

CHAPTER IX

SUMMARY OF FINDINGS,
SUGGESTIONS AND
CONCLUSION

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I. STUDY BACKGROUND

The banking sector is the most important segment of the financial system in developing countries like India. A well functioning and an efficient financial system is important for promoting rapid industrial development in a market economy. The provision of bank loan stimulates demand for industrial goods. Thus, the more efficient the financial system of an economy, the higher would be the investment rate and hence the output and employment growth rates of the economy. The banking sector in India has remained highly regulated since the nationalisation of banks in 1969. It helped to provide an initial thrust on the development of banking, especially in rural areas and increased access to credit to agriculture, small scale industries and weaker sections of the society. This directed priority lending at concessional rate of interest to the most important segment of the society, swelled demand for bank loan from such borrowers.

In India, small scale industry (SSI) is recognised by the Government of India as a priority sector, as it paves way for rapid industrialisation. The SSI sector is an important component of industrial base of India and can be the driving force of its development efforts. It is the vital link in the industrialisation process, which actually takes modern technology to the people. Small industry is a prerequisite for a balanced growth of the economy for countries like India, which is highly populated.

Small scale industries include the traditional small industries besides the modern small scale industries. The most significant aspect of small industry development is that this sector has stimulated economic activity to far reaching height. It has created a sense of confidence among the small industrialists and the policy makers to rely on its strength.

In India, unemployment and underemployment are the prevailing economic maladies. Large scale industrialisation, which is mostly capital intensive, failed to absorb

the increasing population. The promotion and development of SSI sector, undermine twin objectives, namely, employment generation and poverty alleviation. The small industries sector to a significant level is performing its part well in providing employment and thereby alleviation of poverty. Since, unemployment problem and poverty alleviation are mutually co-extensive, where one is cured the other will fade. To put it rightly, the problem of unemployment would have worsened to an unimaginable position, if SSI sector had not been given sufficient attention. One cannot under estimate the role-played by the agricultural sector in fulfilling the socio-economic objectives of the country. But employment provided by agricultural activities becomes purely seasonal and on the dependence of irrigation facility. Whereas, small industries unlike agriculture are capable of providing some income generating activity throughout the year not only to the urban small Industrialists but also to the rural masses like artisans and other small entrepreneurs.

While Indian economy is going through major changes, particularly in market oriented approach, financing of SSI sector assumes greater significance – the sector contributes to about 35% of gross value of output, 40% of total exports and 60% of total employment of the country. No doubt that policies, guidelines, rules and regulations relating to SSI units provide a fair treatment, their implementation needs a review. It is often complained that small scale industrial units do not get required finance from banks. Even if they are financed insufficiently, it is done with lot of formalities and the inordinate delay in sanctions / disbursements of loans. Therefore, the real remedy for the growth of small scale industries lies in adequate and timely finance by the banks, which in turn would help the units to expand and strengthen their equity base in the long run. A complexity of factors determines the ability of a small industrial entrepreneur to borrow funds from the lending institutions like the banks. These things raise the following questions: -

1. What are the factors that determine the pattern and size of bank loan to small scale industrial (SSI) units?
2. What are the problems faced by the SSI units in raising their long term and working capital loan from banks?
3. To what extent the composite loan of banks has been utilised by the SSI units?

4. What are the problems faced by bankers in financing the SSI units?
5. Why is the rate of recovery of loans to SSI units by the banks hovers around fifty per cent of demand?
6. What is the performance of SSI units financed by banks as against the other units not financed by the banks?
7. Why there has always been an inadequacy of bank loan to SSI units?

These were some pertinent questions that required an investigation. Being so, it was thought fit to study the level of bank finance to small scale industries and hence the present study under the title "Banks' financing of small scale industries in Tamilnadu with special reference to Sivaganga district".

So far no study has been made to study the level of banks' financing of small scale industries, involving finance from banks of all sectors, namely, private sector banks, public sector banks and co-operative sector banks. This gap has been filled in by the present study by encompassing banks of all sectors, namely, private sector, public sector and co-operative sector. Another remarkable feature is that the study attempts to measure the extent of growth or otherwise of SSI units (situated in a backward district, viz., Sivaganga district) that have availed of bank loan with those of units that have not availed of the bank loan.

II. FINDINGS OF THE PRESENT STUDY

The important observations recorded in the preceding chapters, especially in chapters V, VI, VII and VIII of the present research report are furnished in the following passages.

1. PROFILE OF SMALL SCALE INDUSTRIES

- 1.1 The study throws light on the year of establishment of the sample units. Of the 180 SSI units surveyed in Sivaganga district, 16 units were in existence for more than twenty-five years, (i.e., established before 1970), 34 units were set up between 1970 and 1980. The number of SSI units set up after 1980 (namely, the year

between 1980 and one year preceding the period of conducting survey – the survey was conducted during 1995-96) was found to be alarmingly high, at 130 units, constituting 72.2 per cent of the total sample. It shows that the small industries were being developed in the district after trifurcating of erstwhile Ramanathapuram district in 1985.

- 1.2 The survey indicated that while, 26.1 per cent of the SSI units were of engineering industry; 22.8 per cent food products & beverages industry; 18.3 per cent textile industry and the other five categories of industries represented less than 10 per cent of the sample units.
- 1.3 The study revealed that nearly 67 per cent of the total sample units (120 units) were tiny units having investment in plant and machinery less than Rs.5 lakhs. Out of the above 120 units, 59 units constituting 32.8 per cent had less than Rs.1 lakh investment. It shows that tiny units constitute a major portion of small industries in Sivaganga district too. Sample SSI units in 'above Rs.30 lakhs' category were just fourteen; of which, only two units had own funds and twelve units were financed by banks and financial institutions.
- 1.4 The study noted that 68.9 per cent of small industrial units were proprietary concerns and 22.2 per cent were partnership concerns. Only a paltry portion of 8.9 per cent was found to be under other forms of ownership such as co-operative society, private limited companies and public limited companies.
- 1.5 It was an observance that 80 per cent of SSI units were started afresh and only the remaining 20 per cent were either inherited from parents or acquired or leased. Of the 144 units which were started, 80.6 per cent have been financed by banks and financial institutions which is a clear indicator that, financial assistance from banks and financial institutions has also influenced the entrepreneurs to venture into the small business.
- 1.6 It was observed that possessing experience in a particular line of business had been the most important factor for starting the business – 37.2 per cent of the total

responses indicated this phenomenon; 22.7 per cent responses indicated market potential for the products was the motivating factor. Technical qualification, own funds availability, financial assistance from banks / FIs, concession from the Government and other factors in toto accounted for 40.1 per cent of the 277 responses.

