

\*\*\*\*\*  
CHAPTER - III

FINANCIAL INSTITUTIONS AND  
FINANCING OF SMALL SCALE  
INDUSTRIES IN KARWAR TOWN  
\*\*\*\*\*

### CHAPTER - III

#### FINANCIAL INSTITUTIONS AND FINANCING OF SMALL SCALE INDUSTRIES IN KARWAR TOWN

##### 3.1 INTRODUCTION :

Finance is available to Small Scale Units from many sources. Every entrepreneur invests his own capital in his firm. But such own capital being insufficient to run the unit, he has to look to other sources. Of the sources, borrowing from financial institutions is more reliable and cost beneficial. Financial Institutions collect deposits from investors and procure money from other sources. They do not suffer from shortage of funds. Friends and relatives, on the other hand may be willing to assist but may not be able to help because they themselves suffer from shortage of funds. Therefore Financial Institutions are more reliable. The interest rate also is lower than the interest rate of indigenous bankers and money lenders.

Financial Institutions, also known as financial intermediaries, provide the means and mechanism of transferring command over resources from those who have an excess of income over expenditure to those who can make use of the same with a view to adding

to the volume of productive capital. They provide a convenient and effective link between savings and investment. They pool the savings of myriads of people with peculiar characteristics and notions about safety, liquidity and profitability by means of different savings media offering various degrees of the mix of liquidity, return and safety of the savings.<sup>1</sup>

The financial institutions provide a good opportunity to millions of small savers to save their money. In the process they collect a huge amount of money, which they are ready to lend to those who need it, for short or long term. Businessmen usually require more funds than they have and approach Financial institutions for the additional funds. Financial institutions provide the necessary finance to businessmen and "reduce their burden and the botheration involved in raising resources directly from individual savers".<sup>2</sup>

Financial institutions are grouped as those operating on (1) money market and (2) Capital market. Money market is to supply short term funds and capital market to provide medium and long-term funds. The financial institutions operating on money market for the supply of short-term funds are : (1) Central Bank, (2) Commercial Banks, (3) Indigenous Financial Agencies. (4) Discount Houses and Accepting Houses. The Financial institutions operating on capital market providing medium

and long-term finance are : (1) Investment Banks  
(2) Merchant Banks (3) Investment Companies and Unit  
Trusts (4) Life Insurance Corporation and  
(5) Development Banks.

### 3.2 FINANCIAL INSTITUTION FOR THE PRESENT STUDY :

As the present study is concerned with financing of Small Scale Industries in Karwar Town only, we include under the term financial institutions, the following institutions (1) Commercial Banks (2) Development Banks such as Karnataka State Finance Corporation and (3) Industrial Co-Op. Credit Banks such as Karnataka Industrial Co-op. Banks. Other financial institutions are excluded.

#### 3.2.1 Development Banks or Specialised Financial Institutions

These are the financial institutions established by the governments in order to hasten the pace of industrialisation. Development Banks are established mainly to provide long-term and medium term loan to industrial units. " They act as catalytic agents in promoting balanced and viable development by assuming the promotional role of discovering project ideas, undertaking feasibility studies, providing technical, financial and managerial assistance for the implementation of projects and on some occasions for the establishment

and management of industrial units. Providing financial assistance and rendering promotional services are the minimal functions of development banks, besides a number of other activities, such as the development of infrastructure and social utilities, which are also included among the functions of development banks.<sup>3</sup>

The development banks are established in both the developed and developing countries. They vary in their form, structure, objects and methods of operation from country to country. Every country has created the development banks to suit its economic, political and social conditions. But they are similar regarding their scope and functions.

### 3.2.2 The Karnataka State Financial Corporation :

The Karnataka State Financial Corporation (KSFC) was established in the year 1959 under the State Financial Corporations Act, 1951 for the promoting industrial entrepreneurship in the State of Karnataka. As a regional Industrial Development Bank, it is a premier agency of State for a balanced growth of industries giving special attention to the backward districts. Since inception in 1959 till the end of December, 1986, the Corporation has sanctioned more than Rs. 500 crores to nearly 23,000/- small and medium industries in the State.

It offers long and medium term financial assistance in the form of -

- (a) Loans and advances.
- (b) Loans in collaboration with other financial institutions.
- (c) Subscription to Share Capital of Companies promoted by Small entrepreneurs by way of soft loan.

Its head office is located in Bangalore. It has 7 'A' grade Branch Offices and 12 'B' Grade Branch Offices.

In Karwar Town it has 'B' grade Branch Office. It was established in 1983. It has Uttara Kannada District as its jurisdiction.

