In this chapter an attempt has been made to examine the management pattern and organisation structure of the 0SFC and to suggest improvements, wherever felt necessary. It is the management which makes or mars the successful working of an organisation, hence, the importance of this chapter. It has been very rightly said by Shirely Boskey, that "with competent management a bank (development bank) may be successful notwithstanding inadequacies in the original concept of the institution or shortcomings of its charter. But no bank, however, well conceived can overcome the handicap of poor management."

Management of the 0SFC, per se, any development bank is different from that of a commercial bank. The commercial banks are managed by the 'pure' bankers who are usually security-minded. Their activities are regulated by the traditional banking principles of lending, viz., "safety, liquidity and profitability", while the management of development banks should comprise persons having consideration for project viability rather than security, in addition to the qualities of skill, tact, integrity, imaginative power, progressive outlook and attitude for development of the region served by the bank. Managing a
development bank is, therefore, a specialised affair as against any routine affair.

**Multi-Agencies control**

(i) SFCs are the State Government undertakings. Out of a total of 12 directors in a SFC, the State Government have 5, including the Managing Director. Besides, the State Government are not only one of the two major shareholders but also they stand guarantor for the payment of dividend on share capital as well as for payment of interest on bond issues and repayment of the proceeds of such issues. They also extend loans to their respective SFCs in case of necessity.

Sec. 39(1) of the SFCs Act provides that in the discharge of its functions, the Board shall be guided by such instructions on questions of policy as may be given to it by the State Government in consultation with and after obtaining the advice of the IDBI. The State Government are thus the major controlling authorities of the SFCs.

(ii) IDBI also exercises considerable control over the SFCs. Sec. 37A of the SFCs Act empowers the IDBI to make inspection of the working of the SFCs and their books and accounts with the approval of and on the directions of the Central Government. Nowadays the IDBI inspects the SFCs once in every three years. The
inspection reports are sent to the Central Government as well as to the respective State Government with a copy of the same to the concerned SFCs. These reports carry a number of valuable recommendations which, if acted upon should go a long way in improving the working of the SFCs, "... but one cannot say that the recommendations have been acted upon fully and promptly." 3

Besides conducting inspection, IDBI takes various measures to streamline the activities of the SFCs and guide them in their functioning.

One such measure is to evaluate the progress achieved in the implementation of Institutional Development Programme (IDP) drawn up as a part of the reporting requirements to the World Bank in connection with the IDA (International Development Association, an affiliate of the World Bank) line of credit. This credit was made available to the SFCs for the first time in 1973, through the IDBI for financing the foreign currency components of the assisted units of the SFCs. In this connection the officials of the IDBI have been visiting the SFCs annually once since 1976.

IDBI has been carrying on the Business Plan and Resources Forecast (BPRF) of each SFC since financial year 1980-81. The BPRF exercise has two-fold objectives:

(a) Firstly, to plan the flow of funds so as to improve the liquidity position of the SFCs
through fixation of targets under each item of the sources and uses of funds.

(b) Secondly, to improve the Debt-Servicing Coverage Ratio (DSCR) so as to bring it on par with the norm fixed by the World Bank which is one of the stipulations for drawing the World Bank/IDA Line of Credit.

Another way by which the IDBI tries to streamline the activities of the SFCs is by convening, at frequent intervals, conferences of the Chairmen and Managing Directors of the SFCs. The purpose is to discuss the multifarious problems facing the SFCs and find out solutions through a common forum. These conferences are also attended by the chief executives of the all-India term-lending institutions, leading commercial banks and also the representatives of the concerned Ministries of the Government of India and the Reserve Bank of India. Twenty one such conferences have been held so far, the last one being on the 17th and 18th February 1982 at Bombay. The deliberations of these conferences have gone a long way in finding out solutions to the ever-increasing problems of resource constraints, mounting overdues, coordination between SFCs and commercial banks, etc., facing the SFCs.

Yet another way by which the IDBI has been showing its concern over the working of the SFCs and trying to solve their problems is through the appointment of various
working groups to investigate into the problems facing the SFCs and making suitable recommendations for their solution.

In pursuance of the decision taken at the 18th Conference of the representatives of the SFCs, held at Srinagar in October, 1976 (convened at the instance of the IDBI), IDBI appointed the following working groups on:

(a) Coordination between SFCs and Banks,
(b) Reduction of Arrears of SFCs, and
(c) Amendment to the SFCs Act and Related Statutes.

The first working group was constituted in November, 1976 which was headed by Shri Y M Bhide, Chairman, Bank of Maharashtra and it included representatives of SFCs, Banks, RBI and IDBI. The broad terms of reference set out for the Group was to go into the specific fields where coordination between banks and SFCs was required and to recommend the means of achieving effective coordination. The report of the Group was submitted in June, 1977.

The second working group was set up in January, 1977 under the Chairmanship of Shri Philip Thomas, General Manager, IDBI and its other members were drawn from the
RBI, IDBI and SFCs. Its terms of reference were:
(a) to study the major factors responsible for defaults by borrowing units; (b) to study the adequacy of the measures adopted by SFCs to prevent defaults and reduce arrears, and (c) to review the existing provisions in the SFCs Act concerning the rights of SFCs in case of default, power to recall the loan, special provisions for enforcement of claims, etc., and to consider their adequacy and efficiency for expeditious realisation of arrears. The Group submitted its report in May, 1978.

The third Working Group was constituted in December 1976. The Chairman of this group was Shri S. A. Naik, Joint Legal Adviser, IDBI and other members were chosen from the SFCs and IDBI. The group was required to examine the desirability of amending the SFCs Act on the basis of (i) the various suggestions received from the SFCs, and (ii) the experience gained so far in the operation of the Act. The report of the Group was made available in December 1977.

All the above three Working Groups have made a wide range of valuable recommendations having far reaching implications on the various aspects of the working of the SFCs. But very little has been achieved so far since most of the recommendations need incorporation in the SFCs Act through amendment in the Parliament which
has not been effected till now.

(iii) The RBI, in place of the IDBI, was the controlling body of the SFCs prior to the Public Financial Institutions Laws (Amendment) Act, 1975 (52 of 1975) came into force on February 16, 1976. In that capacity it had appointed two working Groups, viz., one in January 1962, headed by Shri K.C. Mittra, Chief Officer, Industrial Finance Department (IFD) of the RBI, to review the general working of the SFCs, which submitted its report in February 1964; and the second in April 1970, headed by Shri K.N.R. Ramanujam also a Chief Officer of the RBI's IFD which was to study the resource mobilisation, profitability, etc., of the SFCs and make suitable recommendations. This committee submitted its report in October 1970 (published in 1972).

Many of the recommendations made by the above two working Groups have been acted upon through subsequent amendments to the SFCs Act, 1951.

RBI participates in the management of the SFCs by nominating a director each to their Boards.

SFCs also cannot issue and sell bonds and debentures without the prior consultation with the RBI.

Besides, SFCs often take resort to borrowings from the RBI against issue of ad-hoc bonds and also against Central and/or State Government securities.
(iv) Finally, the SFCs Act itself is a piece of Central Legislation and any amendment to the Act can be effected only by the Central Government. Also, as it has been stated earlier, the IDBI conducts inspection of the working of the SFCs and their books and accounts only with the approval and on the direction of the Central Government. Hence, this is how the Central Government have also a considerable degree of control over the functioning of the SFCs.

It emerges from the preceding discussions that the OSFC or for that matter, any other SFC is subject to control by multiple agencies like the State Government, IDBI, RBI and the Central Government.