- 1.7 The study revealed that a majority of SSI units (51.7%) were located in semi-urban areas (there is no urban area in the district); 36.1 per cent were in rural areas and 12.2 per cent were located at industrial estates. Of the 22 units located in industrial estates, banks financed - 15 units, financial institutions – four units and the remaining three units had own funds. Among rural based units, 70.8 per cent were bank financed; 15.4 per cent got finance from financial institutions and 13.8 per cent had own funds. And, in semi-urban located units, 59.1 per cent were bank financed ones.
- 1.8 It was noted that as many as two third of the study units were engaged only in manufacture and another 20 per cent were engaged both in job work and manufacture. Only a paltry 13 per cent were solely dependent on customers' orders.
- 1.9 The survey brought to surface glaringly those main factors, which led the SSI entrepreneurs to choose the site for location of their units. It was found that own land/ building was the most important factor influenced the location of the units (32.0%). Availability of land and building at comparatively cheaper cost, and nearness to market influenced more or less equally in selecting a site, constituting 20.1 per cent and 21.0 per cent of responses respectively. The other considerations that influenced the location were Government's concession (14.6%) supply of labour (5.5%), good infrastructure facilities (5.0%) and access to materials (1.8%).
- 1.10 Among 180 SSI units contacted, 23.3 per cent were registered under the Factories Act. Among these registered units, most of the units constituting 73.8 per cent were bank financed ones. The per cent of bank financed units among the SSI units

in the non-registered category was 61.1% which was 12.2 per cent lower than the bank financed SSI units in the registered category. That is, the bank-financed units in the registered category were 73.8%, whereas the bank financed units in the non-registered category were 61.1%. The difference is 12.2%. Therefore, bank financed units' registration under the Factories Act was higher than the non-bank financed units' registration under the Factories Act.

1.11 A striking disclosure of the study is that 35.0 per cent of the sample entrepreneurs were able to own more than one industrial / business unit.

1.12 A considerable number of 82 units among 180 units employed less than five workers. Twenty per cent of the sample units employed more than five workers but less than nine workers. SSI units employing more than nine workers but below 20 workers constituted 21.1 per cent of the sample. The percentage of SSI units having more than 20 workers was at 13.3. During the survey, it was found that few SSI units though employed 10 or more than 10 workers (with the use of power) and 20 or more than 20 workers (without the use of power) were not registered under the Factories Act. The above discussion shows that 34.4 per cent of the SSI units employed more than nine workers; however, the units registered under the Factories Act were just 23.3 per cent of the total sample.

2. LONG TERM FINANCES OF SMALL SCALE INDUSTRIES

2.1 A striking disclosure of the study is that 37.8 per cent of the sample units were exclusively financed by banks for their long term financial needs. SSI units financed by the banks for short term requirements and long term needs or/and along with other sources of funds constituted 64.4 per cent of the sample. This shows that a considerable portion of small industrial units rely exclusively on banks for long term finance.

2.2 An important feature of the study was that although 75.6 per cent of the sample units borrowed long term loans, the largest source of long term finance had been the banks, followed by financial institutions (19.4%), private financiers and friends

and relatives (8.9%), banks and financial institutions jointly (5.0%) and other sources of funds (4.4%).

- 2.3 Further probe into the matter unveils that, of the 46 SSI units which are managed / run with own fund (on the date of survey), as many as 13 units (28.3% of 46 units) have utilised the finances of only private financiers and friends and relatives for long term need, and have repaid the loan on due date.
- 2.4 It was a revelation that 58.6 per cent of bank financed units were long term financed units, the remaining 41.4 per cent of bank financed units were working capital financed units. Though 33 units were own fund units (as on the date of survey), yet, 11 of such units were financed (either for long term or for short term need) by banks.
- 2.5 A remarkable disclosure is that 74.4 per cent of the SSI units had less than Rs.5 lakhs investment in fixed assets at the time of commencement of their business, and this proportion came down to 57.8 per cent on the date of survey; it means that 16.6 per cent of the units (74.4% minus 57.8%) were capable of raising fixed investment from 'below Rs.5 lakhs' during the period of their establishment to 'above Rs.5 lakhs' during the period of survey.
- 2.6 The study brought to sharp focus that 29 sample units have been benefited from the composite loan scheme of banks refinanced by SIDBI. The above sample units constitute 16.1 per cent of the total sample and 25 per cent of the bank financed units.
- 2.7 Further delve into the matter was made to know what kinds of special benefit the beneficiaries of composite loan scheme received, which were not normally available in other loan schemes. It is interesting to note that a majority of 53.3 per cent of the beneficiaries pointed out, speedy sanction of the loan was the important benefit of the scheme. However, 16.7 per cent of the responses indicated that the SSI units did not obtain any special benefit at all; further 6.7 per cent responses indicated that there was delay in sanction of loan under the

scheme. Twenty per cent of the responses indicated that low rate of interest was the special benefit. High moratorium period for repayment of loan was not considered to be a special benefit of composite loan scheme as the responses favouring it were found to be negligible forming 3.3 per cent.

- 2.8 It is disheartening to note, 44.8 per cent of the beneficiaries of composite loan scheme have been sanctioned loan only after a period of 30 days of submitting application and another 31.1 per cent of the units could not recall correctly the period within which the loan was sanctioned. Only 24.1 per cent of the SSI units were capable of firmly reporting that their composite loan was sanctioned within 30 days.
- 2.9 The survey indicated that 50 per cent of the sample units received subsidy – of which 86.6 per cent units received less than 15% capital subsidy. A remarkable disclosure is that 83.3 per cent (75 units) of the subsidy-utilised units were bank financed ones.
- 2.10 The study brought to sharp focus that SSI units 73 in number have benefited from the financial assistance of banks have approached banks only at the time of commencement of their business.
- 2.11 SSI units which were solely financed by FIs too had largely remained one-time beneficiaries except 11.1 per cent of the units which utilised loan both as a new unit (start up period) and as existing unit (at the later stage, namely, after commencement of their business operations).
- 2.12 Further delve into the matter of bank financed units' utilisation of loan revealed that, 13.8 per cent of the units borrowed loan only as existing units; 9.5 per cent both at the time of commencement and at the later stage; 2.6 per cent approached for working capital as new unit and 11.2 per cent only for working capital as an existing unit.

- 2.13 Of the 97 units which had invested long term funds exclusively in machinery, 69 units were bank financed ones representing nearly 60 per cent of the 116 bank financed units.
- 2.14 The survey brings to lime light that, nine per cent of the borrowed SSI units accepted that there was a diversion of funds borrowed. It was learnt that, among these 9 per cent of the borrowed units, 8.2 per cent were bank financed ones and only the remaining 0.8 per cent was FI financed.
- 2.15 The study has brought to surface glaringly that, at the time of commencement of business, 18.0 per cent of the units had long term equity below 20% and 29.4 per cent below 40% but above 20%.
- 2.16 In the case of the 'above 50%' equity category, the per cent of SSI units at the time of survey was higher than the per cent of SSI units at the time of commencement of business.
- 2.17 In the 'above 80%' long term equity classification, the number of SSI units in the bank financed category has considerably increased from 25 units to 71 units, which is a clear indicator that strong equity position of bank financed units has been largely influenced by bank loans. It means by repaying long term loans their equity has been strengthened significantly. It is also a distinct feature that financial institution financed units too have strengthened their equity position to a significant level, which is evident from the fact that, in the 'above 80%' equity position no FI financed units was there at the start up period, whereas the number of FI financed SSI units on the date of survey in that equity category was 11.
- 2.18 The investigation lays open that nearly 47.8% of SSI units had an overall equity of above 80% against the total debts. In India, like any other developing country, where there is a dearth of risk capital, total equity ratio is expected to be high. That is, debt position is expected to be higher than equity position. The number of bank financed SSI units which had the overall equity position (i.e., total equity) above 50% of total funds was about eighty units constituting 69 per cent of the bank

financed units and 44.4 per cent of the total sample units. However, bank financed SSI units which had long term equity position above 50% was 85.3 per cent of the bank financed units and 55 per cent of the sample units, which means that 16.3 per cent of the bank financed units (85.3 minus 69.0) had working capital raised through outside borrowings.

