CHAPTER IX

RETROSPECT AND PROSPECT
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The notion that the public enterprises are destined to make losses due to their "Public" character is now no more acceptable. The Government is also seriously going ahead for not providing any shelter to them and the wave of privatisation of public enterprises is fast gaining ground. There is a need for evaluating the performance of public enterprises objectively. This becomes all the more important in the case of development banks like -- SFCs, which have so much social good at their disposal. Otherwise it may degenerate into "non-public", "non-enterprise".

At present, there are 18 SFCs operating in the country, five of them with jurisdiction over neighbouring States/Union Territories. The working of the corporations are governed by the Central Statute -- SFC Act of 1951. The Act has been amended for four times, in the years of 1956, 1962, 1972 and 1985. The last amendment has provided greater operational flexibility and the main thrust has been placed on promotional and developmental roles. There are four agencies, regulating the operations of SFCs viz. State Government, Central Government, the R.B.I. and the I.D.B.I. The role played by the agencies other than State Government is positive, constructive and to some extent regulatory in nature. It has been observed that SFCs are under
too much stringent control of State Governments. The State Government should focus on policy and strategic matters only and there should be no interference in the routine trivial matters. Since the Government machinery consists of bureaucrats, the existing provisions providing too much of authority to them, has led to over-caution and rigidity in operations. It would be in the fitness of things, therefore, if government allows these development banks to operate more freely, reduce their too many shackles and try to exercise their powers only for guiding the directions.

In view of SFCs providing long-term finance and the commercial banks are suppliers of working capital requirements to the same industrial unit, there is a need that both of them should work with better co-ordination.

The SFCs are playing a vital role in financing and nurturing small scale industrial units. This can be gauged from the fact that the cumulative assistance granted by them upto end of March 1989 aggregated Rs. 8651.50 crores in respect of over 3,52,470 beneficiary units, and assistance disbursed up to that date being Rs. 6356.20 crores. Operations of SFCs have shown significant rising trend, with average annual sanctions increasing from Rs. 65 crores during 1970-75 to Rs. 1227.32 crores during 1985-89. The compound
growth rate in the amount sanctioned during 1985-89 is 14%, the rise in disbursals is higher at 15%, reflecting improved efficiency on the part of SFCs in dispensing assistance.

SFCs continue to have their focus on the growth of small scale sector. Amount-wise, share of small scale sector in SFCs assistance has increased from 73.8% in 1980-81 to as much as 80.1% in 1988-89. Upto March, 1989, number-wise 93% of assistance granted by SFCs has been in favour of SSI units. Nor have SFCs ignored the claims of backward areas. Assistance granted to projects in backward areas during the year 1988-89, has been Rs. 712.31 crores, accounting for around half of the total assistance granted during the year. The same is the finding, for the assistance provided, upto March 1989 in aggregate. The analysis of top five SFCs in terms of annual sanctions shows that, they are covering more than 50% of total assistance made by all SFCs. UPPC, APSFC, GSFC, KSFC and TIIC are the top-five SFCs for the year 1988-89. The position of GSFC was second during 1970-71, has been pulled to third place during the year 1980-81 and 1988-89.

The results of industry-wise analysis of assistance sanctioned by the SFCs indicate that food products, chemicals and chemical products and services sector accounts for more than one-third share in total assistance.
Purpose-wise assistance sanctioned by SFCs shows that more than 85% of the total amount sanctioned so far, has been utilised for the purpose of creation of new projects. It was further found that the assisted units are not turning up subsequently for modernisation assistance etc. They seem to prefer other sources for the purpose. The SFCs should search for the reasons behind such a tendency and should come out with concrete remedial measures in order to make their portfolio rich.

The results of size-wise assistance sanctioned shows that according to number of units sanctioned, loan size upto Rs. 50,000 is the most popular followed by loan size between Rs. 1 lakhs and Rs. 5 lakhs. Amount-wise classification reveals that loan-size beyond Rs. 10 lakhs is getting the highest share in total sanctions.