Management

It is a common practice to leave the management of development banks in the hands of a Board of Directors. The composition of the Board, of course, depends upon its ownership, i.e., whether private or public(government). "Just as high government officials or civil servants are most frequently chosen as directors of public banks, so the industrial community commonly serves as the source of directors for a private institution". But it must not be forgotten that while the board of a development bank with too many government officials is likely to wear the look of a government department, a board with many industrialists
is also likely to give rise to a conflict of interest. Hence, the composition of the board must be a balanced one. It should not, however, be construed that the entry of government officials and industrialists into the boards of development banks should altogether be banned. The presence of one or two top officials on the board of a development bank acquaints itself with the policies of the government and facilitates better co-ordination of its activities at the government level. Similarly the induction of industrialists into the board brings with them, their practical experience in the industrial field which is unquestionably useful to the development bank and to its borrowers too. Hence, what is needed is a well balanced board whose membership should comprise of government officials, industrialists, economists, bankers, financial and technical experts, etc., so as to lend greater worth to the board and create confidence in the entrepreneurs and general public.

The SFCs which are of the family of 'mixed' development banks, are statutory corporations. Therefore, their management pattern is also governed by the statute.

As per sec.9 of the SFCs Act, the general superintendence, direction and management of the affairs and business of the Financial Corporation vest in a board of
Directors which functions with the assistance of an Executive Committee and a Managing Director.

Board of Directors

The SFCs Act, vide sec. 10 provides that the Board shall consist of 12 directors made up as:

4 Directors nominated by the State Government,
1 Director nominated by the RBI,
2 Directors nominated by the IDBI,
3 Directors elected, one each to represent scheduled banks, co-operative banks and other financial institutions.
1 Director elected by non-institutional or private shareholders.
1 Managing Director appointed by the State Government.

This board is a balanced one so far as it gives representation to the State Government, the Central Bank of the country (RBI), the country's apex development bank (IDBI) financial institutions like scheduled banks, co-operative banks, and other financial institutions like Life Insurance Corporation of India (LIC) or General Insurance Corporation of India (GIC), etc., and private or non-institutional shareholders.

The constitution of the OSFC's Board (Appendix II) as on March 31, 1982, reveals that it had not only all the 12 Directors including the Managing Director (M.D.).
but also three special invitees for the purpose of Board meetings. Among the elected directors, one was the Divisional Manager of the LIC, one was Chief General Manager of the State Bank of India's Local Head Office, one was a life-long cooperator while the last one was an industrialist.

Among the nominated directors, one was a Deputy Chief Officer of the RBI, two Managers of the IDBI, and five officials of the Government of Orissa. Out of the five Government nominees, apart from the M.D., one director was the Commissioner-cum-Secretary of the State Industries Department, one was the Additional Finance Secretary-cum-Director, Institutional Finance, one was the Director of Industries and the fourth one was the Managing Director of the Industrial Promotion and Investment Corporation of Orissa Ltd., (IPICOL). Among the special invitees, one was the M.D., of the Orissa Industrial Infrastructure Development Corporation Ltd., (IDCO), one was the Director of the Small Industries Service Institute (SISI), Orissa and the third one was the M.D., Orissa Small Industries Corporation Ltd., (OSIC).

It is seen that all the five directors, including the M.D., nominated by the State Government were career civil servants drawn from the Indian Administrative
Service (I.A.S.). All the three special invitees were also the officers from the same cadre. In contrast to this, the Andhra Pradesh SFC which ranked first among all the SFCs, in terms of annual sanctions during 1980-81, had only its M.D., from the I.A.S., all the rest four nominees of the Andhra Pradesh Government being, 2 industrialists, 1 Advocate and 1 politician.

Similarly Gujarat SFC which ranked fourth in the above respect, had only two I.A.S. officers on its Board. On the other hand, Uttar Pradesh Financial Corporation and Rajasthan Financial Corporation which were second and third respectively, were having all the five Government directors each from the I.A.S. cadre while Tamil Nadu Industrial Investment Corporation Ltd., which is the oldest among the State-level Financial institutions and is governed by the Indian companies Act, 1956 and the SFCs Act, 1951 had as many as 7 I.A.S. officers on its Board of 15 directors.

At this stage a question arises, as to how far the Government's discretion exercised solely in favour of the civil servants is justified, particularly when they have to decide the policy issues of a development bank which is known to be different from the functioning of government departments in the state secretariats. Because, 

"Such nominees - particularly top officials . . . inevitably
bring with them a 'political' atmosphere which may impair the effectiveness of assistance to the private sector. As also S.K. Basu observes, "The policy of filling up the Board with top ranking government officers and members of parliament cannot contribute much to the efficient and imaginative working of these institutions (development banks). They have hardly any expertise for the kind of work in which development banks engage and are likely to have a bureaucratic or a political outlook." Since the government have also the option to choose the directors from fields other than the I.A.S. cadre, it is high time that they should consider nominating, if not more, at least three professionals like Chartered/Cost Accountants, Tax Practitioners, Masters of Business Administration or any other financial and technical experts or industrialists having necessary expertise to examine analytically the memoranda on various projects and decide on various policy issues. It is needless to point out at this stage that as per the IDBI charter, only two officials are nominated by the Government of India on its Board of 22 Directors, all others being from the fields of Banking, Finance, Industry, etc. Hence, the number of government officials on the Board of the IDBI vis-a-vis other SFCs also should be restricted to only two, making way for adequate representation
of the professionals, so as to make the Boards more broad-based. Since in practice it differs from one SFC to the other, the above suggestion should be incorporated in the SFCs Act through an amendment.

Table 2.1 shows the number of times the Board met, the amount of loans sanctioned and the percentage of loans sanctioned by the Board to the total loans sanctioned by the OSFC for the last four years ending on March 31, 1982.

**TABLE 2.1**

**OSFC - LOANS SANCTIONED BY THE BOARD**

<table>
<thead>
<tr>
<th>Period: April-March</th>
<th>(Amounts in lakhs of rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial year</td>
<td>No. of Sanctions by Board</td>
</tr>
<tr>
<td></td>
<td>No. Meetings</td>
</tr>
<tr>
<td>1978-79*</td>
<td>6</td>
</tr>
<tr>
<td>1979-80*</td>
<td>7</td>
</tr>
<tr>
<td>1980-81</td>
<td>8</td>
</tr>
<tr>
<td>1981-82</td>
<td>6</td>
</tr>
</tbody>
</table>

* Gross sanctions

It would be seen from the above table that number-wise, the Board sanctioned 4 per cent of the total loans...
in 1978-79 which came down to 2 per cent in 1979-80 and further to only 1 per cent each in 1980-81 and 1981-82. But amount-wise, the percentage was 25 each in 1978-79 and 1979-80 which went upto 31 in 1980-81 and further upto 38 in 1981-82. The amount-wise percentages are so high as compared with the number-wise percentages because, only loan proposals of the highest amount bracket are considered by the Board. The minimum size of loan proposals for consideration by the Board has been under revision from time to time. As on March 31, 1982, the board was considering proposals in excess of Rs 10 lakhs which was again raised to Rs 15 lakhs on 26.5.1982. The upward revision of the floor limit of loans for consideration by the Board is a welcome measure since, now the Board can devote more time to the discussions on important policy matters. But as it may be seen from Table 2-1, the Board met only 7 times on an average in all the last four years. The Board should meet at least once in every month so that even if there are no sufficient loan proposals, it can devote more time to other important operational matters like resources position, business plan, pending applications, widening gap between sanction and disbursement, recoveries and overdue position, inspection of units, suit-field cases, etc.

Merely taking decisions in the Board meetings will
not suffice unless those are given effect to. But in practice it was seen that in the OSFC there was no system of follow-up to ensure the compliance of Board decisions. However, now-a-days a compliance report on Board’s earlier decisions is being placed at its subsequent meetings.

**Chairman**

As per the provisions of the SFCA Act (sec.15), the Chairman of the Board of a SFC should be one of the directors, not being the Managing Director. The State Government nominates him, after considering the recommendation of the Board, except in case of the first Chairman. He holds office for two years or until his successor is appointed. He is eligible for renomination so long as he continues to be a director.