- 2.19 The analysis of the survey data brings to forefront the respondents' knowledge about the requirements of a sound capital structure. It was observed that 21.7 per cent of the sample units did not have knowledge on the requirements of a sound capital structure. It was further observed that such ignorance was much more pronounced amidst the own fund units, as 15 out of 46 units reported that they had no knowledge about the requirements of a sound capital structure.
- 2.20 The study revealed that, 31 per cent of bank financed units and 38.9 per cent of financial institution financed units contributed to less than 25% of their project cost as promoter's contribution. A palpable portion of 38.8 per cent of the bank financed units and a majority of 55.6 per cent financial institution financed units contributed more than 25% but less than 50% of their project cost as promoter's contribution.
- 2.21 A striking disclosure of the study is that 13.8 per cent of the bank financed units reported that, they were not insisted for promoter's contribution as their units were considered to be run on sound line at the time of borrowing. Another 13.8 per cent expressed that as their utilisation of fund provided by banks was for working capital alone, the banks did not insist on promoter's contribution. Only a negligible portion accounting for 2.6 per cent of bank financed units and 5.5 per cent of financial institution financed units reported that, they provided their (entrepreneurs') private assets as security for the loan.
- 2.22 A remarkable disclosure of the study is that many entrepreneurs did not have knowledge on the equity and other financial schemes of the SIDBI. Of the 180 sample SSI units, 17.8 per cent had the knowledge of seed capital scheme; 16.7 per cent had the knowledge of national equity fund scheme and 15.6 per cent had the knowledge of 'mahila udayam nidhi scheme' and the 'ex-servicemen scheme'.

- 2.23 The study brought to sharp focus that more formalities adopted by banks had been the greatest hurdle in getting financial assistance, followed by the delay in sanction. Both the above two reasons constituted about 73 per cent of the total score. High cost of borrowings (7.8%), security insistence (15.5%) and under finance (3.7%) – all combined together accounted for 27 per cent of the scores.
- 2.24 The study unveiled that, among the 180 sample units, 101 units confronted with the problem at the time of raising long term loan and 68 units at the time of repaying the loan.
- 2.25 The survey noted the problems of SSI units in repaying long term loan. It was observed that high instalment due was the greatest problem for the SSI units in repaying their loan, as 24.5 per cent of the responses cited this hardship. The second problem for the SSI units was non-realisation of accounts. Other problems faced by sample units in repaying their long term loan were: poor market conditions (14.5%), high cost of financing (interest) (14.3%), other factors (11.2%), under financing (11.0%) and low moratorium period (9.0%).
- 2.26 A remarkable revelation of the study is that, of the 400 scores obtained by assigning different score rates for the problems reported by bank financed units and financial institution financed units, the proportion of scores assigned to the problems reported by bank financed units was 355 and 45 for FI financed units, which was in the ratio of 7.9:1. The above comparisons clearly show that, the problems faced by bank financed units are larger than that of the FI financed units.
- 2.27 The investigation brought to light that a palpable portion of 37.9 per cent of bank financed (48) units and 44.4 per cent of financial institution financed (8) units failed to repay the loan in time.
- 2.28 It was noted that 13 bank financed units and three FI financed units faced some punitive action taken by the lending institutions for the default in repayment of instalment dues. Further, two bank financed units reported that there was harassment by the bank officials for failure to repay the loan on the due date.

- 2.29 Of the 134 bank and FI financed units 28 units availed of expansion loan. Of these 28 units, only one unit has been financed by FI for expansion purpose and banks funded all other units.
- 2.30 The present study brings forth the steps taken by the SSI units for strengthening their equity base. It is a revelation that a majority of SSI units constituting 50.9 per cent of bank financed units, 50 per cent of FI financed units and 54.4 per cent of own fund units ploughed back their profit for strengthening their equity position and did not bring in any additional amount by way of own contribution made by the entrepreneur(s) himself / themselves.
- 2.31 Fresh promoter's contribution was made by 12.9 per cent of bank financed units, 16.7 per cent of FI financed units and 6.5 per cent of own fund units for strengthening their equity position. It means that these entrepreneurs used their earnings outside the business for the purpose of investment into the small business by way of additional own contribution.
- 2.32 The study also noted that a palpable portion of small industrial units strengthened their equity position by both the above means. The per cent of SSI units that have strengthened their equity by the above two ways was 32.8 of bank financed units, 22.2 of FI financed units and 36.9 of own fund units. SSI units which did not take any steps for strengthening their equity were negligible at 3.4 per cent for bank financed units, 11.1 per cent for FI financed units and 2.2 per cent for own fund units.

3.WORKING CAPITAL FINANCES OF SMALL SCALE INDUSTRIES

- 3.1 The study revealed that cost of raw materials was the important factor deciding the quantum of working capital of the SSI units and a sizable proportion of the responses of SSI units forming 39.1 per cent indicated this. The cost of labour (wages) was the second important factor deciding the working capital needs – constituting 25.9 per cent of the responses. Inventory and power accounted for

13.7 per cent and 15.7 per cent of the responses respectively. Finally, bills receivable (debtors) accounted for 5.8 per cent of the responses.

3.2 SSI units which had working capital requirement of less than 15% of annual sales were 49.1 per cent in bank financed units, 61.1 per cent in FI financed units and 71.8 per cent in own fund units – which mean that a majority of the SSI units' working capital requirement was below 15% of their annual sales.

3.3 This high proportion of SSI units' falling under 'below 15%' category is for the obvious reason that, a vast majority of the SSI units are tiny units, namely, smallest among small units, and therefore, their operating cycle would be shorter, leading to the units' working capital requirement as a percentage of sale to fall below 15%.

3.4 The survey noted that, as many as 51 units had availed themselves of working capital loan. Of these while 48 units and three units obtained the loan from the banks and financial institution respectively.

3.5 An important finding is that of the 116 bank financed units, 41.4 per cent of them were provided with working capital finance. Among these 41.4 per cent units (financed by banks for working capital purposes), a sizable proportion constituting 29.3 per cent were exclusively financed for working capital needs alone. And the remaining 11.8 per cent were provided with both working capital loan and long term loan by the banks. However, these 11.8 per cent units did not avail of composite loan, but they borrowed long term loan and working capital loan separately, either from the same bank or some other banks. In contrast, the beneficiaries of composite loan avail themselves of both the long term loan and working capital loan in a single disbursement.

3.6 It was observed that a considerable portion of 23.8 per cent (i.e., 50.9 – 27.1%) of the working capital financed units by the banks was under financed.