The Karwar Branch of Karnataka State Financial Corporation has no dearth of Finance. In 1984-85, it had a target of Rs. 30 lakhs to be disbursed as Loan to Small Scale Industries in Karwar district. In 1985-86 its target was Rs. 39 Lakhs while in 1986-87 its target was Rs. 90 Lakhs. In all these years the target is exceeded.

The Karwar Branch conducts training camps for enthusiastic individuals. It provides training in various aspects of management and encourages them to start a Small Scale Industrial Unit. It works in collaboration

with District Industries Centre and makes a search of new entrepreneurs. It also has single window system, through which it tries to provide both term loan and working capital loan to entrepreneurs.

### 3.2.3 Commercial Banks :

Commercial Banks act as mobilisers of public savings. They accept deposits from the public. They employ the deposits so pooled in form of loans and investment to meet the financial needs of business and other classes of Society.<sup>4</sup> Commercial Banks have specialised in lending to the Business Community with a view to satisfying their working capital needs. They provide short term loan by means of cash credit, discounting bills, hundies, promissory notes and other debt instruments.

They also provide medium term and long term loans. Loan for a period of 1 to 5 years is turned as medium term loan and a loan for a period of more than 5 years is called long-term loan.

In India there is a significant change in the Commercial Banks attitude since nationalisation of major commercial banks in 1969.

In India the entire banking system is headed by the Reserve Bank of India. It is followed by the State Bank of India. This bank was created in July, =955

by nationalising the Imperial Bank of India. The State Bank of India has 7 subsidiary banks. In 1969 fourteen major commercial Banks were nationalised. On 15.4.1980 six more Commercial Banks were nationalised. At present in India we have - (1) Public Sector Commercial Banks comprising the State Bank of India and its seven subsidiary banks and twenty nationalised banks, and (2) Private Sector Commercial Banks comprising all the remaining Indian Scheduled Banks.

A scheduled Bank is one which is registered in the second schedule of the Reserve Bank of India. A bank which is not so registered is non-scheduled bank. The number of non scheduled Bank is negligible. In 1980 there were only 3 non scheduled Banks compared to 154 scheduled banks in India.

Commercial banks were unwilling to lend to Small scale industries until their nationalisation in 1969. They used to lend most of the available funds to traders for short period only.

The commercial banks had the following difficulties in lending more to Small Scale Industries-

1. Considerations of liquidity :-

The banks wanted to invest their funds in such a way that liquidity was assured. Lending to Small Scale Industries was not in accordance with the principle of liquidity.



2. The risk element :-

The banks considered that the risk element in lending to Small Scale Industries was too high.

3. The attitude of inspecting authorities:-

They failed to understand the special problems of Small Scale Industries.

4. Provision of equity capital :-

It was considerably low.

5. Operations of State Financial Institutions:-

As the SFCs are already catering to Small Scale Industries, why should commercial banks lend to Small Scale Industries ?

Bank lending to Small Scale Industries was hampered by lack of reliable data in respect of technical and managerial standing of the borrowers as well as the growth prospects of the industries.

The Commercial banks had not considered Small Scale units as credit-worthy. Things changed for better with the announcement of 'Social Control' of banks and later with their nationalisation. "The concept of 'priority sector' was developed in the 'Social Control' period. The Small Scale Industries are part of priority sector. 'A re-orientation of banks' attitude and increased involvement in these sectors was brought about mainly through policy directives and exhortations".<sup>5</sup>

The Commercial Banks were also encouraged to provide more credit to Small Scale sector by the provision of refinance facility by Reserve Bank of India and insurance or guarantee cover for possible loss, through Guarantee Organisation.

Due to all these reasons commercial banks' advances to Small Scale Industries increased. The outstanding advances to Small Scale sector by scheduled banks rose from a mere Rs. 211 crores as on 31.3.1968 to Rs. 1005 crores as on 28.6.1974. The share of Small Scale Industries in the total advances by scheduled banks increased from 6.9 percent to 12.5 percent during the same period. This share has continuously increased and was 14.8 percent of total bank credit in June, 1985.

The following Commercial Banks have their branches in Karwar Town-

- (1) The State Bank of India
- (2) The State Bank of Mysore
- (3) Canara Bank
- (4) Bank of Maharashtra
- (5) Indian Bank
- (6) Corporation Bank
- (7) Vijaya Bank
- (8) Syndicate Bank
- (9) Vysya Bank

These banks have set a target of loan to be sanctioned

to priority sector. Small Scale Industries are classified under priority sector. Hence every bank has sufficient funds at its disposal for lending to Small Scale Industries. The lead bank of the district is Syndicate Bank. It fixes targets for every bank.

Five out of nine banks exceeded the target of set for them regarding lending to Small Scale Industries in 1987. The remaining four sanctioned loan which was near the target set for them. Overall results was that they exceeded the target set for sanctioning of loan in 1987.

