CHAPTER 1

INTRODUCTION AND RESEARCH DESIGN

1.1 INTRODUCTION

Financial system implies a set of complex and closely connected or intermixed institutions, agents, practices, markets, transactions, claims and liabilities in the economy. Financial institutions can be classified into two categories namely banking and non-banking institutions. Banking had not penetrated into the rural and semi-urban areas and institutional credit was not available to agriculture, small industries, self-employed entrepreneurs, artisans and small traders. Therefore, banks are expected to play a more active and positive role in aiding sectors such as agriculture and small scale industries. The formal directives are necessary and given to the banks to channel the flow of credit to certain sectors of the economy in the larger interests of the country in order to reduce the regional imbalance. Non banking institutions are also playing major role and they constitute an integral part of financial system. A development bank is a financial intermediary supplying medium and long term funds to bankable economic development projects and providing related services. A development bank may be defined as an institution either wholly or partially owned by government or by private interest primarily devoted to the stimulation and invigoration of the national capital market, to provide long term capital and to
supply entrepreneurship including technical know-how and management to the private sectors.¹ A development bank is intended to provide the necessary, managerial and technical know-how, where these are clearly inadequate or non-available and also assist in building up the financial and socio-economic infrastructure favorable to quick economic growth.²

Bhutan Development Financial Corporation limited (BDFCL) is a development bank in the kingdom of Bhutan. Today the services render by the BDFCL is remarkable and extremely dynamic to meet the needs of agriculture, small and medium industrial sectors in the country.

Bhutan is an agrarian economy with over 80 per cent of the total population primarily engaged in agriculture and its allied activities. Bhutan’s agriculture depends on monsoon; sometimes it gets excessive rainfall or very low rainfall which ultimately affects the agricultural and its allied activities. The large segment of the population is scattered across the country. Most of the farmers in Bhutan are primitive and subsistence agriculturists because land holding size is very thin. The average farmer in Bhutan owns about 1.5 hectares of cultivable land. The number of landless farmers in Bhutan is very low as they make up on

¹ Diamond William, Development Bank, the John Hopkins Press, Baltimore, 1957. P.2
² Basu. SK. Theory and Practice of Development Banking; a study in the Asian context. Asia publishing House Bombay 1965. P.21
about 3-4 per cent of the total population\(^3\). Most of the farmers are practising mixed, and subsistence farming. The farms are very small in size and they grow just enough for use in the family. Although most of the farmers in Bhutan own their land, some farmers cultivate lands which are all partly owned others. Sometimes land is given for rent because the land owner does not have adequate laborers. During the last two decades, the government has been trying to introduce modern technology in agriculture by supplying right and new inputs of high yield varieties, adopting appropriate farming techniques to reduce labour intensive requirements to improve the agriculture productivity.

**Issues warranted for the present study:**

- Poverty is clearly a rural phenomenon with 29 percent rural population and 2-4 percent urbanites living below poverty line
- One of the greatest challenges that confront the country is rapid rate of population growth. The population will be doubled in twenty three years if the current rate of growth of 3.1 percent remains unchanged.
- In the next twenty years, government needs to create 270,000 jobs for young people entering the work force.
- Despite the progress made in the field of education, many young population is not equipped with the skills required for productive employment.

\(^3\) Statistical year book of Bhutan, 2003
The growth of private sector is essential for the promotion of future economic growth

The rapid rate of rural-urban migration constitutes many challenges—many towns are physically unable to absorb many new inhabitants and many towns are poorly equipped to deal with new inhabitants.

Most of the Bhutanese live in rural villages, often several days walk from the nearest road posing enormous challenges for their access to public services and market opportunities for farm products. One third of Bhutanese communities have no motorized access and only 40% of Bhutanese population lives within one hour walk from the nearest road.

The benefits of development have not been shared equally

Three quarter of Bhutan is covered in forest, and this sector is important for rural poor in terms of fodder, fuel-wood, and building materials. Forestry contributes 10 percent to GDP, but its indirect contribution is much larger in terms of protection and conservation of soil and water regimes.

Agriculture is essentially subsistence—contributing one third of GDP (38%) and this sector contributes the majority of income, employment and food security to most Bhutanese particularly the poorest.
Bhutan’s Financial System

The Royal Monetary Authority of Bhutan is the central bank of Bhutan which was established in 1982. It is an autonomous institute which regulates and controls the monetary system of Bhutan. The Ngultrum (Nu) is the currency of Bhutan. One ngultrum equals 100 chetram. Notes in circulation are Nu: 1, 2, 5, 10, 20, 50, 100, and 500. Its value is pegged with Indian Rupee in the ratio of 1:1 and therefore Ngultrum can be exchanged with Indian rupee at par. The Rupee is also accepted as legal tender in the country (Bhutan).

There are two major public sector commercial banks – Bank of Bhutan (BOB) and Bhutan National Bank (BNB) to cater the needs of the people of Bhutan. Bank of Bhutan (BOB) was established in 1968. Now it is a largest bank in the country with total assets of Nu.12 billion. It is a government owned bank. The state bank of India has 20 percent stake in this bank. There are twenty six branches across the country. Another commercial is Bhutan National Bank (BNB) which was established in 1996. It is a public owned bank with total assets of Nu. 6 billion.

There are three Non-Bank Financial Institutions in the country- (1) Royal Insurance Corporation Of Bhutan (RICB) (2) Bhutan Development Finance Corporation Limited (BDFCL) and (3) National Pension and Provident Fund (NPPF). RICB was established in 1975. It is a public owned company with the
government holding of 39 percent stake. There are nine branches with total assets worth Nu. 1.5 billion. The RICB has two major divisions namely general insurance and life insurance.

One development bank which is known as Bhutan Development Finance Corporation Limited (BDFCL) established with the primary objective of promoting and encouraging micro, small and medium industries.

1.2 BHUTAN DEVELOPMENT FINANCE CORPORATION LIMITED (BDFCL) - AN OVERVIEW

The Bhutan Development Corporation (BDFCL) was formally established in January, 1988 as a development finance corporation for meeting the financial requirements of the private commercial sector as well as the needs of the rural communities. It was later registered under the Bhutan Companies Act on 27th December, 1990 and is now functioning as an autonomous corporation with distinct mandates, specific policies and separate set of its own service rules, regulations and established procedures.4

The primary function of the Corporation is to promote and facilitate expansion of the economic and social advancement of Bhutanese people by making loans and in its discretion providing financial, technical, and advisory

assistance to enterprises in the industrial, forestry and agricultural sectors of the economy of the country.

The Corporation conducts its operations within the general framework of the economic policies, plans and priorities of the Royal Government of Bhutan. It however, carries out its operations in accordance with sound banking and business practices and provides financial assistance only to those projects, which on the basis of its own analysis; appear to be economically justified, technically feasible and financially viable and profitable. To reduce the concentration of risk, the Corporation diversifies its portfolio by sectors of operation and between public (government owned) and private sector (individual) and by avoiding inappropriately large investments in one particular enterprise/project. It also pursues geographical diversification of its portfolio, wherever or whenever considered appropriate.

Governance

The Board of Directors, who are represented from the under mentioned ministries of the government which govern the functioning of BDFCL.

- Ministry of Finance
- Ministry of Agriculture
- Ministry of Home and Cultural Affairs
- Ministry of Trade and Industry
The day to day operations of the corporation is under the agies of the Managing Director who is the chief executive officer of the corporation. He is the member secretary of the BDFCL Board.