- 3.7 SSI units whose working capital requirement was less than 8% of their annual sales were 26.7 per cent; whereas, the proportion of small units financed below 8 % of their annual sales were 47.9 per cent. Similarly, in 8 to 15%' category too, the percentage of units financed by banks for working capital was less than the percentage of units wanted working capital. This makes it clear that there is insufficiency of working capital loan provided by the banks to SSI units.
- 3.8 It is a revelation that 20.7 per cent of bank financed units, 38.9 per cent of FI financed units and 48.5 per cent of own fund units were not dependent on outside sources for working capital needs, but were using the internal resources for the working capital needs.
- 3.9 A palpable proportion of 32 per cent of the responses indicated that security insistence was the biggest hurdle in getting working capital finance. The other problems in the order of ranking were, more formalities (15.7% of responses), untimely finance (13.9% of responses), high cost of financing (13.1% of responses), under-finance (10.7% of responses), delayed finance (10.4% of responses) and other reasons (4.2% of responses).
- 3.10 The three different categories of the SSI units, namely, bank financed units, FI financed units and own fund small units consider the problems in raising working capital from banks differently.
- 3.11 It was noted that of the total 116 bank financed units, 63 units constituting 54.3 per cent approached banks exclusively for working capital needs and faced problem. Another eight bank financed units constituting 6.9 per cent did not face any problem at all in raising working capital finance. Of the 54.3 per cent bank financed units that faced problems in raising working capital loan, only 41.4 per cent (48 units) were provided with working capital loan, which means that, 12.9 per cent of the bank financed units that faced problem while approaching the banks for working capital loan were not granted working capital loan.

- 3.12 A remarkable feature is that as many as 129 units constituting 71.7 per cent did not adopt any accounting method for calculating their working capital needs, and only the remaining 28.3 per cent followed accounting method to calculate their working capital requirements.
- 3.13 The survey revealed that only a negligible portion of the SSI units in the sole proprietary form of organisation had sound practices of accounting for calculation of working capital.
- 3.14 The study also noted the sample SSI units' knowledge and practices in the area of cash planning, inventory control and debtors management. It was observed that, 49.1 per cent of bank financed units, 44.4 per cent of FI financed units and 21.7 per cent of own fund units had the practices of cash planning, inventory control and debtors management.
- 3.15 An important finding of the study is that, 36.2 per cent of bank financed units have borrowed from unorganised sector and further 82 per cent of bank financed units have brought their entrepreneurs' personal funds for working capital needs.
- 3.16 The survey noted that 90 units constituting 50 per cent of the total sample effected their sales for cash. The categorywise analysis reveals that cash sales were made by 46.6 per cent of bank financed units (54 units), 38.9 per cent of FI financed units (7 units) and 63.1 per cent of own fund units (29 units). It shows that a majority of own fund units had favourable sales terms than the bank and FI financed units and so, they were able to effect large part of their sales for cash.
- 3.17 An overwhelming majority of 84.4 per cent units were facing working capital shortage; of which, 77.2 per cent had seasonal shortage of working capital and 7.2 per cent experienced working capital shortage all throughout. The analysis also reveals that only 15.6 per cent of the sample units did not face any problem to obtain working capital loan from banks.

- 3.18 The study brought to sharp focus that, shortage of working capital has affected the process of manufacture to a greater extent as 50 per cent of bank financed units and FI financed units' responses indicated the same. And responses of 31.7 per cent own fund units too pointed out that the shortage affected their manufacturing process.
- 3.19 The survey further noted that due to the shortage of working capital, 20.8 per cent of SSI units lost their sales opportunity; 19.7 per cent faced the problem of increase in cost of production (perhaps due to borrowings at heavy rate of interest from the unorganised sector) and other problems, for instance, inability to supply the required items of commodities in time accounted for a paltry portion of 1.1 per cent of the responses. However, 13.5 per cent of the responses of the SSI units pointed out that these units were not seriously affected by the shortage of working capital.
- 3.20 The survey unfolded that, of the 51 working capital financed units, a considerable number of them representing 47.1 per cent were charged interest at the rate ranging between 16 % and 18%.
- 3.21 It was also noted that 25 per cent of bank financed units (12 units) were charged interest at the rate of above 18%.
- 3.22 The survey noted the rate of interest charged by the unorganised sector for the working capital loan advanced to the SSI units. A remarkable disclosure is that, of the 71 sample units that borrowed from the unorganised sector for their working capital needs, a majority of 67.6 per cent paid a heavy rate of interest of above 24% per annum. It was also observed that of the 42 bank financed units that had borrowed from unorganised sector for working capital needs, a majority of 58.3 per cent paid interest above 24% per annum (p.a.), and a shocking revelation is that some bank financed SSI units paid interest above the rate of 48% p.a.

- 3.23 The study brings to light the SSI units' preferred source of finance for their working capital requirements. It was a disclosure that, a sensible proportion (26.2%) of responses indicated that cash credit system of working capital finance by banks was a preferred source for the SSI units. Even own fund units and FI financed units have preferred this source of finance. Responses accounting for 13.8 per cent indicated their preference for working capital loan in lump sum as distinguished from the so-called 'roll-over' system of cash credit.
- 3.24 The survey also noted that 6.2 per cent of responses preferred overdraft facility and another 6.2 per cent favoured bill finance. Altogether, as much as 52.4 per cent responses indicated their preference for working capital finance (which is available in different forms) from the banks. It is surprising to note that 10.0 per cent of the responses favoured borrowings from local moneylenders and another 15.2 per cent preferred the source of friends and relatives for their working capital needs. However, it is gratifying that a palpable portion of 21.4 per cent responses indicated that, own source of finance as the preferred source for working capital needs.
- 3.25 A noticeable proportion of 44.3 per cent responses indicated that longer credit period allowed for/to sales/ customers was the major hurdle in the efficient utilisation of working capital loan. Responses constituting 41.7 per cent pointed out that, slow moving stock was the stumbling block that affected the efficient utilisation of working capital.
- 3.26 A remarkable finding is that 37.5 per cent scores indicated the financial constraint as the most important of all constraints for the development of their business.
- 3.27 Whether the SSI unit is a bank financed unit or non-bank financed unit, financial constraint was the top most problem, and other constraints to hamper development were also more or less similar for all the three categories of SSI units.

3.28 The inadequacy of bank finance caused the financial constraint. It came to light that 25 out of 31 scores of FI financed and 33 out of 93 scores of own fund units pinpointed 'inadequate bank finance' as the most important problem.

4. VERIFICATION OF HYPOTHESES

The null hypotheses formulated on the lines of the research problems and research objectives were:

1. There is no significant association between investment size of SSI units and their utilisation of bank finance (Ho1).
2. There is no significant relationship between form of ownership of SSI units and their utilisation of bank finance (Ho2).
3. There is no significant association between location of SSI units and their utilisation of bank finance (Ho3).
4. There is no significant relationship between availability of bank credit and the SSI units' profit earning capacity (Ho4).
5. There is no significant association between the quantum of requirement of working capital finance of SSI units and their utilisation of bank finance (Ho5).