#### 3.2.4 Industrial Co-operative Banks :

These banks established with co-operation principle in mind and for the mutual benefit of members of bank also can lend to Small Scale Industries. The Industrial Co-Op. Banks assist Small Scale sector in a big way.

North Kanara District Industrial Co.Op. Bank Limited, Karwar was established in 1963 with a share capital of Rs. 58,000/-. On 1.7.1974 the Bank was reconstituted since it merged with Karnataka Industrial Co-operative Bank, Bangalore which was sponsored by Government of Karnataka. There is a branch of this bank in Karwar. The advances are confined only to individual

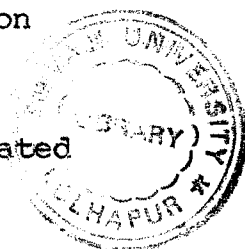
industrialist with a special emphasis to Small Scale Industries.

The Karwar Branch of Karnataka Industrial Co-Op. Bank provides mainly short term loans to meet the working capital requirements. During 1984-85 it provided Rs. 8.27 lakhs loans to small scale sector. During 1985-86 it provided Rs. 8.81 lakhs and in 1986-87 it provided Rs. 10.45 lakhs. Thus continuously its assistance to Small Scale Industries has increased.

### 3.3 WORKING CAPITAL FINANCE BY BANKS :

The Commercial Banks used to lend to traders and followed 'Security oriented system'. It was felt necessary to know how bank finance has increased production and stock levels of industries. The National Credit Council constituted in October, 1968 a committee called, 'The Dehejia Study Group. This group recommended that the banking system should turn to the financing of industry on the basis of a total study of the borrower's operations rather than on security consideration alone.

The Reserve Bank of India appointed a Study group under the chairmanship of Shri P.L.Tandan in 1975 to suggest norms for inventory holding and to lay down criteria for satisfactory financial structure of borrowers vis-a-vis their borrowings. The Tandon Committee recommended norms for inventory and receivables. The Credit limit should be bifurcated



into a loan and demand cash credit to be reviewed annually. It recommended that banks should obtain from customer. (1) Quarterly Operating Statement, (2) Quarterly Statement of Current Assets and Current Liabilities and (3) Quarterly Funds Flow Statements

The Reserve Bank of India appointed a study Group under the Chairmanship of M.K.B. Choro to review the working of the cash credit system in commercial banks in India.

All these attempts are made to see that the financial assistance is provided to the needy and it is properly utilised. The credit provided by banks should result in increase in production and bring about financial discipline among borrowers.

#### 3.4 FINANCING OF SMALL SCALE INDUSTRIES IN KARWAR TOWN FORM OF BUSINESS ORGANISATION

The survey conducted in Karwar Town reveals that sole proprietorship form of organisation is the most popular form among the Small Scale units.

Showing Form of Business Organisation of Small Scale Industries  
in Karwar Town.

Number of Sample Units : 30.

No.	Type of Industry	Sole proprietorship	Partnership firm	Private Ltd.	Co-operative Society	Total		
		Units	Units	Units	Units	Units		
		% to total	% to total	% to total	% to total	% to total		
1.	Agro Based	4	100	-	-	4		
2.	Forest Based	5	100	-	-	5		
3.	Food Processing	2	66.67	1	33.33	3		
4.	Engineering	8	66.67	2	16.67	12		
5.	Construction	2	66.67	1	33.33	3		
6.	Miscellaneous	3	100	-	-	3		
Total Units :-		24	-	4	-	1	-	30
Percentage to total.		80	13.34	-	3.33	3.33	-	100

( Source : Field survey )

The Table shows the form of business Organisation used by the sample

units of Small Scale Industries in Karwar Town. The Table reveals that in Agro Based Industries, Forest Based Industries and Miscellaneous Industries all the units are using only Sole Proprietorship Form. The remaining three types of Industries namely Food Processing, Engineering, and Construction Industries are using Sole Proprietorship form to the extent of 66.67 percent of the total units.

Overall out of total 30 units, 24 units or 80 percent of total units have Sole-Proprietorship form. Thus the Sole-Proprietorship Form of Business organisation is used by overwhelming majority of the Small Scale Units in Karwar Town.

The Partnership firms are found only in three types of industries namely Food Processing, Engineering and Construction Industries. In Food Processing and Construction Industries, one each out of three units each is a partnership firm. In Engineering Industries two out of twelve or 16.67 percent of Small Scale Units use partnership firms.

Overall out of 30 units, 4 units or 13.34 percent of units are partnership firms. In comparison to Sole-Proprietorship, partnership firms are not popular. While there are 24 Sole Proprietorship firms, there are only 4 partnership firms. But still, the popularity of

T A B L E - 3.2

Showing Capital invested in Fixed Assets by Small Scale Industries in Karwar Town.

