cent of respondents’ family income is between Rs.100,001 to Rs. 5,00,000, Rs.5,00,001 to Rs. 10,00,000, and more than 10,00,000 p.a. respectively.

II. Characteristics of the respondent Small Scale Industries reveal the following.

1. Majority (60.16 per cent) of the enterprises are micro enterprises, followed by 37.64 per cent and 2.20 per cent of the enterprises are small and medium enterprises respectively. Hence, majority of the respondent enterprises are micro enterprises.

2. Majority (60.31 per cent) of the enterprises located in rural area and only 39.69 per cent of the enterprises are in urban area. It means to say the majority of the Small Scale Industries located in rural area.

3. Majority (55.30 per cent) of enterprises are manufacturing enterprises and 44.97 per cent of the enterprises are involving in service activity. Therefore, manufacturing industries constitute major part of the Micro, Small and Medium Enterprises.

4. All most half 49.23 per cent of the respondent enterprises are in existence since 10 to 19 years, followed by 19.59 per cent and 19.37 per cent of enterprises which are in existence since four years and above 5 to 9 years respectively and a small part of the enterprises i.e., 11.81 per cent of them are above twenty years old. Therefore, 50 per cent of the enterprises are in existence since more than ten years.
5. Majority (62.51 per cent) of the enterprises are sole proprietary concerns, followed by 19.88 per cent, 17.61 per cent of the enterprises are partnership and private limited concerns respectively. Thus, proprietary concerns are more in numbers compared to other forms of business in SSI sector.

6. Majority (96.81 per cent) of the enterprises are perennial and only 3.19 per cent of the enterprises are non-perennially functioning. Hence, the majority of the enterprises are perpetually functioning.

7. Only 32.06 per cent of the respondent entrepreneurs having below five to nine years of experience. Followed by 31.91 per cent, 21.35 per cent, 14.67 per cent of the entrepreneurs are having 10 to 19 years, less than 5 years and above 20 years of experience respectively. Therefore, 78 per cent of the entrepreneurs are having at least five years of experience.

8. Majority (51.94 per cent) of the enterprises are not maintaining business information and only 48.06 per cent of the enterprises are maintaining business information. So, majority of the small scale industries are not maintaining books of accounts properly.

III. Access to Institutional Finance: Entrepreneurs’ perception

Findings of the perception of small scale industries entrepreneurs towards institutional finance accessibility has been presented in the ensuing paragraphs, consisting, accessibility to institutional finance and influence of characteristics of SSIs and lending norms of financial institutions on the SSIs accessibility to institutional finance.

1. Cent per cent of the small scale industries are depending on personal saving to finance their business operations, followed by 92.44 per cent, 92 per cent, 90.61 per cent, 90.32 per cent, 63.46 per cent, 55.25 per cent, and 30.59 per cent of the small scale industries major sources of finance are supply chain credit, family sources, leasing, customer advances, friends, relatives and institutional sources respectively. It shows that small scale industries are not at all mainly depending on institutional financial sources. Among all sources of finance, institutional sources of finance constitute only 30.59 per cent. Out of which medium and small scale industries constitute major part and micro enterprises constitute small portion of it. Perhaps, it is very clear, financial institutions accessibility to micro enterprises is very less.
2. Majority (69.4 per cent) of the respondents have not been accessed finance from institutional sources of finance. Only 30.6 per cent of the respondents have been accessed financial resources from financial institutions. Therefore, majority of the small scale industries have not availed loan from institutional sources of finance. At the other end it seems financial institutions performance in distributing financial services to the less privileged entrepreneurs is very poor.

IV. Accessibility to Institutional Finance and Firm Characteristics:

With reference to Small Scale Industries characteristics and small scale industries access to institutional finance, following findings have been made.

1. Only 30.60 per cent of the entrepreneurs have availed finance from institutional sources, out of which (276 units) 66.18 per cent of small, followed by (112 units) 26.85 per cent of micro and (29 units) 6.95 per cent of medium scale entrepreneurs have availed finance from institutional sources respectively. On the other side out of 946 enterprises (708 Units) 74.84 per cent micro entrepreneurs, (237 units) 25.05 per cent of Small and (1 unit) 0.10 per cent of medium entrepreneurs have not availed finance from institutional sources. Thus, higher the size of the business higher the probability and certainty of getting finance from the institutional sources.