The hypotheses were verified by the application of chi-square test. The results of the verification of these hypotheses are as follows:

1. There is no significant association between investment size of SSI units and their utilisation of bank finance.
2. There is significant relationship between ownership pattern of SSI units and their utilisation of bank finance.
3. There is no significant relationship between location and utilisation of bank finance of SSI units.
4. There is no significant relation between availability / utilisation of bank finance and profit earning capacity of SSI units.
5. There is significant association between the amount of requirement working capital and the utilisation of bank finance.

5. SSI FINANCING BY BANKERS

- 5.1 The survey noted that, of the 35 sample bank branches, 74.3 per cent were located in semi-urban areas and the remaining 25.7 per cent were functioning in rural areas. It was a remarkable disclosure that, of the nine private sector banks surveyed, a majority of 88.9 per cent branches were located in semi-urban areas.
- 5.2 It is a revelation that, of the 35 sample bank branches, 34.3 per cent of the banks (12 in number) had non-small scale industrial loan accounts, (i.e., loans to medium and large scale industries). But all the 35 banks had SSI loan accounts of which 14 banks (40 per cent) had more than 20 SSI loan accounts. This clearly shows that the proportion of small scale industrial loan accounts has been very high, compared to non-small scale industrial loan accounts.
- 5.3 It is an observance of the study that from the survey of 35 bankers, 22 bankers had accounts of sick SSI units. It was a remarkable disclosure that, of these 22 bankers, a considerable portion of 31.8 per cent stated that almost '80 to 100%' of their SSI accounts were the accounts of sick SSI units.
- 5.4 A significant revelation is that while only around 50% of the private sector and co-operative sector bank financed SSI units were found to be sick units, the proportion of the sick SSI units financed by the public sector banks constituted to an overwhelming majority of 77.8 per cent of the total SSI units financed by banks. That is to say, 14 out of 18 public sector banks had sick small scale industrial accounts. It means, that the magnitude of sickness in the SSI units financed by the public sector banks is much larger.
- 5.5 A notable feature is that the number of banks that have sanctioned / disbursed loan to SSI units below Rs.30 lakhs (for all SSI units) was between 22 and 26 for the three years from April 1993 to March 1996. Further, the number of banks that have sanctioned / disbursed loan 'above Rs.30 lakhs (for all SSI units) was very negligible at a maximum of five and a minimum of one for the three years period of 1993-1996.

- 5.6 A commanding proportion of 74.4 per cent of the responses indicated, there were no special schemes in the banks to finance the SSI units. Generally, banks financed SSI units as a priority sector under the privileged interest rate, but the features as incorporated in the special financial schemes meant for the SSI units were not normally extended by the banks. It was further noted that, 11.7 per cent of the responses indicated, there were bill-financing schemes in operation; seven per cent responses indicated there were special schemes in operation for SSI units formulated by the banks themselves. Responses constituting 4.7 per cent showed that there was single window scheme in operation and 2.3 per cent responses pointed out, there was national equity fund scheme in operation.
- 5.7 Responses accounting for 47.4 per cent pointed out that the bankers made use of refinance from SIDBI and another 44.7 per cent of the responses showed their use of refinance from NABARD. Only a paltry portion of 7.9 per cent responses indicated that the banks did not receive refinance at all.
- 5.8 Bankers' responses constituting 27.3 per cent indicated that the banks were having exclusively working capital loan accounts. The survey of SSI units also noted that of the 116 SSI bank financed units, 29.3 per cent were having exclusively working capital loan accounts. About twenty four per cent responses indicated that, the banks were having both working capital and long term loan accounts.
- 5.9 It was noted during the study that, of the 35 banks, 77.1 per cent of the banks had term loan accounts; of which, 57.1 per cent of the banks had less than 10 term loan accounts of SSI. That is, only the remaining 20 per cent of the banks had more than 10 term loan accounts of SSI.
- 5.10 Of the 35 banks studied, 42.9 per cent were engaged in financing SSI units for working capital needs; of which, 17.2 per cent banks were private sector banks. As a proportion of total private sector banks, the banks' financing for working capital accounted for 66.7 per cent. It means, of the nine private sector banks, six banks were financing SSI units for working capital requirement. But such proportion for

public sector banks was 44.4 per cent and 12.5 per cent for co-operative sector banks.

- 5.11 Further investigation into the banks' types of loan extended to SSI units revealed that 42.9 per cent of the bank branches had both term loan and working capital loan accounts for the SSI units.
- 5.12 It was a revelation that of the 478 responses as much as 115 responses indicated that irregular repayment of principal amount and interest was the most serious problem the banks were facing in the long term loan extended to the small industrial borrowers. Next to irregular repayment, 107 responses (22.4 per cent) indicated that there was a diversion or misuse of funds provided. The third problem in ranking - - 79 responses constituting 16.5 per cent pointed out that the borrowed units closed down their business without intimating the lending bank. The fourth problem of the bank in long term loan granted to SSI units was the provision of inadequate security on the loan - 15.5 per cent of responses indicated it.
- 5.13 It was further noted that as in term loan accounts, in working capital loans too, there was diversion of loan by borrowing units, as 19.7 per cent responses of bankers indicated it. Inability of the borrowing units to provide for adequate security for the working capital loan was another major problem encountered by the bankers.
- 5.14 It is interesting to note that even in the composite loan scheme too, the bankers' problems with the SSI borrowers were the same as those of their problems in the granting either term loan or working capital loan.
- 5.15 An important revelation of the study is that of the 18 (sample) public sector banks, 13 banks constituting 72.2 per cent had less than 50% recovery of SSI loans against demand and only 27.8 per cent of the public sector banks had recovery of SSI loans of more 50% of demand; whereas the recovery percentage of private sector banks below 50% of demand was found to be 44.4 per cent. That is to say, 55.6 per cent had more than 50% recovery of loan against demand. Analysis of

the recovery position of co-operative banks unveiled that it was far better than the recovery position of the public sector and private sector banks. That is to say, of the eight co-operative banks, seven banks constituting 87.5 per cent had more than 50% of recovery of loan against demand.

- 5.16 The analysis brought to surface glaringly that wilful default by the borrowing SSI units was the most important factor that led to mounting overdues of small industrial borrowers with the banks. Diversion / misuse of funds by SSI units was ranked the second most important factor affecting the recovery of bank loan. Loopholes in the recovery Acts, lack of integrity of the borrower, expectation of certain concessions and under utilisation of plant capacity were the other important factors affecting the recovery of loans granted to SSI units.
- 5.17 The respondents falling under different categories of banks consider the reasons for poor recovery of bank loans to SSI units differently.
- 5.18 The study noted that the banks had the practice of monitoring the units financed in order to attain the twin objectives - to ensure a regular recovery of loan and secondly, to assist the unit in the proper deployment of credit in its business. As much as 35.9 per cent responses indicated that, the banks were effectively involved in monitoring and follow up of the units financed. Another 18.9 per cent responses pointed that, there was a regular meeting with the units financed to discuss the matters relating to financial problem, production problem and the like. It was further observed that the banks were also providing technical assistance, marketing assistance apart from imparting training to SSI borrowers.
- 5.19 Responses constituting 15.6 per cent suggested that, the banks should have power to inspect the premises of those SSI units, which are irregular in repayment of loan. Another equal proportion of responses (i.e., 15.6 per cent) suggested for the provision of marketing assistance to the borrowers (by the bank itself or any other outside agency). The other suggestions such as, conducting entrepreneurs' development programme (EDP), training, organising courses on financial management, creation of compulsory ombudsman services for SSI units at all

branches of banks and the freedom to scrutinise the application for loan to banks were made by the respondents for effective financing of SSI units.