On the resources front, borrowings from IDBI has been the single largest source of funds to SFCs, though, there is a welcome declines in reliance from 35.4% in 1980-81 to 29.0% in 1988-89. Income from operations and repayments by borrowers together accounted for 31.6% share in total sources for the year 1980-81, which has increased to 37.0% in the year 1988-89, indicating improved performance. Bonds is the second major external source providing for 15% of total resource for the year 1988-89, which was 13.8% during the year 1980-81. Analysis of uses of funds states the revenue expenditure has increased alarmingly from 9.5% in the year 1980-81.
to 20.8% in the year 1988-89. The share of disbursement of funds to loanees in total resources has decreased from 56.3% in the year 1980-81 to 49.2% during the year 1988-89. On the other hand, the debt repayment performance has improved, supplying 23.4% of total funds in the year 1988-89 which was 21.0% during the year 1980-81. In conclusion, it can be said that in order to perform the job efficiently, SFCs will have to make sustained efforts to strengthen their financial position by improving their recoveries and net income from operations and controlling their expenditure by efficiency and effectiveness of management of human resources.

Governing Board is the highest authority in any type of enterprise, solely responsible for the performance. Section-19 of the SFC Act provides very wide authority to the Board for the purpose. The composition of Board is as important as the freedom provided to it for decision making. It has been observed that the proportion between the nominated and elected members is 2:1. In case of nominated directors, majority of them were found to be official directors, resulting into bureaucratisation. In this context, it has been suggested that in place of IAS officers being nominated in the Board, the State Government may think of creating a cadre of professional directors. The system would develop better liaison among the financial institutions, Government and the
corporation. Since the board is the top most authority in any type of enterprise, only competent persons should sit on it. Defeated MLAs, MPs or association of political party should not be considered for such a key post. With regard to the tenure of the Board members, it has been observed that high turn-over is evident in case of State Government nominated directors in particular, it was the highest in case of the Director of Industries/Commissioner of Industries. The reason, there behind, was found to be transfer from the post. In respect to the directors nominated by the RBI and the IDBI, remarkable stability has been found. The highest level of consistency was evidenced in case of elected directors from the group of co-operative banks. A notable feature was found that the directors representing the other category of shareholders was represented by the prominent industrialists of the State.

The analysis of number of meetings of the Board held during the year indicates that the number of meetings were fluctuating ranging between 9 to 20. Two remarkable practices have been introduced by the corporation, One, convening meetings of the Board at different places of the state and, two co-opting the M.D. of GIIC and Chief Executive Officer of GIDC to attend the Board meetings. The practice was a novel feature introduced by the corporation, which worked well upto the year 1980-81.
The Inter Institution Groups (IIG) was framed and the practice was given up from the year 1981-82. With regard to working of the Board meetings, it was found that the agenda papers were very bulky ranging between 300 to 400 pages. During on the spot study of the agenda papers, it was observed that various administrative matters were also referred to the Board for ratification/approvals like - fixation of TA, DA etc. In this connection, it is suggested that corporation should frame sound policies and for the routine administrative matters, sufficient authority may be delegated to the head of the personnel and administration department so that the Board can concentrate on strategic and key issues. So far as the management reporting system is concerned, it seems that there is no importance attached to profit reporting except reporting in annual reports of the corporation. In order to develop profit consciousness in the corporation, it is suggested that profit reporting on a quarterly basis should be presented before the board. Another issue found was related to the default reporting. The current practice is to report to the board statistical data about the default position on region-wise basis. There is a need to make the reporting qualitative by providing reasons for such a default, actions taken to combat the default, etc. This will enable the board, to frame right strategy and also evaluate the recovery
performance in its right perspective. In the light of all the issues discussed above, it was suggested that the corporation should undertake periodic management audit, may be on a quinquennial basis. It should focus on detail SWOT (strengths, weaknesses, opportunities and threats) analysis.

