CHAPTER

ONE
1.0. INTRODUCTION:

The State Financial Corporations in India have been created under the statute for giving assistance to various sectors of the country and they have been serving the nation having their presence in almost every state of the country. The name itself describes that the corporation is state level corporation and further the name suggests that this corporation is engaged in the financing business. Hence, it can be easily guessed that there would be more and control of state governments and they have to follow the directions of the state governments. In ancient times, there has been self sufficiency and the business was done on the basis of capital the sole proprietor brought in. The days changed and there has been involvement of Joint Stock Companies in the business. The need for Financial Corporations was felt due to industrialisation of the country and to boost economy it was felt that there should be State Financial Corporations so that the needs of the entrepreneur can be catered with proper support at regional level and thus the development of the country can be ensured. The matter was put for consideration and hence, an act called The State Financial Corporations Act, 1951 (Act 63 of 1951) was passed which extends to whole of India
including Jammu and Kashmir. Under, this act, the state governments were
given wide powers to establish State Financial Corporations in the state.

1.1. DEFINITION OF FINANCE:

To understand the word FINANCE, it would be wise to first of all to
understand its dictionary meaning. The term finance is used as noun and verb
meaning thereby as a noun: The science of monetary affairs and
resources, funds and as a verb: To supply the capital or funds for
something, to sell or provide on a credit basis.

If we go through the meaning of Finance in wider sense, we find it as a unit
available in all universal transactions to be studied under Economics. Finance
is of great essence in every transaction excepting in the cases of some cases
which are not studied under Economics.

The economy of any country or state is dependent up to larger extent on the
Financial Policies of the captioned state or country. Accordingly, the
decisions regarding the finances are taken with utmost care at every business
house, governments and other entities.
1.2. ECONOMIC GROWTH, ITS DETERMINANTS, ITS MAIN SOURCES:

The basic objective of our country’s economic planning which also resulted in to achievement upto a certain extent are given hereinbelow:

- Economic growth
- Structural changes
- Agricultural development
- Food sufficiency
- High growth in savings
- Infrastructural development
- Industrial growth
- Framework of financial institutions
- Public sector
- Diversified exports and high degree of import substitution
- Development of science and technology
- Administrative structure for planning.
- Rising life expectancy
- Relative price stability
- Survival of democracy
There have been some shortfalls even after trying to make up the economy of India which are given hereunder. These shortfalls are very fatal to the overall situation of the country and every steps should be taken to overcome the same.

- Continued poverty
- Unemployment
- Continued inequality of income and wealth
- Continued regional imbalance
- Mass illiteracy
- Rapid population growth
- Inadequate health facilitities for masses.
- Bureaucratisation
- Corruption and black money
- In efficiency of public sector
- Delays and cost over runs
- Economic wastes
- Resource crunch
- Large debt
- Lack of mass participation
1.2.1. INTERNAL DETERMINANTS OF ECONOMIC DEVELOPMENT:

The following are the Internal determinants of Economic development. They have the direct bearing on the Economic development of any country. We shall discuss each internal determinant hereinbelow:

1.2.1.1. QUALITY OF LABOUR AND CAPITAL:

Quality of labour and capital is the major determinant of economic development. It is well known that the health and education are major contributors to improved quality of labour in the economy. Similarly, scientific knowledge and upgradation of technology would lead to improved quality of capital and greater productivity of both labour and capital. Trends in capital output and labour output ratios would indicate the momentum of economic development in the country.

1.2.1.2 BETTER MANAGEMENT:

The better management is very helpful in the growth and development of an economy. The economic development requires better management of
productive resources. Rapid economic development of Japan in recent past is attributed significantly to the Japanese style of management with its emphasis on higher productivity through better management of physical and human sources. Participative management, quality circles, total quality management and Kaizen are the ideas which have originated in Japan and are widely accepted as methods to improve all round productivity and lead to economic development.

