

CHAPTER - VIISUMMARY AND CONCLUSION:

In order to come into any conclusion on the basic points of this study, namely (1) Socio-economic background for Small-Scale industries in North Bengal (2) the existing nature and problems of Small-Scale Units (3) role of Government, banks and other agencies in financing Small-Scale units and (4) the prospects for further development of the Small-Scale Industry Sector, and to suggest remedial measures on these issues, a summary of observations made so far is necessary. Summary is given under the following head lines:

A. Socio - Economic background for Small-Scale Industries:

North Bengal is a region enriched with many agro and forest resources. But the economy of this region remained under-developed due to poor utilisation of resources during the last three decades.

Growth of population during the last three decades was almost steady and the major part of the population lives in rural areas. The principal economic activity of this region is agriculture. The urbanisation rate is very poor and the urban population is almost concentrated in 24 towns upto the end of 1931. Out of these, only eight towns can be marked as major towns with concentration of industries and services.

Since independence, no modern industry has been developed here. The only organised industry is tea industry which is overburdened with age old problems. Little has been done in respect of agriculture development during this period. As a result, number of unemployed persons is growing every year.

The industrial infrastructure, such as, power, transport and communications, banking, marketing network etc. in North Bengal is not only underdeveloped but also inadequate in terms of their growing needs.

The backward economy of North Bengal with scanty mineral resources, rural population and underdeveloped infrastructure but with vast agro and forest resources is a suitable case for the development of Small-Scale industries.

#### B. Existing nature and problems of Small-Scale Units:

Upto the middle of seventies, the growth of registered Small-Scale Units in North Bengal was very slow and the employment generated thereon was also very little. After the establishment of District Industries centres in the later part of the seventies, growth of Small-Scale sector gathered momentum. For example number of Small-Scale Units registered in 1980-81 was 1537. In 1981-82, the number rose to 1731.

In the group-wise classification of industrial

units during the period, Agro-based and Forest-based units ranked first, Engineering based units second, and textiles including wearing apparel units ranked third. Most of the agro-based units were concentrated in Cooch Behar, West Dinajpur and Malda districts, forest-based and engineering units in Jalpaiguri and Darjeeling districts.

As regards pattern of industrial growth, it was observed that due to local demand for consumable products, there was a rapid growth of demand-based units during eighties. But, during seventies, industries in North Bengal were mostly resource-based. This phase of transition from resource to demand based industries should be properly emphasised and planning should be made accordingly.

The provision for development of Small-Scale industries in different districts of North Bengal has been utterly discouraging. For example, out of the total amount of Rs. 233.85 lakhs allocated for cottage & small scale industries in the Annual plan of the State Government in 1979-80, outlay for small-scale industries scheme was Rs. 71.46 lakhs only, i.e. 30.55 per cent of the plan outlay. (1)

In order to boost up credit in the cottage & small scale sector, two lead banks of North Bengal, Central Bank of India and United Bank of India prepared Three-year District Credit Plans for all the five districts under the guidelines

framed by the Reserve Bank of India. In the District Credit Plans, credit allocations were made for individual banks and each bank was asked to achieve their targets in co-operation with the concerned District Industries Centres. But a major portion of the credit target in the Small-Scale Sector remained unimplemented. Lack of proper co-operation and co-ordination between financing banks and Government departments (Particularly District Industries Centres) was mainly responsible for it.

C. Role of Government, Banks and other agencies in financing Small-Scale Units:

About one-third of bank credit to small-scale industries in North Bengal was made available by the scheduled commercial banks including the State Banks of India. Prior to nationalisation, the contribution of these banks in financing Small-Scale Units was insignificant. Majority of their advances were made to traders. After nationalisation, these banks have evinced more interest in financing Small-Scale sector but their role is still quite limited.

The Small-Scale Units have to encounter a number of problems while dealing with banks. Some of the important problems are highlighted below:

1. High Margin:

There is a feeling among entrepreneurs that excess-

ive margin is retained against raw materials and finished stock. Commercial banks retain 30 to 40 per cent margin against raw materials. Under the liberalised scheme, the State Bank Group retains 10 per cent margin against imported goods and 25 per cent margin against indigenous material. But in case of some scarce materials. The mode of valuation adopted by the State Bank Group in valuation of material neutralises the benefit of reduced margin.

The stocks of raw materials are valued at controlled price, cost price or market price whichever is lower. This may have no adverse effect if materials were available at controlled price. But the situation is quite contrary. The small-scale entrepreneurs have to purchase 80 to 90 per cent of their requirement of raw materials at market prices, which are much higher than the fair prices. The gravity of problem of an entrepreneur arising out of this mode of valuation can better be illustrated by an example: If iron sheets are supplied at a controlled price of Rs. 1,200 per M.T. its market price is Rs. 1,800 per MT, the banker would value stock of iron sheets at Rs. 1,200 and would sanction a loan of Rs. 900 under liberalised scheme by retaining a margin of 25 per cent on controlled price. Thus, the effective margin in case of an entrepreneur who ~~xxxx~~ has actually purchased iron sheets from the market increases to 50 per cent.