Since it is not possible to consider each and every issue by the board, the Executive Committee, drawing selected members of the Board, has been created, as per the provisions of the Act. The committee is responsible and reporting to the Board. With respects to number of meetings held in a year, it was found that the executive committee meets on an average 16 times during a year. So far as the tenure of the executive committee members is concerned, it has been found that upto the year 1974-75, high stability was evidenced. Since then the amended composition of the committee came into operation (from the year 1975-76 onwards), it was found that there is high turnover in the membership of the committee. The main cause observed for the turnover was high instability in the nominated directors nominated by the State Government. While studying the composition of the executive committee, an interesting feature was found, that, though the SFCs and the scheduled banks have to work in the best coordinated manner, the directors representing the category, have
not found the place in the Executive Committee, throughout the life of twenty-nine years of operations of the corporation.

With regard to the CEO, the corporation has adopted the pattern of a part-time Chairman along with a full-time Managing Director. The Chairman holds office for a minimum period of two years subject to renomination, as per the SFC Act. There is a need to amend the provision to offer the duration of four to five years in order to hold office for sufficient longer duration so that he can propose bold actions. During the initial years of operations, the corporation had well-known industrialists as its chairman. From the year 1970-71, there was a marked deviation in the practice, and the I.A.S. officers are holding the position. It was further found that some of the chairmen had no exposure of development banking prior to joining the corporation. In this context, it has been suggested that the State Government may think of reviving its old practice of nominating prominent industrialist as the chairman of the corporation.

The another CEO is the Managing Director of the corporation, responsible to the Board, for the success of the corporation. So far as the qualifications for the appointment of the M.D. is concerned, the Act as well as the General Regulations are silent. The Mitra
Committee and the Ramanujam Committee had studied the issue in detail and suggested the norms for selection, which have been remained in the report only and no actions have been taken in this regard. The corporation during its life span of 29 years, saw eight M.Ds. Except first two, all the remaining had no banking exposure and were I.A.S. officers. One Mr. N.H. Shah served the corporation for the longest span of eight years. It is interesting that except the first three M.D.s., none had served for the full term of four years. It is suggested, in this context, that the State Government should see that once a person is appointed, as an M.D., he should not be disturbed, in between. Looking to the different issues involved, it was suggested that the post of the M.D. may be filled on an open selection basis in order to provide professional touch to the functioning of the corporation.

The existing organisation structure is the outcome of the exigencies of the situation from time to time which compelled the corporation to go on changing its structure. The structure has only one profit centre at the top. The head office is unnecessarily 'fat' and there is a need to make it 'slim' by delegating more authority to the regional offices. The present structure does not contain a separate internal audit wing, which is sine-qua-non for the effective operational control system. In the light of weaknesses pointed out
and the need for a sound organisation structure based on sound management principles, the proposed organisation structure has been presented in chart III.3 and III.4 on pages 111 and 112 respectively. The proposed structure is based on the concept of autonomous decision making required for the effective management control system. Each division may be treated as a separate profit centre. This will make it possible to evaluate the performance of each segment of its operation. A new section of default management at H.O. has been proposed, in order to, handle the accounts of chronic defaulter, having in default for more than two years. Another, new cell of internal audit, each at H.O. and R.O. has been suggested in the new structure. Further, in order to expedite the processing of applications, all types of appraisals i.e. technical, financial, marketing, legal and managerial be carried out simultaneously.

GSFC, being essentially a service industry unit, its efficiency and effectiveness depends to a large extent on the quality of the human resources, it employs. Such a key function of management of human resources was treated as a part of establishment activity upto the year 1976. At present, the department is divided into three sections of personnel, administration and O.& M. It was found that there is an absence of clear mission of productivity
improvement in the O & M section activities. Further, the O & M section is not adequately staffed. The corporation should employ people well-versed in the work study methods applicable to office situations. At present, the major activity that the O & M section deals with is the training portfolio. There is no base in linking the training with O & M. The corporation should reorganise its structure as suggested earlier, in this context.