2. Majority (78.90 per cent) of the urban enterprises have assured finance from institutional sources, only 21.10 per cent of rural enterprises have availed finance from institutional sources, on the other side 77.59 per cent of the rural enterprises have not availed finance from financial institutions and 22.41 per cent of urban enterprises have not availed finance from financial institutions. Therefore, majority of rural enterprises not availed finance from financial institutions compared to urban enterprises.

3. Majority (56.0 per cent) of the Manufacturing enterprises have assured finance from institutional sources, followed by 44.0 per cent of Service enterprises have availed finance from institutional sources, on the other side out of 946 enterprises 54.7 per cent of the manufacturing enterprises and 45.34 per cent of service enterprises have not availed finance from financial institutions. Hence, more number of manufacturing enterprises have not availed finance from financial institutions when compared to service enterprises.
4. Majority (83.1 per cent) of the enterprises are maintaining books of accounts have assured finance from institutional sources, followed by 16.9 per cent of enterprises have availed finance from institutional sources though they are not maintaining books of accounts, on the other side out of 946 enterprises 38.3 per cent and 61.7 per cent of enterprises which are not maintaining books of accounts have not availed finance from financial institutions. Thus, enterprises which are maintaining books of accounts probably having more chance to get financial assistance form financial institutions.

5. Only 32.22 per cent of the enterprises have been existing since 5 to 9 years have accessed finance from institutional sources, followed by 30.22 per cent, 27.58 per cent and 9.83 per cent of the enterprises existing since 20 years, 10 to 19 years and bellow 4 years have availed finance from institutional sources, on the other side out of 946 enterprises 58.77 per cent of enterprises existing since 10 to 19 years have not availed finance from financial institutional, followed by 23.89 per cent, 13.64 per cent and 3.7 per cent of enterprises below the age of 4 year, between the age of 5 to 9 years and above 20 years of age have not availed finance from the financial institutions. Therefore, higher the age of the business higher the probability of getting finance from the institutional sources and lower the age of business lower the probability of getting finance form financial institutions.

6. Only 43.17 per cent of the partnership firms have accessed finance from institutional sources, followed by 31.65 per cent, 25.18 per cent of the proprietary concerns and Private Limited Company respectively have availed finance from institutional sources. On the other side, out of 946 enterprises 76.11 per cent of proprietary concerns have not availed finance from financial institutional, followed by 14.27 per cent and 9.62 per cent of private limited and partnership firms respectively have not availed finance from the financial institutions. Hence, it can be inferred that proprietary concerns are more likely to be not availing finance from financial institutions.

7. Majority (60 per cent) of management having educational qualification upto graduation and above have accessed finance from institutional sources, followed by 19.1 per cent, 17.3 per cent and 3.6 per cent of the enterprises owners having educational qualification such as, vocational training, secondary education and
less than secondary education respectively have availed finance from institutional sources, on the other side out of 946 enterprises 34.1 per cent of enterprises having vocational training have not availed by financial institutional, followed by 32.2 per cent, 27.5 per cent and 6.2 per cent of entrepreneurs educated upto secondary level, graduation and above, and less than secondary education respectively have not availed finance from financial institutions. Finally, it can be inferred that higher the educational qualification of the owners higher the probability of getting finance from the institutional sources.

8. Only 31.3 per cent of entrepreneurs having managerial experience between 10 to 19 years have accessed finance from institutional sources, followed by 27.7 per cent, 22.9 per cent and 18.1 per cent of the entrepreneurs having managerial experience less than 5 years, above 20 years and between 5 to 9 years respectively have availed finance from institutional sources, on the other hand out of 946 enterprises 38.3 per cent of enterprises having managerial experience between 5 to 9 years have not availed finance from financial institutional, followed by 32.1 per cent, 18.5 per cent and 11.1 per cent of entrepreneurs having managerial experience between 10 to 19 years, less than 5 years and above 20 years have not availed from financial institutions. So, higher the managerial experience of entrepreneurs higher the probability of getting finance from the institutional sources.