The OSFC has seen as many as 14 Chairmen (Appendix III) during its 26 years of life, the average tenure per Chairman comes to less than 2 years. It has so happened that even during the same financial year two Chairmen have served the corporation. Such frequent changes were caused mainly due to the transfer of the officers from their present posts under the State Government from where they were nominated as directors. Except for six years from financial year 1969-70 to 1974-75 all along the Chairmen (eleven in all) were drawn from the Indian Administrative Service who were occupying the posts of either Secretary,
Finance Department or Industries Department or Director of Industries. The present Chairman is the Commissioner-cum-Secretary, Industries Department of the Government of Orissa. Out of the remaining three Chairmen one was the Managing Director of a reputed industrial concern and was a former officer of the Indian Audit and Accounts Service, another was a politician (former member of the Legislative Assembly)-cum-industrialist, while the third was only a politician (also former member of the Legislative Assembly) who held office of the Chairman even for less than one year. Since these three non-bureaucrats were also allowed Chairmanship only for two years each on an average, it would not be improper to conclude that it was the mood of the Government which was the deciding factor in the matter of appointment of the Chairman of the OSFC and not the interest of the corporation itself.

It, therefore, follows that by the time one gets acquainted with the corporation's working and develops real interest in it, he is replaced by some one else which definitely does not go in the best interest of the corporation. The Government should see that a Chairman is allowed to continue for a minimum term of four years, if not more.

Although the successful working of an institution like the OSFC depends upon a myriad of variables like the
industrial potentiality of the State, the availability of social overheads or infrastructure facilities, the industrial policy of the Government, and so on, the contribution of an efficient management to its sound functioning can hardly be overemphasised. On the other hand, sound management also calls for a Chairman who can better understand the problems of prospective entrepreneurs, can really find solutions to the ever-increasing and complex problems of industrial financing, can find out ways and means for rapid realisation of the corporation's objectives; and can better convince the State Government if necessary, on the policy matters of the corporation. But most of these qualities are better expected from industrialists and professionals rather than from the civil servants and politicians. The very presence of an industrialist-Chairman on the Board, may give an industrial and business-like touch to every aspect of the corporation's working, rather than the bureaucratic or government-department-like appearance which is generated by the presence of the civil servants on the Board. Moreover, an active and full-time civil servant would hardly find any time to devote to the working of the corporation as, generally he would be highly preoccupied due to the nature of work in his parent post.
Hence, the State Government should nominate more and more industrialists and professionals to the Board of the DSFC, one of whom should be made the Chairman.

The Chairman of the DSFC should be a full-time salaried executive combining the functions of the Chairman as well as that of the M.D., on the lines of the Industrial Development Bank of India, Industrial Reconstruction Corporation or the Industrial Finance Corporation of India. It has been rightly suggested that, "The ideal arrangement is for a professional person to be appointed, combining the post of Managing Director with that of Chairman, so that the Chief Executive enjoys the fullest authority and independence to run the affairs of the corporation". This arrangement would give the Chairman greater authority to translate his ideas into action without any opposition from any quarter. This suggestion needs amendment to the existing SFCs Act.

Executive Committee

As per the provisions of the SFCs Act, each SFC forms an executive committee which consists of the Managing Director who is the Chairman of the committee, two directors elected from among the nominated directors of the State Government, one each elected from among the directors nominated by the RBI and the IDBI and one director elected by the elected directors. Each member
of the Executive Committee holds office as long as he
continues as director for the rest of the period of that
term.

The OSFC constituted its first Executive Committee
in January 1959 and its first meeting was held in March
1959. In the early years the Executive Committee was
required to scrutinise the loan proposals which, along
with its recommendations, were forwarded to the Board
for final approval. However, in March 1969, it was, for
the first time, delegated the power to sanction loans
upto Rs 1 lakh to the industrial co-operatives only. It
was also authorised to review the default accounts and to
report on the utilisation of loans sanctioned. But
consequent upon the constitution of a separate advisory
committee (Default Accounts) in February 1978 the Executive
Committee is no longer required to review the default
cases. However, other administrative and policy matters
concerning recruitment of staff, approval of both recur-
ring and non-recurring expenses also figure for discussion
at its meetings.

The composition of the Executive Committee as on
March 31, 1982, is shown in Appendix II. Its sanctioning
power on the same date was between Rs 2.5 lakhs and Rs 10
lakhs to all sorts of industrial units. However, again
this limit was raised to "Rs 5 lakhs and Rs 15 lakhs", with
Table 2.2 shows the number of times the Executive Committee met in the last 4 years, the number and amount of loans sanctioned by it and the percentage of its sanctions to the total sanctions:

**TABLE 2.2**

OSFC - LOANS SANCTIONED BY THE EXECUTIVE COMMITTEE

<table>
<thead>
<tr>
<th>Financial year</th>
<th>No. of E.C. meetings</th>
<th>Loans sanctioned by the E.C. (Amounts in lakhs of Rupees)</th>
<th>Percentage of loans sanctioned by E.C. to the total sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79*</td>
<td>4</td>
<td>23 45.93</td>
<td>2 4</td>
</tr>
<tr>
<td>1979-80*</td>
<td>3</td>
<td>35 77.58</td>
<td>1 5</td>
</tr>
<tr>
<td>1980-81</td>
<td>8</td>
<td>80 371.98</td>
<td>1 13</td>
</tr>
<tr>
<td>1981-82</td>
<td>8</td>
<td>100 579.63</td>
<td>1 14</td>
</tr>
</tbody>
</table>

Source: OSFC - Annual Reports. Percentages computed.
* Gross sanctions.

It appears from the above table that in 1978-79 the Executive Committee met only 4 times while in 1979-80 the number came down to 3. In view of very small number of committee meetings, the IDBI in its Report on Institutional Development Programme of the OSFC, drew the attention of the authorities of the OSFC to clause 39 of its General Regulations, 1957 according to which the
committee was required ordinarily to meet once in two months. However, "In reply to this the corporation argues, and legitimately so, that due to paucity of loan proposals within the range of the Executive Committee's sanctioning powers, need for more meetings was not felt. It has, therefore, been suggested that the Board may consider enhancing the powers of the committee from Rs. 0.5 million to Rs. 1 million."

It is a happy augury that the OSFC has promptly responded to the IDBI's above suggestion by raising the upper limit of the Committee's sanctioning power from Rs.0.5 million to Rs. 1 million with effect from August 16, 1980. As a result now the Executive Committee meets more frequently (as seen from Table 2.2) to deal with larger number of loan proposals coming before it. The above sanctioning limit was prevalent till May 26, 1982, when it was empowered to sanction loan proposals between Rs. 0.5 million and Rs. 1.5 million, the impact of which would be felt in the coming years.

From Table 2.2 it is further revealed that the Executive Committee has been sanctioning more numbers and more amounts of loans year after year. In terms of percentage, however, there has been a decline in the number-wise sanctions, although amount-wise it has been steadily
rising so as to be 14 per cent in 1981-82 as against 4 per cent in 1978-79. The divergence between the number-wise and amount-wise sanctions in terms of percentages is due to the relatively larger amount involved in the loan proposals considered by the Executive Committee as compared with a very large number of loan proposals involving smaller amounts considered by the OSFC as a whole.

Advisory Committees

The SFCS Act (vide sec.21) provides for the appointment of one or more Advisory Committees or Committees by a SFC for the purpose of assisting it in the efficient discharge of its functions.

(i) Technical Screening Committee

The first advisory committee to be constituted by the OSFC was the Technical Screening Committee (TSC) which came into being in December 1974. Its function was to study the technical feasibility of the projects. But consequent upon the organisation of a full-fledged Technical Department in the OSFC, the need for the TSC meeting was no longer felt. Therefore, the TSC has not met any more after February 1978.

(ii) Disposal-cum-Advisory Committee (Default Accounts)

The OSFC constituted an Advisory Committee
(Default Accounts) in February 1978, which was almost defunct until February 1979 when it was revived and reconstituted.