Organogram

Source: BDFCL Annual Report, 2007
Mandates of BDFCL

The Royal Government of Bhutan mandated BDFCL to:

- Provide micro, small and medium financial services for the development and modernization of agricultural, commercial and industrial enterprises in the country;
- Enhance income of the people thereby improve standard of living through provisions of financial services;
- Provide financial services for private sector development;
- Alleviate poverty;
- Provide technical and advisory services to the enterprises; Mobilize external and internal funds for investments.

Share Capital

BDFCL has an authorized share capital of 200,000 of Nu.1000 each of which 100,000 shares at Nu.1000 each was issued and paid up. The share capital of BDFCL is owned by Royal Government of Bhutan and by other financial institutions namely

- Royal Government of Bhutan : 87.00 %;
- Bank of Bhutan Limited : 07.50 %;
- Royal Insurance Corporation of Bhutan Limited : 03.00 %;
- Bhutan National Bank Limited : 02.50 %.
Staff Strength

As of October 31, 2007, the corporation has total staff strength of 154 of which 64 are based in head office and 90 in three regions and 22 branch offices.

General categories of loans eligible for BDFCL financing are as follows:

- Industrial Loans
- Agricultural Loans
- Guarantees
- Loan products for rural farmers
  - Savings Product
  - Mobile Banking

BDFCL recognizes that savings is vital for the country's investment and economic growth. In this regard, BDFCL shall promote savings to all qualified citizens of Bhutan consistent with its mission of supporting the development of the commercial, agricultural and industrial sectors of Bhutan. BDFCL recognizes that savings provides a strong capital base for BDFCL's long-term financial viability. BDFCL shall therefore mobilize savings to expand the Corporation's pool of lending funds to lessen the dependence on foreign donors, borrowings and government grants. BDFCL further recognizes that savings can be used to reduce the financial risk. BDFCL shall:
a) use savings as partial, collateral coverage for loans,
b) to offset arrear payments and default cases and
c) as a basis to judge earning and savings capacity and financial discipline of a potential borrower.

BDFCL recognizes that savings mobilization requires greater sense of responsibility and accountability from the staff and the organization as a whole. BDFCL shall ensure that public funds (especially from the poor) are managed and kept with full competence and accountability on the part of the Corporation.

**Rural Savings Scheme of BDFCL launched on April 05, 2005**

People are highly conscious of money and assets and continuously strive to drive maximum benefits out of it in one way or the other. People’s savings act as a mean to accumulate wealth. Domestic savings are common around the world which constitute an important mechanism for basic survival of poor people since it provides security for the family. Savings also provide an important source for a country’s future investment, which is essential for its economic development and growth.

Domestic savings can be considered as whatever people can put away after meeting their basic living expenses. Abstaining from consumption or deferring consumption is one way of saving. Savings may be kept in cash or in kind.
Another form of holding a stock of savings is by acquiring and accumulating assets. Such assets can take the form of e.g. livestock, as grain stores or jewellery. It is not always easy to classify certain expenditure or non-expenditure as savings, consumption or investment. A marginal farmer may save to buy an oxen and a plough, but these savings can be at the same time considered as an investment if he is then in a position to sharecrop more land. These examples demonstrate that the concept of savings cannot be defined and can as such be interpreted in different ways.

BDFCL (Bhutan Development Finance Corporation Limited), like other financial institutions providing "credit only" services, has always been dependent on international donors and government for its capital funding. In the last few years, these grants and subsidies have decreased significantly forcing BDFCL to borrow funds from commercial sources to meet the increasing loan demand. Commercial borrowings, however, is seen only a short-term solution. BDFCL requires a funding option to guarantee the long-term survival and sustainability of the Corporation. Saving mobilization offers BDFCL with an immediate and economical source of capital. Savings deposit taking is not new to BDFCL. Since 1998, BDFC has been offering voluntary savings on a limited basis - only for loan clients doing business with the corporation. In addition, the Group Guarantee Lending Scheme (GGLS) provides compulsory and voluntary savings services to the rural poor. As of December 2004, BDFCL’s savings collection has reached
Nu. 22.476 million from 3,419 savers which translates to an average savings of Nu. 6,574 per saver.\(^5\)

Building on the initial success, BDFCL seeks to expand its savings program to focus mainly on the rural population. The goal of the expansion is two-fold:

1. First, to provide secure, convenient and accessible deposit services that meet the demand of the rural low-income groups.

2. Second, to mobilize local capital to support BDFCL's District Branches to become self-sustaining units.

Target expansion areas are rural households located outside the main town centers. Studies show that these rural households can save and will save with formal financial institutions if appropriate and secure savings facilities are available. Lack of such facilities forces these households to continue to rely on in-kind savings. Since rural savers are not homogenous and require different products to meet diverse savings needs. BDFCL will offer two savings products namely:

- Demand Deposit

- Term Deposit

The Corporation offers products priced competitively with other commercial banking institutions. BDFCL has a major edge over other potential entrants in the market because of the Corporation’s extensive branch network. A fledging mobile banking operation allows BDFCL to reach almost all the Geogs (village level) nationwide. Since lucky games are popular among the Bhutanese, a lucky dip draw had been introduced as one of the main promotional tool to attract rural savers. Clients maintaining the required average monthly balance automatically qualified to participate in the draw. Lucky dip draws are scheduled to be held every six month in every districts and prizes popular among the rural folks will be awarded. Staff skills and motivation will need to be continuously enhanced through an effective human resource development program. Staff training will emphasize on effective implementation of programs and fund management. An incentive scheme incorporating, savings as key performance indicators will be devised. Default risk is seen as the major risk. Loan portfolio quality will need to be improved to make sure that the rural clients meager savings are not put to waste. Efforts to improve portfolio quality will continue. Borrower selection will need to be tightened with more emphasis on client’s character and capacity to pay than on the usual basis of collateral. Fraud risk is also a major risk. The lack of conventional control mechanisms in mobile banking operations presents a huge potential for fraud. Regional Managers and Internal Auditors will need to be extra vigilant and conduct constant spot checks and visits to deter
mishandling of cash. BDFCL modestly expects to collect Nu.37,456,376 from 12,052 savers by the end of 2007.

**Mobile Banking**

Mobile Banking is a service provided by the BDFCL field staff to the rural communities by visiting the pre-determined place, date and time of meeting on a regular basis. The place, time and date of the meeting is discussed with the general public and finalized for implementation well in advance. Each branch offices shall formulate an annual Mobile Banking Plan and the concerned regional offices will monitor its implementation. Mobile banking is like a mini bank brought to the field with whole lot of banking services of BDFCL to the rural people. During the mobile banking, among others, the following activities are being carried out:

- Loan intake/loan documentation
- Project site visit
- Loan Approval and disbursement
- Loans and Savings collection
- Savings withdrawals
- Project supervision & monitoring and
- Other banking related activities
**Group Guarantee Lending and Savings Scheme**

The principal goal of the Bhutan Development Finance Corporation Limited (BDFCL) is to assist the small rural entrepreneurs to increase on-farm and off-farm production thereby increasing their income and standard of living. The increase in production on a nation-wide basis will assist Bhutan to become self-sufficient in food thus fulfilling one of the major aims of the government. Towards this end, Micro-Finance is recognised as a powerful tool in accelerating the socio-economic development of the most disadvantaged segment of the rural society. The reasons behind the success are:

Small loans based on group guarantee, tied with savings

1. Loans among people who know each other well
2. Decentralisation on loan decisions
3. Powerful sanctions for delinquents
4. Peer pressure and support

Acknowledging the impact of this small but important tool, BDFC had also subscribed to it by introducing small loans based on group guarantee and savings under the Group Guarantee Lending and Savings Scheme (GGLS). The experiences of successful micro-credit programs of the CARD bank Philippines and the Grameen Bank in Bangladesh have been used for replication.
However, modifications have been made in order to adjust the group scheme to the physical, socio-economic, cultural and demographic circumstances in Bhutan.