Number of Sample Units: 30

Year: 1986-87

No. of Organization	Form of Units	No. of Units	Own Capital		Borrowed		Total		Average Capital		
			Rs.	% to total	Rs.	% to total	Rs.	%	Rs.	%	
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
-----											
1.	Sole Proprietorship	24	7,29,400	43.03	9,65,600	56.97	16,95,000	100	30,392	40,233	70,625
-----											
2.	Partnership firm.	4	4,00,000	39.84	6,04,000	60.16	10,04,000	100	1,00,000	1,51,000	2,51,000
-----											
3.	Private Lt. Co.	1	2,00,000	40.00	3,00,000	60.00	5,00,000	100	2,00,000	3,00,000	5,00,000
-----											
4.	Co-op. Society.	1	75,000	60.00	50,000	40.00	1,25,000	100	75,000	50,000	1,25,000
-----											
TOTAL :		30	14,04,400		19,19,600		33,24,000		46,813	63,987	1,10,800
-----											

Source : Field Survey.



# Average Capital Invested in Fixed Assets

(Based on Table 3-2)

Rs

500,000

450,000

400,000

350,000

300,000

250,000

200,000

150,000

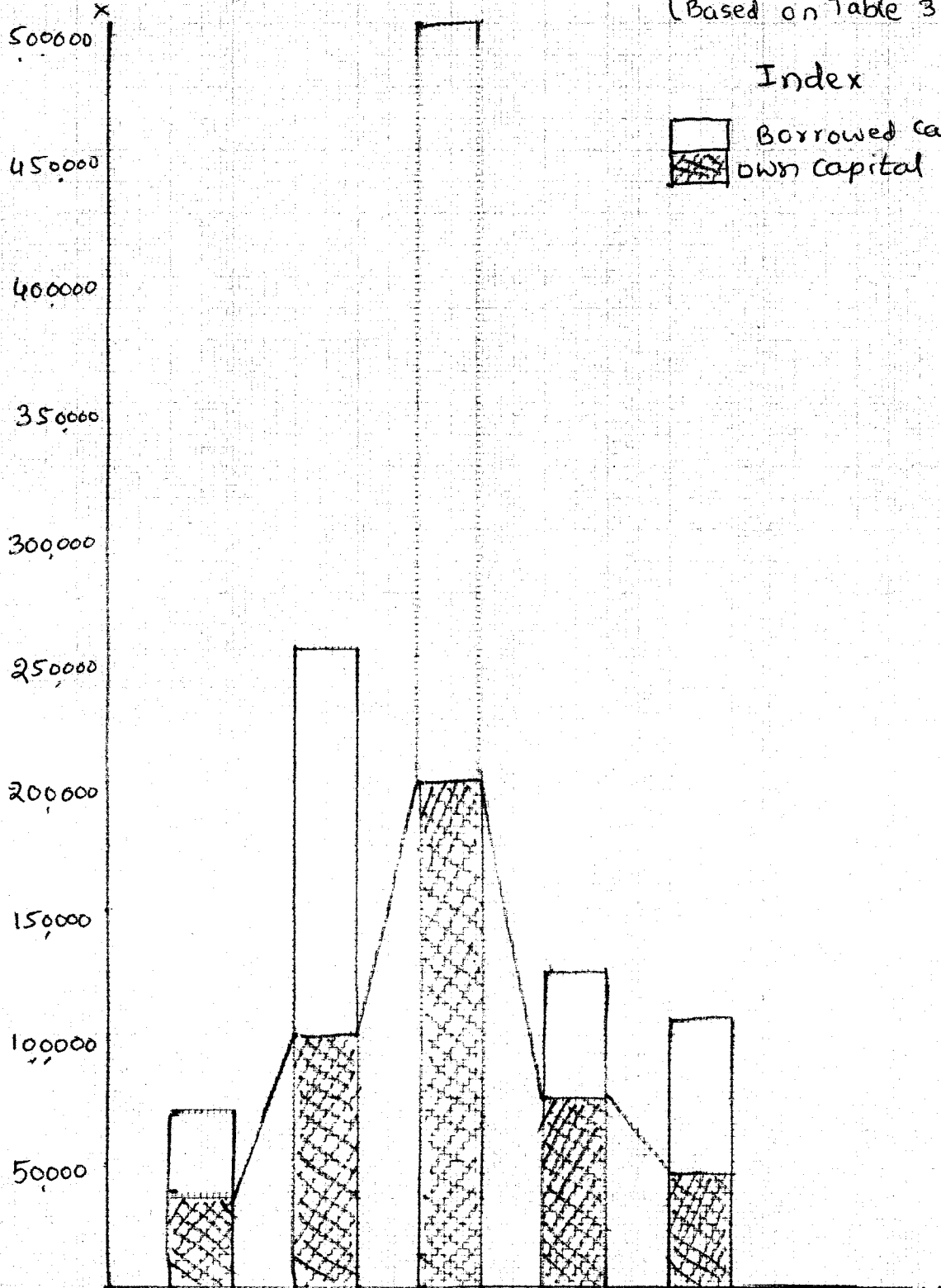
100,000

50,000

Index

□ Borrowed capital  
▨ own capital

0 Sole proprietorship Partnership Firms Joint Stock Company Corp. Society Overall Average of all firms Y



partnership firms is next only to sole-trading concerns.

The remaining two forms of business organisations, namely private limited company and co-operative society are found only in Engineering Industries. They are one each out of total 12 Engineering units or 8.33 per cent of total.

Overall out of 30 units there is only one Private Limited Company or it is 3.33 percent of total Same is the case with co-operative society.

Thus Sole-proprietorship is the most popular Form of business organisation followed by partnership firms. Other forms are used very scarcely.

3.4.1 Form of Organisation and Fixed Capital of the Small Scale Unit :

The form of organisation has an impact on the capital invested by Small Scale Unit. The Sole proprietorships have limited ability to bring in capital and the size of the unit will be small.

Table 2 reveals the amount of capital invested by various forms of business organisation. The Sole-proprietorship units are 24 in number and have totally invested in fixed assets Rs. 16,95,000/- out of this, own capital is Rs.729,400/- and borrowed capital is Rs. 9,65,600. Average capital invested is Rs. 70,625/-only.

Partnership Firms are 4 in number and have total capital invested in fixed assets Rs. 10,04,000/- and their average capital works out to be Rs. 2,51,000/-. There is more than the average capital sole-proprietorship firms and shows that the ability of partnership firms to invest capital is more than the ability of Sole-Proprietorships.

Private limited company has total average capital of Rs. 5,00,000/- and thus has more capital than all other forms of business organisation considered here.

Co-operative Society has average Capital of

Rs. 1,25,000/-.