This committee at its first meeting held on February 7, 1979, adopted the strategy based on which the cases of defaulted borrowers would be considered in future meetings. But unfortunately it "... has never met thereafter because of the reported apprehension that the defaulting parties might shun the Committee whereby the purpose of holding meetings of such Committee would not be achieved. This apprehension is not, however, borne out by the fact that six of the nine loanees did appear before the Committee at its maiden meeting." 10

In October 1979 a Disposal Committee was constituted by the OSFC to decide on the disposal of transport vehicles, fishing trawlers, etc., which were seized from time to time under Sec. 29 of the SFCs Act. This Committee met as and when the need was felt for disposal of vehicles, etc.

It was again renamed as Disposal-cum-Advisory Committee (Default Accounts) which replaced both the earlier committees. This "Committee met 16 times during the year (1981-82) and has dealt with 127 cases of industrial concerns including transport units. Frequent
meetings of the Disposal-cum-Advisory Committee (Default Accounts) created an impact in the minds of defaulters about the seriousness of the corporation in recovering the dues."

However, in practice it is found that the committee remains more engrossed in the disposal of seized vehicles rather than reviewing the default accounts. The report on defaulting units on case by case basis should be placed before this committee for review and suggestion regarding the future course of action.

(iii) Line and Staff Co-ordination Committee

This committee was constituted in 1978 which met almost once in every quarter during the first year. The subject matters of discussion in such meetings were relating to the review of progress made on different fronts such as sanctions, disbursements, recoveries and other related matters. But now-a-days the management does not take any initiative in convening the meetings of this committee. So, it does not meet even once in a year. It is desirable that the committee should meet once in every quarter not only to discuss the above subjects but also the various problems facing the officers and staff.

(iv) Staff Selection Committee

This committee consists of the Managing Director and
three other directors of the corporation. It formulates the principles for recruitment and promotions to the various posts and also recommends to the Board all cases of appointments and promotions.

**Managing Director**

In OSFC, the Managing Director is the Chief Executive. He is full time officer of the corporation. He is appointed by the State Government in consultation with and after obtaining the advice of the IDBI. He can hold office for not more than four years as fixed by the State Government and is eligible for reappointment.

In the words of S.L.N. Simha, "... the effective management should rest with the salaried executives, who should be chosen for their ability and integrity, dynamism and missionary zeal and also practical wisdom. The executives must be persons of financial and technical background, their essential quality being the capacity to take decisions quickly and objectively"."12

The M.D. occupies the most pivotal position in the management of a SFC. Therefore, in order to run such an organisation successfully, the M.D. must possess the various managerial qualities like leadership, tact, imagination and resourcefulness, along with some knowledge of industrial finance, banking, accountancy, etc. He must
have the ability not only to guide the Board of Directors in evolving sound lending policies, but also to implement effectively those policies as also any other responsibility entrusted to him by the Board.

Since M.D. is the Chief Executive, his continuity for a reasonably longer period is of paramount importance for the successful functioning of a SFC. It has been rightly said that "In a development bank, continuity of a chief executive's tenure for an adequate length of time was essential, as frequent changes noticed in the case of some of the Managing Directors of SFCs led to slower, lopsided or retarded development and hampered attainment of objectives of the corporations". On the other hand, "Experience has shown that whenever fairly long tenures of office are held, the Corporation makes very good progress, the Andhra Pradesh and Karnataka Corporations provide good examples of such an arrangement". The Ramanujam Committee, therefore, recommends that the M.D. of a SFC should be appointed not only for a minimum period of 4 years but also be considered for renewal of his term. But this recommendation has not yet been given effect to.

In this context let us examine the tenure of the incumbents to the post of M.D. of the DSFC. Table 2.3 shows the relevant information in this respect.
It would be seen from the above table that the OSFC during its 26 years of life has been served by six MDs, the sixth one being in office during his fifth year. The average tenure of a MD comes to approximately 4½ years in case of the OSFC. As against this, "Some of the SFCs had during their existence varying from 10 to 15 years five or six Managing Directors," the average tenure per M.D. coming to 2 to 2½ years only. In this respect the position of the OSFC is relatively better.

### TABLE 2.3
OSFC - TENURE AND OTHER PARTICULARS OF THE MANAGING DIRECTORS

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name</th>
<th>Qualification/previous posting</th>
<th>Tenure as M.D.</th>
<th>Total tenure</th>
<th>Deputationist or own staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>From</td>
<td>To</td>
<td>Yrs Mths</td>
</tr>
<tr>
<td>1</td>
<td>V.N. Shirlei</td>
<td>Office of State Bank of India</td>
<td>20-3-56</td>
<td>6-6-58</td>
<td>2 3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>On deputation from SBI.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>R.N. Sahoo</td>
<td>A.C.A.</td>
<td>7-6-58</td>
<td>11-1-68</td>
<td>9 7</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>Own staff.</td>
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<tr>
<td>3</td>
<td>J.N. Mohanti</td>
<td>I.A.S.</td>
<td>12-1-68</td>
<td>18-11-70</td>
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<td>On deputation from State Govt.</td>
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<td>4</td>
<td>N.P. Bohidar</td>
<td>O.F.S.</td>
<td>20-1-71</td>
<td>11-9-74</td>
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<td>5</td>
<td>R. Ananta Narayanan</td>
<td>Manager IDBI</td>
<td>16-9-74</td>
<td>30-4-77</td>
<td>2 7</td>
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<td></td>
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<td>On deputation from IDBI</td>
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<tr>
<td>6</td>
<td>G.C. Patra</td>
<td>I.A.S.</td>
<td>1-5-77</td>
<td>Continuing</td>
<td>4 10</td>
</tr>
<tr>
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<td>On deputation from State Govt.</td>
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</table>

Source: OSFC
In spite of the above advantage enjoyed by the OSFC, its progress was still retarded except in the last 4 to 5 years. Such slow progress of the OSFC, therefore, may be attributed to certain external factors like lack of proper infrastructure facilities, lack of entrepreneurial and investment climate in the State and general economic backwardness of the State.

It may be observed from Table 2.3 that the six M.Ds were drawn from five different branches as the first one was a commercial banker, second a Chartered Accountant, third and sixth bureaucrats, being drawn from Indian Administrative Service, fourth, an officer of the Orissa Finance Service and the fifth a Development Banker. It, therefore, shows that the Government as in the case of appointment of Chairman, did not pursue a consistent policy in appointing the Managing Directors of the OSFC.

Out of these six incumbents to the post of M.D. of the OSFC, five were deputationists, only the second one being an officer of the corporation who relinquished the charge, on his better assignment elsewhere. The practice of filling up this top post by deputationists, acts as a double-edged weapon. On the one hand, the deputationists being outsiders, do not have a stake in
the corporation's future and therefore, may not take active interest in the affairs of the corporation. On the other hand, the corporation's own officers and staff, however competent they may be, having no opening to the topmost post, may gradually develop disinterest in their work. So, ultimately it is the corporation which stands to lose.

Very rightly, "IDBI has stressed the need for having a strong second line of management with adequate skills so that in course of time the Managing Director's position can be filled in from within". So the OSFC also should groom some of its officers from among whom successors to the post of MD can be chosen. The suggested practice would act as a great incentive for the officers of the OSFC who would like to show their best of talents. Further, with the appointment of the MD from within the organisation, the corporation can maintain continuity in its policy and secure efficiency in its management and all-round progress in its operations.

So far as the sanctioning power of the MD is concerned as on March 31, 1982, his power was upto Rs.2.5 lakhs per loan proposal. But it was revised to Rs.5 lakhs from May 26, 1982.
Table 2.4 shows the year-wise number and amount of loan proposals sanctioned by the MD and their percentage to total loans sanctioned by the DSFC for the last four years.

