CHAPTER SIX

SUMMARY AND FINDINGS

This chapter consists of the salient features of the study. A comprehensive and correlated study of the thesis is given in this chapter. The chapter is divided into three parts. Firstly, a chapter-wise summary of the findings and conclusions are incorporated. The observations, interpretations and the matters discussed in the different phases of the work are presented in a unified way to arrive at logical and deductive information of the problem. Secondly, few suggestions pertaining to the functioning of the regional level development banks, AFC and NEDFi, is outlined based on the findings of the study. Thirdly, the limitations of the study are elicited and an agenda is presented stating some prospective areas for future research in related aspects of the present study.

6.1 Summary

6.1.1 Introduction:

This chapter introduces the basic problem under study with emphasis on the prospects of industrialization, meaning and genesis of development banks and the structure of development banking initiated in the country. The objectives of the study, the research queries framed on the basis of these objectives, the review of literature, the need of the study and the organization of the thesis are systematically presented.

Industrialization is widely recognized as the key to economic development. The under developed countries (UDC’s) of the world have accordingly considered massive industrialization as a strategy towards their objective of achieving fast paced development. The post-independence era was characterized by a deep urge to industrialize the Indian economy to achieve the desired level of growth and development of the country. It may be
noted that, the progress of UDC’s has been impeded by the lack of various ingredients of industrial development. Lack of adequate finance is looked upon as the main deterrent in the context as finance can effectively create access to the other ingredients.

At the time of independence dearth of finance especially term finances was greatly experienced in the country. Thus, it became imperative to devise new industrial machinery in the country with ample financial resources so as to deal with the increasing financial requirements of the industrial sector. The network of commercial banks in existence shied away from such term financing and the capital market did not adequately evolve to the need of the time. Accordingly, development banks were initiated in the country as gap-fillers to compensate for the lack of term finance at the time of independence of the country. The structure of development banks that was initiated in the country with the inception of IFCI in 1948 consisted of the all India development banks (namely IFCI, ICICI, IDBI, IIBI and SIDBI), the regional level development banks (namely, SFC’s, SIDC’s and NEDFi), the general and the specialized investment institutions.

Development banks are a heterogeneous group of financial institutions concerned with extending medium and long term credit for projects and development programs. They also extend various promotional services besides development finance. Development banks are generally regarded as a post World War II phenomenon and are attributed to the policy-making in developing countries. However, similar institutions did exist even in the nineteenth century Europe as well, catering to the needs for development in the countries where they existed. Lack of adequate availability of resources hampered the development of many countries in the post World War II period for which development banks were devised as an institutional mechanism to fill such gaps. Soon these caught the attention of the developing world and development banks came to be established in almost all the developing countries in Africa, Asia and Latin America.
Statement of the Problem:

The present study is an attempt to gauge the role played by the regional level development banks, namely Assam Financial Corporation (AFC) and North East Development Finance Corporation Limited (NEDFi) in the process of industrialization of Assam. The study makes an attempt to analyze and assess the role of these two regional level development banks in a number of relevant parameters and dimensions in the changed economic circumstances following the reforms. The study desires to assess if the said institutions have any proactive role in promoting industrialization or they continue to be yet other financial institutions operating in the state.

In recent times development banks are facing a threat in their very existence. The immediate cause of the downturn of the development banking framework is the chronic and huge losses incurred by them. The reason in this context being their inefficiency in management of portfolios of investment, focus on one type of investment which raises risk, failure in project evaluation, etc. all resulting in their huge and mounting losses, a loss of public money, which is more significant in a country with low income, low savings and low capital formation. In this light the framework of development banks are facing a threat of discontinuation or conversion to other forms of financial intermediation both in the country and the world over.