9. Majority (91.6 per cent) of the enterprises which are having sufficient collateral have accessed finance from institutional sources, followed by 8.4 per cent of enterprises though they are not having sufficient collateral, they availed finance from institutional sources, on the other side out of 946 enterprises 93.97 per cent of the enterprises which are not having collateral have not availed finance from financial institutions and 6.03 per cent of the respondents have failed to avail finance from financial institutions though they are having sufficient collateral. Hence, it can be inferred that enterprises which are having sufficient collateral will certainly get financial assistance form financial institutions. Some times though the industry deserves, relationship with the sanctioning authority of every financial institutions does matters.
V. Financial Institutions Lending Norms: Entrepreneurs Perception

Further, with reference to financial institutions’ lending norms and small scale industries access to institutional finance following findings have been made.

1. Majority (97.8 per cent) of the micro entrepreneurs’ percept collateral norms of the financial institutions are unapproachable. Followed by 67.5 per cent and 24.7 per cent of the small scale and medium scale entrepreneurs respectively, also opine that collateral norms of financial institutions are unfriendly. Totally 85 per cent of the respondents’ opine that collateral norms of financial institutions are the major hurdle for them to avail finance from financial institutions. Moreover, compared to small and medium enterprises micro entrepreneurs are not happy with the collateral norms of funding agencies. So, higher the size of the firm lowers the problem of collateral security and Higher the accessibility to institutional finance.

2. Only 47.5 per cent of the small entrepreneurs’ have experienced difficulty in providing required documents to financial institutions. Followed by 37.8 per cent and 4.7 per cent of the micro scale and medium scale entrepreneurs respectively, have also experienced the difficulty in providing required documents to financial institutions. Totally 41 per cent of the respondents have experienced difficulty to provide required documents stipulated by the financial institutions. This is a hurdle for entrepreneurs to avail finance from financial institutions. Moreover, micro entrepreneurs have experienced greater difficulty to furnish required documents. Hence, micro and small scale industries are facing documentation problem to avail finance form financial institutions.

3. Majority (81.6 per cent) of the micro entrepreneurs’ percept they have experienced difficulties to prepare and provide business plan to financial institutions. Followed by 25.2 per cent and 8.1 per cent of the small scale and medium scale entrepreneurs respectively, opine preparation and presentation of business plan is difficult. Totally 59 per cent of the respondent entrepreneurs have experienced problem in preparation and presentation of business plan. Moreover, compared to small and medium enterprises micro entrepreneurs have experienced greater difficulty in preparing business plans. Therefore, lower the size of the entity lower the competence in assimilating business plan idea.
4. Majority (96.6 per cent) of the micro entrepreneurs’ percept accruing cost of the loan, charged by financial institutions is not reasonable. Followed by 73.8 per cent and 54.5 per cent of the small scale and medium scale entrepreneurs respectively, are also opine that accruing costs of loan charged by financial institutions is not reasonable. Totally, 85 per cent of the respondents express accruing cost of loans and advance charged by financial institutions is the hurdle for entrepreneurs to avail finance from financial institutions. Moreover, compared to small and medium enterprises micro entrepreneurs are unhappy about the accruing cost of loans and advances. Thus, micro enterprises are having problem of accruing cost in availing finance from financial institutions.

5. Majority (73.9 per cent) of the micro entrepreneurs’ opine interest rates of the financial institutions are not reasonable. Followed by 68.8 per cent and 43.4 per cent of the small scale interest rate of financial institutions is also one of the major hurdles for them to avail finance from financial institutions. Besides, compared to small and medium enterprises, micro entrepreneurs are not happy with the interest rates of financial institutions. Therefore, higher the size of the firm lower the rate of interest because the financial institutions are charging interest on money lent based on the risk involved in lending. Perhaps, micro enterprises lending involves high financial risk.

6. Majority (96.8 per cent) of the medium entrepreneurs’ percept financial institutions are very lethargic in processing loan applications. Followed by 94.5 per cent and 92.3 per cent of the small and micro scale entrepreneurs respectively, also of the opinion that financial institutions are very slow in processing loan applications. Totally 93 per cent of the respondents’ express financial institutions are inefficient in processing loan applications. This is also a hurdle for eligible entrepreneur who needs money immediately. So, compared to small and micro enterprises, medium entrepreneurs are not happy with the loan processing procedures and time taken to sanction loan.