<table>
<thead>
<tr>
<th>Period: April-March (Amounts in lakhs of rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial year</td>
</tr>
<tr>
<td>Number</td>
</tr>
<tr>
<td>1978-79*</td>
</tr>
<tr>
<td>1979-80*</td>
</tr>
<tr>
<td>1980-81</td>
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<tr>
<td>1981-82</td>
</tr>
</tbody>
</table>

Source: DSFC - Annual Reports. Percentages computed.

* Gross sanctions.

It may be seen from the above table that in 1978-79 the MD sanctioned 966 loan proposals forming as high as 77 per cent of the total. Amount-wise, it was 63 per cent of the total sanctions. But at the end of 1981-82, the number-wise and amount-wise sanctions stood at only 12 per cent and 36 per cent respectively. The fall in the percentage of sanctions by the MD to
the total sanctions was due mainly to the increasing delegation of sanctioning power to the branches and to the General Manager (GM) consequent upon the creation of the GM's post in December 1978.

The MD of the OSFC represents the corporation on the Boards of two assisted companies and he is also on the Boards of the Orissa Technical Consultancy Organisation, Industrial Promotion and Investment Corporation of Orissa Ltd., Orissa Small Industries Corporation Ltd., and Orissa Leather Corporation Ltd. Besides, he has to attend to a number of State level meetings connected with the industrial development of the State. All these assignments are bound to keep the MD highly preoccupied and hamper his normal functions of sanction, disbursement, recovery, general administration, etc. But with the appointment of the G.M. in December 1978 who enjoys the concurrent power of sanction and disbursement along with the M.D., the pressure of work on the latter has been lessened to certain extent. The MD felt that the present arrangement was working satisfactorily and it helped speedy disposal.

**General Manager**

The Managing Director being the chief executive of the OSFC, General Manager (Administration) becomes...
the second in command in its organisational structure. This post was created after the IDBI repeatedly emphasised on the importance of such a post to lessen the work-load of the MD. The General Manager (Administration) looks after Administration, Accounts, Technical, Appraisal, Disbursement, Legal, Refinance, Sick Revival, Development, Training and Special Projects Departments. He also enjoys concurrent power with the MD for sanction upto Rs 1.5 lakhs and disbursement without any limit. In the absence of the MD he exercises all the powers of the MD.

During the financial years 1980-81 and 1981-82 he sanctioned loan proposals numbering 81 and 39 for an amount of Rs 81.45 lakhs and Rs 31.04 lakhs, respectively. It formed 2.77 per cent and 0.73 per cent of the total sanctioned amount for these years, respectively.

The second post of G.M. was created in the financial year 1981-82. Initially he was looking after District Industries Centre and Bank co-ordination. Subsequently, Recovery and Follow-up and Internal Audit and Inspection departments have also been attached to him.

The third post of GM was created in 1982-83 to look-after Evaluation and Statistical function of the corporation. But it does not appear to be sound to have a General
Manager exclusively for a single department. Because, if it is allowed to continue, it may not be very far for the heads of the functional departments like Accounts, Appraisal, Disbursement, Recovery, Internal Audit, etc. to demand for their elevation to the rank of General Manager. That would pose great financial and administrative problems to the corporation.

Therefore, the redistribution of all the departments among the three GMs has been shown on a more rational basis in the suggested organisation chart.

All these three posts of GMs have been filled up by the deputationists from the State Government, ignoring the claims of the officers of the corporation. This practice, as far as possible should be discouraged and competent officers of the corporation be given promotion. This will provide motivation and, thus, help in raising efficiency.

Organisation

On the need for a properly designed organisational set-up for the successful functioning of SFC, V.V. Chari
spokes appropriately in the following words:

A key to successful performance of any institution and maintenance of a healthy portfolio is the existence of an efficient and adequate organisational set-up. It cannot be said that all the SFCs have an adequate organisation to do full justice to the role assigned to them. The problems, such as slow growth of business, delay in sanctioning assistance, deficiencies in appraisal of loans particularly from the technical angle, inadequate follow-up and supervision, stem to a large extent, from organisation inadequacies. It is needless to emphasise that besides continuity in the top management, particularly at the level of the Managing Director, so as to ensure formulation and execution of long-term policies, it is necessary for SFCs to have a self-sufficient organisational set-up with adequate complement of specialised and trained staff.

There cannot be any such tailor-made organisational pattern that can be followed by all the development banks. But in India these institutions generally adopt either Function-Oriented or Expertise-Oriented organisational structure at their central offices. Under the former pattern, the organisation is structured according to the functional areas involved in the organisation: project appraisal, legal, disbursement, accounting, follow-up, project promotion and development and training, while under the latter pattern, departments are woven around individual
disciplines: Technical, Financial Analysis, Legal, Economic Research, among others. 21

DSFC adopts the function-oriented organisational structure. Its organisational set-up as on March 31, 1982 is shown in a chart form. It could be seen from this chart that the MD was the chief executive officer of the corporation, being accountable to the Board of Directors. Under the MD, there were three GMs. The first GM was in charge of General Administration, including sanction and disbursement power; the second was in charge of District Industries Centre and Bank Coordination, Internal Audit and Inspection and Recovery and Follow-up; and the third was in charge of Statistics and Evaluation.

The various functional departments of the DSFC as existing on March 31, 1982, are briefly discussed in the following paragraphs:

1. **Administration:** This department is looked after by the Secretary under whom there are one Deputy Manager, one Assistant Manager and two Junior Assistants. It attends to the Board and committee meetings, establishment, maintenance of the corporation's premises, procurement of stationeries, etc. This department is
under the direct control of the GM (Administration).

2. Accounts: Its personnel consists of one Deputy General Manager designated as Chief Account Officer, one Manager, one Deputy Manager, two Assistant Managers, four Senior Assistants and ten Junior Assistants. It is accountable to the GM (Administration). It is, by far, the biggest department which, in addition to its responsibility of maintaining accounts, also looks after resources mobilization - another important function. The corporation has now nearly 11000 borrowers' accounts, the maintenance of whose ledgers is definitely a big task. However, since financial year 1980-81, the ledgers of the borrowers with loans up to Rs. 2.5 lakhs have been transferred to the respective branch offices, the ledgers above this limit being maintained at the Head Office.

One of the officers of this department at the Head Office should be in charge of Branch Accounts who should guide branches in the proper maintenance of accounts since, all the branches are not fully equipped in this respect, particularly due to the rapid expansion in the recent years. It would also ensure uniformity in the maintenance of accounts. There should be regular reconciliation of branch accounts against the Head Office.
accounts, say, once in every month. The IDBI, in their Inspection and Evaluation Reports, have repeatedly pointed out that branch accounts continue to remain neglected. It must be ensured that the loan ledgers reflect the latest position. Besides, the demand notices for payment of interest and repayment of principal must be sent timely.

In view of the increasing resources constraint (discussed in the next chapter), Resources Mobilisation should be separated from Accounts and be placed under a separate department named "Resources Planning and Investment Operations" which should look after resources mobilisation, including refinance (for which now there is a separate department) and investment operations.

So far as the quality of the personnel of this department is concerned, all are generalists. In fact, the corporation does not have even a single officer/staff in its entire cadre with any professional qualifications like Chartered/Cost Accountancy, Business Administration, Company Secretariaship, etc.

But the successful working of a development bank depends on the synthesis of skills of various disciplines, like Chartered Accountancy, Cost Accountancy, Business
Administrations Company Secretariship, Commerce, Economics, Engineering, Law, etc. Hence, it is high time that the corporation should revise its recruitment procedure so that not only the Accounts department but also departments like Internal Audit, Appraisal, etc., are manned by the professionally qualified persons.

3. Technical: The OSFC has a full-fledged Technical Department with two Deputy General Managers, three Managers, three Joint Managers and one Junior Assistant as its personnel, at the Head Office. The department is manned by engineers drawn from various branches like Mechanical, Civil, Chemical, Electronics, etc. One of the DGMs was on deputation from the State Directorate of Industries.