The inventory of the existing manpower resources clearly indicates that about 72% of the total staff strength, works at H.O., making the H.O., unnecessarily fat. There is a need to make it slim by reorganising the structure. It was also found that there are no norms about the proportion of staff employed in direct tasks and the staff engaged in the support system. The corporation should fix the norms, which shall help in developing long-range planning. An attempt was made to assess the effectiveness of the staff by calculating administrative and general expenses per loan sanctioned, which indicates that the per loan sanctioned, expenses in GSFC are very high in comparison to APSFC. The man-power planning procedure adopted by the corporation is totally ad-hoc in nature and indicates complete absence of long-term planning. The corporation should adopt systematic forecasting of the business and the required staff for the next five to ten years.
The corporation recruits the employees as per the selection made by its personnel committee and staff selection committee. The methods adopted by the committees in the selection procedure indicates that they rely more on interview of the candidates and except for the typist and stenographer, no rigorous tests are conducted. In this connection, it is suggested that the corporation should start the practice of conducting written test on the pattern adopted by the Banking Service Recruitment Board to strengthen its selection process. Another issue found, requiring serious attention was regarding appointment of temporary staff at branch offices. In order to avoid litigation problems, the corporation should prescribe clear guideline for such temporary staff recruitment.

In order to meet the training need for updating the knowledge of its employees, the corporation follows three step approach of organisational analysis, operations analysis and man analysis. So far as operational analysis is concerned, it was observed that there is no systematic approach adopted by the corporation for building up the job discription system. At present, it is in the form of office order only indicating in brief, duties to be performed. In this connection, it is recommended that exhaustive office manual may be prepared. It is the training portfolio which the corporation has handled is really a praise worthy.
The corporation has given due recognition to this important activity and almost of all categories of employees are covered under the training programmes, inspite of its inadequate structure. It is suggested that the corporation should provide a separate budget for building in-house training centre equipped with all the audio-video equipments and other facilities.

The study of the content of the performance appraisal forms found that greater emphasis has been placed on personal traits. The corporation should review the forms used and put greater emphasis on work performance by identifying key performance area for each type of category. In case of promotion, the corporation has fixed the ratio for promotion v/s direct recruitment cadre-wise. However, it should see that the traits required for such promotion, may be in the form of minimum experience, etc. should be fixed. With regard to transfer, the corporation adopts State Government Rules. The corporation should devise its own transfer policy clearly stating the objectives, needs etc. of the transfer. So far as pay scales of the corporation are concerned, they are at par with the State Government employees. The employees of the corporation have a feeling that it should be at par with other development banks like I.D.B.I., I.C.I.C.I. etc. The corporation should consider the issue seriously. The welfare schemes offered by the corporation tries to satisfy the
needs of the employees right from peon to top level executive. The coverage is extended to the family members of the employees also.

The capital structure of the corporation consists of paid-up capital, reserves and surplus, bonds and debentures, fixed deposits and borrowings. There are four categories of equity shares. The State Government and the I.D.B.I., together possesses 99% of total share capital. The proportion of networth, bonds and debentures and borrowings in the capital structure have been 14.9%, 41.6%, and 43.5% respectively at the end of year 1988-89. The corporation raises more than half the debt capital by issue of bonds and debentures. The corporation has observed refinance bond ratio of 0.81 against the norm of 0.60 fixed by the Ramanujan Working Group. The 't' test calculated for assessing the significance, found that there is no significant difference between the suggested norm and the practice of the corporation.

The short-term financial strengths have been studied on the basis of current ratio and cash to current ratio suggests -- that the liquidity position is alarming in the latter years of study. It is less than 2:1 from the year 1984-85 and dedied to the lowest level of 0.71:1 for the year 1988-89. On the other hand, cash to current ratio observed high fluctuations, indicating the need for
fixation of norms in order to avoid excess cash or idle cash positions.