Though the conversion of development banks on the grounds suggested above seems justified, there exists a globally emerging body of literature that supports the cause of development banking and urges the same to stay. As they argue development banks foster industrial and overall economic development and therefore cannot be substituted by any other form of financial intermediation. What development banks extend is not mere financial assistance but much beyond. In the light of the arguments stated in the context, if the regional level development banks, namely, AFC and NEDFi, hold any significance to promote industrial development in the state they must continue to operate and be re-engineered, if necessary, to ensure industrial development in the state of Assam.
It may be noted in the context that Assam reflects a paradox of opportunity and low economic development. This Indian state has a vast availability of natural resources on one hand and on the other it lags behind the rest of the country in aspects of economic development. The blame for the poor economic performance of the state has been mainly put on the slow pace of industrial development. Despite various efforts, industrial development has not, yet, gained momentum in the state. It may be noted that the all India level development banks have extended their assistances to Assam as well. Besides the state or regional level development banks were also established in the state to bring forth a balanced development and industrialization at par with the rest of the country. This included the State Financial Corporation, namely AFC, the State Industrial Development Corporation, namely the Assam Industrial Development Corporation (AIDC) and NEDFi. Considering the inadequacy of the national level development banks in the context of the state, as well as the entire northeast region, as several studies point out, the regional level development banks become more significant to the development of the state.

**Objectives:**

The present study attempts to make an in-depth analysis of the role of AFC and NEDFi, the two regional level development banks functioning in Assam, in fostering rapid industrialization in the state, in the light of the following objectives.

1. To analyze the trend and pattern of flow of financial assistance from development banks to Assam
2. To evaluate the procedures, terms and conditions and developmental functions of development banks.
3. To evaluate the impact made by development banks assisted units on the industrial development of the state
4. To study how far development banks have been successful in achieving their objective of achieving rapid industrialization in the context of Assam


Research Questions:

1. Is there any difference in the trend and pattern of credit flow to Assam from the all India development banks and the region specific development banks?
2. Is obtaining loans from development banks less difficult (difficulty perceived as procedures) than obtaining loans from other institutions of term finance?
3. Are there significant differences in terms and conditions of securing term loans from development banks as compared to that from such other sources?
4. Are the developmental functions of development banks necessary for a sustained industrial development of the state?
5. Have development banks assisted industrial units created more impact in the industrial development of the state as compared to other institution assisted units?
6. How far has the development banks succeeded in benefiting their target clients in the light of their objective of achieving rapid industrialization in Assam?
7. How far has the development banks succeeded in benefiting the society in the light of their objective of achieving rapid industrialization in Assam?

Organization of the Thesis:

The present study comprises of six chapters.

Chapter One provide an insight to the topic of the study with the sub-topics including introduction, statement of the problem, the review of literature, objectives of the study, research questions and the need of the study.

Chapter Two consists of the theoretical framework of the study, the methods and methodology of the study.

Chapter Three consists of the study of the operational performance of development banks in the state.
Chapter Four includes a comparative analysis of the functional performance of development banks with other term loan providing institutions in the state.

Chapter Five is a study of the promotional role of development banks in Assam in the light of their role in industrial development.

Chapter Six consists of the summary of findings of the study and also includes suggestions, the limitations of the present study and the scope of future research in the related aspects of the present topic.

6.1.2. Theoretical Framework and Methodology

The chapter consists of the theoretical framework of the study and the methodology adopted in the context of the study. Firstly, the role of development banks in industrial development is discussed in general followed by a discussion on the different aspects of their role as adopted in the study.

Data Processing and Analysis:

The present study of the role of the regional level development banks, AFC and NEDFi has been conducted in three dimensions, namely, operational performance, functional performance and their promotional role. Operational performance consists in analyzing the trend and pattern of flow of financial assistance from development banks to Assam. This analysis is carried out on the basis of secondary data collected from various published sources. This is a comparative analysis conducted in two parts that is, analyzing the pattern of assistance and also the trend of assistance between the all India development banks and the region-level development banks. The said analysis uses statistical tools like averages, percentages, line diagrams for analyzing the pattern of assistance and growth rates for analyzing the trend of assistance.

Secondly, the functional performance of development banks is analyzed. Functional performance here is conceived as consisting of the broad range of activities,
namely, procedures, terms and conditions of term-lending and the developmental functions as performed by development banks. Also a study of the impact of development banks on the industrialization of the state is included. A comparative study is made of the functional performance of AFC and NEDFi with that of other term financing institutions functioning in the state. The data of a sample of industrial concerns taking term loans from NEDFi and AFC, during the period 2005-06 to 2009-10 with that of industries taking term loan from other institutions during this period is compared using statistical tools like t-test for sample mean differences, pie-charts and percentages.