**Small Individual Loan Scheme**

Bhutan is an agrarian economy with over seventy-nine percentage of total population primarily engaged in agriculture and livestock related activities. This large segment of the population lives in the rural areas. Considering this fact, it is of utmost importance to provide the necessary service facilities for the Agriculture and Animal Husbandry sectors, which would have immense bearing on the livelihood of the people. The essential service facilities primarily consist of three items, not limiting to

i. Inputs- (seeds, seedlings, fertilizers, tools, implements and other inputs),

ii. Credit; and

iii. Market

The availability of the above three items, which are referred as "**Three Pillars of Agriculture Sector**" would boost the production of the agriculture sectors, increase rural income, and enhance the living standard of the people. These would ultimately lead to the achievement of the overall national objective of Bhutan "**food-self-sufficiency**".
Credit is one of the important catalysts for the enhancement of the production of the Agriculture Sector. Since Agriculture Lending Department (ALD) of the BDFCL is the only institution in the country providing the rural credit, it is of prime importance to deliver the credit services to the rural communities on acceptable terms and conditions and in the most cost-effective manner.

The rugged terrain of the country, scattered nature of the rural settlement, and high cost of delivering financial services to the rural areas poses a serious challenge to the ALD, BDFCL. Notwithstanding these difficulties, the ALD shall continue to put in concerted efforts and work towards the fulfillment of the objectives that are mentioned below:

1. Provide financial, technical and advisory services to the rural and urban entrepreneurs;
2. Promote the agriculture and agriculture related commercial enterprises through developing meaningful linkages with the related agencies;
3. Enhance the rural income and the living standard of the rural communities;

Achieve operational sustainability.

**Commercial Agricultural Loan Scheme**

To suit the financial needs of the bigger clients and to provide appropriate financing schemes, the ALD - BDFCL has formulated three different loan products, which are currently provided to the customers.
Industrial Loans

Term Loans

- Cottage & Handicrafts
- Equity Finance
- Housing
- Manufacturing
- Mining Industries
- Personal
- Services
- Tourism
- Trade
- Transport

Credit Delivery Mechanism

- Submission of application

The promoter is required to submit his/her written proposal to the Deputy General Manger of the Credit Department on the loan request. A brief interview is conducted by the DGM for submission of the proposal to the Credit Committee Meeting, and then the promoter he is required fill the Loan application form.
Credit Committee Meeting (CCM)

The CCM of the Credit Department is held every working Friday. It can be deferred. The agenda circulated by the DGM is discussed at length as to whether we should consider the request for further appraisal of the project.

Information to the client

The promoter will be informed on the decision of the CCM. The promoter is required to submit the following document to the concerned officer:

- Loan clearance of the other Financial Institutions
- Copy of I.D card
- Copy of the trade license
- passport photo

Appointment of the Project Officer (PO)

After the discussion at the CCM, a Project Officer will be appointed for every client to appraise the project and check the feasibility of the proposal submitted. The PO is required to do a thorough feasibility on technical, financial viability of the project before submitting for approval.

Project Site Visit

On completion of the feasibility, the Project officer is required to go personally to the project site and see the real life situation of the unit.
➤ Approval of the Project

Once the feasibility is thoroughly done by the Project Officer, then it is once again submitted back to the management for final approval.

➤ Loan Documentation

Once the Project Officer obtains the approval of the project then the officer concerned is required to do the documentation of the Loan document for the project. Loan document of the project usually includes:

- Sanction Letter
- Undertaking by borrower
- Agreement
- Mortgage Bond
- Registration of mortgage
- Insurance of the mortgage document

➤ Filing of the Loan document

The Loan documents are made in sets of two and one retained with the project and the original set is filed with the Legal department. The legal department will scrutinize the documents and on its satisfaction issues the legal clearance for disbursement of loan.
Supervision and Monitoring of the project funded by BDFCL

The Project Officer is required to look after his/her project till the tenure of the loan and supervision and monitoring must be done from time to time.

Recovery and Follow up

The project Officer is required to do the recovery of the loan on quarterly basis.

1.3 STATEMENT OF THE PROBLEM

The banking sector has been playing a crucial role in a developing economy. A dynamic and vibrant banking sector has emerged as a sector of the masses rather than that of the classes these days. The balanced distribution of the bank branches could ensure both quantitative and qualitative improvements in the economy at large. In order to optimize the benefits of the banks and serve the requirements of multistructuralism; an egalitarian approach based on the area matrix has been well conceived and implemented throughout Bhutan. Consequently, the schemes were born and started bearing creditable fruits, particularly in rural dominated segments of the economy. The credit programmer leads all other agencies and organizations and co-ordinates their functions suitably well. This study tries to explore and review the working of Bhutan Development Finance Corporation Limited (BDFCL). The lending operations are given due
emphasis. The advances made by Bhutan Development Finance Corporation Limited (BDFCL) under the different programmes with reference to collection and recovery conditions are scrutinized. The impact of credit scheme on beneficiaries before and after utilizing the amount of credit in terms of income, asset and employment generation will be examined and evaluated in this research exercise. The parameters, perspectives and problems pertaining to repayment and recovery of loans will also be highlighted.

Above all, this work addresses, a little eminently, the issues that crop up while in assessing the trickled down effects of the functional contributions made by the banking units in a comprehensive manner. The centrifugal and centripetal commercial and economic forces are indirectly investigated in this work. The indigenous and exogeneous factors determining the trends of transformation are taken into consideration.

The present study is carried out with the sprite of exploration of facts and hence it is expected to present original and creative types of knowledge in this area.

1.4 REVIEW OF LITERATURE

An attempt is made to review some relevant studies relating to the performance of banks in credit lending for different schemes in this section. Such
review would facilitate the researcher to have a comprehensive knowledge of the concepts used in the earlier studies and enable better understanding of the facts of the subject under study.

At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries\(^6\).

Joshi\(^7\) concluded that a single financial institution with family substantial resources meeting different needs of the agriculturists has its attraction instead of presently accepted multi-agency approach. The results reveal that loans borrowed from the State Bank of India by the active farmers for crop production purposes were not very helpful in increasing the productivity of land vis-a-vis non participation farmers.

R. Ganapathi\(^8\) concluded that modern agriculture in capital intensive and it centers on the application of high yielding seeds and inputs. But the majority of the farmers are unable to make use of the modern inputs and technologies due to

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\(^6\) *Report on currency and finance* 2006-08, Reserve Bank of India, volume-I, p.100


\(^8\) R. Ganapathi, *A study on the structure and flow of crop loan to agriculturists* in Udemalpet-coimbatore, Sep. 2003
paucity of funds. In this context, credit becomes inevitable for agricultural developments.

Jha\textsuperscript{9} traces at the origin of Land Development Banks and co-operatives at the world level. Germany is the original home of land banks and co-operatives. The co-operatives are known as Landschaftan in this country. The first bank of landschaft was created in 1769. Jha then discusses the emergence of Land Development Banks in India, particularly in Bihar.