The long term financial strength position has been studied using debt equity ratio, long term debt to total assets ratio, Debt service coverage ratio and interest coverage ratio. The debt-equity ratio calculated has been found very high ranging between 5 to 10 : 1 showing more reliance on borrowed funds. The ratio of long-term debt to total assets has been around 73%, on an average clearly indicates that two-third of the assets of the corporation have been financed with the debt capital. Thus, both the ratios being very high, when observed taking into account the portfolio of the corporation, clearly indicates that it is not a prudent policy since around 64% of the loan given by the corporation is involved in defaulted units. Whether the earnings of the corporation are sufficient or not, have been studied by the two coverage ratios indicates that the debt-service coverage ratio is below 1 for most of the years after 1970-71, while interest coverage ratio is around one. This indicates that the earnings are not sufficient to cover the interest payment obligations. The debt-service coverage ratio below one, suggests that the old debts have been redeemed out of the amount collected by issue of new debts. This is not a sound policy.
The modus operandi adopted by the corporation is one of the aspects determining its operating efficiency. Main activities of the corporation are spread over three functional departments of appraisal, finance and operations. The following are the main observations in this regards:

* There is a need to simplify the procedure adopted by the corporation in particular documentation requirements for small-loan size upto Rs. 25,000/-. In this matter, the corporation should provide for effective counselling and guidance for filling up the loan application forms.

* With regard to loan appraisal, it was found that there is no "man-appraisal". The corporation should make systematic efforts to assess the managerial abilities of the entrepreneurs. Unnecessary documents may be either eliminated or asked for at the time of requirement.

* The corporation, at present, relies on the information supplied by the applicant with respect to the marketing feasibility of the product. In fact, the corporation should make adequate and systematic efforts to collect and compile statistical data in order to have sound assessment of the demand potentiality of various products.
The system of joint appraisal by DIC and the corporation needs rethinking in order to avoid delays and unnecessary movement of files.

The lack of coordination among the different activities results into unnecessary movement of files which creates delays and bureaucratic image of the corporation. Further, there is a need to have better co-ordination between the disbursement and refinance section.

Though the post-sanction activities are forming integral part of the operations of the corporation, the study found that this function is not treated properly. The corporation made a separate department for the purpose after 27 years of operations. Further, the department is understaffed and the recovery inspectors, responsible for recovery, are looking after this key activity.

It was found that on an average, one unit out of three units, have been visited once in a year by the recovery inspectors. It is suggested that the corporation should see that at least in a year every unit must be visited twice and necessary arrangement be made for the purpose.

With regard to the report of the nominee directors, the corporation should frame broad guideline stating clearly the requirements of the corporation. Such reports should be placed before the board for review.
Further, it was found that there is total absence of co-ordination between the appraisal and follow-up section. Even the copy of appraisal report is not given to the follow-up section. In fact, there is a need to have clear well-defined objectives of the follow-up section.

With respect to recovery function, it was found that there is high concentration of decision making authority and multi-levels of operations making the recovery performance ineffective.

The corporation should design a proper system of demarking different defaulting units.

There is a need to make the process of disposal of assets of defaulted units speedier.

There are no incentive to the recovery staff. The corporation should devise suitable incentive plan aligned with the recovery targets.

So far as loan accounting is concerned, the system adopted by the corporation has several weaknesses. The existing practice of keeping all the loan accounts at H.O. should be revised and all the loan accounts covered under Mini Loan and Tiny Loan be kept at regional office level. This will reduce the work-load of head office.
Gujarat State Financial Corporation, born in 1960 along with the State of Gujarat, has played a strategic role in the industrial development of the state. In the year 1960-61, the year of its beginning, it provided finance to only 13 units which has increased to 1576 units during the year 1988-89. At present, about one in four registered manufacturing units coming up in the state, is assisted by the corporation. It plays a catalytic role in generating investments of about Rs. 75 crores p.a., sales of nearly Rs. 337 crores p.a. and new employment generation to about 23,000 persons annually. The corporation has provided assistance to the extent of more than 96%, to those units which are falling within the definition of the term 'Small scale units'. The amount sanctioned to backward areas in the total sanction accounts for more than 46% of the total sanction. The amount-wise distribution of assistance indicates that the loan-size upto Rs. 2 lakhs has the major share of about 67% in total units assisted providing the fact that the greater emphasis has been placed on financing tiny sector units. The purposewise analysis of assistance provided by the corporation shows that majority of its financing goes in favour of establishment of new units. Very few existing units are approaching the corporation for assistance to meet their financial needs for expansion, modernisation, diversification etc. It seems that this area has remained neglected by the corporation. Considering
the lower degree of risk involved in such purposes than financing new projects, the corporation should frame suitable action plan to tap this highly profitable portfolio.