1.2.1.3. DIRECTION OF DEVELOPMENT:

Economic development implies all round development of quality of life. Even when, one productive sector, say agriculture in New Zealand or industry in Japan, has developed, the level of consumption all round improves. Unemployment is reduced, availability of food and health and education facilities are available for all. The infrastructure development in the form of power and transportation are rapid. The better quality of life is reflected in lower mortality rates (particularly infant mortality rates) and higher expectancy of life.
1.2.1.4. MORE EVEN DISTRIBUTION OF GAINS FROM DEVELOPMENT:

Development is meaningful only when the gains from development are fairly evenly distributed. Economic development spreads benefits of consumption all through various social and economic strata reducing disparities of income and wealth and thereby human well being in the society.

1.2.2. EXTERNAL DETERMINANTS OF ECONOMIC DEVELOPMENT:

The following are the external determinants of Economic Development. These are referred as External Determinants as they are based on the developments outside the country. We hereby discuss them in detail in the following lines:

1.2.2.1. GROWTH OF FOREIGN TRADE:

Growing imports and exports are signs of economic development. Liberalised trade indicates the domestic economy with global economy.
Interdependence between the developed countries is greater among the developed countries. Growth of foreign trade enables countries to raise their overall standards of living.

1.2.2.2. FLOW OF FOREIGN CAPITAL:

Development of Institutional Finance sector is an important contributor to economic development. This would facilitate free flow of foreign capital into the country and provide opportunity to domestic capital for investment abroad. Economically developed countries of Europe and North America have financial institutional framework which enables their citizens to employ their savings in most productive forms of financial assets.

1.2.2.3. GREATER MOBILITY OF PEOPLE:

Economic development considerably depends on greater mobility of people within the country and between the countries. Such mobility creates its own growth dynamism. USA has developed service sector partly due to greater mobility of Americans. In recent times, Europe has attempted to increase the mobility of labour between the member countries of European community by abolition of restrictive regulations on such movements. The aim of
encouraging mobility of labour is to ensure that it is used in that productive sector and that geographically region where its productivity is the highest.

1.2.2.4. WORK ETHICS :

The economic development also depends on work ethics and attitude of people to work. Countries of traditions of hard and sincere work have rapidly developed. It is also noteworthy that once a country develops and productivity increases, need for work input is reduced. Most developed countries have five day work week. This also provides regular time out for leisure which decides enriching a person's own personality, also provides source for rapid growth, and development of leisure industry.

1.2.3. MAIN SOURCES OF ECONOMIC GROWTH:

The main sources of Economic growth are given hereinbelow. The source may be referred to be the factor which is the essential item for Economic growth. Each of the source of the Economic growth is discussed hereinbelow for want of a clear perception.
1.2.3.1. CAPITAL FORMATION:

Economic growth requires capital formation. Less developed countries are caught in the vicious circle of poverty where low income, low savings, low investments and resultant low income perpetuate unemployment and poverty. To get rid of this circle, capital formation provides for stepping up of savings of the economy through fiscal and monetary policies and through foreign borrowings and directing the savings to create capital base in the economy. For sustainable capital formation, such capital formation has to be evenly spread over industry, agriculture and creation of infrastructure like roads, railways, power generation etc.

1.2.3.2. GROWTH OF HUMAN RESOURCES:

Besides the creation of physical capital, economic growth requires creation of human resource base. For this, it is imperative that the economy creates right climate for growth of education and training. Technology based capital with educated and trained manpower would raise the productivity per unit of both capital as well as labour. With initial dose of capital, the ratio of capital
output would rise but increased productivity and more than the proportionate increase in output would lead to gradual decline in capital output ratios.

1.2.3.3. GROWTH OF INFORMATION AND SCIENTIFIC KNOWLEDGE:

Economic growth in present times pre-supposes absorption of improved technology and greater growth of information and scientific knowledge. Low capital input based production processes particularly in agriculture and industry, account for low output growth in many underdeveloped countries. With more scientific knowledge and greater exchange of and access to information, countries in Asia and Latin America have attempted to accelerate the levels of economic growth.