Renuga Devi\textsuperscript{10} found in her study that non-banking financial companies are accepted as a part of the financial system. The services provided by the Non-Banking Financial Institutions and their role in the development of the economy in the country cannot be ignored. They rely on public deposits and bank loan, apart from their funds in performing their role.

R.K.P. Singh and K.M. Upadhayaya\textsuperscript{11} studied the recoveries in the Regional Rural Banks operating in Bihar and reported that loan recoveries in RRBs declined continuously during the period 1978-1980. The reason for declining or low loan recoveries were: inadequate arrangement for recovery in

\textsuperscript{9}Nand Kishore Jha, \textit{Bank Finance and Green Revolution in India}, Amar Prakashan, New Delhi, 1985, p.36.


bank branches and the shortage of funds with the borrowers to repay the loan either due to crop failure or on due expenditure on festivals and ceremonies or other social functions or of illness of family members. Inadequate follow up by banks for repayment and willful default were also important reasons for declining loan recoveries in RRBS.

Rajagopalan\textsuperscript{12} had defined agricultural credit as the amount of investment funds that could be made available for farm production from sources outside that of the farm. He had also defined agricultural credit as the amount of investment funds that could be made available for the purpose of development and sustenance of farm production and productivity.

Chitranjan\textsuperscript{13} was of the view that creditworthiness could also be improved by increasing the application of production techniques which resulted in saving land and using more of labour as the small and the marginal farmers had abundance of labour and scarcity of land resources. Creditworthiness could also be improved by evolving a production pattern which was market oriented and biased against self-consumption. An obvious implication of such an approach

\begin{footnotesize}

\textsuperscript{13}Chitranjan, “Credit Rationing – A Perspective”, \textit{Financing Agriculture}, Vol. 18, No. 324, July-December, 1986, pp.8-10.
\end{footnotesize}
would be to encourage the small farmers and the marginal farmers to switch over to the cultivation of more and more of the cash crops.

**G. Blakrishnan**\(^{14}\) analyzed the experience of joint stock companies in finding finances and found that they had low carrying capacity due to the high cost of production and the high rate of interest.

**Kopardekar**\(^{15}\) attributes excess capacity remaining unutilized in small firms to the lack of finance. Lack of finance, especially shortage in working capital, leads to inefficient utilization of the installed capacity. Inadequate funds lead to inconsistent operation of the units. Many units are not in a position to apportion funds to fixed and working capitals.

**J.N. Mishra**\(^{16}\) in his study in Saugar District found that industrialists preferred a bania, a private money lender, a co-operative bank for meeting their financial needs in order to avoid the complicated formalities, cumbersome procedures and undue delay in getting loans from banks.


On the basis of a survey conducted by the Central Small Industries Organization\textsuperscript{17}, the Administrative Reforms Commission, stated that twenty percent of the financial requirements of small units were met by institutional sources.

The study “Finances for Small Scale Industries in India” undertaken by Professor \textbf{K.T. Ramakrishna},\textsuperscript{18} pointed out the nature and magnitude of financial problems faced by the small–scale industrial sector of India and the role of the Government, the State Financial Corporations and Banks financing this sector. The methods of financing by several countries like Japan, the U.S.A., the U.K., countries in Europe, Canada, Australia and the like were highlighted in the study.

\textbf{S.P. Mathur}\textsuperscript{19} on the basis of his study in the Agra region reported that finding adequate fixed and working capital was the greatest bottleneck in the growth of small-scale industries.

\textbf{Hrishikesh Bhattacharya}\textsuperscript{20} conducted a study on the problems faced by the small-scale entrepreneurs located in Howrah and Calcutta of West Bengal. All the units were bank–assisted units. The study found that the need for


\textsuperscript{18}K.T. Ramakrishna, \textit{Finances for Small Scale Industries in India}, Deep & Deep publications, New Delhi, 1975.

\textsuperscript{19}S.P. Mathur, \textit{Economics of Small Scale Industries}, Sandeep Prakasham, Delhi, 1979

\textsuperscript{20}Hrishikesh Bhattacharya, \textit{Entrepreneur, Bankar and Small Scale Industry}, Deep and Depp publication, New Delhi, 1984.
proportionate increase in capital was inversely related to the size of the small firms. In other words, the smaller the firm, the larger the proportionate increase in finance required to enable it to effectively respond to the demand of its product. It was also observed that the smaller the firm, the less as its chance to command finance from banks because it does not have any track record of past years’ performance. The bank managers felt shaky in sanctioning the required amount of loan because they were unable to judge the capability of prospective borrowers on the basis of projections only.

R. Neelamegam\textsuperscript{21} in his study of institutional financing for small–scale industries analyzed various types of financial assistance offered to the small–scale units is Tamil Nadu. He dealt with the role of the National Small Industries Corporation, the Industrial Development Bank of India, the Small Industries Corporation, the State Financial Corporation, Co-operative Banks and Commercial Banks in assisting small scale industries.

Y.S. Yoosuf Khan\textsuperscript{22} in his study “Problems of Small Scale Industry: A Study with Special Reference to SSI units in Tirunelveli” found that the paucity of fund caused the small–scale units to organize more and more concerns under


partnership, to pool together the resources of the partners. Fifty-five per cent of the sample units studied, were in the requirement of adequate financial aid for their day-to-day running expenses and only 7.5 per cent for expansion purposes. The nationalized banks in the region accounted for 40 per cent of the total institutional assistance given to small-scale units.

Neelamegam\textsuperscript{23} in his article “Small Business Financing” emphasized the fact that small firms suffered for want of capital. Inadequate capital resulted in less investment on labor saving devices, resulting in less productivity and profit. The short life span of small firms was attributed to inadequate capital.

R. Natarajan\textsuperscript{24} (1989) conducted a study on financing small scale industries in Andhra Pradesh which shows that the Andhra Pradesh State Financial Corporation and banks gave increasing proportions of credit to SSI. Inter-firm comparison was absent in their appraisal as also the to build up the relevant data on the performance of firms. An increasing proportion of bank loans as disbursed for working capital.

R. Natrajan\textsuperscript{25} in his study “Institutional Finance for Small Scale Industries” observed that all institutions were engaged in promotional finance and

\textsuperscript{25}Ibid.
fixed capital finance of SSI units but special institutions were not floated to provide working capital loans. The promotion of SSI units was encouraged by installation of fixed assets and by many financial institutions, but post-promotional financial requirements for meeting day-to-day business needs were completely ignored by them.

**M.S. Chikkara’s** study (1994)\(^{26}\) titled “Role of Banks and Financial Institutions vis-a-vis Consultancy Needs of SSIs” represents the evolution of non-financial role for the financial institutions and banks for the promotion and healthy growth of small scale enterprises.

**Sen** (1992)\(^{27}\) in his work argues that banks lack expertise in handling small industries accounts and have a natural aversion to them because of high risk and high mortality. Banks have to take precautionary measures to cover deficiencies at the time of appraisal and also during actual operations.

A study was undertaken by the **National Institute of Bank Management** (1995)\(^{28}\) titled “Are our SSI units receiving adequate Institutional Credit”. This study aimed to identify the credit-related problems faced by SSI units. The

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findings of this study are: the inadequacy of credit limits sanctioned, increase in interest rate, banks insistence on adequate security including collateral, and delay in sanctioning or disbursement of loans.