Thirdly, the promotional role of the regional level development banks is gauged. Promotional role of development banks is the entire gamut of functions of the regional level development banks, both financial or otherwise, that it performs to achieve their basic objective of industrialization. Any positive change in industrialization fostered by them would mean a benefit to the society. The promotional role is measured by way of a social performance scorecard. This is a tool developed to empirically measure an organizations social performance. The method consists in that; information against different indicators of social benefits is combined in a useful way to yield a comprehensive report on the overall performance of the concerned organization. The information or reporting against each indicator is made from 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.

6.1.3. Chapter III: Operational Performance of Development Banks in Assam

Dispersal of financial assistance is indeed the prime ‘operational concern’ of development banks. It is observed that in the post reform era when the requirement of finance has increased the significance of development finance institutions too has increased. This chapter considers the need to evaluate the role of the regional level development banks in their dispersal of financial assistance to Assam. The study consists in comparing the trend and pattern of flow of financial assistance of the regional level
development banks (AFC and NEDFi) with that of the all India level development banks (namely, IDBI, ICICI, IFCI, IIBI and SIDBI). The operational performance of development banks as contained in the present chapter meets the first objective of the study, i.e. to analyze the trend and pattern of flow of financial assistance from development banks to Assam. The research question that the chapter attempts to answer is: ‘Is there any difference in the trend and pattern of credit flow to Assam from the all India development banks and the region specific development banks?’

In evaluating the differences in the pattern of assistance between the all India level and regional level development banks the study finds no substantial differences between the two. The absolute and average share of each region in sanctions and disbursements of all India development banks exhibited lop sidedness. This imbalance is also evident in the share of per lakh population of each region in both sanctions and disbursements computed in the context. Financial assistance dispersed by the all India development banks may be noted to favour the states in each region which have achieved a reasonably higher degree of industrial development (gauged in terms of the contribution of the industrial and manufacturing sector to the state domestic product).

The sanctions and disbursements of the regional level development banks were also found not to be equally distributed among the constituting states. The share of Assam far exceeds that of others in the context. The sanctions and disbursement of the all India development banks is less in the northeast region as compared to the other regions of the country, as observed in the chapter, yet it is the highest in Assam within the northeast region.

The trend of sanctions was also studied in the context of the study. The simple growth rate of the sanctions of both the all India development banks and the regional level development banks exhibited a similar trend in the initial years of the study. But the sanctions of the all India development banks showed a declining trend beyond 2000-01 while in the later years the sanctions of the regional level development banks showed an overall increasing trend. In the light of trend growth rate computed, the sanctions by the
regional level development banks to Assam showed a positive trend which was in contrast to the declining trend of the all India development banks.

6.1.4. Chapter IV Functional Role of Development Banks:

This chapter evaluates the functional role of development banks on the basis of the data collected from the industrial borrower concerns of development banks. The present chapter addresses the following objectives of the study; 1. To evaluate the procedures, terms and conditions and developmental functions of development banks. 2. To evaluate the impact made by development banks assisted units on the industrial development of the state. The present evaluation is done by comparing the data of a sample of industrial concerns taking term loans from NEDFi and AFC, during the period 2005-06 to 2009-10 with that of industries taking term loans from other institutions during this period. This comparison is considered to hold more relevance in the present times when development banks are at the verge of discontinuation.

The study is confined to two districts alone, namely; Kamrup(M) and Morigaon. This analysis is based on primary data. Data on relevant parameters chosen for the study were collected on the basis of a well-structured schedule prepared for the purpose, which is attached in annexure 4A. For convenience, the present chapter is divided into four sub-sections, viz.

E. Evaluating the Procedure of term finance
F. Evaluating the terms and conditions
G. Evaluating the necessity of foment functions of development banks
H. Evaluating the impact of development banks on the industrialization in the state

On the basis of the study conducted it was found that, there are any no procedural differences among the two groups of institutions. Procedure as conceived is the time taken
since initially applying for a loan and getting the first installment of the same, between the two categories of borrowers being compared. The purpose of this analysis was to examine underlying differences in the procedure of term loan assistance in between the two categories of institutions. It may be concluded on the basis of the study that the regional level development banks provides no procedural advantage in their term loan assistances.

Again, it was found that, while there are no differences in promoters’ share, the rate of interest difference is found to be statistically significant for micro units studied. However, for small and medium enterprises such differences in the mean rate of interest were found not to be statistically significant. The objective behind this analysis was to compare for differences if any among the two categories of term loan lending institutions in the context of terms and conditions of borrowing. Accordingly, it may be concluded in the light of the parameters studied that development banks do not provide for any advantage in terms and conditions of term loans as compared to other term loan providing institutions in the state.

