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Loren Tauer
South Dakota State University

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THE ROLE OF COMMERCIAL BANK IN INDUSTRIAL DEVELOPMENT IN SOUTH DAKOTA

Editors Note: The following is a Summary report of a research project recently completed under Dr. Thomas E. Davies, Associate Professor.

The manufacturing industry is a small but growing sector of the state's economy and exhibits potential for diversification and growth. Concern has been expressed by many that financial impediments have hindered growth of the manufacturing industry in South Dakota. Objectives of this study were to determine if impediments existed, and to determine and describe the role of banks in financing, and the attitudes of bankers towards industrial development.

Primary data for the study were obtained by mail survey questionnaires; one questionnaire sent to all manufacturing firms and another sent to all banks in the state. Research methods involved descriptive, categorical, and statistical analyses of responses of the questionnaire respondents and other data.

The smaller firms employing fewer than 25 persons, especially if they have been established within the last five years, are the firms that are having difficulties obtaining funds for operations. Generally, the larger, the well established firms, and the branch plants are not experiencing problems obtaining funds.

Although firms vary considerably in the percentage of funds obtained from the banks in the state, as an average, a firm obtains 20 to 30 percent of the funds needed for different operations. Most of these funds are obtained from local banks. Although the majority of the banks do not have any industrial loans, as an average, 4 percent of all bank loans are extended to industrial users.

Bankers generally think that industrial development would improve the quality of life for the citizens of their communities. They indicate that their ability or willingness to increase industrial loans is dependent upon demand for loans and the quality of loan applicants, rather than conditions affecting the supply of funds available.

This study projected that demand for industrial funds will increase in the next 10 years, and although bank deposits will also increase, the increases will be such that as an aggregate, bankers will be requested by the firms to supply a higher proportion of industrial loans as a percent of deposits than they are currently supplying. This amount will still be a small percentage of deposits, and banks should be able to handle requests for loans from normal deposit growth, by shifting funds from securities to loans, and by other methods. Problems of inadequate supply will develop in some smaller cities and banks, areas where the bankers indicate insufficient local funds for industrial development and, with exceptions, are inexperienced in industrial development.

State agencies must continue to be
instrumental in providing information to firms and banks in the area of financing. Additional programs can be initiated to provide communities, industrial firms, and financial institutions with information necessary to produce a favorable industrial development environment. These programs should not only be involved in financial problems, but all problems affecting the economic health of the communities and industrial firms.

Banks can not be expected to engage in risky lending operations, so a state loan guarantee program would provide funds for many firms that are unable to secure funds by normal procedures. For the program to be effective the state must be willing to experience some loss of monies, since the program should not substitute for lending activities of other private or public sources.

Historically, industrial firms have located in South Dakota because the city of location was the home community of the owner, and because raw materials and markets were close. Although these location factors have continued to be important factors affecting location of firms in the state within the last five years, abundant labor and favorable tax policies have also become important, especially for those firms whose home office is located outside the state.

The majority of the respondent firms plan to expand their facilities in the next five years. Most expansion will occur in those cities over 10,000 population and under 1,000 population, with the large firms expanding in the larger cities and the small firms expanding in the smaller cities. As of yet these plans are tentative. Undoubtedly, consummation of expansion plans will depend upon conditions of the economy.

Financial restrictions are not hindering industrial development efforts that are directed at attracting large, well-established firms to locate a plant or expand in South Dakota. But, development efforts aimed at the smaller, younger firms are hindered since these firms are experiencing difficulties obtaining funds. Although the smaller firms do not employ the majority of the industrial workers, they constitute the bulk of the industrial firms in the state. These firms are located throughout the state and in all city sizes, but normally are the only size of firm located in smaller cities. Therefore, industrial development efforts in smaller cities are restricted.

LOREN TAUER, FORMERLY RESEARCH ASSISTANT, ECONOMICS DEPARTMENT