James and William\textsuperscript{29} (1996) in their work emphasize the challenges of managing cash flow in times of rapid growth and finds that it is imperative for small business managers to use a sound cash flow strategy in building their companies.

A. Subbiah\textsuperscript{30} in his study “Financing of small scale Industries by State Bank of India: A Study with Special Reference to Sattur Branch” stated that there was delay in the sanctioning of loan and subsidy to small-scale units. The State Bank of India could not achieve its target of disbursement of loans to small scale units due to non-materialization of some new proposals. Match factories were not fully utilizing the cash credit limit sanctioned to them.

Bhattacharya’s (1997)\textsuperscript{31} work emphasizes the adoption of a total systems approach to firms, a proper understanding of which will enable a banker to assess the correct working capital requirement of a small industrial unit.


\textsuperscript{30}A. Subbiah, \textit{Financing of Small –Scale Industries by State Bank of India – A Study with special Reference to Sattur Branch}, M.Phil Dissertation submitted to Madurai Kamaraj University, 1990

A study titled “Institutional finance for the Development of small scale Industries in Karnataka” was undertaken by D.G. Rudramurthy (1997). This study made an attempt to analyse the pattern, trends and magnitude of financial assistance to the SSI sector in Karnataka. The study also evaluates the impact of institutional finance on industrial development and assesses the financial problems of the entrepreneurs and the nature of dependency on financial institutions.

Mithilesh Kumar Mishra and Anup K. Karan in their research paper entitled “Sickness in Small Industries: A Case Study” state that the two major factors for the sickness of small scale industries are lack of adequate and timely working capital and lack of marketing facilities. They found that the lack of technical know-how, shortage of improved machinery, labour problems, irregular power supply and erratic powercuts, fluctuation in prices of raw materials and inadequate arrangements for consultancy acted as checks on the growth of the units.

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M. Altaf Khan in his paper “Industrial sickness and Revitalisation through Banks” mention that the banks and financial institutions which extend loan assistance were to be held responsible equally for the sickness of the SSI units, for the want of proper analysis of very optimistic sale projections, for the laxity of control for the diversion of funds, for the ineffective credit supervision, permitting delays in submission of statements, returns and financial statements and inadequate credit assistance.

George Verghese (1998) in his paper “Leading Issues in Credit Flow to SSI Sector is Finance for Small Enterprise in India” states that focus on the limited impact of policies on the SSI sector in India is mainly due to the isolated treatment accorded to the SSI sector. The SSI sector needs a renewed thrust, enhancing credit flow by drastically improving the problem areas of administration, personnel, entrepreneurial development and infrastructure in the dispensation of credit.

P. Ganesan in his study “Public Sector Banks and Priority Sector Advances: A Critical Analysis” states that the priority sector credit from banks rose from Rs.765.11 crores in December 1969 to Rs.61,794 crores in March 1995, registering an average annual growth rate of 19.20 per cent. The advances of

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public sector banks to the small scale sector as a percentage of the total bank credit increased to 16.60 in 1997 from 9.78 at the end of 1969. He suggests that to enhance the credit flow to small scale industries, banks should adopt a simplified approach to the assessment of the working capital requirements.

**K. Ramesh**³⁷ (1998) suggested in his study the redistribution / opening of specialized branches in credit deficit states with a special thrust on financing micro enterprises. He acknowledges that the flow of credit would critically depend upon the availability of infrastructure and support services for SSI.

**K.M. Shahjahan”**(1999)³⁸ finds that the banks have surpassed the priority sector target of 40 per cent by only widening the area of the priority sector and not by financing the core priority sector. Diversified lending to areas within the priority sector has pushed down the total non-performing assets of banks.

In their study, “Sickness in small scale Industries of North–Eastern Region”. **Kiran Sankar Chakraborty and Alok Pramanlk,**³⁹ found that inadequate working capital supply by financial institutions, including banks,


complicated banking procedure, the gap between the application for loan and the disbursement of money or the multiplicity of procedures and the like came in the way of the smooth functioning of the small enterprises. A greater positive role has to be played by the Reserve Bank of India through its Sick Industrial Undertakings Division for the re-orientation of the attitudes of the banks and other financial institutions operating in the backward areas for assisting and rehabilitating sick units.

D.D. Mali\textsuperscript{40} in his paper, “Development of Micro Small and Medium Enterprises in India: Current Scenario and Challenges” stresses the need to bring about attitudinal change among the officers of banks and financial institutions for improving the credit flow to the small and medium enterprises and microenterprises.

M. Upaulthus Selvaraj\textsuperscript{41} in his article “Financial Incentives and Small Industrial Units in Madurai District: A Survey” found that the entrepreneurs of small industrial units had reasonable knowledge of the existence of long term financial incentives and subsidy assistance. As to the availing of financial assistance, nearly seventy per cent of the small scale units had made use of both the long term and the short term financial incentives. He states that the deplorable


feature was found in the availing of subsidy assistance. Only 15 per cent of SSI units had availed of such assistance. The industry-wise analysis laid that chemical industrial units followed by engineering and textile units availed themselves of long-term finance to a greater extend. Engineering units availed of short term financial assistance to greater extend followed by the textile units in Madurai district.

A study was conducted by Neelamegam and R. Maria Iniga on a sample of 150 units drawn from Coimbatore, Madurai and Sivaganga districts. One of the findings of the study was that nearly half the sample units (Constituting 49.3 per cent) had availed loans exclusively from banks and financial institutions. A distinct finding of the study was that 24 units did not avail financial assistance from any source but used their own funds. Out of the 150 units surveyed 107 units accounting for 71.3 per cent benefited from finances from banks and financial institutions. The study observed that only 16.7 percent of the sample units had the knowledge of the venture capital assistance provided by public as well as private sector banks. Further, only a partly portion of two percent availed themselves of the assistance under such funds. Fourteen per cent of the sample units had knowledge of the equity financial schemes of the SIDBI. It was also found that the units in the backward districts were more dependent on loans from banks/financial institutions than the SSI units in developed districts.

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Laxman Singh Sharma\(^{43}\) (2000) in his published thesis on the role and contribution of the Reserve Bank of India in financing Indian Industry and its impact on growth observes that SSI have made remarkable progress in the utilization of credit and contributed to national production in a big way. Bank credit and the growth of an industrial unit are interrelated. Banks have to assess the need of the SSI borrower through current ratio and restrict credit facilities to twenty per cent of the turnover. The Reserve Bank has made banks indifferent in their work relating to SSI by issuing voluminous instructions and guidelines.

Saloni P. Ramakrishna\(^{44}\) in her paper “Mapping the Small Scale Industries: The Creative Way” observes that if the SSI’s were given information support along with adequate and timely finance, their performance could show marked improvement.

Harinath Reddy’s\(^{45}\) (2000) study on working capital management in small scale industries indicates improper controls on the working capital funding. The preparation of periodical working capital reports at least once a month, better planning to overcome shortages and over trading are some of the steps suggested

\(^{43}\)Laxman Singh Sharma, *The Role and Contribution of Reserve Bank of India*, Modern Publishers, New Delhi, 2000,  
and above all banks have to monitor the working capital utilization to detect early signs of sickness.

Revathy’s (2001) study on the financing pattern of small industrial units found that lack of access to credit represents a strong restriction on the expansion of SSI units. Owners perceive financing of their operational activities as their most debilitating constraint.

