CHAPTER VI

PROBLEMS
6.1 PROBLEMS RELATING TO QUANTITATIVE ASPECT:

State Financial Corporations as primary term lending institution in the country has been discharging their assigned objectives, duties and operations whole-heartedly without any break. During tenure of more than five decades of ceaseless services to the nation as a whole, the SFCs now are facing different quantitative problems sabotaging their expected operation, the reasons being not within their reach. Such problems are –

6.1.1 High Cost Funds:

High Cost Funds available from State Government/ IDBI/ SIDBI/RBI/Banks/other Financial Institutions is one of the major problems. SFCs cost of funds is higher than that of their competitors. For instance, SFCs compete with the scheduled commercial banks, IDBI/SIDBI for business while they are funded by IDBI/SIDBI. It is clear that the best business can easily be lured away by IDBI/SIDBI. SFC Act does not provide any scope to mobilize low cost funds like commercial banks. The cost of funds of commercial banks is about 6.00% as they have access to zero interest rate deposits in the form of current a/c and low cost deposits viz. savings a/c. SFCs are unable to provide funds to SSI at cheaper rates. They are forced to repay its low cost borrowings through high cost borrowings. IDBI/SIDBI on the other hand, on their sweet will, have reduced the coverage of refinance from 90% to 55%, allowing SFCs to raise resources from the market through SLR bonds at a higher coupon rate.
6.1.2 Inadequacy of Share Capital:

Lack of scope in SFC Act for central government and international agencies to be the shareholders in SFCs gives ample opportunity to state government, IDBI and SIDBI to play their own card at their mercy. Adequacy of financial resources is a pre-requisite for rapid growth of business of a development bank. In terms of Sec. 4 of the SFCs Act amended in 2000, the authorised share capital of SFCs is to be gradually increased to Rs. 1000.00 Crore and those are to be subscribed by:

i) State Government.

ii) SIDBI

iii) Schedule Banks, Insurance Companies, Investment Trusts and other Financial Institutions

iv) General Public

The share capital purchased by state government, SIDBI, scheduled banks, insurance, companies, investment trusts and other financial institutions has to be limited not below 51% and public share holding to be increased to maximum permissible of 49%. The real plight remains that most of the state government are in lack of funds and may not be capable to pump in funds to SFCs as share capital, immediately. Other categories of proposed shareholders will require a clean balance sheet of SFCs to put in their money and for the sake of safety and liquidity of their investment. In other words, the SFCs were forced to be in a standstill footing. The real fruit of recent amendment will likely be a daydream, to all the three SFCs and others in the country especially the weaker ones, if adequate dose of share capital is not pumped into their resources pool by the state government/
IDBI/SIDBI and/or the central government. SFCs cannot mobilise resources from the market on their own.

6.1.3 Inadequacy of Block Capital Finance:

The recent amendments of SFCs Act have no doubt increased the accommodation limit of loan by SFCs by many folds. Its coverage on borrowers also increased. But it will serve no purpose, as SFCs are now running with acute constraints of funds in their hands to meet the hiked accommodation limit. On the other hand SIDBI has been reducing the refinance limit from 90% to 50-55%, which is the main source of funds to SFCs. In turn, the SFCs are to loose the borrowers. It is clear that the law of the land permits the SFC to fly after clipping its wings.

6.1.4 Working Capital Finance:

Like block capital, the working capital is essential for all round success of an industrial unit. In the present practice, the SFC normally provides block capital to an industrial unit under SSI limit and marginal working capital. For working capital, the concerned unit has to depend upon the commercial banks those have their own style of appraisal and take their own time to sanction and disburse the working capital, how far delay it may be. In large number of cases the refusal of commercial banks are witnessed. This may be the case for 80% of units assisted by the SFCs, on the basis of data collection. Delayed refusal of banks to provide working capital not only put the entrepreneurs in the crisis, but, forces the unit to be born sick and indirectly forcing the NPA of SFC to go up. This is because of the fact that the banks are national level financial organizations, and the state government of a particular state has no control over them. The concept of single window lending has been operating, but all the three SFCs find it hard
to go in for parallel working capital lending on account of dearth of resources and lack of infrastructure for every day banking. In certain cases it has been found that although the projects are quite viable, yet due to paucity of working capital only, these have turned to be sick.

6.1.5 No Credit Risk taken by IDBI/SIDBI:

Refinance from IDBI/SIDBI is, a vital source of funds to SFCs. Loans extended by the SFCs, are refinanced by development banks to a greater extent. IDBI/SIDBI usually takes away their refinance amount along with the interest (including penal and compound) from SFCs in time but never thinks whether the loan financed by SFCs are recovered from their borrowers or not and hence taking no risk of those credits. On the other hand, SFCs are forced to stick to their repayment schedule and repay the loan taken from IDBI/SIDBI by raising funds at higher cost from other agencies. Thus, taking loan from IDBI/SIDBI at higher cost and to repay those by borrowing from other sources even at more higher cost becomes the double loading to the financial position of the SFCs and forces then to line-up in the debt trap.