The Table 2 reveals that the Capital invested by Sole-Proprietorship is very less compared to all other forms and thus these units are small in size. The Private Limited Company has the highest average capital. It reveals that Company form of organisation enables a firm to bring in more capital and the size of firm is larger than all other firms. The partnership firms and Co-operative Societies have sizes in between these two extremes.

The average capital invested by all 30 units surveyed is Rs. 1,10,800. It reveals that the size of the Firms is small. This average capital invested shows that all firms are in tiny industries group.

The Table 2 reveals that firms under all the forms of business organisation have resorted to borrowing. The Sole proprietorship units have own capital to the extent of 43.03 percent of total capital. Thus the borrowing is more than own capital.

The Partnership Firms and Private Limited C Companies have 60.16 percent and 60 percent respectively of their total capital from borrowing. It reveals that their borrowing capacity is more than the borrowing capacity is more than the borrowing capacity of Sole-Proprietorships.

The overall picture that emerges from the study

of Table 2 is that the Small Scale Units are really small with only Rs. 1,10,800/- as average Fixed capital. More than half of the capital is in the form of borrowing. Their ability to bring in capital is limited.

### 3.5 EXTERNAL SOURCES OF FINANCE :

As the capital amount brought in by the owners is not sufficient to carry on the business, the small scale firms borrow from external sources. They may get financial assistance from indigenous bankers and money lenders, Karnataka State Finance Corporation, Commercial Banks, Industrial Co-operative Credit Bank and From friends and relatives.

#### T A B L E - 3.3

Showing the External Source of Finance of Fixed Capital for Small Scale Industries in Karwar Town (Karnataka).

Number of Sample Units : 30

	No.of Units	% of total
1. Indigenous Bankers and Money Lenders.	NIL	NIL
2. Karnataka State Finance Corporation.	13	43.33
3. Commercial Banks	15	50.00
4. Industrial Co-op.Credit Bank	2	6.67
5. Friends and Relatives	NIL	NIL
	-----	-----
Total :	30	100.00
	-----	-----

( Source : Field Survey )

The above table reveals the external source of finance for fixed capital for Small Scale Industries in Karwar Town. It reveals that for fixed capital the Small Scale Units do not approach indigenous bankers and money lenders. They also do not depend upon friends and relatives.

The number of units getting financial assistance from Karnataka State Financial Corporation is 13 or 43.44 percent. The Commercial Banks have provided Fixed Capital to 15 units or 50 percent of units. The table shows that Small Scale Units depend more on Commercial Banks, followed by dependence on Karnataka State Finance Corporation. The dependence on other sources is negligible.

