5.1 Introduction

The present chapter proposes to study the promotional role of regional level development banks vis-à-vis industrial development of Assam. The basic idea is to critically examine the performance of AFC and NEDFi in how far they have succeeded in fulfilling the prime objective with which they were initiated, i.e. to foster overall economic development through increased industrialization. This chapter therefore deals with the fourth objective of the study, i.e. to study how far development banks have been successful in achieving their objective of achieving rapid industrialization in the context of Assam.

Development banks were initiated in India with a view to promote rapid industrialization in the country. They were the institutional entrepreneurs engaged in the process of enterprises creation. Development banks were initiated as a form of government intervention in the financial system aimed at addressing the financial needs of those sectors which have failed in the competition for raising funds, especially to meet the requirement of long and medium term finances for industrialization. Financial assistance of course alone cannot bring forth industrialization. Development banks are agencies undertaking functions both financial and otherwise to promote industrial development. Thus, it is observed that the developmental role of a development bank consists of that mix of functions which justifies linking the words ‘Development’ and ‘Bank’ together and which justified governments in sponsoring and financing them (Shobha Rani and Appa Rao, 2010). Another study observes in the context, that development banks are more than just being pure financial institutions. They are development agencies (Gupta, 1993).
Development banks perform a host of functions directed at meeting the bottlenecks of industrialization. In India, besides financial requirements, there is a great need to support entrepreneurship development, developing technical skill and upgrading technology in industries, surveying resources and identification of economically and technically viable industrial potentials specific to different regions so as to promote industrial development. Development banks were initiated to address both such financial and non-financial requirements for promoting industries in the country. In the light of the functions and expected role of development banks thereof the present chapter thus attempts to answer the following research questions:

1. How far has the development banks succeeded in benefiting their target clients in the light of their objective of achieving rapid industrialization in Assam?
2. How far has the development banks succeeded in benefiting the society in the light of their objective of achieving rapid industrialization in Assam?

5.2 Technique of Analysis

The ‘promotional role’ of development banks as in the present study is a study of the functions of the regional level development banks in total, financial or otherwise, that it performs to achieve the objectives with which it were initiated. AFC and NEDFi were sought to bring about industrial and overall economic development in Assam. It would be a ‘net benefit’ to the society if these institutions can foster increased industrialization in the state. In the study of the promotional role of development banks an analysis of the extent of this ‘social benefit’ achieved is analyzed. For the purpose an analysis based on the concept of ‘outreach’ is conducted. Outreach of AFC and NEDFi are studied using the ‘dimensions of outreach’, as outlined by Schreiner (2002) which are further analyzed using the social performance scorecard, designed by Woller (2006).

Another aspect in the light of the present analysis is to define ‘target clients’. Development banks have the core function of term lending to industries. Term loans to
industries are required for establishing new enterprises, modernization and expansion. Now, loans for setting up new enterprise involve a higher risk than lending to an already established concern. Besides, for the small scale and tiny industries, it is difficult to raise long term finance by other sources (Das, 1956). The importance of promoting new enterprise is also recognized as a significant aspect of human resource development expected of development banks (Sharma, 1989). Promoting new enterprises especially those to fill the gaps in the industrial sector is an important role of development banks (Gupta, 1993). Moreover, of the different projects financed by development banks in the region, infrastructure related projects hold special significance. The benefits of infrastructural development to a region are already known. Infrastructural projects involve huge investments and the gestation period involved is also very high. Accordingly, they attract less interest from financial intermediaries for financing the same. Financing infrastructural development has been marked as an area of concern even in the literature advocating the continuation of DFI framework, as discussed in the early chapters of the study. Accordingly, of the industrial concerns seeking assistance from the regional level development banks, those with new enterprises and infrastructural projects is given more emphasis in this study. These are therefore marked as the ‘target clients’ in the study.

The present analysis is conducted for the five year period, 2005-06 to 2009-10. The information or reporting against each parameter is made on the basis of primary data collected through direct personnel interview conducted with the officials and management of NEDFi and AFC on the basis of a pre-tested, well structured schedule, which is given in annexure 5A. NEDFi and AFC differ from microfinance institutions. Therefore, the different sittings with the concerned officials rendered certain changes in selecting the parameters (or indicators) and interpreting the social benefit aspects to be measured as from the initial study of Woller (2006). As per the criterion for selection, outlined in the social performance scorecard method (Woller, ibid.), the indicators are so chosen that they are available readily with the Management Information System (MIS) of the institution, verifiable by other users and are appropriate to the dimension they measure. It needs to be mentioned that the indicators or the dimensions of measuring the promotional role cannot
be compartmentalized. Their meaning and significance are overlapping. This was also observed by Woller (2006) in his study.