7. Majority (94.8 per cent) of the micro entrepreneurs’ percept that financial institutions quantum of loans and advances is inadequate. Followed by 87.5 per cent and 64.7 per cent of the small scale and medium scale entrepreneurs respectively, opine that quantum of loans and advances are insufficient. Totally
91 per cent of the respondent entrepreneurs express quantum of loans and advances of financial institutions is not sufficient to meet the required expenses. So, compared to small and medium enterprises majority of micro entrepreneurs opine that financial institutions’ quantum of loans and advances is inadequate. Lower the size of the venture lower the probability of getting adequate finance from financial institutions.

As long as the small scale industries are not open to accept changes in financial institutions lending behavior and do not update themselves in tune with the requirements of financial institutions, they find it difficult to access institutional finance. Financial institutions should also open to accept the suggestions generated at demand side and do an attempt to execute the same; otherwise, it is difficult for financial institutions to realize their prime objective of lending to small scale industries.

**General Findings**

**Why SSIs go for Formal sources and why not for Informal sources?**

1. Subsidized credit is available only in formal sources of finance and in informal financial sources subsidies are not available. Hence, the Subsidy is the reason behind the SSIs entrepreneurs’ preference for formal sources of finance and to not prefer informal sources of finance.

2. Interest rate is very low in formal sources when compared to the informal sources of finance. So, the Rate of interest is the factor which motivates entrepreneurs to go for formal sources of finance and not to prefer informal sources of finance.
Why SSIs go for Informal sources and why not for formal sources?

1. Financial institutions ignore micro, rural, young and lower income SSIs. Whereas, Informal sources of finance provide credit facility for rural, small and lower income firms and other strata of SSIs.

2. Procedures and administration involved in Financial Institutions are very complex and difficult to understand them by the fund seekers. Conversely, procedures of informal sources are straightforward they are easily understood by fund seekers.

3. Lending norms of Financial Institutions are very stringent. However, Informal sources are more flexible and operate at times of business difficulties.

4. Financial Institutions are selective regarding clientele. Whereas, Informal sources of finance is not much clientele as financial institutions.

5. Loan applications are very complex and require reading and writings skills. Whereas, informal finance access is simple, and non-bureaucratic and little based on written documents and literacy is not essential.

6. Formal sources of finance Processing of loan requests is complex and long process. Whereas, the informal sources comprise of simple and direct processing of loan. Prompt approval and minimum delay in disbursement. Rejections are rare.

7. To obtain formal finance from financial institutions collateral requirements are necessary. Whereas, collateral requirements on loans are to borrower’s capacity in informal sources of finance.

8. Formal sources transaction cost or accruing cost is high. Whereas, Transaction costs are low in informal sources compared to formal sources.

9. Formal sources of finance and financial institutions are having rigid repayment terms. Whereas, informal sources of finance repayment conditions are very flexible.

10. Financial Institutions do not have knowledge about the problems of SSIs confronted with. Whereas, Informal sources are aware of the problems that SSIs may be confronted with.
11. Financial Institutions do not have good network for dissemination of information. Whereas, Informal sources have a dense and effective information network. Which help entrepreneurs to maintain good credit track record.

12. The formal sources volume and availability of loanable funds are subject to seasonal fluctuations. Whereas, seasonal fluctuations do not matter in volume and availability of loanable funds in informal sources.

Yet, many SSIs prefer to go for informal sources of finance. Though the interest rate is high, the formalities are minimal in case of informal sources.

This shows the significance of informal sources of funding. In the sample study Cent per cent respondents have availed loans from informal sources of finance and only a mere 30.41 per cent have availed loans from formal financial institutions.

6.2 Suggestions

In the light of findings of study it is appropriate to suggest some remedies to overcome the shortcomings of the institutional finance accessibility to small scale industries. In order to emphasis and visualize the greater degree of institutional finance accessibility for small scale industries, the following suggestions for financial institutions, Small Scale Industries and for Government are envisaged.

I. The following are suggestions for financial institutions for expanding access to financial services offered by them to SSIs.

