CHAPTER VIII

CONCLUSIONS

Consequent upon the enactment of the SFCs Act in 1951, a number of SFCs were set up at State levels. There were 18 SFCs in the country by March 31, 1982.

The OSFC came into existence in the year 1956. Its management rests in a Board of 12 Directors, 5 of whom are nominated by the State Government. The State Government's present practice, of choosing all its nominees from among the bureaucrats, needs change so that professionals and industrialists could get better representation, as in the case of the IDBI. The SFCs Act should be amended for the purpose.

The Managing Director is the chief executive of the OSFC. The Secretary to the State Government in the Industries Department acts as part-time Chairman on its Board. This practice should be changed in favour of a full-time Chairman-cum-M.D., which calls for an amendment to the SFCs Act. He should be a professional with a minimum tenure of 4 years.

The present practice of filling up the posts of the M.D. and all the General Managers by the Officials of the State Government on deputation, should be discontinued and these posts be filled up by the OSFC's own officers.
The departmentation of the OŚFC also needs restructuring so that all the activities are distributed among the 3 G.Ms. more rationally. One Resources Planning and Investment Operations department for better management of resources and another Branch Control and Co-ordination department for better management and control of the branches should be created. Similarly, some departments like Refinance and Special Projects which appear to be redundant, should be merged with the Resources Planning and Investment Operations, and Development departments, respectively.

The existing Technical department should be renamed as Technical Appraisal department and this department along with the Financial Appraisal department should be placed under the General Manager (Appraisal) for better functioning. Attention should be paid to the managerial competence of the promoters, while appraising the loan proposals since, more than 60 per cent of the sick units suffer from managerial deficiency. Therefore, the Appraisal department should be enriched with professionally qualified persons. The proposals appraised at the branch and D.I.C. levels should be test-checked by the appraisal staff of the Head Office to ensure improvement in the appraisal standard and maintenance of uniformity in the same. The commercial banks should be persuaded to accept the idea of joint/simultaneous appraisal.
of loan proposals with the DSFC, as suggested by the Bhide Committee. Sound appraisal would help eliminate 'bogus sanctions'. It would bring down processing expenses and also narrow down the gap between sanction and disbursement. Both the DSFC and commercial banks should also adopt the Common Application Form, as prescribed by the Bhide Committee, for loans exceeding Rs. 2 lakhs.

The Internal Audit department should be placed directly under the M.D. and prompt actions should be initiated on the recommendations of this department.

The present Recovery and Follow-up department should be bifurcated into (1) Recovery, and (2) Follow-up and Monitoring department, in order to ensure better functioning of both and particularly, for strengthening the follow-up and monitoring activities which do not get due attention at present.

The debt-equity ratio of the DSFC was all along higher than that of the other SFCs. This imbalance could be corrected by improving capital and reserves base on the one hand, and reducing borrowings on the other. In view of its expanding business, the possibility of reducing the borrowings appear to be remote. Reserves also cannot be increased due to its low profitability. Hence, the only way of improving the debt-equity ratio appears to be the improvement in the
capital base of the corporation. Since the OSFC has almost reached the Authorised Capital limit as fixed in the SFCs Act, this would require an amendment to the Act. Pending that, the OSFC has to depend upon quasi-capital for expanding its capital base. The gap between sanction and disbursement of the OSFC was as high as 41 per cent as against the all-SFCs average of 30 per cent. The gap should be narrowed down by cancelling the undrawn sanctions beyond 6 months in addition to appraising the loan proposals on professional principles.

The time-lag between application and sanction has come down from 5½ days in the year 1972-73 to only 90 days in 1981-82. Yet it was higher than the average of other SFCs which was only 67 days.

The time-lag between sanction and first disbursement has come down from 314 days in 1972-73 to 106 days in 1981-82. During the same period, the time-lag between first and final disbursement has also reduced considerably i.e., from 528 days to 145 days.

The OSFC made a real breakthrough in sanction and disbursement since 1978-79. The last 4 years, beginning with 1978-79, accounted for 91 per cent of number-wise sanction and 76 per cent of amount-wise sanction. Similarly, this period accounted for 88 per cent of the number-wise disbursement and 78 per cent of the amount-wise disbursement. This
achievement was possible mainly due to the opening of OSFC's branches in each district with delegation of power to the Branch Managers to sanction and disburse loans, large-scale financing of transport sector and introduction of composite loan scheme. As a result, the OSFC was placed first among all the SFCs in the number-wise sanction both in 1979-80 and 1980-81. Compared with other SFCs, the OSFC's growth rate has been spectacular over 4 years ending in March 1981.

The OSFC's portfolio includes not only the traditional industries like Food manufacturing but also the sophisticated industries like chemicals and chemical products. The three industries of Transport, Food manufacturing, and Chemicals and Chemical Products claimed as much as 50 and 53 per cent of the OSFC's total sanctions and disbursements, respectively. The OSFC should, however, distribute its credit among a larger number of industries instead of concentrating on a few sectors only.