### 3.6 EXTERNAL SOURCE OF FINANCE FOR WORKING CAPITAL :

A Small Scale Unit requires working capital to carry on the day-to-day activities. This amount also may come from own sources or external sources. The ability to invest own money being limited, a Small Scale Unit borrows from external source.

T A B L E - 3.4

Showing the External Source of Finance for working Capital for Small Scale Industries in Karwar Town (Karnataka).

Number of Sample Units : 30.

	No.of Units : % to total	
1. Indigenous Bankers and Money Lenders.	NIL	NIL
2. Karnataka State Finance Corporation.	NIL	NIL
3. Commercial Banks.	12	40
4. Industrial Co-Op. Credit Bank	5	16.67
5. Friends and Relatives	3	10%
6. Advance from Customers	4	13.33
7. More than one source	6	20%
	-----	-----
Total :	30	100.00
	-----	-----

( Source : Field Survey )

The above table reveals the external source of finance for working capital for Small Scale Industries in Karwar Town. It reveals that the Small Scale units do not receive any finance from indigenous bankers and money lenders. The Karnataka State Finance Corporation does not provide finance to meet working capital requirements. It has a 'Composite Loan' Scheme to

provide working capital also to Small Scale units, but this is done through a bank.

Commercial Banks provide major portion of the working capital needs. The table shows that 40 percent of the units get working capital from Commercial Banks. As there 20 percent of units receiving finance from more than one source. The share of commercial banks financing small units further increases as there are 20 percent of units receiving finance from more than one source. Industrial Co-operative credit banks lends to 16.67 percent of units.

An interesting feature of working capital finance is to receive advance from customers alongwith order to supply goods or service. This is done wherever the manufacturing of articles or repairs is done as per customers orders.

Twenty percent of Small Scale Units depend on more than one source ( i.e. Banks and Friends and relatives or advance or all there). They use sources as per their requirements.

### 3.7 BORROWING FROM FINANCIAL INSTITUTIONS :

#### PREPARATION OF PROJECT REPORT.

A small scale unit wants to borrow from a



financial institution. While approaching a financial institution to get financial assistance, the entrepreneur should have a clear idea about the business. This idea is put forth in the form of project report.

Project Report has an important place in financing of a business. It is considered as the basic document. It provides the basis for finding out feasibility and financial requirements. It is the basis for the financial institutions for the appraisal of the project. It consists of the ideas and facts related to each other so that a comprehensive picture emerges. It is a blueprint of action to be taken.

"A project includes all activities required to start production of goods, services or to increase the capacity of a unit by adding equipment and/or renovating existing plant and machinery. It includes introduction specifications of the product and its application, site prospecting, marketing prospectuses and analysis, project engineering composition of investment and means of financing, estimation of revenues and costs, financial statements, organisation and administration, impact of external environmental and political factors including government policy etc.

T A B L E - 3.5

Showing Project Report Preparation in Karwar Town.

Number of Sample Units:30.

	Form of Organisation				
	Sole Proprietor- ship.	Partner- ship :firm.	Private : Limited : Company.	Co-Op. :Society:	Total
	No.	No	No	No	No
1) Project Report prepared on own initiative.	2	2	1	1	6
2) Project Report prepared at the instance of Banks.	22	2	-	-	24
3) Project Report prepared out of training and experience.	2	2	-	-	4
4) Project Report prepared with the help of Bank or District Industries Centre and others.	22	2	1	1	26

( Source : Field Survey )

The above Table reveals that though the Small Scale Units approach Financial Institution to get financial assistance, they do not have a systematic approach to

start the business. They do not know that they have to prepare a project report. The table shows that only 6 out of 30 units or 20 percent surveyed of the units prepared the Project Report on their own. They knew the importance of preparing the Project Report. The remaining 80 percent of the units prepared project Report only after they were told by financial institution to do so. It also reveals only 4 out of 30 units or 13.33 percent of units prepared project report out of their experience and training. The remaining 86.67 percent of the units could prepare it only with the help of District Industries Centre or Financial Institution or others. The table reveals that majority of Small Scale Units are conceived without complete idea of problems and prospects. They are to be insisted and assisted by Financial Institutions and others. This also gives scope to faulty preparation of project report.

### 3.8 TIME TAKEN FOR SANCTION OF LOAN :

The Small Scale Units have to submit several documents alongwith application for loan and then wait for the sanction of loan amount. This waiting period is not the same for all units. They have to arrange finance during the waiting period. The survey conducted in reveals interesting facts in this regard.

T A B L E - 3.6

Showing Time taken for sanction of Loan in Karwar Town.