6.1.6 Direct Finance by IDBI/SIDBI:

SSI units nurtured by SFCs from the seedbed are lured by the commercial banks on one hand and SIDBI/IDBI on the other, when they go for expansion. SIDBI/IDBI has been directly competing with SFCs by aggressively getting into direct lending to SSI on better terms. As lender to the primary lending institutions, the IDBI/SIDBI should not extend direct finance to industrial units to cut down competition and increase the marketability of SFCs. It has direct and indirect impact on investment portfolios of SFCs. By imposing some restriction, the SFCs are denied the privilege of financing to large-scale and medium-scale units. Even small-scale units nurtured by SFCs,
which graduate to medium-scale are lured to avail of the finance from these IDBI/SIDBI as there is a cap in SFC’s lending and IDBI/SIDBI can lend at lower rate. Direct financing has tended to dilute the developmental financing and appears to be incompatible with its role as apex refinancing institution. IDBI/SIDBI never see the interest of SFCs and never think to make a party to finance in joint consortium.

6.1.7 Alarming Non Performing Assets and Revamping the State Financial Corporation:

During a span of more than 5 decades of ceaseless operations, SFCs in the country have created assets and loan outstanding. Non-performing assets constitute 50.31% of total outstanding of loan and advances. This is bound to increase, if recapitalisation and cleansing of balance sheet is not taken up timely. Against the aforesaid NPA, the provisioning by all SFCs aggregates to about Rs. 3000 crores till March 2000 has gone up to Rs. 3500.00 crores by the end of 31st March 2001 and to Rs. 4000 Crore by the end of 31st March 2002. This, when charged to Profit & Loss A/Cs, have been showing cumulative losses.

Keeping in view the critical role played by these corporations in fulfilling some of the social obligations imposed on them by the government, their own funds have been eroded to a large extent. It was entirely due to the accumulation of bad debts resulting from financing high, risk areas (priority sector), in which these SFCs have been operating, a good portion of the non-performing loans is traced to overriding socio-economic programme and directives of government.

As on 31st May 2000 the Government of India had recapitalised nationalized banks and RRBs. While in the case of nationalized banks bulk of NPAs and bad debts flow from commercial term of lending. In
case of SFCs, bulk of NPAs and bad debt were to flow from priority sector lending. SFCs, are, therefore, unwillingly being penalized for fulfilling the socio-economic obligations of the government.

6.1.8 Poor Recovery Mechanism:

A number of enabling provisions are enshrined in the SFCs Act such as section 29, 30 and 31 (refer chapter III, outstanding and recoveries) to allow a SFC for recovery of its dues. In spite of all these, the recovery mechanism is felt inadequate under the changed circumstances of financial system. Ever rising level of overdues on non-performing assets of SFCs has been a major contributory factor in crippling the financial health of these institutions and bound to land in a serious crisis. Taking over the possession of assets and to sell/lease to a good entrepreneur has become a tough job as Section 29 of SFCs Act 1951, has become more challenging than before. Filing suit against a borrower as U/S 31 of SFC's Act against defaulting loans has not come much to the rescue, as the process is a time consuming one. To avoid the measures provided under section-29, the loanees very often resort to the shelter of courts of law where the SFC takes over possession of the unit as a last resort to recover the dues. In the process, the legal proceeding consume a sizeable time by which the assets starts deteriorating and also disallows the SFC to dispose of the concerned assets at a fair rate. After disposal of the court matter, the asset could hardly fetch a price of scrap. Through surveys it has been found that nearly 60% of the total assets have become non performing and the level of overdues have reached about 65% of the current demand. The mechanism for early and speedy disposal of assets acquired U/S 29 at much better terms and cost of financed units is also poor. More than 90% of the NPAs were accounted for priority sector lending.
Further, industrial unit when sold through a public auction or negotiation, the new loanees/borrower is constrained to offer a lucrative price because of different encumbrances like water taxes, electricity charges and land revenue etc stands as arrear. These encumbrances are always prohibitive against the new borrower to run the industrial unit after being taken over from SFC.

It may be observed that SFC operating for so many years have not been successful in the area of recovery in view of the fact that the number of technical and operational difficulties stand on the way of exercising their powers conferred under the provisions of SFCs Act. It is therefore necessary to take a pragmatic view and practical approach to overcome the problems of recovery in order to improve their ailing financial health. More and more drastic steps need to be taken to boost up recovery of dues. Although, SFCs are giving One-Time-Settlement benefit, but it has not come up, with expected results. The ABC analysis approach has not been adopted for best result. No special incentives have been given to employees to achieve higher recovery target.

**6.1.9 Competitions from State and National Level Financial Institutions:**

Days are gone especially before 1970, when the SFCs and IFCI were only catering the demand of financing SSI and tiny sectors. Commercial banks and other financial institution were no way helping the government policy of industrialization. After nationalization of banks in 1969, these, national level financial institution started financing the term loan and working capital loans to SSIs and tiny sectors. The business of SFCs affected by stiff competition offered by commercial banks and sister institutions viz. SIDCs, SIICs and SSIDCs etc. whereas other financial institutions are equipped with
sufficient weapons to fight against such competitions – SFCs are lack of it. Even the financial institutions like IDBI and SIDBI those have to patronize and supervise the SFCs, nowadays have started their own financing ignoring the interest of SFCs.