This department makes technical appraisal of the units applying directly (i.e., not through District Industries Centres) to the OSFC's Head Office.

This department should chalk out programme in such a manner that one of the technical DGMs from the Head Office can visit each branch at least once in every six months and check up, at random, the loan proposals already sanctioned by the branches so as to judge the technical appraisal standards adopted by the branches or
DICs. It would bring about improvement in the appraisal of loan proposals at branch level.

It should better be termed as Technical Appraisal Department which should function in close coordination with the Financial Appraisal Department.

4. Appraisal: Technical and financial appraisal of projects is the heart of a development bank's operations. The development bank must build up a fairly diversified staff for this purpose. As on March 31, 1982, the DSFC's appraisal department was headed by a DGM who was a mechanical engineer. But subsequently, there have been a few changes in the internal organisation of the corporation as a result of which this department has two DGMs - one from financial wing with power to appraise loan proposals up to ₹ 5 lakhs and the other, a Civil Engineer with power to appraise loan proposals in excess of ₹ 5 lakhs. The DGM from financial wing depends upon the Technical department for scrutiny of the technical aspects of the proposals. This type of division of work between the two DGMs, however, does not appear to be sound. Instead, it is suggested that there should be two distinct departments, viz., Technical Appraisal Department and Financial Appraisal Department which should look to the technical and financial aspects of the loan proposals, respectively, and work in close
co-ordination with each other.

The perfection in the appraisal of loan proposals is ultimately reflected in the success or otherwise of the assisted units and that of the lending institution itself. Hence, utmost care must be taken in appraising all the aspects of a loan proposal such as factors of production, locational aspects, machinery components, market conditions or supply-demand gap, etc. A scrupulous and thorough pre-sanction inspection would be extremely useful in this respect. It has been rightly remarked by S.L.N. Simha that "The people behind a project constitute the most significant element in any appraisal. If there has to be a choice at all of this sort, it is better to finance what looks like a second class project but sponsored and run by first class entrepreneur than to finance what may be a first class project but sponsored and run by second class persons". This calls for a very meticulous managerial appraisal of the projects, in addition to technical and financial appraisal.

Besides, care must be taken to see that both fixed and working capital are properly estimated since, often these are shown at the lower side to reduce the
promoter's contribution. The arrangement for regular flow of working capital in required quantity must be ensured before the term loan is sanctioned.

5. Disbursement: This department was created in the financial year 1972-73 prior to which the disbursement function was being performed by the Accounts Department. It is now headed by a DGM who is assisted by one Deputy Manager, two Assistant Managers, one Senior Assistant and three Junior Assistants. Disbursements in respect of loan proposals in excess of Rs 2.5 lakhs are made in this department, those below this limit being taken care of by the concerned branches. Sometimes on borrowers' requests, disbursements even in excess of Rs 2.5 lakhs are made at the branch level. Disbursement of Central and State Investment Subsidies are also made by this department at the Head Office.

Delayed disbursement amounts to the denial of assistance and causes much irritation among the loanees. So care must be taken to avoid any unnecessary delay in disbursement. It must be ensured that the promoter brings in his share of contribution before any disbursement is made. Above all, proper utilisation of the amount disbursed should also be looked into.
So far as purchases of machinery is concerned, the OSFC makes payment to the supplier of machinery instead of paying to the entrepreneur and so far as construction of building is concerned, the amount is paid in instalments on the basis of the progress made in the construction work. In order to ensure the arrival of machinery, the corporation's technical staff also visit the factory site before disbursement is made.

6. Legal: A separate legal department was created in the OSFC in the year 1976. It is manned by a DGM, two Deputy Managers, two Senior Assistants and one Junior Assistant. The functions of this department fall broadly under three heads, viz., (i) creation of charge, (ii) enforcement of charge, and (iii) advisory function. Under 'Creation of Charge' it does the documentation work, such as examining title to the land, building and other properties, and drawing of the loan agreement, mortgage deed, hypothecation deed, etc. Under 'Enforcement Charge', it plays an important role in case of legal action to be taken against the defaulting borrowers under sec. 29 and sec. 31 of the SFCs Act. Under 'Advisory function', it renders legal advice to the corporation as well as to the borrowing units, in case of necessity.
Under the present practice, the legal work begins after a loan is sanctioned. But if the applicants are advised to submit the legal documents like title deeds, etc., along with the applications for loan, the work of this department could commence simultaneously with that of the Appraisal department, thereby considerably reducing the time lag between sanction and disbursement.

7. Refinance: This department is headed by an officer of the rank of a Manager who is assisted by three Assistant Managers, one Senior Assistant and one Junior Assistant. It deals with all the matters relating to the availment of refinance from the IDBI. But as suggested earlier, it could be brought under "Resources Planning and Investment Operations Department" which should be newly created.

8. Recovery and Follow-up: This department got an independent status as late as November 1978. Its personnel include one DGM, one Deputy Manager, two Assistant Managers, one Office Superintendent and four Junior Assistants.

This department gets feedback from all the branches and Accounts Department of the Head Office in respect of difficult and defaulting borrowers and takes appropriate measures to recover the dues. Despite the repeated notices if a borrower does not repay the dues it takes more stringent measures like legal action under sec. 31 and seizing or
taking over the management of the unit under sec. 29 of the SFCs Act (both discussed in detail under "Recovery and Overdues" chapter).

But a close examination of the activities of this department shows that it remains more pre-occupied with the recovery function, to the considerable neglect of the follow-up and monitoring activities. It must not, however, be lost sight of that a strong 'follow-up and monitoring' is a sine qua non to reduce the overdues by expediting the process of recovery.

Hence, the department must arrange for the inspection of assisted units and ask for more and more returns and statements from them which should be timely analysed and prompt action be taken to correct the imbalance, if any, in their health.

9. Sick Revival: This department was created in late 1979. It has one engineer-DGM assisted by three Junior Assistants. The function of this department is to identify sick units among the DSFC's portfolio and take suitable measures to revive/rehabilitate them. At present instead of following any specific definition of sickness, it confines its working only to a few closed units, the majority of the closed units still being outside its fold.
It should follow the definition of sickness as suggested by the IDBI. The department should also be strengthened with additional staff to deal with the problem of rising sickness (discussed in chapter VII).

10. Development: This department has one Manager, two Junior Assistants and one Librarian. The main function of this department is to disseminate information on the activities of the DSFC through advertisement, exhibitions, seminars, etc. Any new scheme introduced by the corporation is also brought to the notice of the entrepreneurs by this department.

But the publicity campaign by the DSFC is in a low ebb which should be geared up to a new height. The foreign currency assistance by the DSFC from IDA/World Bank Line of credit which has made little headway (discussed in chapter IV) and various other schemes introduced (Chapter V) by the DSFC should be widely publicised in order to attract the entrepreneurs in large numbers. At present, the brochures of the DSFC on "Guide to Entrepreneurs" which is available only in English language, has been made a priced publication. But this should be brought out elegantly also in Hindi, and in the regional language (Oriya) and be distributed freely.
The activities of the present special projects wing should be brought within the ambit of the Development Department thereby dispensing with the wing.

11. Special Projects: This wing was created in the year 1980-81. It has one DGM and one Junior Assistant. Its function is to find out the new areas of operation for the OSFC by devising new schemes. But this wing could very well be merged with the Development Department which should be incharge of devising as well as publicising the new schemes.

12. Training: The officers and staff of the OSFC totalled 246 as on March 31, 1980, which went upto more than 350 within two years. In order to acquaint, the new as well as existing employees of the corporation, with its working, the OSFC has been running one Training Institute of its own from the beginning of January 1981. Employees within the grade of Junior Assistants to Deputy Managers undergo an in-house training course for 3 months in batches of 15 each, in this institute.