Number of sample units : 30

1) Time taken by Financial Institution to sanction loan :	Number of Units.	Percentage to total
15 days to 1 month after application.	11	36.67
1 month to 3 months	16	53.33
More than 3 months	3	10.00
	-----	-----
Total :	30	100.00
	-----	-----
2) How Finance is arranged until bank loan is received:		
Arrange temporarily from other sources	3	10
Postpone the Project till loan is received.	20	66.67
Carry on at low-level of activity.	7	23.33
	-----	-----
Total:-	30	100.00
	-----	-----

( Source : Field Survey )

The Table above reveals the time taken by Financial Institutions to sanction the loan amount to

Small Scale Units. The Small Scale units apply for loan and fulfil all the conditions of Financial Institutions in this regard. The table shows that in majority of cases that is 53.33 percent of cases the time required to get the loan amount is between one to three months. In case of 3 units or 10 percent of cases the time-gap is more than 3 months. Such delay affective the cost of project enthusiasm of the enterprenuer and opportunity to make profit may be lost. In case of 11 units the time taken for sanctioning of loan is between 15 days to one month. These units have been able to start their projects without any delay.

The table also reveals how the Small Scale Units face the time-gap. It is interesting to note that 20 units or 66.67 percent of units surveyed have waited for the loan from Financial Institutions and postponed the project. Until loan is received. It shows that they had no other way but to wait and suffer the loss of opportunity. Only 3 units managed to get finance temporarily from other sources and start the units. Remaining 23.33 percent of the units were able to carry on at a low-level until the loan amount was received.

### 3.9 PROBLEMS OF SMALL SCALE UNITS IN OBTAINING FINANCIAL ASSISTANCE FROM FINANCIAL INSTITUTIONS.

The Small Scale Units fave several problems in

dealing with the financial institutions. Many a time they have very bad experience in the deal with a financial institution.

T A B L E - 3.7

Showing problems of Small Scale Units in obtaining Finance From Financial Institutions in Karwar Tonw.

Number of Sample Units : 30

	<u>Number of</u> <u>units.---</u>	<u>Percentage</u> <u>to total.</u>
1) Obtaining finance from Financial Institution is:		
Easy to obtain	5	16.67
Difficult to obtain	25	83.33
2) Difficulties in getting institutional Finance:		
a) Too many forms to be filled.	18	60.
b) Procedure is difficult.	12	40
c) No time to attend to needs of Financial Institutions	5	16.67
d) Delay in getting assistance	14	46.67
e) The required amount of loan is not available Interest rate are high	11	36.67
f) Interest rates are high	5	16.67
g) Providing security is difficult	8	26.67
h) Financial Institution personnel do not co-operate.		

-----  
Source : Field survey

The table reveals the opinions expressed by Small Scale Units regarding the loan they get from Financial Institutions only 5 units opined that getting finance from Financial Institution is easy. The majority of Small Scale Units have found it difficult to obtain loan. The table reveals the difficulties faced by small scale units. Sixty percent of them feel that the forms to be filled are too many. Forty percent of them feel that the procedure to be followed to obtain loan is difficult. 14 Units opine that there is delay in getting finance.

Out of the units surveyed, the table reveals that 13 units have the difficulty with the Financial Institution personnel and opine that they do not co-operate. Their other difficulties are :

- (a) They do not get the required amount of loan.
- (b) Providing security is difficult.
- (c) Interest rates are very high, and;
- (d) They have no time to attend to all the requirements of Financial Institutions.

Thus the table reveals that major difficulties are about the number of forms to be filled, about Financial Institution personnel and about difficult procedure.

### 3.10 LENDING TO SMALL SCALE INDUSTRIES.

The study so far has revealed that the Small Scale Units rely heavily of Financial Institutions for procuring fixed as well as working capital. The Small Scale Units face certain problems in procuring finance from financial institutions. In this regard the study of the approach of financial institutions to the problem of financing Small Scale Units becomes relevant.

The Financial Institutions have come forward in a big way to finance the Small Scale Industries. The amount set aside by the Financial Institutions for financing the Small Scale Industries plays an important role in financing of Small Scale Industries. The Commercial Banks decide about the disbursements of available funds among the various sectors. They set aside 40-45 percent of their disposable funds for lending to priority sector. The Small Scale Industries get 10-15 percent of disposable funds. There is no maximum limit for the same. Thus the target is exceeded in many cases. Even other financial institutions also lend to Small Scale Industries liberally. The Industrial Co-operative credit bank concentrates mainly on providing working capital to Small Scale Industries. They Financial Institutions follow a well set up procedure to provide finance to the Small Scale Industries. They follow



insist on the preparation of project report at the time of lending to a new project and also at the time of expansion of an existing unit.