It may further be concluded from the analysis of the necessity of the developmental functions of development banks, that there is no difference in the perception of borrowers of either category in this context. Moreover, it may be concluded from the perceptions stated that the developmental functions have a significant role to play for a sustained industrial development process in Assam.

Lastly, the research query about the impact cast by development banks in the context of industrialization in Assam was addressed. The study observes that development banks do not exercise any statistically significant impact upon industrialization of the state through the industries they have assisted.

6.1.5. Chapter Five: Promotional Role of Development Banks in the Process of Industrialization in Assam:

This chapter critically examines the performance of the regional level development banks 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.

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. The study of this promotional role is made 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. The parameters of measuring the promotional role of AFC and NEDFi relate to the aspects or dimensions given by Schreiner (2002) which are analyzed on the basis of a scorecard method given by Woller (2006).

The result of this exercise, in view of the research queries on promotional role of regional level development banks, is revealed in the scorecards as in table 5.3 and table 5.4 in annexure 5B. 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 to the society’ affected by the regional level development banks, is defined as any positive effect cast by the regional level development banks, in the industrialization of the state of Assam.

The benefits of NEDFi and AFC to the target clients are measured by the dimensions of breadth and depth of outreach. Breadth is assessed with the percentage of number of clients assisted of the target clients. Depth is assessed with the percentage sanctions to each of the target clients. It is found from the study that the role played by the regional level development banks in benefitting the target clients are limited on account of poor lending to infrastructure for which the overall scores of the regional level development banks have come down in both these dimensions.

The ‘benefits to the society’ as achieved by NEDFi and AFC in the process of realization of their objectives of rapid industrialization are measured by the dimensions of
scope, cost, worth and length of outreach. The study finds that both the regional development banks fare well in the dimension of cost, measured by a low transaction cost of borrowing from them. Yet, their role together is limited by a relatively poor score of AFC in scope of outreach, measured by the versatility of products to promote industrialization. The reason is AFC’s performance is poor in providing industrial extension service necessary for promoting industrialization in the state. Worth of outreach measures the subjective gain of the borrowers while length is defined as the financial performance of the organizations. In the context of the dimensions of worth of outreach the performance of AFC and NEDFi is limited as exhibited by their scores over the five years studied. The performances in the context of length as measured by the profitability ratios are low but a marginally increasing trend is observed.

Thus, it may be concluded that the overall performance of regional level development banks in Assam is limited in benefitting the ‘target clients’ as well as in ‘benefitting the society’. Thus, their overall role in promoting industrialization in Assam is limited.

6.2 Suggestions

1. The study observes that the quantum of lending to infrastructure projects in Assam is less for the regional level development banks. The inadequacy of funds for infrastructural development and the significance of development banks in this regard is also noted in the study. Accordingly, it may be suggested that the special fund allocation to the development banks (AFC and NEDFi) be made so that their lending in this direction can be augmented.

2. The industrial extension services of development banks are one of their unique functions. From the observations made in the study, it may be suggested that a versatile range of such services be designed by AFC and NEDFi addressing the requirements in the state. Moreover, such services must be made aware to the ultimate beneficiary industrial concerns and made more accessible to them.
3. Project appraisal is a core area of expertise of development banks. In this light, it may be suggested that AFC and NEDFi take initiative to promote commercially viable industries with strong forward and backward linkages for a sustained industrial development of the state.

4. It may be suggested that the government and the regional level development banks both make an in-depth analysis of their social-cost and benefit on the basis of Woller’s (2006) social performance scorecard in a comprehensive way. This will highlight better the utility of development finance to the industrial development of the state. This is of particular importance considering the disappearance of the development banking framework.

5. Further, it may also be suggested that a comprehensive analysis of the financial soundness and the financial performance over an elongated period be performed both on the part of the government and internally by the organizations. Financial soundness and their social cost-benefit analysis could assist the government in policy making pertaining to development banks.