Further, it must be mentioned that the benefits to the target clients are measured by the dimensions of breadth and depth of outreach of the development banks, NEDFi and AFC. Thus, higher the breadth and depth of outreach the more the net gain to the target clients. The benefits to the ‘society’ on the other hand, are measured by the dimensions of length, scope, cost and worth of outreach. The implication is that higher the scores of NEDFi and AFC in these dimensions of length, scope, cost and worth, higher is the net benefit to the society. The overall performance of the two regional level development banks in each of the dimensions would reveal their role in successfully promoting industrialization in Assam.

5.3 Analysis and Findings

The interpretation of the different dimensions used in the present study and the findings from the direct personal interview with the officials of NEDFi and AFC against each dimension are illustrated below. The promotional role of AFC and NEDFi studied on the basis of the indicators of outreach is therefore contained in the present analysis.

5.3. a Dimension of Breadth:

The implication of this dimension is that with the available funds what number of clientele could be served by the concerned institution. This dimension measures to what extent the scarce resources of development banks have been able to serve the credit need of ‘target clients’. Also, if scarce resources are put to the most effective use, a particular development bank is then supposedly contributing more to the region. Keeping in view the indicators in the initial study, (Woller, 2006) and adhering to the selection criterion the following indicators of ‘breadth’ are chosen for the study.
1. percentage of number of borrowers with new enterprises to total borrowers in Assam

2. percentage of number of infrastructure related projects to total borrowers in Assam

Of the reasons for initiating AFC and NEDFi, in a region experiencing dearth of funds, low capital formation, lack of entrepreneurship, and inadequate infrastructural development these two indicators of lending has great significance. It is therefore proposed that, more the number of the target clients served greater shall be the contribution of AFC and NEDFi in the process of industrial development. However, in the absence of an ideal benchmark of lending, the performance of the concerned organization in this front is considered as its relevant score for analyzing the performance over time. Thus, the percentage of lending to new enterprises or to infrastructure projects by AFC or NEDFi, in a particular financial year is its score for that year.

The direct personal interview with the officials of NEDFi and AFC reflected the following about the dimension of breadth.

(a) For NEDFi:

i. Borrowers with new enterprises: The data provided to the researcher by officials of NEDFi revealed that of the total number of loan proposals sanctioned to Assam in 2005-06, 54% of loan beneficiaries included those with new enterprises; in 2006-07 it was 65% which further rose to 85% in 2007-08, 89% in 2008-09 and to 74% in 2009-10. Thus, along with a high percentage of borrowers with new enterprises there is also noticed an overall rise in this proportion during the five year period studied.

ii. Infrastructure related projects: Again, of the total number of loan beneficiaries of NEDFi in Assam, those with proposals of infrastructure related projects in 2005-06 was about 2%, which later rose to 5% in 2006-07, to 15% in 2007-08 and was 12% in 2008-09 and 13% in 2009-10. Thereby we may observe that the sanctions to infrastructure projects by NEDFi are low during this five year period.
(b) For AFC:

i. **Borrowers with new enterprises:** Of the total number of loan proposals sanctioned to Assam, in 2005-06, 67% of loan beneficiaries included those with new enterprises; in 2006-07 it was 85% which further rose to 96% in 2007-08, 89% in 2008-09 and to 49% in 2009-10. In this parameter of measuring breadth, the performance of AFC like that of NEDFi is also significantly high, with a high proportion of borrowers with new enterprises.

ii. **Infrastructure related projects:** Of For AFC, sanctions to infrastructure projects in Assam were absent in the study period.