D.G. Rudra Murthy (2001) in the unpublished thesis on institutional finance for the development of SSI in Karnataka State finds that the availability of institutional finance has not met the demand from the SSI sector. The educational background of the owners had little impact on the running of the units. Proprietary and partnership firms were found to be more prompt and regular in repayment of loans than limited companies. The study suggests the setting up of an SSI mutual fund, more specialized SSI branches and modification of the Narasimham Committee report to suit the SSI sector.

The Chakarvarthy Committee (1985) found that the time has come to set the maximum limit for overdues so that banks put in their state within those

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limits. Limiting credit to overdue segments and not sacrificing lending criteria should be aimed at.

The Kalyana Sundaram Committee\(^{49}\) (1988) found a sizeable demand for factoring services from small scale units and suggested the handling of factoring services of the SSI sector by the Small Industries Development Bank of India.

The Abid Hussein Committee\(^{50}\) (1997) in its report observed that the access of small scale enterprises to credit is inadequate and hence the existing institutional structure needs a thorough overhaul. The committee endorsed the recommendations of the Nayak Committee for providing twenty per cent projected turnover as working capital finance by banks to SSI. The plan of the government of the Local Area Banks and specialized branches for the SSI’s was endorsed by the committee.

The S.P. Gupta Committee\(^{51}\) (2000) presented a comprehensive picture of the various aspects of the small scale sector and recommended the fixing of investment limits for tiny (upto Rs.10 lakh), small (Rs.10 lakhs to Rs.1 crore) and medium (Rs.1 crore to Rs.10 crores) units, and emphasised the need for priority


sector lending by banks, reducing interest rate, technology upgradation and price preference to the goods manufactured.

**V. Manickavasagam and C. Vethirajan** on their article “Contribution of Small Scale Industry to the Indian Economy” assessed the role of the small scale industrial sector in augmenting the production and also in earning foreign exchange through exports.

**Raja Gopalan Nair and P. Vimala** in their article “District Credit Plans and Financing of Priority Sectors”, analyse the progress of the priority sector lending in the State of Kerala through district credit plans.

**Adwait Mohanty and Jyotirmayee Kar** in their article “Credit Rationing and SSI units” analysed the impact of credit rationing undertaken by banks in financing SSI units. They observe that small scale units largely encountered the working capital rationing imposed by banks.

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K. Nirmala\textsuperscript{55} in her study “Problems of Small Scale Industries: A Study with Special Reference to Sattur Taluk”, analysed the problems of production, marketing and finance for the small scale industrial units. She states that the lack of timely finance was responsible for the problems of production and marketing in small scale industrial units.

C. Thilaka\textsuperscript{56} in her study “A Study of Financing of Select Small Scale Industries by Commercial Banks in Tamilnadu” states that one of the important problems of the small scale industries was bank finance. Restriction on term loan facilities to small scale industries acted as a stumbling block in the promotion of SSI units. She states that commercial banks provide only 75 per cent of the financial needs of the small scale industrial units. Further the borrowers complained that they had to visit the bank more than ten times for getting their loans.

K. Kamalakannan and N. Namasivayam\textsuperscript{57} says that the small scale industries in India over the past fifty years have made a significant contribution building a strong and stable national economy. The SIDBI has been playing an


important role by operating various schemes of financial assistance to small scale industries. In order to widen its area of operations, the SIDBI should open more branches in district headquarters. Small scale industries have an important role to play in achieving the plan objectives of increasing industrial production, generating additional employment and reducing regional imbalances of growth.

The Small Industries Development Bank of India (SIDBI) was set up for promoting, financing and developing industries in the small scale sector and for coordinating the function of other institutions engaged in similar activities.

A. Subbiah and K. Navaneethakrishnan in their article “Small Scale Industrial Units and their Problems” explain that small scale industries have a place of pride in India. These have a high potential, among others, for generating employment, dispersal of man power to semi-urban and rural areas, promoting entrepreneurship and earning foreign exchange. A District Industries Centre has been set up in each district to serve as the focal point for the development of small-scale and cottage industries. Small scale industrial units play a significant role in the economic development of India.

The capital requirement for the establishment of small scale industries compared to large and medium scale industries is very low. The small scale sector provides employment opportunities to a large number of people. The number of

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people employed by the small scale sector increased from 129.80 lakhs in 1991-92 to 192.23 lakhs in 2001-02. Small scale Industries are confronted with problems such as paucity of finance, difficulties in procuring raw materials and in marketing, and obsolete and out-dated technology.

**K. Sunder, R. Kumar Gandhi and G. Gangatharan**\(^{59}\) find that after Independence innumerable financial Institutions have come into existence and they serve as important source of finance for industrial projects. The financial institutions have been established at the all India level and at the state level. The paper presents the role of the SIDBI in meeting financial requirements of the SSI though its various loan programmes. The SIDBI is a wholly owned subsidiary of the Industrial Development Bank of India (IDBI). The SIDBI is an apex institution for promotion, financing and development of industries in the small scale sector and for coordinating the function of other institutions engaged in similar activities. The Bank is mainly financing SSI through “Refinance” and “Bills financing” schemes. The performance of bank in providing promotional and development assistance is not so impressive. Therefore it is suggested that banks should widen their horizon of loan assistance to cater to the diverse credit requirements of the small scale units. It has to intensify its lending activities into the areas ie equity assistance, project-related finance and resource support to the institutions engaged is promoting SSI.

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P. Chinnaiyan and R. Nandagopal in their study “Accessibility of Bank Finance by SSI: A Case Study” explain that in India the SSI contribute substantially to production, employment and growth in the number of units after the new industrial policy (1991&1996). Small scale industries are viewed increasingly as an important vehicle for meeting both the growth and the equity objectives of developing economies. Employment generated by this sector stood at 185.6 lakh which constitutes 59.8 per cent of the total employment in the organized sector of the country. Finance is always a crucial input for an enterprise. The inability of small scale entrepreneurs to scout for funds results in slowing down their growth, lowering their capacity to internally generate funds thereby leading to the lowering of the retention and recycling of the same. It is suggested that apart from financial documents, selective entrepreneurial traits could also be considered for sanctioning loans. It could also be of help for many of the first generation entrepreneurs who need institutional support as they do not have their own financial backup. The study shows that the type of ownership of the firm, the age of the units and the socio-economic groups significantly influence the accessibility of bank finance.

\[60^\text{P. Chinnaiyan and R. Nandagopal, “Accessibility of Bank Finance by SSI - A Case Study”, Southern Economist, Vol.43, No.21, March 2005, pp..24-26.}\]
B.L. Chandak\textsuperscript{61} says that the ratio of SSI bank credit to GDP at current prices has declined from 3.0 per cent as at the end of the financial year 1998 to 2.6 per cent as at the end of the financial year 2004 whereas the overall bank credit to GDP ratio increased from 21.3. per cent to 30.5 per cent. The world over, it is the Small and Medium Enterprises (SMEs) which play a major role in innovation, revitalization of economy and creation of new jobs. Hence it is high time governments realized that adequate and timely availability of working capital is vital for the growth of SSI units. The unusual slide in SSI assistance from bank credit (BC) channels to the SSI sector since late 1990’s reflects downward shifts in the SSI credit risk appetite of banks. Non-bank credit channels are an essential and critical part of the financial intermediation process as a very high proportion of savings, investment and credit in the economy are still managed informally. The Role of the NBC as a standby source of credit, as a lifeline to the firms under temporary distress, and of meeting the day-to-day liquidity requirement provide confidence and comfort to business Integrity of credit culture needs to be strengthened in trade and industry to enhance confidence, efficiency and effectiveness of credit channels.