Apart from encouraging the growth of sophisticated industries, the OSFC is also making efforts to reduce regional imbalances by narrowing the gap in the per-capita financial assistance between the backward and 'other than backward' districts. Over last 10 years the rise in per-capita sanction and disbursement, respectively was 16 and 14 times for the backward districts as against only 13 and 9 times for the 'other than backward' districts.
On district-wise basis, Cuttack alone with 18 percent of the State's population, claimed as much as 40 percent each of the OSFC's total sanction and disbursement. It got highest amount of per-capita sanction (Rs. 111) as well as disbursement (Rs. 64). On the other hand, Kalahandi district with more than 5 percent population, got only less than 1 percent each of sanction and disbursement.

The 8 backward districts taken together, accounted for 47.5 percent of the state's total population as against which their share in the OSFC's sanction and disbursement came to only 26 and 27 percent, respectively. Both these percentages were much lower than the corresponding average percentages (i.e. 45 and 43 percent, respectively) of all the SFCs. The real impediment for the growth of industries in the backward districts was the lack of infrastructural facilities, the development of which should be accelerated by the Government.

The OSFC takes better care of the small scale industries than any other SFC. The SSI sector got 80 percent of sanctions and 82 percent of disbursements from the OSFC as against all-SFCs average of only 63 and 62 percent, respectively.

As a part of its agency functions, the OSFC has been disbursing Central and State Investment subsidies on behalf
of the Central and State Government, respectively. But the delay in the release of funds by the Government has been causing resources constraint to the OSFC on the one hand, and giving rise to a wide gap between sanction and disbursement of subsidies, on the other.

The OSFC has been operating a number of socially useful schemes which are also in line with the Prime Minister's 20 Point Economic Programme, and national objectives.

The financial assistance available to the unemployed medical graduates for opening clinics/nursing homes in the selected urban centres, should also be extended to those in the rural areas.

The schemes for small hotels, highway restaurants and the scheme for persons belonging to Scheduled Castes and Scheduled Tribes, should be implemented without any further delay.

Recycling of funds through better recovery of its dues is the key to the successful working of a development bank. The OSFC's recovery rate was 35 per cent of recoverable as against 39 per cent for all SFCs in the F.Y. 1980-81. The low recovery rate has caused the problem of overdues. The OSFC's overdues to loans outstanding was 31 per cent as against the all-SFCs average of 23 per cent for three years ending on March 31, 1981. Its percentage of overdues to net worth was 121 per cent as against 117 per cent for all the SFCs. Roughly 62
per cent of the DSFC's total overdues were in arrear for more than 24 months which was again higher than the all SFCs average of 53 per cent.

Transport and Fishing Trawlers accounted for approximately 58 per cent of the total overdues of the GSFC. It was doubtful whether not only the amount of default (Rs.473.81 lakhs) but also the outstanding amount (Rs.767.83 lakhs) could at all be recovered from fishing trawler operators.

Defective project appraisal, inadequate follow-up inspection, uneven recovery drive, delay in legal procedure, non-availability of revenue/facility, indiscriminate financing of a few industries, unrealistic repayment schedule and diversion of term-loan for working capital purpose; are some of the important causes of overdues in the GSFC.

Measures like improving appraisal standards, appraising the loan proposals jointly/simultaneously with commercial banks, strengthening post-sanction follow-up, conducting recovery drive throughout the year, fixing repayment schedule more pragmatically and allowing rephasing of loans would help in preventing overdues and improving recoveries.

On the other hand, measures like taking legal action under Sec.31 or 29 of the SFCs Act against defaulting units,
invoking credit guarantee, taking action under Revenue Recovery Act, reducing interest burden of the defaulting units by adjusting recoveries first towards repayment of principal, non-adjustment of subsidies and further disbursements against recoveries and having tie-up arrangement with commercial banks would go a long way in curing the disease of overdues and improving recovery performance.

The Mercantile System of Accounting, being followed by the DSFC at present, is defective since, the huge amount of unrealised and doubtful interest is also treated as income on which Income-Tax is paid. It causes drainage out of cash balances giving rise to resources constraint of the corporation. Hence, the DSFC should switch over to the Cash System of Accounting as it has been done by a number of SFCs like that of Andhra Pradesh, Assam, Kerala, etc.

In spite of following the Mercantile System of Accounting, the DSFC's profitability was at a very low level since, in 17 out of 25 years it had drawn subvention from the State Government for paying the minimum guaranteed dividend. Its transfer to reserves came to ₹4 lakhs per annum on an average as against the all SFCs average of ₹16 lakhs. The percentage of the DSFC's reserves (excluding that under Sec.35A of the SFCs Act) to its paid-up capital was less than 14 per cent which was the lowest among
all the SFCs, the average of all SFCs being 56 per cent.

Industrialisation of the region served by a development bank is an important consideration in judging the bank's performance. But more than two-thirds of the industrial units financed by the OSFC have gone sick. On an average, only 25 of the OSFC's assisted units were in running condition. Hence, the net effect of the OSFC on the industrialisation of the State has not been upto mark. Of course, in the recent past, the OSFC has been making efforts for revival of the sick units.

On the whole, the OSFC as a regional development bank, has to make long strides before it makes a significant impact on the industrial economy of Orissa so as to give the State its rightful place in the industrial map of the country. With a competent managerial set-up and on proper implementation of the measures suggested, the OSFC has a bright future to act as a catalytic agent for industrial development of the State.