### 5.3b Dimension of Depth:

Development banks in the country were initiated primarily for boosting industrialization. Thus increased attempt in this regard would be weighed higher by the society. Average loan size to the target clientele is considered as an alternative measure to the present dimension (Woller, 2006), which reflects the net gain to a client. Projects for setting up new enterprises and infrastructure related projects are conceived in the study as the target clientele. Loan size of this set of target clientele is accordingly measured by the following indicators in the present study.

a. Percentage of loans sanctioned to total amount sanctioned to borrowers with new enterprises

b. Percentage of loans sanctioned to total sanctions for infrastructure related projects

The performance of each institution in the context is again taken to be the representative score. Under this dimension the study revealed the following:

a. **Loans sanctioned to borrowers with new enterprises:** The percentage amount to total sanctions the contribution of NEDFi to borrowers with new enterprises was 67.70% in 2005-06, 69.22 % in 2006-'07, 59.63% in 2007-'08. In 2008-'09, NEDFi sanctioned 86.99% to this end which was 68.92% in 2009-'10.
For AFC, the percentage amount of loans sanctioned in the context in Assam, to the total sanctioned in the five year study period were 31.31% in 2005-’06 which increased to 72.17% in 2006-’07, to 64.39% in 2007-’08 and to 81.62% in 2008-’09 and thereafter decreased significantly to 29.10% in 2009-’10. Thus, for AFC and NEDFi both, we find that the amount sanctioned in this aspect were also significantly high except for the year 2009-10.

b. Percentage of loans sanctioned for infrastructure related projects: For NEDFi, the percentage amount of loans sanctioned to total sanctions in the context during the five year study period were 7.47% in 2005-’06 which increased to 41.84% in 2006-’07, to 30.97% in 2007-’08 and to 24.19% in 2008-’09 and thereafter decreased significantly to 33.35% in 2009-’10. However, AFC has no sanctions during this period towards infrastructure related projects in Assam.

5.3c Dimension of Cost:

Of the total cost of borrowing, the transaction cost includes non-cash opportunity cost like time lag in applying for the loan and receipt of the same, collateral required and indirect cash cost like transportation charges, documents required, etc. These do not form part of the revenue of the organization. On the other hand, the price cost, which includes, interest charges, upfront fees, etc forms the revenue to the lending organization concerned. Of the indicators in the initial study of Woller (2006), the followings were adapted for the study

a. Average number of days to disburse the first installment of a loan - The indicator accounts for the average time taken for all types of loans. It is a representative of the opportunity cost of time of clients. A score of ‘2’ indicates a time of 1 month to 3 months time, score ‘1’ indicates a period of 3 months and ‘0’ indicates anything greater than 3 months. The justification behind choosing 3 months ideal time is that this time frame has been reported in the findings of the different literature on development banks studying the time of loan sanctioning and disbursement.
The interview with the officials of NEDFi and AFC revealed that both the organizations need on an average 3 months to sanction the loans. The officials stated that the process of loan application examination and project appraisal needs time, which is nearly about a month. Thereafter the borrower concerns are more responsible for any delay. In most instances, it is the delay caused by borrowers to serve the documents after the loan is sanctioned. For AFC of course it was admitted by the officials concerned that most often the unavailability of adequate funds causes delay in disbursement of loans. Thus, a score of 1 is assigned to both NEDFi and AFC in this front.

b. Arrangements for clients providing non-traditional collateral- This indicator measures the extent to which an institution could reduce the opportunity cost imposed by collateral requirements. Non-traditional collateral may include, social/group guarantees, third party guarantees, movable properties, repayment history of clients etc. A score of ‘0’ means no such arrangements whereas ‘1’ means existence of arrangements for accepting such collateral.

For NEDFi and AFC both, the interview conducted revealed that accepting non-traditional collateral arrangements form an integral form of regular business. Accordingly both the organizations score 1 in this indicator.

5.3d Dimension of Scope:

Development banks were initiated specially for the purpose of providing term loans for industrial development. Their superiority lies in the fact that they do not confine themselves to the provision of financial support to the industrial enterprises alone but also assume a developmental role for the accomplishment of the goals of industrial development. An important aspect of the role of development banks is that they are to support the initiatives of entrepreneurs for a broader objective. Scope is the number of distinct products to serve the objectives of the organization. Here, ‘distinct’ is defined as a term loan or non-financial service designed for a specific purpose to be marketed to a specific segment (Woller, 2006). Of the indicators chosen in the initial study, the following are adapted in the context:
1. the number of distinct term loan products
2. number of services other than financial assistance

Following the initial study, a score of 0 is considered to mean one distinct product; a score of 1 implies two such products and a score of 2 means more than two distinct products.