A. Subbiah and K. Navaneethakrishnan\textsuperscript{62} has studied the financing of the small scale industries by the commercial banks operating in Virudhunagar district under the Lead Bank Scheme.

The term “commercial bank” at the district level refers to all branches of public and private sector commercial banks operating in Virudhunagar district. Financing small scale industries refers to financing the small scale industrial sector under the Lead Bank Scheme. For the purpose of this analysis the commercial banks are classified into three categories. They are the State Bank Group (SB Group) the Nationalized Commercial Banks (NCB) and Private Sector Commercial Banks (PVTBs). The result of Friedman’s test indicates that there is no significant difference in the performance of commercial banks of different classifications operating in Virudhunagar district in lending to small scale industries.

Anil Kumar\textsuperscript{63} said that the SFC’s should make efforts to sanction the loans in a balanced manner for different purposes. More emphasis has to be given small size category of loans, because it will help in promoting entrepreneurship development in the country, which is the need of the hour. SFCs should


\textsuperscript{63} Anil Kumar, “Role of State financial corporation (SFC)in Financing SSI in India during Post reform Period”, \textit{Southern Economist}, May 2002, pp.7-9.
concentrate on the growth of the services sector in terms of loans sanctioned and disbursed, which is considered essential for rapid economic growth.

Mahalingam\textsuperscript{64} (2005) in his study stated that the bank credit is a key driver of development programmes. The entrepreneur is pivotal to add value to the economy and is in need of bank credit to facilitate investment so that products and services reach the consumers. Much stress is given to agriculture sector lending in India, 65 per cent of the population is engaged in agriculture sector. India has a set goal to emerge as

(a) a developed nation by 2020 and

(b) the third largest economy in the world by 2050.

Research investigations have revealed that the area under irrigation in the country can be expanded to 114.50 million hectares with the adoption of micro irrigation against 57.25 million hectares at present. Sustainable employment can be generated for all the economically active population. The above strategy for development of infrastructure can be implemented with an investment of (Rs.60,000 x 11.45 crores) Rs.6,87,000 crores within a span of 20-30 years.

Bank credit in India has to be expanded at least to 120 to 150 per cent of GDP to provide an accelerated push to the development of the economy of India will emerge strong comparable to that of developed countries and become the third largest economy of the world by 2050.

Rashid R. Pansare in his article “Trends in financing SSI sector in India” explains that the small scale industries play a very important role in India. The small scale industry has been given a priority status in the matter of bank financing. Experience, however, shows that in a significant number of cases, bank branches have departed from the guidelines subjecting SSI units to necessary delay and exposing them to the danger of losing viability.

Kasturi Nageswara Rao has showed that the priority sector credit is not uncommon among developing economies. An internal group of the RBI studied the question of priority sector credit and recommended that directed lending has to be continued with respect to small borrowers. Directed lending, if continued, has potential to generate huge employment. Credit to SSI sector has steeply fallen from 13.8 per cent of net Bank credit (1995) to 8.2 per cent (2004). So has the number of accounts from 29.6 lakh to 18.1 lakh. The RBI Committee has opined that certain important sectors like agriculture and SSI in the economy continue to

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suffer from inadequate credit flow and hence there is a need to continue with the practice of directed lending.

N. Namasivayam and S. Ganesan\(^{67}\) in their articles say that the small-scale industries have emerged as an engine of growth in several developed and developing economies of the world. Commercial banks with their vast network of branches have emerged as an important alternative institutional source for SSI financing. Private-sector banks also play an important role in financing the SSI sector. The total value of credit by public-sector banks exhibits an increasing trend. It was Rs.31,542 crore in 1996-97 and Rs.48,445 crore in 2000-01 and finally stood at Rs.67,639 in 2004–05.

S.M. Chockalingam and J. Sundara Raj\(^{68}\) in their article “Adequacy of Commercial Bank Credit to Small Scale Industries: An Empirical Analysis” explain that the SSI sector is a major contributor to the country’s industrial economy. The objectives were to access the adequacy of commercial banks finance to small scale industrial sector and to offer suggestions for the smooth flow of commercial bank credit to the SSI sector. The banks are liberal in extending credit to the industrial sector and more particularly to the SSI. Some coordinated efforts should be taken by the government and commercial banks for


the smooth flow of adequate credit to SSIs. An adequate credit flow to the SSI sector from commercial banks may result in making the country a strong industrialized nation and thereby achieving the targeted eight per cent GDP growth rate.

Khanelwal K. Anil⁶⁹ (2007) in his study on “Microfinance Development Strategy for India” stated that there are several good reasons for giving loans exclusively for women. First, the official slogan of the Grameen Bank is to give loans to “the poorest of the poor”. Any microfinance programme has to find a balance between two goals – economic self-sufficiency and poverty alleviation. Most programmes try to achieve self sufficiency. This means that the programmes have to operate on a commercial basis without receiving external funding after an introductory phase. The second goal is poverty alleviation and positive social development. This means reaching as many people as possible and most of the programmes, reaching ‘the poorest of the poor’. More than half of Grameen borrowers in Bangladesh (close to 50 million) have risen out of acute poverty thanks to their loan, as measured by such standards as having all children of school age in school, all household members eating three meals a day, a sanitary toilet, a rainproof house, clean drinking water and the ability to pay a 300 taka-a-week (US Dollar 8) loan.

1.5  OBJECTIVES OF THE STUDY

The specific objectives of the study are:

1. to analyse and compare the trend and growth of advances made by the BDFCL under different schemes.

2. to find out the trend in demand, collection and recovery position of the BDFCL.

3. to evaluate the impact of credit schemes on the beneficiaries before and after availing of the bank credit in terms of income, asset and employment generation,

4. to analyse repayment and recovery performance and the views of the bankers and the beneficiaries and

5. to offer suggestions on the basis of the findings of the study.

1.8. PERIOD OF THE STUDY

In order to study the implementation of credit schemes from growth and equity angles in BDFCL, the data relating to performance indication for ten years from 1998 to 2007 were taken up for the study. The field survey was conducted from September 2006 to March 2007 for the collection of primary data. The reference period of the survey is 2006–07.
1.9 LIMITATIONS OF THE STUDY

The study suffers from certain constraints. It confined only to BDFCL lending schemes and performance. The study pertains to the period of ten years from 1998 to 2007. A few households were not able to provide correct data. Some data suffer from recall bias. This is a pioneer study.

1.10 METHODOLOGY

Designing suitable methodology and selection of analytical tools is important for a meaningful analysis of any research problems. This section is devoted to the statement of the methodology, which includes collection of data, sampling procedure, method of analysis and tools of analysis.

1.10.1 Collection of Data

Both primary and secondary data have been used for the present study. A reconnaissance survey was made among the selected beneficiaries to get acquainted with the loan amount received, utilized and repaid. On the basis of the information gathered, a well designed pre-tested interview schedule was drafted and used in the field survey to collect the primary data (Vide Appendix-I). Before undertaking the main survey, a tentative interview schedule was prepared and administered to 25 beneficiaries in order to test the validity of the interview
schedule. It facilitated the removal of the non–response and unwanted questions and the modified final schedule based on this were prepared.