1.2.3.4. GROWTH OF POPULATION:

This is the controversial source for economic growth. In over populated less developed countries like India and China, population growth is a hindrance than a source for an economic growth. However, in less populated countries, growth of population on one hand provided increased supply of manpower and also provided increased demand for output generated from growth. In
other words, we can say that the use of population is more important than the quantity of population.

1.2.3.5. LARGER GLOBAL INTERACTION:

With changing economic environment in the world, larger global interaction has become a source of economic growth. Success and rapid economic growth of Asian Tigers like South Korea, Taiwan, Hong Kong and Singapore has been largely due to their increased participation in the global economy. Today, countries integrate their economies to those of other countries through trade and capital flows. Imported technology, foreign funding of these through multinational corporations have proved thrust for economic growth in many countries.

1.2.3.6. COMPETITIVE MARKET:

This is again a controversial source of economic growth. In the post second war decades, it was believed that to command economics through central planning and direction and control of production and consumption would achieve rapid economic growth. Such process, extensively used by the communist and socialist failed to raise the standards of living of poor masses.
Disintegration of soviet block and the misery and East European economies have indicated the present belief is that market friendly economy with minimum central control will bring about rapid growth through increased consumerism and private enterprise.

We should note that Economic growth refers to increase in output, increase in capital accumulation and increase in national income of a country however, that is distinct from the Economic development. Economic development implies growth plus change.

1.3. NEED OF FINANCE IN ECONOMIC GROWTH AND INDUSTRIALISATION:

After achieving independence in 1947 India adopted economic planning as a method to achieve economic development. The pattern of planning that came to be accepted was of a mixed type meaning thereby that the industrial units in the public and private sector would be operating in the economy. The mixed nature of the economy meant that on crucial areas the policy of the government was decisive and changes therein were of great relevance to the industrial units. In the field of industry government’s objectives and
intentions were announced through five Industrial Policy Resolutions (IPRs). These resolutions were announced in the year 1948, 1956, 1977, 1980 and 1990. We shall briefly state what each of the IPRs had stated about growth and development of SSI sector. It must be added that it is only recently that government policies and activities of the different interface institutions have covered SSE in addition to SSI. All these Industrial Policy resolutions put more and more emphasis on the availability of finance for running the Industries and thus making a strong Economy base.

1.3.1. INDUSTRIAL POLICY RESOLUTION 1948:

The industrial sector in 1948 was not different from the one existing in Pre-1947 days and hence the SSI sector meant mainly rural industrial units, small job cum repair shops, units making agricultural implements, a few urban small units and handlooms units weaving cloth. The greatest economic significance of these units to the Indian economy was their economic potential. It was this potential which called for protection through policy and the main thrust of IPR 1948 as far as the small scale sector was concerned, was protection. The Resolution stressed on the need of development of small industries for sustained growth of the economy and all the inter-related plans
were prepared in accordance with this IPR 1948 to have a common approach towards the industrialisation of the country. The state governments were suggested to deal with the programmes and policies keeping in mind the IPR 1948.

1.3.2. INDUSTRIAL POLICY RESOLUTION 1956:

The second IPR was announced against the background of a second five year plan with a long term strategy for industrial and economic development. As to the SSI sector, the resolution envisaged a dual role viz.

i) manufacture of consumer goods such as cloth and

ii) manufacture of components for newly established industry as part of the programme for long term industrial development. Thus to the easier emphasis of protection was added development. Industrial policy for SSI aimed at “Protection and Development”. IPR 1956 in a manner initiated the modern SSI in India.

1.3.3. INDUSTRIAL POLICY RESOLUTION 1977:

The next IPR was announced after a lapse of two decades. During the proceeding decades, two major problems had been witnessed. First was the
lopsided industrial development - large, medium and small scale industries had become more of an urban phenomena and the other was large scale unemployment - the issue of urban and rural, educated and uneducated unemployed had started becoming difficult.