1. Financial architecture for the SSI sector would use technology driven platforms to drive inclusion in financing of the large number of SSIs which do not have access to credit. Financial institutions are suggested to use following technologies effectively to overcome the limitations existing with SSIs lending.

   a. **Information Systems**: Custom-built or commercially available software that allows financial institutions to track transactions and create reliable financial reports.
b. **Personal Digital Assistants (PDAs):** Small handheld computers that help field staff more efficiently to collect data, manage SSI client records, and process loans.

c. **Credit Scoring:** Automating or enhancing the loan approval process by computerized analysis of client characteristics and behavior to predict willingness and ability to repay.

d. **Internet Banking:** The ability to conduct banking transactions from any location, such as Internet kiosks. This service is probably relevant for all entrepreneurs irrespective of location of entity.

e. **Mobile Phone:** Millions of people in both urban and remote areas now have access to cell phones, and increasingly use text messaging. This technology offers an opportunity to operate virtual bank accounts with minimal infrastructure.

Financial institutions can employ some combination of these technologies to reach clients directly, or in partnership with others. Also, by working with agents like local merchants and smaller banks, financial institutions can reach small businesses or more remote rural clients.

2. Financial institutions lending norms and procedures vary from one region to another. Hence, financial institutions should follow universal lending norms and procedures throughout the country.

3. Loan application of Micro Small and Medium Enterprises should be cleared within a specified time frame. It would cut down transaction time and cost. There should be single window approach to process the loan applications.

4. There should be no demand for collateral in the case of loan up to Rs. 25 lakh. Besides, Credit guarantee.

5. Financial Institutions should provide loan to SSIs at cheaper rates than the prime lending rate.

6. Financial Institutions lending should also concentrate on relationship based lending and it is not appreciable if they stick on to rule based lending.

7. Financial institutions should use high end technology to process the application to make Easy accessibility of institutional finance by fund seekers with less paperwork.

8. Financing institutions financing should be cash flow based lending rather than asset based lending.
9. There should be more importance for cash credit or working capital limit than for fixed assets.

10. Proper training to officials of financial institutions, banks, and other institutions should be arranged by apprising authorities’ for proper and perfect evaluation of loan proposals.

11. Financial institutions should consider the SSIs characteristics in a particular locale as these characteristics vary from region to region.

II. The following are suggestions envisaged for Small Scale Industries to avail financial services offered by financial institutions.

SSIs are holding a very important place in the industrial system of the country. Thus, suitable measures are necessary to remove these bottlenecks in the optimum operation of SSIs. Hence, to improve their access to institutional finance small scale industries should improve their competitiveness in many dimensions such as;

1. **Effective Planning:** SSIs are required to conduct detailed survey of the existing situations prevailing in small-scale sector and draw productive programmes for them. Study suggests that very few small entrepreneurs launch their operations on the basis of a careful plan. A detailed feasibility study or detailed project report is highly essential for small entrepreneurs to start their units. Without proper planning, they may be affected by improper location, inexperienced consultancy services, improper technology, under estimation of costs etc. Hence, SSIs are required to initiate effective action plan for their survival.

2. **Improvement in Techniques of Production and Proper Technology:** SSIs should try to improve their techniques of product and adopt modern technology. Government consultancy organisations and laboratories have an important role to play in this context. They have to arrange viable and modern techniques of production to SSIs, as they are unable to spend money on this count. Besides SSIs should keep themselves in touch with development in technology. They should also try to give a lead, if possible financially, in research and development efforts. They should also believe in continuous innovation and then they can remain in their business.
3. **Training and Development**: SSIs should make concerted efforts in imparting proper education and training to workers engaged in this sector as they are valuable asset of industry. Expenditure on training and development activities should be treated as an investment. Small Industries Associations should also involve themselves in providing knowledge and skills required for them in the changing environment. Workers should be encouraged to innovate themselves in the production process as it would enable the SSI’s to compete with their medium and large scale counterparts. For this purpose effective motivation and reward system is highly desirable.

4. **Development of Suitable Machinery**: SSIs should try to develop separate suitable machineries for taking initiative with regard to problem faced by them. SSIs have different typical problems and that have to overcome by taking offensive strategies. SSIs Association should be offensive and objectively clear in their goals in pleading their cases with the Government. Associations like FICCI, Associated Chambers of Commerce and Industry of India (Assocham) and CII are more powerful in maintaining their relations with the Government. They should also involve themselves in focusing attention on the problems being faced by their members through seminar, conferences etc. So similar strategies should be adopted by the Small Industries Associations to protect their members’ interest with the Government.