The primary data collected to measure the scope dimension of outreach of NEDFi and AFC reveals that NEDFi scores 2 throughout the study period for each indicator against the dimension. On the other hand, AFC scores 2 against the indicator of ‘number of distinct loan products’ whereas it scores only 1 against the second indicator, ‘number of products other than financial products’. These are evident from the respective scorecards as in tables 5.3 and 5.4 in annexure 5 B. The findings in this dimension against each indicator for NEDFi and AFC are discussed below.

A. Scope of outreach of NEDFi:

i. Number of distinct loan products: The direct personal interview with the officials of NEDFi, revealed that NEDFi has designed over the years a wide range of products to address the different dimensions of industrialization. Each financial product is found to be distinct or unique of its kind in objective, nature of financial assistance, extent of the loan and the loanee concern it addresses. The details of these are available in the various booklets, leaflets and website of NEDFi. This uniqueness is highlighted as below in which the specific product and the specific segment addressed is depicted in terms of the product’s objective and nature of assistance sanctioned.

a. Project Finance: This product provides for long term assistance for setting up new industrial and infrastructural projects and also for expansion, modernization and diversification of existing industrial enterprises. Projects promoted by private or public limited company could seek assistance under the scheme. The assistance sanctioned is in the form of rupee term loan, to be repaid in 5 to 8 years, excluding moratorium on the principal amount. Projects of Rs. 25 lacs or above would be assisted under this scheme. However, this limit may be relaxed for projects in hill districts and projects in innovative
fields in the light of low cost projects in northeast India. The limit of assistance cannot exceed 12% of NEDFi’s net worth in a single project assisted.

**b. Equipment Finance:** Financial assistance under this scheme is provided for acquiring plant and machinery to existing industrial concerns. Existing industrial concerns of proven track record of fulfilling obligations of banks could seek assistance and that such concerns should have been in operation for more than 5 years and must have been running in profit for the last 3 financial years. The assistance sanctioned is in the form of rupee term loan. The scheme proposes to cover 70% of the cost of equipments including taxes or duties, including their installation. Projects of a minimum of Rs. 25 lacs and maximum of Rs. 10 crores would be assisted under this scheme.

**c. North East Entrepreneurs Development Scheme (NEEDS):** This seeks to help first generation entrepreneurs who are short of equity. New projects in tiny MSE concerns promoted by first generation entrepreneurs who have technical knowledge or firsthand experience in the activity and are desirous of setting up their own units would be assisted by NEDFi under this scheme. The nature is in the form of soft loan assistance, to be repaid in 7 years, to projects of a maximum cost of Rs. 25 lacs, with a proposed assistance of 25% of the project cost.

**d. Working Capital Term Loan:** This proposes to provide assistance to units currently facing problems due to lack of working capital support from banks. Projects assisted by the corporation under ‘Project Finance Scheme’ could apply under the scheme for assistance. The nature is in the form of composite term loan. Assistance to an extent of 75% of the working capital requirement for one cycle of operation would be provided under the scheme.

**e. Micro Finance Scheme:** Assistance to the grass root level borrowers who have so far been left out in the process of lending and distribution of credit is proposed here. Income generating self employed local bodies, NGO’s or local bodies having good track record of meeting financial obligations and experience in the activity are eligible for assistance. Assistance in the form of ‘Rupee Term Loan’ would be provided upto Rs. 3 lacs per project or beneficiary or NGO.
f. **Corporate Finance Scheme:** This product proposes to finance normal capital expenditure, address shortfall of working capital, funding business acquisition, repaying high cost debt, etc. Corporates of atleast 5 years of assistance and 3 years of profitable operations could seek assistance under the scheme. Assistance of a minimum of 50 lacs onwards would be provided to be repaid in 5 years.

g. **Women Entrepreneurs Development Scheme (WEDS):** Soft term loan assistance is provided to promote the cause of women entrepreneurs NEDFi. An assistance upto 75% of the project cost would be provided under this scheme, which is repayable in 3-7 years. Project cost eligible for assistance has to be less than Rs.15 lacs.

h. **Scheme for North East Handloom and Handicrafts (SNEHH):** The idea behind the scheme is to promote local artisans and therefore financial assistance is provided to projects in handloom and handicrafts sector. The nature of assistance is in the form of soft term loan for projects of a maximum cost of Rs. 25 lacs. Assistance of a maximum of 75% of the project cost is provided by NEDFi under this scheme, which is to be repayed in 3 to 7 years.

i. Besides term loan assistance, NEDFi also proposes to invest in commercially viable, innovative projects promoted in the northeast region having sound growth potential in the long run and exhibiting appreciable returns. The assistance is in the form of investment in equity capital or partly or fully convertible debentures to an extent of Rs. 50 lacs to Rs. 300 lacs.