- 5.20 The present study brings to sharp focus that, of the 18 public sector bank branches, 61.1 per cent filed suit in the court of law for the recovery of loan granted to SSI units. Further, only 44.4 per cent of private sector banks and 37.5 per cent of co-operative banks filed suit against defaulting units.
- 5.21 It was observed that of the 11 public sector banks, which filed the suit, six banks reached the stage of settlement of the suits. Of the four private sector banks that filed suit for recovery of loan, three banks have reached the stage of settlement of the suits. It was noted that of the two suits filed by co-operative banks none of the legal suit was settled.
- 5.22 It was observed from the survey of the bank branches that, as many as 12 branches have resorted to legal action after two years but before three years of the default of repayment of loan instalments.
- 5.23 It was noted that five bank branches preferred to file a suit between three and five years from the date of sanction of the loan.
- 5.24 Seven banks have reported they used to resort to legal action, one year after the repayment of previous instalment. Some banks had the practice of resorting to legal action based on the number of defaults in repayment of loan. This was done by four banks; of which three banks had the practice of filing suit after default in payment of six loan instalments, and one bank after default in three instalment dues. Further analysis into the matter revealed that, three banks had the practice of filing suit, if an account was overdue for over six months. Bank branches four in number reported that, they fixed no time frame or the number of defaults after which they would decide on filing a suit for recovery, as so far they had not met such a situation / event.

- 5.25 The analysis of survey data revealed that, of the 51 responses received, an overwhelming majority of responses constituting 96 per cent indicated the law of limitation compels a banker to file a suit or it compels the banker to renew the contract every three years, else it makes the loan to go time-barred. It shows that the limitation period for small loans appears to be a hurdle in the recovery process of the bankers.
- 5.26 A commanding portion of 68.6 per cent banks reported that it should be kept at the present limit of three years period only. However, the other 31.4 per cent expressed that the period of limitation may be extended beyond three years. Of the latter responses, some banks stated that, the period of limitation be co-terminus with the period of loan.

III. SUGGESTIONS

The following suggestions emanate from the careful scrutiny of the findings listed above; and these suggestions are meant for better way of financing of small scale industries by banks in the study district.

1. GENERAL

- 1.1. Tiny industrial units in the small industries sector are found to be larger in number. And, units having investment of Rs.30 lakhs and above in plant and machinery were found to be small in proportion, constituting less than 15% of the total number of small industries. So, a larger portion of credit from banks is to be made available to the tiny sector, for which a higher sub-target limit within the target for small industries could well be stipulated.
- 1.2. The important reason for the encouragement of small scale industries sector by the Government is that, it has tremendous potential for employment opportunities. Most of the small industries studied have remained sole proprietorship concerns. In order to increase employment opportunities as well as to increase the amount of investment in small scale industries, partnership and limited company form of

organisations may be encouraged. The Government's employment schemes would encourage the small industrial entrepreneurs to join together in starting partnership / company form of small business. Under such forms of business, there is little chance for the concern to turn sick and diversion of bank loan.

- 1.3. Having experience in a particular line of business has been the most important factor behind the promotion / starting of a small industrial unit. This has infused confidence in the minds of the entrepreneurs that they could do the business well because of previous experience. Therefore, imparting training to the entrepreneurs before they start a business will certainly make them to carry on the business for a longer time than an entrepreneur without the experience / training. Government by itself or with the co-operation of the Association of Small Scale Industries, and non-governmental organisations may provide for training to small industrial entrepreneurs and then recommend those trainees for bank loan.
- 1.4. The peculiar feature of the small industries is that they use locally available resources. However, they market their products in urban and semi-urban areas. As a result, most of the units are located in urban and semi-urban centres and industrial estates. Units located in the industrial estates reap the benefits good infrastructure available in these estates, such as transport facilities, power, labour and water supply. Hence, the location of small industrial units in industrial estates should be promoted and concentration of units in rural areas to be encouraged.
- 1.5. Small industrial units registered under the Factories Act are found to be less than one-fourth of the total number of sample units. In this context, it is worth to mention that the SSI units that ought to be registered under the Factories Act are in fact not at all registered. This is for the main reason that the registered units are expected to comply with the various provisions of the Factories Act. To overcome this problem, SSI units may be exempted from some of the provisions of the Factories Act, provided that the number of persons employed in a unit is limited, that is to say, ranging from 15 to 25.

2. COMPOSITE LOAN

- 2.1 When a SSI unit is financed for long term needs, and it requires short term loan too, then the lending bank has to provide working capital loan without hesitation even if the borrowing units' amount of working capital loan is small.
- 2.2 Composite loan of banks has not helped the small industries to a significant level. This is revealed by the fact that only 16.1 per cent of the study units have benefited out of such loan. As most of the units are tiny ones, the composite loan scheme is the most suitable way of financing them. Because, under the scheme, loan assessment procedure is simple. Further, it is relatively more difficult to exactly assess the long term and short term financial requirement of a tiny unit separately.
- 2.3 The most important benefit of providing finance under the composite loan scheme is single window clearance and speedy sanction. But, in practice, it is not speedy. So, the banks may be properly instructed to strictly adhere to the RBI's guidelines on disposing of loan applications under composite loan scheme.

3. TERM LOAN

- 3.1 SSI units mostly rely on bank finance for their long term and short term requirements. As a considerable portion of SSI units are one-time beneficiaries of bank loan and are long term loan beneficiaries, banks can much concentrate on term financing of small industries.
- 3.2 A majority of bank financed SSI units have exclusively invested in plant and equipment. This means that, banks have provided loan only for the purpose of purchase of machinery. Banks should be little liberal in extending loan for the acquisition of other fixed assets too, but with minimum promoter's contribution of not less than 10% of the total funds requirement and not exceeding 20 to 25% of the project cost.