The selected beneficiaries were contacted in person and the objectives of the study were clearly explained to them and their co-operation was ensured. The details regarding the general characteristics of the sample beneficiaries, their families, income, expenditure and savings relating to the overall objectives of the study were collected from the sample beneficiaries through the direct personal interview method.

Secondary sources of data relating to the willingness to avail of loans, number of loans sanctioned, loan amounts were collected from the published and unpublished reports and records of the BDFCL.

1.10.2 Sampling Procedure

Bhutan Development Finance Corporation Limited has 22 branches in all twenty districts in Bhutan. For the purpose of collecting primary data from the beneficiaries and recovery performance, all the 22 branches were included for the present study. Out of 22 branches, a total of 300 borrowers under various schemes were selected at random for the study.

Keeping in view of the objectives of the study, 300 sample beneficiaries were stratified into two categories namely, those who have engaged in non-industrial activities and others engaging in industrial activities. Out of 300 sample
beneficiaries, 182 (66.67 per cent) beneficiaries were coming under non-industrial group and the remaining 118 (39.33 per cent) fell under the industrial group.

1.10.4. Tools of Analysis

In order to analyse the average of BDFCL branches, in terms of deposits, advances, lending, outstanding and recovery and its stability over the period, the arithmetic mean ($\bar{x}$) and co-efficient of variation (C.V) were calculated.

The trend and compound growth rates are computed by using semi log trend equation of the following form:

$$\log Y = a + bt \quad \text{------------------------ (1.1)}$$

Where

$Y = $ dependent variable

$t = $ Time variable

and $a$ and $b$ are the parameters to be estimated.

The compound growth rate was calculated by using the following formula.

$$\text{Compound Growth Rate (\%)} = \left[ \text{Antilog } b - 1 \right] \times 100 \quad \text{-------- (1.2)}$$

In order to analyse the impact of Group Guarantee Lending and Savings Scheme (GGLS) of BDFCL on income, asset and employment generation of the beneficiaries, t-test was applied by using the following formula:
\[ t = \frac{M_1 - M_2}{\sqrt{\frac{S_1^2}{N_1} + \frac{S_2^2}{N_2}}} \]

- \(M_1\) = Mean score of the first group
- \(M_2\) = Mean score of the second group
- \(S_1\) = Standard deviation of the first group
- \(S_2\) = Standard deviation of the second group
- \(N_1\) = Size of the first group
- \(N_2\) = Size of the second group

The computed ‘t’ value is compared with the values of ‘t’ given in the ‘t’ tables at the appropriate degrees of freedom and at required level of significance. If the calculated ‘t’ value is greater than or equal to the table ‘t’ value, then the difference between the sample mean is significant at that level of significance.

In order to identify the factors which influence the repayment, the following form of multiple log linear regression model was estimated.

\[ \log Y = \beta_0 + \beta_1 \log X_1 + \beta_2 \log X_2 + \beta_3 \log X_3 + \beta_4 \log X_4 + U \]  

\[ \text{(1.3)} \]  

where,

- \(Y\) = annual repayment amount (monetary values)
- \(X_1\) = Loan amount received (monetary value)
\( X_2 = \) Annual net income from the ventures (monetary value)

\( X_3 = \) Annual family income including other source (monetary value)

\( X_4 = \) Number of installments

\( U = \) Disturbance term and

\( \beta_0, \beta_1 \ldots \beta_4 \) are the parameters to be estimated.

The above model was estimated by the method of least squares.

The percentage recovery is calculated by using following formula

\[
R = \frac{C}{D} \times 100 \quad \text{--------------------------------------------} (1.4)
\]

where

\( R = \) Recovery percentage

\( C = \) Collected amount and

\( D = \) Demand

In order to find out the factors influencing the attitude of the borrowers towards the performance of Bhutan Development Finance Corporation Limited, Factor Analysis is applied. The factor analysis is used to narrate the data related to variables influencing the attitude of the borrowers relating the performance of BDFCL.
Analytical Framework for Factor Analysis

In factor analysis each variable is expressed as a linear combination of underlying factors. The amount of variance a variable shares with all other variables included in the analysis is referred to communality. The co-variation among the variables is described in terms of a small number of common factors plus a unique factor for each variable. These factors are not over observed.

If the variables are standardized, the factor model may be represented as:

$$X_i = A_{i1} F_1 + A_{i2} F_2 + A_{i3} F_3 + \ldots + A_{im} F_m + V_i U_i$$

where,

- $X_i$ = $i^{th}$ standardized variable,
- $A_{ij}$ = Standardized multiple regression coefficient of variable on common factor $j$
- $F$ = Common factor,
- $V_i$ = Standardized regression coefficient of variable $i$ on Unique factor
- $U_i$ = The unique factor for variable $i$ and
- $m$ = Number of common factors

The unique factors are uncorrelated with each other and with the common factors. The common factors themselves can be expressed as linear combinations of the observed variables.
\[ F_i = W_{i1} X_1 + W_{i2} X_2 + W_{i3} X_3 + \ldots + W_{ik} X_k \]

where,

- \( F_i \) = Estimate of \( i^{th} \) factor
- \( W_i \) = Weight or factor score coefficient
- \( K \) = Number of variables.

It is possible to select weights or factor score coefficients so that the first factor explains the largest portion of the total variance. Then a second set of weight can be selected, so that is the second factor, which accounts for most of the residual variance subject to being uncorrelated with the first factor. The same principle could be applied to selecting additional weights for the additional factors. Thus, the factors can be estimated so that their factor scores, unlike the value of the original variables, are not correlated. Furthermore, the first factor accounts for the highest variance in the data, the second factor the second highest, and so on.

To understand whether factors like age and education of borrowers and factors relating to the enterprise, such as the nature of organization, the type of industry, the years of existence of the industry and the area of plant location influence the levels of satisfaction of the performance of BDFCL. For this, the Chi-square test has been employed. It is calculated by adopting the following formula.
\[
\text{Chi-Square (} \chi^2 \text{)} = \sum \frac{(O - E)^2}{E} \quad \text{where (r-1) (c-1) degrees of freedom.}
\]

Where,

\begin{align*}
O &= \text{Observed frequency} \\
E &= \text{Expected frequency} \\
E &= \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}} \\
c &= \text{Number of columns,} \\
r &= \text{Number of rows.}
\end{align*}

The Chi-square is calculated and compared with the table value to determine the relationship between the factors and the levels of satisfaction.

### 1.11 CHAPTER SCHEME

This thesis entitled “Working of Bhutan Development Finance Corporation of Bhutan Limited (BDFCL)” is presented in six chapters:

Chapter I describes the introduction, an overview of Bhutan Development Finance Corporation Limited, statement of the problem, review of literature, objectives, period, limitations, methodology, tools of analysis and chapter scheme.

Chapter II highlights the profile of the study area. Information about location, climate, rainfall, irrigation, land utilization, population, demographic
characteristics and financial institutions in Bhutan are delineated here. In this chapter, the characteristics of the sample borrowers are also included.

Chapter III deals with the trend and growth of Bhutan Development Finance Corporation Limited in terms of advances, outstanding and recovery position.

Chapter IV analyses the effect of Bhutan Development Finance Corporation Limited lending in terms of income, asset and employment generation. Further, it examines the factors influencing the employment of loan and recovery performance.

Chapter V analyses the attitude of borrowers towards the functioning of Bhutan Development Finance Corporation Limited.

Chapter VI presents the summary of findings, suggestions and conclusion.