6.3 Limitations of the study and Scope of future Research:

6.3.1 Limitations of the study

1. Data pertaining to the state-wise sanctions and disbursements of all India development banks is found not available in the public domain, by the researcher, for the period beyond 2003-04. However, the unavailability of the required data is sought to be met with an analysis of the data of previous years, since 1991-92 as conducted in the study. This is justified by that the findings of the study, that is a ‘lop-sided pattern of assistance of all India development banks’ have been reported in several earlier studies conducted for different time periods, (Biswasroy et. al, 2006), (Borpujari, 1994).

2. An analysis of the role of development banks in the industrial development of Assam on the basis of operational performance is restricted only to total sanctions
and disbursements due to unavailability of data on other aspects like industry-wise or scheme-wise assistance sanctioned or disbursed to the state. This limitation was also reported in earlier studies (Das, 2000), (Goswami, 1988b).

3. The data on sanctions and disbursement for AFC for the year 1997-98 was not available to the researcher, even from the AFC. Consequently data for the years 1997-98 and 1998-99 were not found. For sanctions, gross data available in later issues of the AFC’s annual report were taken. This may result in a marginal upward bias in the data of sanctions for regional level development banks. Data on disbursement for these two years were not added in the analysis.

4. The results of the functional role of development banks are essentially based on the data provided by the sample of industrial concerns. In this light, it must be admitted that the researcher faced lack of cooperation from many entrepreneurs and workers during survey. This has also limited the choice of variables in studying the functional role, especially in analyzing the impact of term finance in the industrial development of the state.

5. The analysis of the functional performance of development banks in the present study is also restricted to two districts of the state. As such the study may not be representative of the actual functional performance.

6. The required list of enterprises registered with DIC’s in the state were restricted only to those registered since 2001 due to unavailability of the said data with the Commissionerate of Industries and Commerce, Guwahati.

7. In the study of the promotional role of development banks, lack of data from any known sources on interest rate differences across term lending institutions, restricted the analysis of the price cost of borrowing (that is based on interest rate differences). Besides, the social performance scorecard use was not validated by any social auditing. Accordingly, the results of the analysis depend on the data provided by the officials of the organizations.

8. The study of loan loss rate for NEDFi could not be performed for 2005-06 and 2006-07 due to unavailability of state specific data. This has been stated earlier in
the study. Moreover, they said analysis for AFC is also limited due to unavailability of the data on non performing assets specific to Assam.

9. Promotional role analysis is restricted on account of unavailability of data for most parameters with the concerned organizations for which the study is carried for the five year period alone.

10. Time and resource constraints are important limitations experienced by the researcher in making an in-depth analysis on the role of development banks in industrial development of Assam.

6.3.2 Scope of Future Research:

Role of development banks in industrial development of a state is a broad concept consisting of several interrelated dimensions of equal importance. The present study deals with three of these aspects, namely, dispersal of financial assistance to the state, a comparative study of development banks and commercial banks in aspects of functional role and the role of development banks in promoting industrial development. In this light, studies can be undertaken in future in several other dimensions of expected role playing, of development banks in the state. This may include aspects like study of growth analysis and asset structure of development banks assisted units (Sudheer et al., 2010), role of development banks in the revival of sick industrial units (Gupta, 1993). Studies may also be undertaken to gauge the need of finances in industries and infrastructural development in Assam and the assistance forwarded by the different institutional sources so as to highlight the contribution of development banks in the capital formation of the state (Shobha Rani and Appa Rao, 2010). In the present study the simplicity of procedures of term financing is gauged only with respect to time taken in the dispersal of assistance. Studies on the view of beneficiaries regarding simplicity of procedures (Sudheer et al., 2010), (Reji, 2004) or a direct comparison of the application procedures, documentation formalities (Gupta, 1993) may be pursued.
Procedures, terms and conditions affecting the cost of borrowing includes many other aspects other than the time of borrowing, rate of interest and promoter’s contribution as in the present study. These aspects of terms and conditions of term financing may also be incorporated in future research. Besides, studies may be undertaken to analyze the differences in the terms and conditions, procedures of borrowing or the impact of term financing on assisted industrial units among different industrial categories of such assisted concerns of development banks.

A more comprehensive study including different relevant parameters on the aspect of development banks achieving the stated objective of rapid industrialization may be undertaken. For each aspect of measuring outreach a wide number of parameters could be chosen to achieve a sound analysis of the stated role of development banks. Besides, financial profitability in this context of outreach could be analysed using several other parameters for an elongated period.