The situation led to a renewed emphasis on promotion of typical employment generating small scale industry, located in rural areas and small towns. As a formula it was: scale of output should be small, location semi urban and rural and technology, labour intensive.

This was the IPR, which assigned a positive role to SSI in terms of wage employment of worker and self employment of the entrepreneur. This was the IPR, which therefore, offered a wider perception to policies and programmes for SSI development. To the earlier thrust of protection (IPR 1948) development (IPR 1956) this resolution added promotion. The SSI sector was thus, to be protected, developed and promoted.
1.3.4 INDUSTRIAL POLICY RESOLUTION 1980:

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment key and basis industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wages and self employment based opportunities in India. The IPR 1980 focussed on employment generation from small units spread over the all areas of the country. SSI sector was placed with substantial preference so that the economy may improve with overall development.

1.3.5. INDUSTRIAL POLICY RESOLUTION 1990:

This IPR was announced in June, 1990. Its basic aim is to introduce measures of economic liberalisation and simplified rules and procedures with a view to enhancing the technological base of industry and accomplishing higher level of output. It gave a special emphasis on the SSI/SSE sector where employment opportunities are likely to be high. In order to enable the SSI units to update their technology the investment limit of SSI has been raised to Rs. 60.00 lacs which was later on raised to Rs. 300.00 lacs.
We see that the government put a lot of efforts for developing the industrialisation of the country and accordingly, the states were asked to accomplish this objective coping with IPRs discussed above.

Self financing was the one method of financing when the economy was in the rudimentary stage. However, with the growth of economy in all sectors whether government, business or consumer, a tendency to rely less and less on self financing and more and more on external financing began to gain ground. Accumulation of capital has been the normal feature of economic expansion.

In the modern age of living, it is a well established fact that finance has the vital role to play in every field be it social, cultural, industrial, commercial or any other combination of the society scenario. The activities are carried out with the help of finance, which may be from own sources or from borrowed sources what ever the case may be. The economy of any country is fully dependent on the financial in and out flows and their utilisation.
1.4. ROLE OF FINANCING IN INDUSTRIALISATION:

As is rightly said, finance is the life blood of any business concern. If we recall our past, we find that our first Prime Minister had said that there can be proper growth of India through planned industries and that is why he stressed much on industrialisation in India.

Based on various researches and surveys and in order to study well the conditions of Indian economy the industries have been classified in the following heads:

- Cottage Industries
- Small scale industries
- Medium scale industries
- Heavy industries

To carry on the business, a constitution is always needed and in the present era, in business community the following constitutions are in vogue:

- Proprietorship concerns
- Partnership firms
- Companies
- Co-operative societies
- Hindu Undivided families

Though there are other forms of organisation in vogue like Societies registered under Societies Registration Act, 1860 and Trusts registered under Indian Trust Act but these type of constitutions are debarred from taking up any business activities as provided under the respective acts under which these are formed.

The constitutions aforesaid are the creature of law and on the basis of different concessions and other situations, the entrepreneurs form the suitable form for their business. There may be various considerations like Taxation, Easy transferability, Easy legal formalities, Capital market conditions and so on.

The State Financial Corporations recognise all the constitutions and as such the assistance is available to every type of form of business subject to other rules and regulations for the time being in force.
1.5. CAPITAL - AN ECONOMIC TOOL OF GROWTH:

Capital is a word found in every mouth as on date. To understand this in full first of all we go to the dictionary meeting according to which Capital means any money which is employed to carry profits/return. Here, profit/return denotes negative profits that is loss also. Economics is the study of all matters, which can be transformed into the unit of money. No Economy can develop without the tool named as Capital. Capital help its developing resources needed for all purposes and grounds.