- 3.3 There is a general apprehension that, SSI units often divert loan funds. In order to avoid diversion of long term loan, a clear appraisal of fixed assets purchase should be made by a bank official. Such appraisal has to be cross-checked by another independent appraiser. Close monitoring of the units' funds inflow and outflow may be made. Preferably, borrowing SSI units should be required to hold the current account only with the lending bank, unless and otherwise a consortium arrangement is made for holding account with some other bank or branch.
- 3.4 A large number of small industrial units do not have adequate knowledge of the importance of capital structure. The lending banker may advise the borrower units about the principles of the accounting system and may require the unit to follow sound accounting practices and have good knowledge of the benefits of having an optimum capital structure.
- 3.5 Knowledge of the existence of various financial schemes is not largely known to small industrialists. Banks may be advised by the Government to print brochures and pamphlets about the schemes of financial / non-financial assistance available at each bank and distribute it to prospective and existing small industrial entrepreneurs. More effort is required on the part of the banker to create awareness of the financial schemes especially among the tiny industrial units. The SSI borrowers should know well the existence of such schemes and choose the best scheme that suits their own need.
- 3.6 Delay in processing application and the formalities adopted by bankers have caused several problems to small industries. A time frame may be earmarked for all sorts of loan for the disposal of application and formalities are to be minimised. More importantly, the borrowing SSI unit has to be clearly instructed at the beginning stage itself, as to the documents to be attached along with the application and the procedures involved in getting these documents.
- 3.7 At the time of borrowing, small industrial units generally feel that the instalment dues could be paid in time, on the expectation that the unit will function well, but

in many cases could not do so later. The major problem of repayment of loan is the higher instalment dues. Therefore, banks must always be ready to make a reschedule of instalment dues if the borrowing unit find it hard to pay the instalment amount on the due date.

3.8 Under financing of SSI projects should never be made by banks. It is dangerous than non-financing a unit. It affects the interests of both the banks and the small industrial entrepreneurs.

3.9 Equity contribution insisted by the lending banker from the entrepreneur over 25% of the project cost is found to be high among the bank financed units. As far as possible, banks should not demand more than 25% of the project cost as promoter's contribution. This level should be kept around 10 to 25% only, depending on the nature of the borrowing unit.

4. CAPITAL SUBSIDY

4.1 Capital subsidy provided by the Government has not been availed of by half of the small industrial units. The main hurdle in getting this subsidy is that, cumbersome procedures stand in the way of availing of it. So, the procedures are to be simplified.

4.2 Many of the bank financed units have availed of capital subsidy. Own fund units did not know the exact procedures for availing of the loan. For this purpose, the officials of the District Industries Centre, while visiting the SSI units may take necessary steps for helping the unit to get the eligible subsidy.

4.3 Genuine interest has to be created on the part of the officials of the DIC and bank in extending the subsidy to eligible units, even if the SSI units have failed to send their applications for subsidy in time.

5. STRENGTHENING EQUITY

5.1 In order to strengthen the equity of SSI units, compulsory creation of reserves out of profit to be made, for which the borrowing unit may be instructed to submit to the bank annual accounts. This sort of creation of reserves will provide working capital fund to the unit.

6. WORKING CAPITAL LOAN

6.1 As many SSI units are tiny ones, their requirement of working capital is less than 15% of their annual sales. However, the amount of working capital loan provided to the SSI units by the banks is found to be lower than their requirement of working capital. This suggests that banks should adequately finance the SSI units for their working capital needs.

6.2 While providing for cash credit / bill discounting – limits, banks may also provide finance up to 25% of the limit as contingencies which the unit can utilise at the time of requirement of greater amount of working capital funds. For this purpose, suitable guidelines have to be formulated specifying the conditions under which the additional contingency limit could be utilised.

6.3 Security insistence by banks for providing working capital loan should be avoided. The Reserve Bank of India too is advocating the same. But for 'security' reason, banks continue to insist security. Sometimes, this security is insisted apart from the business assets (both current and fixed assets).

6.4 Banks may resort to lending under bill discounting for working capital, i.e., lending based on bills raised for sales. Here there is only little chance for diversion of funds. Moreover, the banks also need not demand security for lending as the obligation of repayment is shifted to the buyer of goods. And only if the buyer fails to pay for the bill, the borrower unit is liable for payment.

- 6.5 To lend under bills discounting, banks must ensure that the bills are drawn on genuine parties. For this purpose, a list of buyers of the product of a particular SSI unit may be obtained to know their credit worthiness.
- 6.6 Quite a number of SSI units do not prefer working capital loan from banks not because that the funds are costly but mainly that, considerable time is wasted in just running after the bank counters to get the working capital loan limit. So, the delay in sanctioning the limit should be minimised. Branch managers of the banks may be given the authority of sanctioning higher limits after ensuring adequate safeguards before sanction.
- 6.7 Banks may advise a borrowing unit to adopt some simple methods to ascertain its working capital needs. Preferably, banks may assist SSI units under sole proprietary form of ownership in ascertaining the exact requirement of their working capital loan. The reason is, it is the tiny units under sole proprietary form of ownership that do not adopt sound practices for ascertaining their working capital needs.
- 6.8 Knowledge of cash planning, inventory control and debtors management among small industrialists could be increased by conducting training programmes for SSI borrowers. Such training is at present provided only to borrowers of special schemes sponsored by the Government. This should be extended to all borrowers under tiny segment.
- 6.9 Borrowing from unorganised sector for working capital purpose was high among SSI units. This was true even in the case of bank financed units which had already been financed for working capital needs. Due to insufficiency of working capital loan, these units have resorted to borrowings from unorganised sector. Adequate and timely working capital requirement will prevent SSI units from going for the 'costly' unorganised sector funds.
- 6.10 Interest rate charged for borrowings from unorganised sector ranges from 24% to 60% per annum. This high cost of funds swallows the profit of the small

enterprises. To prevent such practice of the small industrial borrowers, banks must make timely assistance to them.

- 6.11 Most of the small industries prefer cash credit system of financing for their working capital needs, than any other mode of working capital finance. But various committees constituted by the Government have recommended for dispensing with the system of cash credit. From the findings of the study it is suggested that banks may pay more attention on the provision of working capital loan to SSI units like that of their attention given to the provision of term loan to the SSI units.
- 6.12 As suggested by several Committees, instead of encouraging cash credit system, bill financing may be encouraged. Either working capital loan or bill discounting system should replace the traditional 'roll over' cash credit system.
- 6.13 For a large number of small industrial units, financial constraints (both long term and short term) were the biggest hurdle for development. The Government must ensure that there is an adequate flow of funds to the SSI sector. For this purpose, all the registered SSI units should be sufficiently financed by banks taking the business assets as security for loan.

7. BANKERS' PROBLEM IN FINANCING SSI UNITS

- 7.1. A majority of banks that provided finance to SSI units had sick SSI loan accounts. The percentage of sickness was found to be very high in public sector banks. In order to reduce the percentage of sickness in the public sector banks, the lending system is to be streamlined and monitoring and following up of the borrowers to be made by the bank officials. Yielding to political pressures and personal interest on loan of borrowing units should be avoided. Curing of sickness by providing additional funds or timely steps for safeguarding the securities of loan are to be taken by the banks.