The corporation provides assistance to those units which are falling within the definition of "Industrial Concern" specified in the SFC Act. The corporation has provided assistance to the units of more than 30 different industries. Considering its overall position in this context, it is observed that textile industry accounts for 21.62%, Chemical - 16.5%, Miscellaneous manufacturing - 11.30%, Machinery manufacturing - 8.79%, and Ceramic industry - 7.33%, of the total assistance sanctioned since the inception. The analysis confirmed the claim made by GSFC that its investments are more in those industries which are basic, critical, of the high national priority and strategic importance. Looking at the organised and unorganised industrial units, it is observed that units in unorganised sectors like - those in furniture making, foot-wear, printing, fisheries etc. did not get much assistance from the corporation. In the light of foreign exchange problem faced by the country, it is suggested that the corporation should make attempts to promote import - substitute, export - oriented, high-tech industrial units. For the purpose, suitable schemes may be designed in order to make industrial activities well-diversified in the state. An analysis of proportion of
assistance between corporate and non-corporate sector observed that about 10% of the loan sanctioned goes to the units belonging to corporate sector, of which about 45% goes in favour of private limited companies. The share of co-operative sector is less than 1%. The partnership firms account for more than 35%, and proprietary concerns accounts for more than 50% of the total number of loan sanctioned, among the non-corporate sector.

The corporation has made notable contributions in dispersing industrial activities to industrially less developed areas of the state. Since its birth, the corporation has provided assistance to about 44% of the total units, located in districts classified as backward districts. The amountwise position for the same, is about 49%. The districtwise assistance sanctioned position for the first top five districts are Mehsana (24.25%), Bharuch (22.26%), Panchmahal (13.97%), Surendranagar (9.47%) and Junagadh (7.45%). Among the districts other than classified as backwards, the top five districts captured 92.28% of the total assistance disbursed. In this respect, it was found that Jamnagar district is lagging behind. The corporation provided about 35% of the funds to units located in rural areas and about 23% of the total amount disbursed to the units located in notified backward talukas.
The recovery performance of the corporation is very poor. Recovery as a percentage of total demand is only to the extent of about 32% — realising about one-third of what is recoverable. The overdue percentages of total outstanding amount is about 54% means half of the amount is overdue. Further, about 11% of the total outstanding amount has been involved in suit filed/closed units. Taking all these things into account, It is very clear that there has been pathetic failure of GSFC on default management and recovery performance. It is high time that the corporation should devise concrete policy and action-plan to combat the alarming problem of recovery.

No development bank can survive, if it concentrates only on the "developmental" activities. The operational efficiency from the financial management point of view is equally important so that the institution can become self reliant over a period of time. The profitability of the corporational assumes further significance in the light of change in the government policy towards free economy and privatisation of public enterprises. The analysis of income and expenditure of the corporation made on the basis of common-size income statement reveals that the major source of income is interest on loan given to the loanees (about 95% of total income) while the main expenditures are payment of interest on borrowed capital (56%) and personnel & administrative expenses (14%).
Financial performance of the corporation evaluated in terms of ROCE, ROTA, ROSE and NP as % of paid-up share capital does not make a happy reading, however it is on the way of improvement which is a good sign. The financial performance evaluation made on the basis of various ratios, can, in no way, be considered to be satisfactory when the readings are made using absolute percentages. However, when the situation is relatively judged with the dismal performance of different public sector units in general and the developmental-promotional characteristics of the corporation in particular, the emerging scenario does not warrant for unrestrained criticism.