It is well known that wider disparities exist between the fair price and the market price of most of the commodities, such

as iron sheet, Aluminium ingot, flour etc. They have an adverse effect on the borrowing capacity of most of the Small-Scale Units. It would, therefore, be desirable if the stock of raw material is valued at cost price or market price whichever is lower. Commercial banks should also suitably lower down the percentage of margin retained against raw materials. Similarly, a margin of 30 to 40 per cent is required against finished stock which is valued at cost price. This problem can justifiably be solved if inventories in finished goods are valued at wholesale prices less discounts allowed by the manufacturers.

### 2. Advances against pledge:

The working capital finance provided by Commercial banks to Small-Scale entrepreneurs is sometimes on pledge basis. As the stock of raw materials or finished goods pledged by the entrepreneur remain in possession of the bank, the entrepreneur have to waste many time and energy in depositing and releasing of stock. This type of advance should be dispensed with and working capital advances should be given against the hypothecation of stock.

### 3. Multiplicity of limits:

As per current practice, different limits are obtaining for purchase of raw material, retention of finished stock and supply of goods on credit. Multiplicity of limits

cause hardships when there are seasonal variations in demand and supply. In order to resolve this problem, the State Bank of India introduced a special hypothecation scheme under which an integrated credit limit to meet the various needs of entrepreneurs is sanctioned and the collateral is left to the possession of the borrowers. Other nationalised banks should also introduce identical schemes.

#### 4. Avoidable delays:

Entrepreneurs generally complain that a fairly long time is taken in sanctioning and disbursement of a loan. This results in avoidable embarrassment and unnecessary harassment. It would be advisable to follow the advice of the Banking Commission which suggested a number of steps to expedite sanction and disbursement of bank loans.

(2)

#### 5. Managerial Rixidity:

The small-scale entrepreneurs are very often critical of the rigid attitude of Branch Managers. They allege that some of the Branch Managers refuse to oblige for a short period accommodation over and above a certain limit sanctioned to them. They are reluctant to utilise their 'discretionary powers'. Besides, instances have come to notice where liberal credit limits even in excess of actual requirements were sanctioned to units with good means while demand from entrepreneurs with low means were left unattended. In spite of usual criteria for sanctioning loans, the

value of tangible security is still the main determining factor. In fact, no developmental programmes can be successful unless a change is brought about in the attitude of bank managers.

The entrepreneurs should also be made to lend maximum co-operation. They should try to maintain a good financial discipline and should have utmost confidence and trust on the bankers. The policy of hide and seek creates suspicion in the minds of bankers and leads them to adopt a more cautious and stiff attitude.

In the Industrial policy 1980, the definition of small units have been changed. The investment limit for Small-Scale Unit is now Rs. 20 lakhs, for ancillary unit Rs. 25 lakhs and for tiny sector Rs. 2 lakhs. But the promoter's contribution is still 10 per cent. It means that a small investor will have to spend Rs. 2 lakhs where total investment is Rs. 20 lakhs. In the tiny sector, an entrepreneur will be required to contribute Rs. 20,000 where total investment is Rs. 2 lakhs. Is it possible for a small entrepreneur to contribute so much money at the initial stage? Therefore, it will be better if this proviso is abolished. The banks should be instructed to sanction 90 per cent of the project cost as loan, the rest 10 per cent should be given to the entrepreneur as 'Seed Money' by the Government.

The present policy of the Government is to reserve 40 per cent of the fund of the banks for the 'Priority Sector' which includes small-scale industries. But this policy is hardly honou-

red. Strict orders should be given to the banks to implement this policy. Bank should also be alert on the point that the genuine cases are not refused.

Loans should be sanctioned within a stipulated time, preferably within 30 days from the date of application. Unnecessary harassment for credit should be avoided. Bank personnel should be instructed to follow minimum formalities and not to press upon entrepreneurs for irrelevant information and papers. Every nationalised bank should have a separate cell for assisting small-scale units at the district level and a Development Officer should be appointed for this purpose with appropriate power to make on-the-spot decision.

A Bank should be set-up which will be exclusively responsible for the development of small and tiny sectors. The name of the Bank may be 'Small Industries Development Bank' with branches at every sub-division. The branches should have adequate powers to sanction and disburse short, medium and long-term loans. The lending rates should be low and the credit-deposit ratio high as far as possible.