1.6. FINANCING AND INDUSTRIALISATION - A PROCESS OF ECONOMIC GROWTH:

We can very easily comment that no proper industrialisation can be done without finance. Keeping in mind this concept, in a valiant bid to accelerate the pace of industrialisation nearly all the countries of the world developed and developing have created special institutions to mobilise their capital resources and put them in to productive economy. In the past over 50 years, the governments of underdeveloped countries have established and encouraged institutions such as development corporations, development
Banks or development finance companies so that the process of economic growth may be accelerated.

The post independence India was no exception to such activities and various financial institutions came to be established. The chief among them are:

i) The Industrial Finance Corporation of India.
ii) The State Financial Corporations
iii) The National Industrial Corporation
iv) The Industrial credit and Investment Corporation of India.
v) The Unit Trust of India
vi) The Industrial Development Bank of India.

1.7. ROLE OF STATE FINANCIAL CORPORATIONS IN ECONOMIC AND INDUSTRIAL DEVELOPMENT OF INDIA:

The public interest not commercial profitability and broad objective of balanced national developments are the main ends of State Financial Corporations. Social justice, self reliance, prevention of concentration of
economic power, regionally balanced growth and promotions of a class of entrepreneurs are the goals. The basic fundamental is based on developmental banking.

In order to provide medium and long term credit to industrial undertaking, which fall outside the normal activities of commercial banks, the State Financial Corporations were formed. They focus the separate groups for financing i.e. Industrial sector small and medium. The schemes are designed for these class of entrepreneurs.

As we know, India, as on date, has the following states and Union territories:

- Uttar Pradesh
- Madhya Pradesh
- Rajasthan
- Bihar
- West Bengal
- Maharastra
- Gujarat
- Haryana
- Punjab
- Jammu and Kashmir
- Karnataka
- Kerala
- Assam
- Himachal Pradesh
- Tamilnadu
- Andhra Pradesh
- Arunanchal Pradesh
- Orissa
- Tripura
- Manipur
- Nagaland
- Mizoram
- Delhi
- Goa
- Daman and diu
- Chandigarh
- Pondicherry
Each of the aforementioned states have State Financial Corporations to cater
the need of financial assistance to deserving sectors, which are considered,
based on various factors from time to time. The available addresses of head
offices of various State Financial Corporations are given hereinbelow:

I) Andhra Pradesh State Financial Corporation,
   P.B. no. 165,
   5-9-194, Chirag Ali Lane,
   Hyderabad - 500 001

II) Assam Financial Corporation,
    Phagpur, Zoo Road,
    Gauhati - 781 005

III) Bihar State Financial Corporation,
     Fraser Road,
     Patna - 800 001

IV) Delhi Financial Corporation,
    Saraswati Bhawan,
E Block, Connaught Place,

New Delhi - 110 001

V) Gujarat State Financial Corporation,

` Jaldarshan Building`

PB no. 4030, Ashram Road, Navrangpura,

Ahmedabad - 380 009

VI) Haryana Financial Corporation,

17-18-19, Sector 17 - A,

Chandigarh - 160 017

VII) Himachal Pradesh Financial Corporation,

Near Himrus Building, Circular Road,

Simla - 170 001

VIII) Jammu and Kashmir Financial Corporation,

Auquaf Building, Veer Marg, Jammu - 180 001
IX) Karnataka State Financial Corporation,

Shankaranarayana Building, 5th Floor,

26, Mahatma Gandhi Road,

Bangalore - 560 001

X) Kerala Financial Corporation,

Vellayambalam, Trivendrum - 695 001

XI) Madhya Pradesh Financial Corporation,

Finance House, Mumbai - Agra Road,

Indore - 452 001

XII) Maharashtra State Financial Corporation,

New Excelsior Building,

Amrit Keshav Nayak Marg,

Fort, Mumbai - 400 001

XIII) Orissa State Financial Corporation.
OMP Square, Cuttack - 3

XIV) Punjab Financial Corporation,

72-73, Sector 17 - B,

Chandigarh - 17

XV) Rajasthan Financial Corporation,

Udyog Bhawan, Tilak Marg,

Jaipur - 302 001

XV) Uttar Pradesh Financial Corporation,

14/88, Civil Lines,

Kanpur - 208 001

XVI) West Bengal Financial Corporation,

12A, Netaji Subhash Road,

Calcutta- 700 001

XVII) Tamilnadu Industrial Investment Corporation,
1.8. PURPOSE AND RESEARCH METHODOLOGY:

The basic purpose of this study is to analyse the working of State Financial Corporations of India. The student feels that there is a lot of required changes which may develop the working of State Financial Corporation and that is why the scholar has chosen for this topic.