As on March 31, 1982, two officers of the Manager's rank are in charge of the training who finalise the course contents and arrange lectures and plant visits. Besides the various functional heads of the corporation who give talks to the trainees on their respective areas, a large
number of guest speakers are invited both from academic and practical fields like Small Industries Service Institute, State Directorate of Industries, Directorate of Textiles, Directorate of Export Promotion and Marketing, etc.

The institute should be provided with a few full-time faculty members and research staff which would enhance the standard of training considerably.

13. Statistics and Evaluation: At the end of the financial year 1981-82, the OSFC organised a new department named "Statistics and Evaluation". It is headed by a General Manager who is of the rank of Joint Director of the Bureau of Statistics and Economics and is presently on deputation to the OSFC. An officer of the rank of Deputy Director of Industries has been designated as Officer on Special Duty and given the charge of evaluation.

The main function of this department is to collect statistics from the branches and various departments of the Head Office, to compile the same and make evaluative studies. In the absence of a branch control and co-ordination department, this department could serve very useful purpose if it could collect the various information from the branches and submit to the management timely, in the proper form.
It is too early to make any assessment of the working of this department. But if properly organised, this department could show real direction to the DSFC by evaluating the working of various schemes launched by it. The present work of preparing position papers on various industries as being done by an Officer on Special Duty in a separate section, could conveniently be entrusted to this department.

This department may be headed by an officer of the rank of DGM instead of having two senior class I officers of the State Government on deputation.

14. Special Duty: For the first time in January 1979, the DSFC appointed one retired State Government officer as "Officer-on-Special Duty" for a contracted period of two years. He was given the charge of Organisation and Methods. On the expiry of his term, the cell ceased to function.

But in early 1981 the Secretary of the DSFC who was on deputation from the Government, retired. The corporation appointed its seniormost officer as the Secretary while the State Government deputed yet another officer against the same post. Ultimately the officer of the State Government was adjusted as Officer-on-Special Duty who was required to bring out the position papers on
various sectors financed by the OSFC.

The position papers brought out so far relate to Transport (four volumes), Fishing Trawlers, Printing Press and Hotels, Industrial Co-operatives, 19 specific industries, industries affected by 1982 cyclone and those affected by 1982 high flood.

This cell could be dispensed with by entrusting its work to the Statistics and Evaluation Department and the State Government may be requested to stop the practice of deputing officers to this post.

15. **DIC and Bank Co-ordination:** This department was created in the financial year 1980-81 with the appointment of a Central Manager who was on deputation from the State Government. This department looks into the problems of working capital faced by the entrepreneurs. Besides, it also looks into the problem of co-ordination between the OSFC and the District Industries Centres (DICs) which is vital for the successful working of the OSFC.

An informal discussion with the MD of the OSFC revealed that once the in-fight among the officers of a particular DIC led to a drastic reduction in the inflow of loan applications to the OSFC. Of course, the MD could discover this situation and remedy the same very tactfully.
The opening of such a department was timely and appropriate, although it would have been better, had the post gone to an officer of the DGM's rank of the corporation itself.

16. Internal Audit and Inspection: The Internal Audit Department was created in the financial year 1980-81. It was headed by a senior DGM, assisted by two Deputy Managers, one Senior Assistant and four Junior Assistants.

This department was required to audit the branch offices as well as various departments of the Head Office. It has been placed under the G.M. (DIC and Bank Co-ordination). But such a department should be accountable directly to the M.D. only.

It has been making very pertinent observations with regard to the functioning of branches as well as the Head Office in respect of sanction, disbursement, recovery, follow-up, reconciliation of loan ledger, issue of notices for collection of principal and interest, etc. and appropriately suggesting to tone up the operational efficiency.

The department should be given full autonomy in its working. Compliance of its suggestions should be ensured by the management so as to develop it into an
effective control point both for the branches and various departments of the Head Office.

Branch/Zonal Offices:

The OSFC continued to function from its Head Office (located at Cuttack) alone until September 1971 when it opened its first branch office at Sambalpur having jurisdiction over the four western districts of Sambalpur, Sundergarh, Bolangir and Kalahandi. In course of time branches were opened at Berhampur, Rourkela, Jeypore and Baripada. But in 1978-79, the corporation opened as many as eight branches so as to cover all the district headquarters with a view to coordinating sanction of loans to village cottage and tiny industries sponsored by the DICs. It also raised the status of the Zonal Office at the port town of Paradip to branch level and in 1981-82 it opened another branch at the State capital of Bhubaneswar. As on March 31, 1982, it had 15 branch offices, i.e., one in each of the 13 districts and extra one each in Cuttack and Puri districts and 12 Zonal offices (Appendix V).

The branches are headed by officers of different ranks beginning from Deputy Manager to Deputy General Manager depending upon the size of the branches. The Branch Managers are chosen either from Financial or Technical or Legal wing. Since all the branches did not
have legal and technical officers, these officers were so distributed among the 15 branches that one officer with headquarters at one branch could visit adjacent one or more branches depending upon the exigencies of the work.

The zonal offices are generally manned by single officers/assistants who are entrusted with the task of collecting composite loan applications and forwarding the same to the branch office having jurisdiction over it and realising dues from such loanees.

The Branch Managers (B.Ms) are authorised to sanction independently composite loans (discussed in Chapter V) upto ₹ 0.25 lakh and in respect of cases whose pre-sanction inspection and technical appraisal reports are completed by DICs, loans upto ₹ 1.50 lakhs. The B.Ms have power to disburse loans upto ₹ 2.50 lakhs in each case. Loan applications between ₹ 1.50 lakhs and ₹ 2.50 lakhs are appraised by the B.Ms and forwarded to the Head Office for final sanction while those in excess of ₹ 2.50 lakhs are received by the Head Office directly. The appraisal reports prepared by the Branch Managers and DICs should be test-checked by the Head Office staff so as to ensure perfectness in the appraisal standard. The branches are also required to carry on follow-up inspection of the units and collect
dues from them.

In the matter of recovery earlier no seizure of vehicle was possible without the approval of the R.D. but now the B.PIs and other functions have been authorised to take coercive measure which has helped quick recovery of dues from wilful defaulters. A separate cell headed by an officer in the rank of Deputy Manager/Assistant Manager has been created in all the branches to look after recovery of dues. Similarly, a separate cell has been constituted to look after sanction and disbursement so that industries in the tiny sector get sanction within a period of 21 days from the date of application.

Table 2.5 shows the number and amount of loans sanctioned by the branches and their percentages to the total sanctions by the corporation for the last four years.

**TABLE 2.5**

<table>
<thead>
<tr>
<th>Period: April-March</th>
<th>(Amounts in lakhs of Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial year</td>
<td>Sanctions by Branches</td>
</tr>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td>1978-79*</td>
<td>224</td>
</tr>
<tr>
<td>1979-80*</td>
<td>2101</td>
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<tr>
<td>1980-81</td>
<td>6496</td>
</tr>
<tr>
<td>1981-82</td>
<td>6333</td>
</tr>
</tbody>
</table>

Source: Compiled and computed from the Annual Reports of the OSFC.
* Gross sanctions
It would be seen from the above table that sanction by branches has been increasing year after year both number-wise and amount-wise except in 1981-82. The fall in the year 1981-82 was due to the financing of a number of projects with higher loan components which were sanctioned by the Executive Committee or the Board or the Managing Director.

The increase in the sanctions of the branches in the recent years has been possible mainly due to the increasing delegation of powers to the branches and simplified procedure for sanctions.

In view of the opening of a large number of branch and zonal offices the corporation should open a "Branch Control and Co-ordination Department" at the Head Office which should conduct regular inspection of the branches and collect various control reports. These reports should be scrutinised promptly and a summary thereof be placed before the M.D. every month and before the Board once in every six months or so.

The problems facing the field-level functionaries like branch/zonal managers should be discussed with the management in the Line and Staff co-ordination committee once in every quarter.