To commensurate with the present Industrial Policy, some protection should be given to the Small-Scale Sector. This is necessary, because the executive orders are not seriously implemented by the Government officials and as a result policies are not translated into action. Besides, the small units are to face severe competition from the large units. Thus, statutory bindings on the part of implementing agencies will safeguard the small in-

dustries from many evils.

The West Bengal Financial Corporation's Annual Reports show that the amount of loan sanction, disbursement and outstanding in the small-scale sector have been gradually increased in North Bengal and in the State during five years from 1976-77 to 1980-81. On account of stringent rules for releasing of funds, a wide gap exists in sanction and disbursement of funds. At the time of sanctioning it is essential that some share of burden should be borne by the entrepreneur, but it is advisable to adopt some flexible approach when the project is viable. In the case of unit to be established under self-employment scheme or Technocrate Scheme, the margin money should not be insisted upon.

In order to arrest the increasing trend of defaulters, attractive rebates should be allowed on prompt payment of instalments. Repayment should be Scheduled as per repaying capacity of the borrower. Moreover, loans for longer period ranging from 10 to 15 years may be sanctioned instead of short period ranging from 7 to 10 years.

In order to minimise delays in sanction and disbursement of loans, the Corporation should take initiative in the establishment of an Technical Appraisal cell, which will start verification of title deeds just after a loan is sanctioned.

Finally, the Corporation is to play a crucial role in coming years in accelerating the pace of industrialisation of

North Bengal. In order to meet this challenge, the Corporation should establish branch offices in every districts of North Bengal and should strengthen its financial and manpower resources.

As per directive of the Janata Government's Industrial Policy of 1977, the State Government decided to establish District Industries Centres in each district for rendering services and facilities to the entrepreneurs under one roof. At present, DICs are functioning in every district of North Bengal but their actual performance are not on the whole satisfactory. Many cases are found where DICs were not active in respect of identification of prospective borrowers, speedy appraisal of credit proposal, rendering functional assistance to entrepreneurs and follow-up in recovery of bank loans. Government has reviewed the scheme of District Industries Centres which has not produced benefits commensurate with the expenditure incurred. Government, therefore decided to restructure its pattern of functioning.

Among the State Government's financial assistance schemes to small-scale units in North Bengal, BSAI loan fell down in 1981-82 in comparison to its preceeding two years. The amount of 'Margin Money' assistance, however increased but not proportionate to the employment potential. The amount of 'Subsidies' enjoyed by the Units was very little. There are many cases where the units were not properly informed about the subsidies they are entitled and some units were even indifferent in respect of subsi-

dies.'

Industrial Estates at important growth centres is a pre-requisite for industrial development. Because the investment in land and buildings is closely linked with the resource mobilisation power of the entrepreneur. With the increasing cost of land in the urban and semi-urban areas, entrepreneurs are increasingly felt the need for Industrial Estates. But in North Bengal upto now, only one Industrial Estate has been established at Siliguri (Ertiashal). Industrial Estates should be promptly established in all important towns of North Bengal. Services of all the various implementing agencies in the Small-Scale Sector such as WBFC, WBECS, STC, WBSIC, NSIC, WBIIDC, BENFED, NAFED etc. are also not available at the district level.

In view of slow growth of Small-Scale sector and lack of earnest and enthusiastic efforts of DICs, Banks and other agencies during the last two decades, it can be said that the existing systems and procedures are not sufficient to cope with their changing needs. It is true that the DICs are the main agency for promotion and development of the Small-Scale Sector in the district. Roles of Banks, financial institutions and other agencies are not less important in the existing set-up. But due to lack of proper co-ordination between DIC personnel and implementing agencies, procedural delays, non-availability of services of important agencies and lack of entrepreneurship, the present system is not functioning

well.

Therefore, activities of relating to the registration, implementation and operation of a project should be designed in such a way so that DICs and other agencies can intensify their roles properly. In view of this need, a system has been designed by which it will be possible to overcome the existing lacuna and to gear up activities of different agencies involved in the Small-Scale Sector. The design of the system is given below:

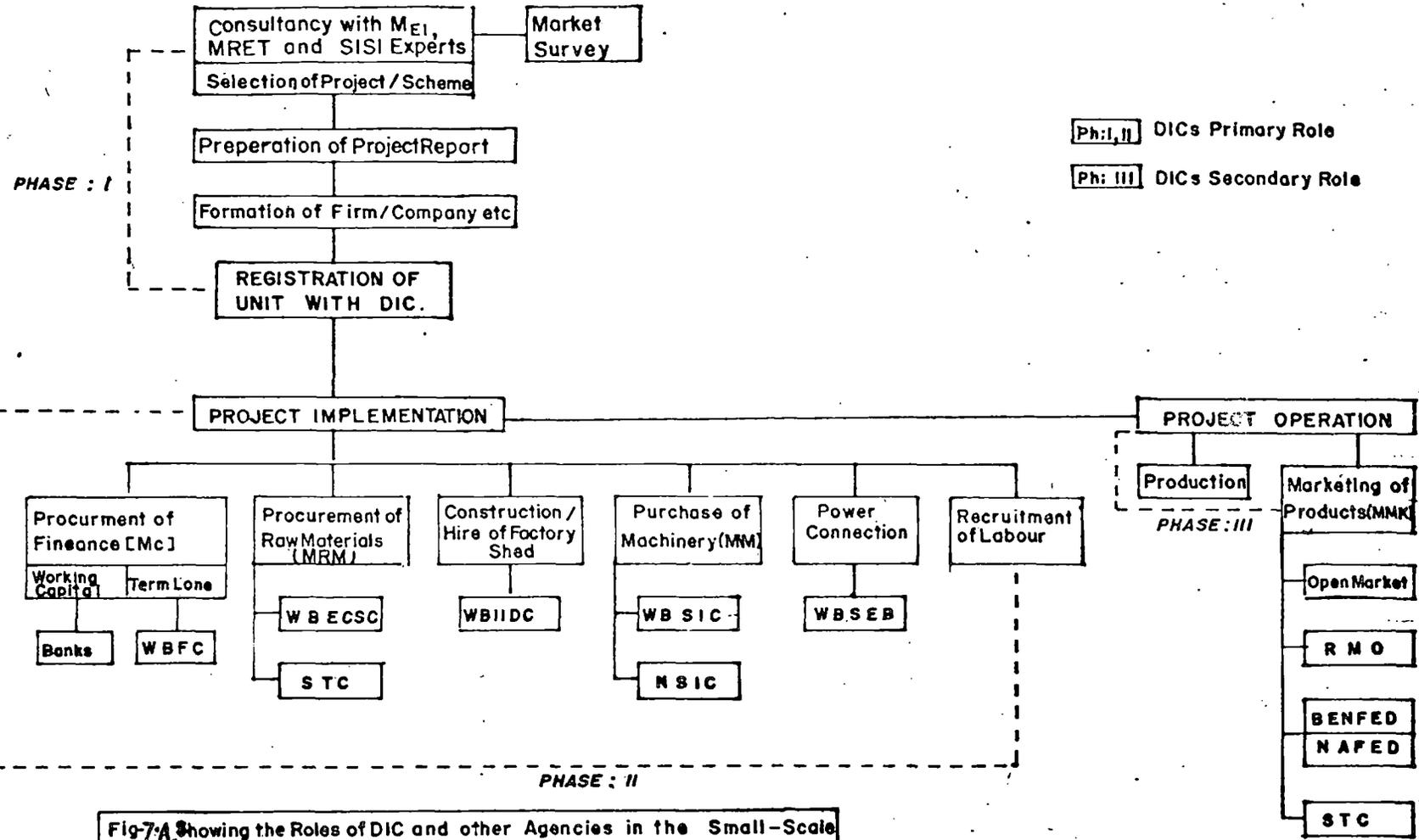


Fig-7-A. Showing the Roles of DIC and other Agencies in the Small-Scale Industry Sector

In the above design, the entire activities are grouped into three phases. The first phase is called 'Promotion'. The phase starts from the selection of project/scheme and ends with the registration of unit. At this stage entrepreneurs require expertise consultancy and promotional training to form a unit.

These services are rendered by the DIC managers (Manager-Economic Investigation, Manager- Research Extension and Training) and SISI experts. Under existing system, services of above managers in the DICs are very poor and at the sametime services of SISI experts are not available in every district. It is suggested that DICs should exert their primary role at this phase so that best services of DIC managers and SISI experts are readily available.

The second phase is called 'Implementation'. At this stage, services of many agencies like, WBFC, WBECSG, WBSIC, WSIC, WBIIDC, WBSSEB etc. are necessary at the district level for speedy and smooth implementation of projects. But excepting Bank and WBSSEB most of the above agencies have no offices at the district level. In the existing set-up, it takes a long time to get their services which results delay in implementation. Therefore, it is suggested that these agencies should open their offices in every district of North Bengal. DICs should act here as catalyst by exercising its rapports with these agencies on important issues like procurement of raw material, purchase of machinerics, ~~xxxx~~

arrangement for industrial shed, power connection etc. At this phase, DICs should also exert their primary role.

The third phase of this design is called 'operation'. At this stage, the units will go into operation. They will have to start production and initiate efforts in marketing their products. Agencies involved in marketing products of Small-Scale Sector like, BENFED, NAFED, STC, RMO, NSIC etc. have an effective role to play at this stage. Here, DICs role should be secondary.

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