For writing a thesis on the captioned topic [working of State Financial Corporations in India with special reference to Uttar Pradesh Financial Corporation], the following methodology has been adopted:

1.8.1. COLLECTION OF DATA:

The author has collected the relevant data from primary and secondary sources. Primary data has been collected from the various entrepreneurs and officers of State Financial Corporations and the secondary data has been collected from Financial Statements, Journals, Periodicals, Newspapers, magazines and Audio-visual devices.
1.8.2. CLASSIFICATION OF DATA:

The data have been classified and interlinked so as to give a comparative result for the purpose of decision making at the end of the author. Classification of data has been done to make the data turn into information so that the decision can be made.

1.8.3. TABULATION OF DATA:

The data have been classified and then tabulated so that they may take the presentable form. Tabulation of data has been made with a view to reduce the size of information and hence, to make the information more useful. After tabulation of the data collected, necessary inferences can be drawn up and hence, this is important job for the purpose.

1.8.4. QUESTIONNAIRE:

A questionnaire has been prepared to take the views of various interacting persons relevant for the purpose of our study. This questionnaire helped the researcher to take authentic views of the entrepreneurs and various officials of the State Financial Corporations.
1.8.5. VISITS TO VARIOUS OFFICES:
The various offices of State Financial Corporations were visited for the purpose of collecting information relevant for the topic. The other office of governments such as Statistics Department were visited for collecting the information useful for the thesis.

1.8.6. VISITS TO LIBRARIES:
The researcher has visited various libraries including the libraries of ICAI, ICSI, ICWAI, Bar Councils, Association of Indian Universities, Universities, Colleges, Schools, Big business houses etc. for gathering more information on the topic and making this thesis more averse to real situation.

1.8.7. INTERVIEWS OF ENTREPRENEURS, FINANCIAL CONSULTANTS, LEGAL ADVISORS, CA, MANAGEMENT AND PROJECT CONSULTANTS:
Interviews of various Entrepreneurs, Chartered Accountants, Company Secretaries, Management and Project Consultants, Brokers, Technical Experts and other related persons have been interviewed for the purpose. The findings of such interviews have been thoroughly considered and accordingly, the decision making was done.
1.8.8. VISITS TO VARIOUS FINANCIAL INSTITUTIONS AND BANKS ETC.:

Various government offices including Reserve Bank of India, Scheduled Banks, Industrial Development Banks, Co-operative Banks were visited for getting the relevant information useful in the matter.

1.8.9. GROUP DISCUSSIONS AND SEMINARS:

Seminars and group discussions were arranged for having more and more interaction with Entrepreneurs, Professionals, Educationists, Social workers etc. to know their perception for State Financial Corporations. Their perceptions and experiences in this connection were obtained and then decision making was done.

1.8.10. STUDY OF LEGISLATIONS:

Since, the State Financial Corporations are the creature of law and as such there is lot of relevance of laws applicable to it. The researcher studied various laws for the purpose so as to have more realistic approach for the thesis.
1.8.11. SAMPLING:

During the research, sampling including random and stratified sampling were done for having more and more acquaintance with the subject and topic. Population was divided into various groups, subgroups and then the sampling was done.

1.8.12. ANALYSIS AND INTERPRETATION:

On the basis of facts known from the aforesaid methods, the figures and excerpts collected have been analysed and interpretation thereof has been put in the respective heads.