The study found that the stigma attached to small scale industries and financial institutions should be eliminated from the preconceived notions of entrepreneur and authorities of financing institutions as they are no more incompetent and lethargic.
III. The following are suggestions for Government for expanding access to financial services offered by financial institutions.

Government of India has to take up suitable measures to increase the accessibility of financial institutions and institutional finance to small scale industries. Hence, to improve access of institutional finance to Small scale industries government has to consider following suggestions:

1. Government has to Create an apex authority to ensure a single point resource centre which will be a nodal agency to execute and administer programs, benefits and grievance redressal, facilitate ease of doing business, registration and inclusion and to design policy and implement the series of measures articulated in this report, there is a need for an apex authority to be established.

2. Government has to bring unregistered SSIs to get registered. To achieve, universal financial inclusion of SSIs by using the above registration to ensure that every registered SSI has a bank account. This can be an existing business banking account, and where bank account details are not available the process can facilitate opening a new business banking account with the information provided, including the ability to open a bank account entirely online using eKYC (electronic validation of KYC requirement). The bank account should be linked to the Udyog Aadhar.

3. The Ministry of MSME has operationalised a national portal for online registration of SSIs through the District Industries Centers (DICs). This portal should be linked with other departments of State Governments for taxation, power, utilities and pollution control among others.

4. Increase the flow of equity to the SSI sector by operationalising the large amount of equity fund.

5. Encourage establishment of an effective, online, technology-driven receivables financing platform with wide participation by credit providers, SSIs, corporate and government units. This would be a key component of the new architecture.
6. Achieve a robust receivables financing platform by providing strong operating guidelines for the Trade Receivables Discounting System (TReDS).

7. Making loans available to SSIs faster and easier should be one of the goals listed in National Common Minimum Programme (NCMP).

8. Expand coverage under and enhance effectiveness and utilization of credit guarantee/insurance schemes and make the programmes accessible to a wider set of credit providers, upto and including selected NBFCs and micro finance institutions.

9. The financial architecture to serve the SSI sector should encompass a wider and deeper set of entities which will include scheduled commercial banks, non-bank finance companies, micro finance institutions, cooperative banks, the proposed new small finance banks and the proposed Post Bank of India. These entities could leverage outreach points outside the formal financial system to enhance access to financial services through a hub-and-spoke approach.

10. The proposed Post Bank of India (PBI) could become an effective channel for financial inclusion and delivery of credit to SSIs, as one of its key objectives could be to serve the SSI sector as well as individuals such as artisans, farm owners and rural micro enterprises.

11. Need to develop additional sources of formal finance for the SSI sector through a structure that would include in its ambit the existing non-institutional last mile financiers.

12. Encourage expansion in coverage of credit bureaus to include a wider range of credit institutions and a wider range of transaction records to facilitate a better credit and payment history of the buyer and the seller. This is particularly relevant for SSIs which seek credit from the formal financial sector for the first time and do not have a credit history.

13. Government should insist and facilitate financial institutions to frame schemes of financing and lending pattern according to the SSIs requirement in particular locale.
14. Informal credit and savings associations for industries should be promoted.

15. A target has to be fixed to financial institutions for micro enterprises lending.

16. Equity as a source of financing is underutilized and the prevalence of investment by financial institutions is very low. SSIs in India rely on friends, family and relatives as sources of equity. This may be due to lack of awareness about SSIs among the office bearers of lending agencies. As well as absence of formal governance structures in small businesses financial resources lending administration. This problem should be addressed properly by the government.

17. Small Scale Industries face the problem of delayed payments from their buyers, which are mostly large corporates. Also, receivable finance is required for micro and small entities to extend their business length and width of operation. This adversely impacts their working capital as well as their next cycle of production by affecting their ability to service existing debt. Hence, government has to strengthen receivable finance system in India.

18. The utilisation of the available credit guarantee and insurance schemes by banks has been lower than potential due to capacity constraints and conditions that limit eligibility and operational issues that limit flexibility and delay realisations. So, government should take an initiative to establish an apex institution of credit guarantee to address this issue properly.