- 7.2 Working capital financing of co-operative banks was not significant. Like that of term lending, co-operative banks may equally concentrate on working capital financing too.
- 7.3 Irregular repayment of loan instalments, misuse of funds, provision of inadequate security for loan and closing down of units were the important problems that banks face in managing SSI loan accounts. To tackle the above problems, the following suggestions may be considered – (a) For ensuring timely repayment of loan, banks may charge penal interest rate at slab system based on the number of defaulting days in the repayment. (b) To prevent misuse of funds – if the banker apprehends that there may be misuse of loan, it may ask for detailed explanation in writing about the use of loan fund and the business units' funds, before and after the loan disbursement. (c) To ensure adequate security for the loan – the banks may follow a uniform procedure in obtaining 'securities'. Except business assets, banks should insist no security. If the business assets are not adequate (that is not worth atleast 25% of the loan amount), then only personal assets of the entrepreneurs should be demanded. Generally, existing and future business assets alone should be taken as 'security' for the loan. (d) To avoid closing down of units without intimation to the lending banker, often, the banks' staff should make an 'on the spot visit' to the small industrial unit. Wherever the security provided by the borrowing unit is considered to be inadequate, such a visit is to be very often made.

8. RECOVERY OF LOANS

- 8.1 A flexible approach in recovery of loan is required on the part of the bankers, when a unit faces short term financial problem. This flexibility in the recovery process is to be made only if the banker strongly feels that the SSI unit is suffering temporary financial crunch.
- 8.2 To increase the percentage of recovery of loans, the process of recovery by legal means should be speeded up. The Debt Recovery Tribunals should be set up in

each district and all sorts of loan (either small loan or big loan) should be permitted to be tried.

- 8.3 An authority with full powers, like that of the Deputy Registrar of Co-operative Societies should be appointed by all banks with legally vested powers. This measure could be adopted if Debt Recovery Tribunals are not set up at district level.
- 8.4 Monitoring and follow up is essential for all loan accounts. The field officers of all banks should be entrusted with the duty of attending the premises of SSI units at regular intervals, which are irregular in repayment of loan instalments.
- 8.5 Timely action is required if the bank is of the opinion that no more recovery could be made from a borrowing unit otherwise than legal means.
- 8.6 If a branch manager feels that a particular unit makes wilful default in repayment of loan, he should be given the authority to fix a higher penal interest – however, not exceeding 50% of the actual interest rate.
- 8.7 For effective financing of SSI units, the selection of borrowers should be left to the discretion of the lending banker alone, who has to follow the guidelines of the RBI, the Government and the banks' own guidelines. No outside agencies' involvement, recommendations and pressures should be there. The same could be followed for all sort of loans including the Government sponsored loan schemes. This could help the bank to select the right borrowers.
- 8.8 All banks should follow a uniform recovery process. That is, if a suit has to be filed against a defaulting SSI unit, it should be defined that – after three consecutive default of instalment dues, the bank should file a suit in the appropriate tribunal / court for recovery. In this aspect, private sector banks may be permitted to choose their own option for recovery. In extraordinary cases, where the borrowed unit suffers from temporary set-back, then the period of referring a case to legal court may be delayed on the specific remarks of the Branch Manager concerned.

8.9 The law of limitation on loan, particularly small loan has to be co-terminus with that of the loan period. It means, even if the borrowing unit defaults in repayment of one instalment, the period of limitation should start only from the date of last instalment, which is due to the bank. However, the bank may choose to file a case at any time it prefers.

IV. GUIDANCE FOR FURTHER RESEARCH

As the present study is macro in all respects, micro level studies could be undertaken in more specific areas of bank finance to small scale industries. To illustrate, public sector bank finance to specific category of small industries, like engineering, textiles and food processing group of small scale industries can be made. Separate studies may be made with regard to causes for failure of small industries promoted by banks / financial institutions in some industrial estates. A separate study may also be undertaken, covering SSI units promoted exclusively under the special schemes of bank loan sponsored by the Government.

V. CONCLUSION

Small scale industries could be described as the backbone and the banks' role in the development of the small scale industries as the life blood of the Indian economy. The role played by the small scale industries and banks in the industrial economy of India is increasingly realised by the planners.

Considering the importance of small scale industries, financing of small scale industries by banks should be treated on par with the financing of agriculture. That is, equal importance is to be given to small scale industries as that of agriculture in the 'priority lending' of the banks. It should be noted that, testing of the research hypothesis shows that there is a significant association between utilisation of bank finance and the requirement of working capital for the SSI units from the banks. The present study has also revealed that, the SSI units are not getting adequate working capital loan from the banks. This shows that though banks finance a majority of SSI units, yet the amount of assistance is inadequate. Further, there is an inordinate delay for the small industrial units'

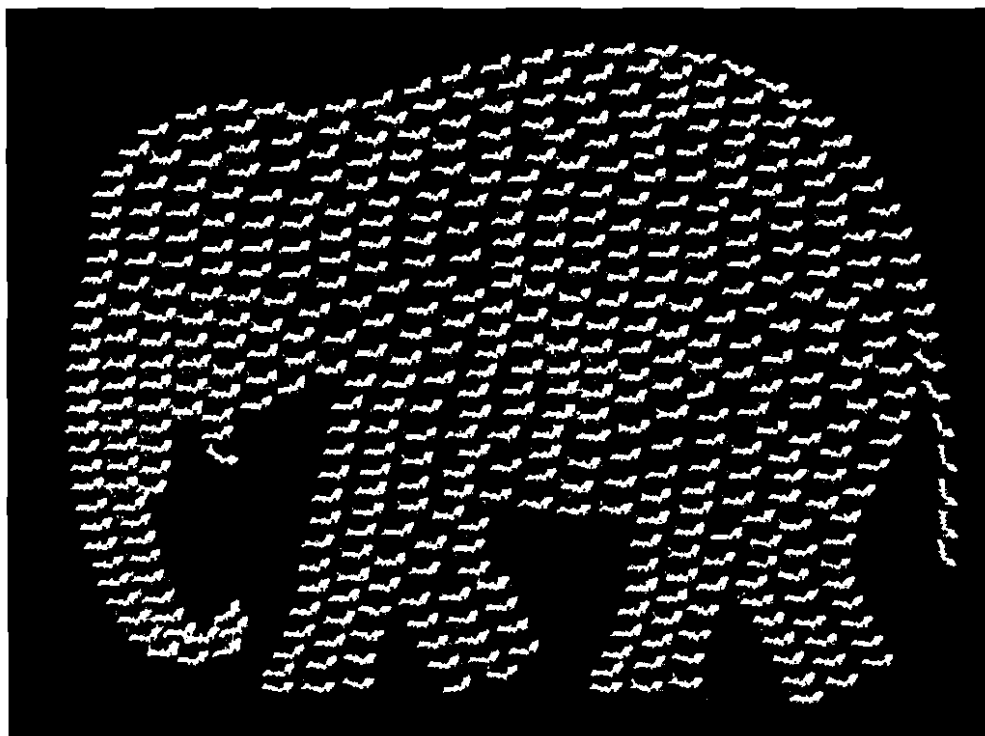
long term loan from the banks due to the prevalence of more formalities. Therefore, adequate flow of funds for long term and short term requirements should be ensured to the SSI units from the banking stream, with minimal formalities and little time.

In order to ensure proper recovery of bank loan, the legal recovery process needs a change, which would certainly facilitate banks in their recovery of loan. The malady of unemployment of the country could well be cured if attention is paid on channelising adequate flow of funds from the banking sector to the small industries sector.

“ SMALL IS BIG ”

FIGURE -13

SMALL IS BIG



Source: India Today, June 1, 1998, p.33.