**ii. Number of services other than financial assistance:**

NEDFi has initiated a number of products and services to assists in a comprehensive way the process of industrial development of Assam and the entire northeast region. The interview conducted reflected the following initiatives of NEDFi to this front. NEDFi offers various fee-based services in this context. Consultancy regarding commercial and financial viability, environmental and social impact studies, assessing markets and conceptualization of projects including basic design and implementation are
executed by NEDFi. Besides addressing financial concerns of projects, NEDFi offers wide range of solutions for meeting financial requirements of businesses and syndication of financial assistance with other institutions. NEDFi as a direct step to provide marketing solutions to local entrepreneurs, has initiated two places, namely, NEDFi haat at Ambari, Guwahati, Assam and at IEML, Greater Noida, Haryana where it offers local artisans and entrepreneurs to display their products. NEDFi has initiated several steps to promote entrepreneurial skills also, especially based on local resources so as to promote self employment, profitable use of local resources and also industrialization. The period of the study contained the initiated of ‘Centre for Practical Livelihood Training’, at Nalbari wherein rural youths are imparted vocational training including assistance to receive assistance from financial institutions and government to start their own enterprises. Another such project was that of imparting technical skills of making ‘designer candles’ on the same ground was initiated by NEDFi.

B. Scope of outreach of AFC:

i. Number of distinct loan products: The AFC was initiated as a torch bearer to the process of industrialization in the country and accordingly the institution has developed a multitude of financial products to serve its purpose. The statute forming AFC considers only the term loan assistance by the same and do not allow for its equity participation in enterprises. The following forms of term loan financing products are developed and in existence during the period of the study.

a. General Loan Scheme: Under this scheme rupee term loan assistance is provided to industrial concerns of an extent of a minimum of Rs. 5 lacs. However, for enterprises promoted by entrepreneurs of SC or ST category this limit is relaxed to Rs. 2 lacs keeping in view the low project costs. For proprietorship/ partnership concerns the maximum assistance is of an extent of Rs. 200 lacs while it is Rs. 1000 lacs for that of pvt. Ltd. Companies.
b. **Equipment Finance Scheme:** Rupee term loan assistance is also extended to existing enterprises to purchase machinery and equipments for modernization’ expansion or replacement purposes including imports of the same. Assistance covering 85% of the project cost to a maximum of Rs. 100 lacs is provided under the scheme to be repaid within a period of 3 to 5 years. However, enterprises seeking assistance under this scheme must have been in operational existence for atleast 3 years, must have earned profit and distributed dividend for the last two financial years and must have exhibited a positive net worth for atleast 3 consecutive financial years alongwith that it must have a good track record of meeting financial obligations if any.

c. **Scheme for medical professionals:** The scheme aims at providing rupee term loan assistance for setting up establishments of health care. The key promoters in this case must necessarily be medical professional for seeking financial assistance under this scheme. Assistance of an extent of Rs. 2 to 5 lacs is provided under this scheme, to be repaid in 6 years.

d. **Working Capital Term Loan Scheme:** To cover shortage of working capital of industrial concerns of Rs. 2 lacs and a maximum of Rs. 100 lacs to be repaid in 5 years time. The assistance is in the form of a composite term loan. However, the total loan package of both term loan and working capital must not exceed Rs. 4 crores for proprietorship/ partnership/ co-operative societies units and Rs. 10 crores for private limited companies.

ii. **Number of services other than financial assistance:** The interview with the officials of AFC revealed that, AFC is merely concerned with provisioning of financial assistance for promoting industrial concerns in the region. Therefore, it has no non-financial promotional services. But it does impart entrepreneurial training or such promotional programes in collaboration with other organizations. However, the period of the five financial years of the present study witnessed the initiation of the ‘Consultancy and Business Promotion Cell’ as depicted in the annual reports of the concerned financial years.
and have earned reasonable amounts of revenue from the same. Under this scheme, AFC provides fee based services of the following nature:

   i. Preparation of Project reports
   ii. Accounting and legal consultancy
   iii. Third party monitoring of government aided projects.