19. Small Scale Industries lack adequate information about the various schemes and benefits made available by the government. In some cases, they lack the technical know-how to furnish the required information to avail these schemes. Therefore, government has to strengthen the communication system.

20. Government has to deepen and widen the credit delivery system. Formal financial institutions such as banks face challenges in credit risk assessment of SSIs, due to absence of financial information including historical cash flows, credit track record and tools to assess credit risk. Hence government has to take initiative in this regard.
6.3 Scope for further research

Though the study is exhaustive, comprehensive and voluminous in nature, yet it gives room for further study on the following aspects.

- The existing study mainly focused on lending norms and lending practices of financial institutions.
- The study clearly revealed that majority (69.40 per cent) of the sample enterprises are not at all availing financial resources from organized or formal institutions. Most of them are opting for informal sources of financing. This act gives an ample scope for further studies related to why entrepreneurs prefer private or unorganized/ informal sources rather than formal sources. There is definitely a scope to study vital aspects of informal finance and borrowing priorities from informal finance. Though the cost of informal sources is very high, yet people or entrepreneurs are going for it. This is the real need for the study in the future.
- Further, one can study the degree of relationship between performances of SSIs with the informal sources of financing vis-à-vis formal financing.
6.4 Conclusion

As mentioned in the earlier chapters, SSIs are contributing in a fair manner and contributions of SSIs are fairly reasonable for the economic development of the nation. Though agriculture appears to be the sole contributor, industrial sector is having major share in discharging the responsibilities and expectations of the nation. Yet, SSI sector is having hurdles and certain lacuna in discharging the expectations, one such aspect which was covered in the study was its financing factor.

The financing of SSIs usually featured with “small, frequent and fast” and once they find the business opportunities they go for external financing than bank financing this has become the normal phenomena for most of the SSIs across the country, similarly with the sample. However, SSIs try to approach commercial banks, due to stringent lending norms and procedures and operational standards commercial banks could not satisfy the SSIs needs of financing. This was clearly reflected in the earlier chapters. Numerous studies also illustrated and discussed that SSIs are financially more constrained than large firms and to meet this demand it was proved inevitable for SSIs to approach informal sources of financing.

Efforts targeted at the SSI sector is often based on the premises that SSIs are engines of growth but, market imperfections and institutions weaken impede this growth. When firms were asked to rate the finance and other obstacles such as infrastructure, macro-economic instability in terms of their operation and growth it was found that not surprisingly the small firms finance a large share of their investment with informal sources of finance and only a meager percentage of them have financed through formal sources. This evidently affirms the financing trends in the SSI sector is beyond the financial institutions expectations. Hence, they must evolve an innovative tool for lending practices.

This study summarizes that access to finance is an important growth constraint for SSIs as lending institutions play an important role in relaxing this constraint. Unless the financial institutions as well as the SSIs think of an innovative financing instrument to facilitate SSIs access to finance, even in the absence of well-developed institutions there cannot be any leap in the expected contribution of SSIs to the GDP. Further, the research summarizes that a competitive business environment, having an access to finance facilities to entry and exit or the growth of
firms, there cannot be any growth and development spectrum for SSIs. There should be a focus on improving the business environment for all firms is more important than simply trying to promote SSIs. No doubt, SSIs constitute a significant contribution in the total employment of the nation, this phenomenon might continue only when the obstacles are removed.

Indeed, compared to large firms SSIs are more constrained by different obstacles. Limited access to finance is the major obstacle. As it was suggested improving legal and financial institutions’ help for all deserving firms to access finance, is the major act the government should initiate as it was found in the study the firms do relatively better compared to large firms.

It can be concluded that most of the reasonably successful enterprises are financing the required by the retained profit and cash flows. But, the beginners may not come across the situation as they need some support for finance. If institutions are not recognizing the ventures of the starters is very difficult to harvest the returns from such unexplored business avenues. These opportunities must be adequately, appropriately tapped to ensure greater contribution, involvement and employment generation opportunities to younger generation. As the adage goes “Small is Beautiful”, it is beautiful only when we nurture the importance and the important needs and expectations of such small groups. Engines of growth and success should be refueled appropriately at the required rate and the required hour otherwise, it may not take up.