### 3.10.1 Project Appraisal :

The Financial Institutions find out the feasibility of the Project before they sanction loan. Project Appraisal is an essential step in the process of decision making, in respect of sanctioning assistance, by financial institutions. The purpose of project Appraisal is to ensure that the project is sound in its managerial, financial, technical and socio-economic process.

The Project Appraisal takes normally 15-30 days. The table 8 shows the defects in Project Report and action taken by Financial Institutions.

T A B L E- 3.8

Showing defects in Project Report and action taken by  
Financial Institutions in Karwar Town-

Number of Units: 011.

Defects in Project Report	Action taken by Financial Institutions.
1. The Project may not be economically visible.	Reject the application for loan.
2. The Project may not be technically feasible.	Reject the application for loan.
3. The Statements may be false.	Correction is called for.
4. Failure on the part of the entrepreneur to invest his money.	(1) Increase the Financial assistance. (2) Wait until he invests his share. (3) Reject application for loan.
5. Legal clearance not available.	(1) Wait until it is available. (2) Reject application for loan.
6. Banned Industry	(1) Reject application for loan. (2) Sanction loan only after the ban is lifted.
7. Lack of knowledge or skill on the part of entrepreneur.	(a) Suggest to improve skill or knowledge.
8. Asking for more assistance than necessary.	Compute the loan amount required and sanction the same.

Source : Field survey.

The Table 8 reveals the defects found Project Report by the Financial Institutions at the time of Project Appraisal. The table reveals that in two circumstances namely:

- (1) The Project may not be economically viable and
- (2) The project may not be technically feasible. The application for loan is rejected. It is rejected in case of - (1) The industry being banned industry, (2) Failure of entrepreneur to invest his money and (3) Legal clearance not available.

In other circumstances the Financial Institutions wait and ask the entrepreneur to correct the defect. In case entrepreneur cannot invest his money, the Financial Institution increase their share of assistance or wait until he increases his share to the expected level. In case he has asked for more assistance than necessary, the financial institutions lend only the amount it thinks fit.

### 3.10.2 Recovery of Loan :

After sanctioning the loan the Financial Institutions give importance to recover the loan.

T A B L E - 3.9

Showing the Recovery of Loan and Interest in Karwar Town.

Number of Units : 11.

	K.S.F. <sup>C</sup>	Ind.Co.op.	Commercial Cr.Bank.      Banks.
1. Recovery of Principal amount-			
(1) as per schedule	50%	50%	60%
Marginal delay	20%	20%	10%
Recovery with legal action	20%	10%	10%
Bad debts.	10%	20%	20%
2. Recovery of Interest			
(1) As per Schedule	20%	20%	20%
(2) Marginal delay	20%	20%	10%
(3) Recovery with legal action	20%	20%	10%
(4) Bad Debts.	10%	10%	20%
3. Regarding recovery of Principal amount and interest-			
(a) Satisfied	Satisfied	Satisfied	5 Units satisfied.
(b) Not satisfied.			4 Units not satisfied.

Source : Field survey.

The table reveals that the Financial Institutions

are satisfied regarding recovery of principal amount and interest amount.

The table reveals that the Financial Institutions are able to recover 50 percent to 60 percent of their lending to Small Scale Industrialists as per schedule. It also reveals that 10% to 20% of their lending is recovered with some delay. In the case of remaining lending they have to resort to other steps such as legal action to recover the principal and interest. The overall opinion of Financial institutions is that they are satisfied with regard to recovery of principal and interest from Small Scale Industries.

### 3.11 CONCLUSION

The Small Scale Industries are predominantly sole proprietorships. The own capital of Sole Proprietorships is found to be less than the own capital of other Firms of business organisation. The overall average investment in fixed assets of all the Small Scale units is only Rs. 1,10,800 of which own capital is Rs. 46,813. The remaining part of the investment has come from borrowing. Thus borrowing has become essential. They are now relying on financial institutions for the purpose of getting financial assistance. But they do not know how to prepare a project Report or about its necessity. They

find that the procedures followed by financial institutions while lending are lengthy and tedious. The financial institutions are satisfied about the recovery of principal amount and interest from Small Scale Industrialists.

.....

- REFERENCES -

1. R.M.Srivastava - Management of Indian Financial Institutions.  
Himalaya Publishing House 1984  
P. 6.7.
2. R.M.Srivastava - Op. Cit. P. 8
3. R.M.Srivastava - Op. cit. P. 38
4. R.M.Srivastava- Op. Cit. P. 14.
5. Meenakshi Tyagarajan - Sectoral and Geographical  
Distribution of Commercial Bank  
Credit in Credit Planning :  
Objectives & Techniques.  
Ed. by S.L.N. Sinha & A Raman  
I F M R Madras 1976.

... ..