It must however be admitted that the direct personal interview revealed no such information in the contexts. Considering this fact and the versatility in the approach of NEDFi in designing schemes and rendering services in this context a score of 1 is assigned to AFC against this indicator.

5.3e Dimension of Worth:

The worth of outreach is a function of the benefits derived by the clients from consumption of products and services of development banks. Of the indicators adapted in the initial study of Woller (2006), ‘loan loss rate’ and ‘type of market research conducted’ were chosen. Loan loss rate is considered as a proxy measure of how much clients value access to loans of the concerned financial institution (Woller, 2006). For in that case, they would be keen to repay existing loans so as to seek assistance in future. If clients of a development bank were benefitted they would be enabled to repay and consider repayment. This therefore, could be measured from the quantum of sub-standard and doubtful assets constituting the non-performing assets (NPAs) of the development banks under study. NEDFi could provide Assam specific data on Non Performing Assets (NPA) amount. This data expressed as percentage of total outstanding amount resembled a picture of loan loss rate. However, for AFC such state specific data on NPA amount were not maintained though for the entire organization such classification was done as per norms. A measure of recovery performance of term loans of development banks is the percentage of overdue to total outstanding (Shobha Rani and Appa Rao, 2010) which is adapted for calculating the loan loss rate of AFC. Due to absence of a pre-existing reference, the percentage figure is assumed to be representative of the performance of each of the
institutions in this front. However, the scores are entered with a negative sign indicating that higher figures are not desirable.

The second indicator, ‘type of market research conducted’ depicts the likelihood that the DFIs products and services satisfy the needs and wants of the clients. Market research may be informal (anecdotal), ad-hoc or formal through surveys, group discussions, interviews, etc. conducted in a systematic manner on a routine basis as viewed by Woller (2006). Formal and systematic market research conducted by a financial institution implies that the concerned institution is aware of the needs of the target client. Hence, the products and services it offers shall satisfy the needs of the clients better. In this context, it is held that a score of ‘0’ indicates no such research, ‘1’ implies ad-hoc or informal or unsystematic research and ‘2’ indicates formal and systematic market research.

i. Loan loss rate: For NEDFi the percentage of loan loss rate, as in terms of percentage of NPA amount to total outstanding amount specific to the state of Assam, given by NEDFi’s officials was 25.13% in 2007-08, 17.85% in 2008-09 and 13.56% in 2009-10. For AFC, the loan loss rate as in terms of percentage of overdue to total outstanding was 98.22% in 2005-06, 90.88% in 2006-07, 97.67% in 2007-08, 97.44% in 2008-09 and 95.94% in 2009-10. These figures are not directly comparable as AFC figures have an upward bias compared to those of NEDFi. But whatever might be the case, it is apparent that the loan loss rate of the regional level development banks was higher together reflecting a grim performance in this light.

ii. Market research conducted: As revealed to the researcher, AFC conducts no such market research as a part of its normal operations. There are no such instances of AFC participating even in such research of other organizations during the entire study period, as revealed in the interview conducted for the purpose. On the other hand, NEDFi have conducted several researches, on the potentialities of development, industrial and otherwise, of the northeast region of the country including Assam, the reports of which have also been regularly published. It may be pointed out that a onetime assistance has been sanctioned by the central government to NEDFi for the purpose which is called the
‘Techno-Economic Development Fund’. Accordingly, NEDFi scores 2 in the entire study period in this indicator whereas AFC scores 0 in the same.

5.3 f Dimension of Length:

This dimension considers that financially sustainability of an organization can, not only ensure the availability of resources but also, can be satisfying to the share holders. Following the initial study the indicators to measure this dimension are:

1. Return on assets (ROA): The return on assets (ROA) is measured as
   \[ ROA = \frac{\text{Profit after tax}}{\text{total assets}} \]

2. Return on equity (ROE): The return on equity (ROE) is measured as
   \[ ROE = \frac{\text{Profit after tax}}{\text{Equity Shareholders Fund}} \]