Decentralisation of operations

In the wake of the Institutional Development
Programme prescribed for the SFCs by the World Bank under its 1260-IN Line of Credit, the OSFC launched a programme of decentralisation of its operations. Moreover, pursuant to a national policy, the DICs were opened at all the district headquarters with effect from July 1, 1978, and the OSFC, with a view to making credit more readily available to the tiny, cottage and small-scale industries, had to establish close coordination with the DICs. Therefore, it had to open branches at all its district headquarters or important towns.

The OSFC has authorised its Branch Managers to sanction loans independently upto Rs 0.25 lakh and upto Rs 1.50 lakhs in respect of each case sponsored by the DICs. It also authorised the Branch Managers to disburse upto Rs 2.50 lakhs. Besides, it empowered the Branch Managers to take coercive measures in the matter of seizure of vehicles and recovery of dues even without the prior approval of the M.D.

The General Manager has power to sanction upto Rs 1.50 lakhs in individual cases and concurrent power with the M.D. to effect disbursements without any limit. The M.D. can now sanction upto Rs 5 lakhs in each case as against the earlier (upto 1981-82) limit of Rs 2.50 lakhs.
The Executive Committee's sanctioning power is between Rs 5 lakhs and Rs 15 lakhs while only the proposals involving a loan component of more than Rs 15 lakhs are referred to the Board of Directors.

Such decentralisation of GSFC's activities is a very welcome measure since, on the one hand, the lending process can be accelerated and on the other, the Board with a relatively smaller number of loan proposals to be considered by it, can concentrate more on policy matters and review of operations such as sanction, disbursement and recovery rather than considering only a large number of loan proposals.

Management Information System

With the increase in the size of an organisation and consequent decentralisation of its operations, Management Information System (MIS) assumes a great deal of significance. From the foregoing discussions it is clear that both these conditions are present in the GSFC which, therefore, calls for a sound MIS.

The top management of the GSFC must be kept abreast of the up-to-date developments taking place at various levels of the organisation in order to enable them to take policy decisions on various vital issues. But the system of calling for returns from the branches
and processing data relating to sanctions, disbursements, overdue, recoveries, etc. as obtaining in the OSFC at present is far from satisfactory. Therefore, it has been suggested at appropriate places to organise a "Branch Control and Co-ordination Department" on sound lines and direct the working of the "Statistics and Evaluation Department" effectively.

The management of the OSFC must pay urgent attention to this aspect, so that the control and decision-making are made more effective than that prevailing to-day.

Training and Manpower Development

A band of officers and staff well versed with the latest techniques and up-to-date developments in the various related functional areas is a sine qua non for the efficient conduct of a development bank. It is, particularly important in case of institutions like the OSFC which has been expanding very fast during the last a few years. It would, however, be possible to achieve this objective through exposure of the officers and staff to different types of training courses, etc.

It is encouraging to note that the OSFC has been deputing more and more of its officers and staff to training on important functional areas like project appraisal, project supervision and follow-up, computer
programming, term lending techniques, export marketing and management, managerial accounting, nursing of sick units, interpretation of balance sheet, etc. These courses were conducted by a host of institutions/authorities like Bankers' Training College at Bombay, Development Banking Centre, Management Development Institute, and Industrial Finance Corporation of India of New Delhi, Administrative Staff College and Small Industries Extension Training Institute of Hyderabad, Indian Institute of Management of Calcutta and OSFC's own Training Institute.

What more the OSFC should do is the recruitment of professionally qualified persons like Chartered and Cost Accountants, Company Secretaries and Masters of Business Administration who should fill up the various posts in the departments like Accounts, Appraisal, Internal Audit, Follow-up and Monitoring.

It should also groom its own officers who could in course of time, fill up the posts of General Managers and Managing Director, instead of depending always on the officers on deputation from the State Government.

SUMMARY

The discussion under this chapter reveals that the OSFC is subject to control by multiple agencies like
the State Government, the IDBI, the RBI and the Central Government. Its management rests with a Board of 12 Directors.

All the five nominees of the State Government on the Board of the OSFC were drawn from Civil Service. It is, therefore, suggested that the SFCs Act should be suitably amended on the line of the IDBI Act, 1964, providing for the nomination of only two Government officials and the rest from among the industrialists and professionals.

The average tenure of a Chairman in the OSFC has been less than 2 years, since most of them were chosen from Civil Service who were subject to frequent transfers. The Government should, therefore, appoint the Chairman from among professionals or industrialists, whose minimum tenure should be for four years.

The SFCs Act should be amended enabling the appointment of a full-time Chairman-cum-M.D. in the SFCs. It would provide a better opportunity to this top-most executive to translate his ideas into action more effectively.

The Board should concentrate more on policy matters rather than on routine matters like sanction of loans.
The Disposal-cum-Advisory Committee should consider the default accounts on case by case basis instead of concentrating only on disposal of seized vehicles/properties.

The Line and Staff Co-ordination Committee should meet at least once in every quarter so that the officers and staff get an opportunity to discuss their difficulties with the management across the table and the management expresses its views.

The GSFC should groom its own officers who could, in course of time, fill up the posts of the General Manager and Managing Director which are now manned by the deputationists.

The GSFC follows the function-oriented organisational structures. It has 16 functional departments/cells which are headed by OGMs or Managers. Most of these departments have been placed under the General Manager, Administration. It is suggested to distribute all these departments among the three OGMs on a more rational basis.

It is suggested to abolish the special projects cell by entrusting its activities to the Development Department. The cell of the officer on special duty
should also be closed down, and its activities be entrusted to the Statistics and Evaluation Department. The Statistics and Evaluation Department should make evaluative studies of the various schemes. It should also collect various data, process those and submit to the management in time. There need not be a General Manager exclusively for this department.

There should be a new department named "Resources Planning and Investment Operations" which should take up resource mobilisation activities, including refinance, bond issue, etc. and fix up the investment priorities.

The OSFC has 15 branches and 12 zonal offices. In order to co-ordinate their activities, a "Branch Control and Co-ordination Department" should be created at the Head Office. It should serve as a feedback to the management.

The Administration Department should ensure formal and systematic method of compliance of Board/Committee decisions.

The Accounts Department should ensure regular reconciliation of branch accounts with that of the Head Office. It should also ensure regular updating of loan ledgers and timely despatch of demand notices.
The existing Technical Department should be merged with the Appraisal Department. The present practice of bifurcating the appraisal function among the two OEMs on the basis of loan amount should be replaced by functional classification like Financial and Technical appraisal without resort to any limit. The loan proposals appraised by the branches/DICs should be test-checked by the Head Office staff.

The Internal Audit department should be placed directly under the M.O. and its suggestions be acted upon timely.

The Recovery and Follow-up Department should be bifurcated into two viz., (1) Recovery (2) Follow-up and Monitoring.

The Sick Revival Department should be further strengthened to cope up with the increasing incidence of sickness among the assisted units.

The DSFC's Training Institute should be enriched with a few full-time faculty members and research staff.

The Management Information System should be improved upon by organising the branch control and co-ordination department and activating the statistics and evaluation department.
Finally, it should enrich its personnel by recruiting professionally qualified persons for various departments.

With this, we conclude our discussion on Management and Organisation and proceed to discuss the Mobilisation of Resources in the next chapter.

NOTES


2. RBI prior to February 16, 1976, i.e., before the Public Financial Institutions Laws (Amendment) Act, 1975, came into force.


4. Shirely Boskey, p.39 (For a detailed discussion on the Boards of Public and Private Banks, see. pp.36-40).


8. S.L.N. Simha, p.273

97

10. Ibid., pp. 5-6.
16. Ibid., p.57.
17. I.D.B.I., Summary Evaluation of SFCs' Operations during 1979-80, p.3.
19. (i) Inspection Report on OSFC (Jan-Feb. 1977)
21. M.D.I., p.50
23. Ibid., 22.
24. OSFC, Note on Role of OSFC in the Implementation of 20 Point Economic Programme of the Prime Minister, p.8.