Considering that weak financial performance cannot be justified with an improved developmental role, these two indicators are chosen to reveal how effectively the DFIs are utilizing their resource base; equity and assets to produce income. Though they are not free from limitations either, ROE and ROA have been the two most common indicators used by institutions and investors to measure financial performances (Francisco et al.). As in the initial study of Woller (2006), the following scoring pattern was arbitrarily adapted, i.e. if ROA is <1% a score of ‘0’ is attributed, for ROA of 1-2% a score of ‘1’ and a score of ‘2’ for ROA >2% is attributed. Likewise, for ROE <1% a score of ‘0’ is attributed, for ROE of 1-2% a score of ‘1’ and a score of ‘2’ for ROE >2% is attributed. However, for the present study the performance of each institution in a particular financial year in both ROE and ROA, is considered as its corresponding score, noting the absence of an ideal benchmark in the context. The higher these ratios are the more profitability they indicate of a firm (Foster, 2012). Here, in calculating ROE the equity shareholders fund is taken as the sum of equity capital and reserves as contained in the balance sheet of the institutions for the respective years. Again, in calculating ROA, the assets are taken as the sum of fixed assets (gross less the depreciation), capital work in progress, net current assets, investments made and loans given during the respective year. The information as contained in the balance
sheet regarding total assets are used. The ROA figure obtained in the study are at par with that contained in the balance sheet of the institutions.

In the present era of financial liberalization and the onslaught of the trend of discontinuation of the DFI framework a sound financial performance of any development bank is well expected and would justify its continuance. Return of equity and Return on assets as a measure of financial performance reflects the effectiveness of the operations of the concerned institution to generate income (Foster, ibid.). Besides, a high return in this light is also expected considering scarce investible resources in a state like Assam and the need to supply concessionary funds to development finance institutions. The performances of NEDFi and AFC in this front are analyzed below.

a. Financial Performance of NEDFi:

The profitability ratios, ROE and ROA for NEDFi are shown in the following table 5.1. As evident from the following table, the ratios, ROA and ROE though low have shown a gradual increase over the five year period studied.

<table>
<thead>
<tr>
<th>Year</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax (in rs.000)</td>
<td>141310</td>
<td>156155</td>
<td>243364</td>
<td>296781</td>
<td>332494</td>
</tr>
<tr>
<td>Total Assets (in rs.000)</td>
<td>3465021</td>
<td>3895771</td>
<td>4755237</td>
<td>5649145</td>
<td>6602240</td>
</tr>
<tr>
<td>Equity Shareholders Fund (in rs.000)</td>
<td>2431423</td>
<td>2552493</td>
<td>2812107</td>
<td>3080834</td>
<td>3404600</td>
</tr>
<tr>
<td>Return on assets (figures in percentage)</td>
<td>4.08</td>
<td>4.01</td>
<td>5.12</td>
<td>5.25</td>
<td>5.04</td>
</tr>
<tr>
<td>Return on equity (figures in percentage)</td>
<td>5.81</td>
<td>6.12</td>
<td>8.65</td>
<td>9.63</td>
<td>9.77</td>
</tr>
</tbody>
</table>

Source: Computed from the data in the annual reports of NEDFi, various issues
b. Financial Performance of AFC:

As evident from the table 5.2, AFC has experienced a loss in 2005-06. As clear from the various reports of AFC there has been a loss to the organization in the previous two financial years as well. Since 2006-07 the profit of the organization has shown an increasing trend. The ROA and ROE figures calculated for the organization though low quantitatively, shows a rise beyond 2005-06. The increase is more abrupt in the years 2007-08 and 2008-09 implying a higher return from the assets or the equity capital of the organization.

Table: 5.2. Financial Performance of AFC:

<table>
<thead>
<tr>
<th>Year</th>
<th>2005-06</th>
<th>2006-07</th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax (in Rs.)</td>
<td>Loss</td>
<td>4110451</td>
<td>60522182</td>
<td>3003868</td>
<td>17124291</td>
</tr>
<tr>
<td>Total Assets</td>
<td>NA</td>
<td>154386378</td>
<td>145820925</td>
<td>176919249</td>
<td>336967548</td>
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<tr>
<td>Equity Shareholders Fund</td>
<td>NA</td>
<td>908759576</td>
<td>206958201</td>
<td>212251974</td>
<td>212251974</td>
</tr>
<tr>
<td>Return on assets (figures in percentage)</td>
<td>NA</td>
<td>2.66</td>
<td>41.50</td>
<td>16.98</td>
<td>5.08</td>
</tr>
<tr>
<td>Return on equity (figures in percentage)</td>
<td>NA</td>
<td>0.45</td>
<td>29.24</td>
<td>14.15</td>
<td>8.07</td>
</tr>
</tbody>
</table>

Source: Computed from the data in the annual reports of AFC, various issues

5.4 Discussion and conclusion:

The result of the above exercise, in view of the research queries on promotional role of regional level development banks, is revealed in the social performance scorecards as in table 5.3 and table 5.4 in annexure 5B. As discussed earlier this social performance scorecard is a comprehensive tool to measure the promotional role against the different dimensions of outreach or social performance. The ‘target clients’ of the regional level development banks, emphasized in the context of the present study, are taken as those borrower concerns with new enterprises and infrastructure related projects. The benefits of NEDFi and AFC to the target clients are measured by the dimensions of breadth and depth of outreach.
As evident from the scorecard of NEDFi in table 5.3 in annexure 5B, its performance of lending to the target clients in Assam is limited on account of a low proportion of infrastructure projects in the state. This is despite that the proportion of borrowers with new enterprises of NEDFi, has been high throughout the period and has shown a relatively increasing trend. For AFC too similar results follow, as evident from the scorecard of AFC in table 5.4 in annexure 5B. Lending to infrastructure related projects has been absent in the state of Assam for AFC.

An analysis of the percentage of total sanctions to new enterprises of NEDFi reflects a high and increasing trend. For AFC too, a similar trend as NEDFi is observed for percentage sanctions to new enterprises. For AFC, there are no sanctions to infrastructure related projects, denoted by a score of 0. Thus, as evident from tables 5.3 and 5.4 in annexure 5B, the overall performance of regional level development banks is limited further due to low sanctions to infrastructure. Hence, the benefit to the ‘target clients’ is further limited as in the dimension of depth also.

The ‘benefits to the society’ affected by the regional level development banks, is defined as any positive effect cast by them in the industrialization of the state of Assam. It is measured by the dimensions of length, scope, cost and worth of outreach. As regards to the cost of lending, it has two aspects, first the price cost of lending that is an income pocketed by the financial institutions and second, the transaction cost of lending which do not form an income to the financial institutions. The present study focuses only on the transaction cost as contained in collateral requirements of borrower concerns and the time required of getting the first installment of the loan amount since the time of application. In the context of both these parameters, NEDFi and AFC scores high. The implication is that the policies designed by both these two institutions are in the interest of facilitating industries to reduce the cost of borrowing.

Secondly, the financial products designed by NEDFi and AFC both, have been found to be varied and serving the different requirements in the light of the objective of rapid industrialization of Assam. This aspect is measured by the scope of outreach. Under
this dimension, NEDFi scores the full depicting the versatility in its approach in designing products and services, financial and otherwise to address the concern for industrialization. Of course, the score of AFC remained low due to a lesser score in non-financial services. Thus, in promoting industrialization the overall performance of the two regional level development banks in this front is limited by a relatively poor performance of AFC.

Yet another dimension chosen in how far NEDFi and AFC have promoted industrialization is the worth of outreach. Of the parameters chosen to measure worth, NEDFi scores well in the aspect of market research conducted. However, AFC has no such attempt which is revealed in the scorecard in table 5.4 in annexure 5B, as score 0 against this indicator for AFC. Again, in the context of recovery of loans the performance of NEDFi, measured for only three years, is reasonably better than that of AFC for the state of Assam. However, any loss of public money cannot be advocated to even a least extent. It may therefore be noted from the scorecard of the two institutions that the regional level development banks do not together farewell in the aspect of worth of outreach. From the two indicators selected, the overall performance of regional level development banks in the aspect of worth is found again to be limited.

The length of outreach is supposedly a measure of the time frame of provisioning of service of an organization. The scorecards of the two organizations reveal that the ROE and ROA are low though a marginally increasing trend in both ROE and ROA in the five year period exists.

Thus, it may be concluded that the overall performance of regional level development banks in Assam is limited in benefitting the ‘target clients’, as measured by the dimensions of breadth and depth of outreach. The overall scores in the either dimensions have been limited on account of low scores for both NEDFi and AFC in one parameter measuring breadth and depth, that is lending to infrastructure projects. In conclusion, it must also be stated that the ‘benefits to the society’ as measured by cost, scope, worth and length of outreach are limited as proved from the overall scores of the two regional level development banks in Assam.