6.1.10 Non-availability of Coverage under Debt Recovery Tribunal (DRT):

Whereas commercial banks and other national level financial institutions are getting coverage for filing cases of recovery of loan dues through Debt Recovery Tribunal to get speedy disposal of cases. SFCs as state level financial institutions are not yet allowed the coverage under DRT. Lack of this facility is forcing the SFCs to knock the door of judicial courts where decisions are inordinately delayed due to huge volume of pending cases.

6.1.11 Disbursement of Loans:

Disbursement of loan takes a lot of time from the end of State Financial Corporations. Though, it is wise policy that proper checking should be done at every front as the matter is related with the finance and any dealing in haphazard way may be injurious to the corporations. The corporations do not curtail the time lag in disbursement and that project costs exceed and the financed projects do not run according to schedule. The procedure of disbursement of loan for various project are same irrespective of their size. Time factor is crucial for any project specially, bigger ones. Procedures are lengthy and cumbersome.

6.1.12 Problem of Project Cost over runs:

The borrowers are faced with a critical problem of project cost over runs. The corporation authorities also admit that over runs have become very common. There are various costs, which are not taken
into consideration while appraising of price spiral. If a project is sanctioned, it will go through the lengthy and cumbersome legal documentation and after that the loan is disbursed, and this process takes a lot of time and during this time on account of inflation in economy, the cost of project exceeds considerably and this situation, makes all projections costly and meaningless. The Corporations also under estimates the cost of project at the stage of appraisal. The disbursements are made in several installments spread over a number of years. Lastly, the Corporations are very conservative and normally supplementary assistance is not provided in time.

6.1.13 Refinance from IDBI/SIDBI:

SFCs avail refinance facilities from IDBI, SIDBI and State Government. Due to controllable and uncontrollable factors, there is rise in NPA’s of the corporations resulting in blockage and poor performance. SFCs are crippling for funds and there is aggravation on account of in difference on the part of stakeholders including SIDBI, in coming to their rescue. It does not have pro-active and helpful attitude, rather, it has all the time been devising methods to deny adequate refinance to SFCs to meet their genuine requirements and also extend necessary relief on their operation.

The committee set up by SIDBI on operational matters of SFCs has been in process of laying down some criteria for providing refinance to SFCs. The scoring system proposed has not favoured as it is too stringent. If this were put into operation, hardly any SFC would be eligible for getting refinance from SIDBI. SIDBI assured the SFCs to raise the refinance level from 55% to 70% and also assured of 100% refinance of working capital. The assurance was not implemented.
Due to restructuring of loan repayment of SIDBI by RBI, and sufficient resources at the disposal of SIDBI, has led to paradox in as much as, while one segment (i.e. SFCs) are starved of refinance facilities, SIDBI had been lending loans to commercial banks just to utilise its surplus resources at ridiculously low rate of interest at 8.5%. IDBI has asked the SFCs to pay the arrears of dividend outstanding and had linked it with the release of the credit facilities sanctioned to SFCs.

Despite amendments in the SFC Act, and recommendations of the Gupta Committee for recapitalisation, things have not started moving in the right direction.

6.2 **PROBLEMS RELATING TO QUALITATIVE ASPECT:**

As grass root level term lending institutions in the country, SFCs have been discharging their assigned objectives, duties and operations whole-heartedly. With passing of time and with changing of economic scenario of the country, SFCs, now are facing different qualitative problems, sabotaging their expected growth and operation, the reason being not within their reach. Such problems are:

6.2.1 **Crisis of Identity:**

To some measure, the doubt is based on some objective conditions. Today, SFCs suffer from a crisis of identity. While many segment of the financial sector have come under scrutiny and restructuring, SFCs are kept isolated in the process. The position of SFCs hardly finds an evaluation of Reserve Bank of India or Industrial Development Bank of India or Small Industries Development Bank of India or any other concerned body. There is no serious attempt at assessing the financial health and accordingly making suggestions for
restructuring of SFCs in the context of the on-going economic liberalization and reforms.

The share holding of SFCs remained largely with IDBI and the State Government. The SFCs have been functioning under the administrative control of state governments and under operational control of IDBI and now under SIDBI, and both are intended to do their own business. Thus these SFCs have crisis of identity as to its parentage. Reserve Bank of India as the apex bank have supervisory role on all operative banks but ironically the SFCs are kept isolated from the supervisory ambit of the apex bank of the land, and they have none to fall back upon.

6.2.2 Lack of Accountability and Responsibility:

It is rightly said, that, “absolute powers without accountability leads to absolute corruption”. Consequent upon amendment of SFCs Act in 2000, the area of business activities for SFCs have been considerably expanded with powers and authorities vested in the management to discharge its functional activities. At the same time, the authority has been left unbridled for which this would result in a vicious circle on the way of carrying the affairs of financing activities in the desired path. It can not be denied that SFC at the present juncture are saddled with a large amount of contaminated loan portfolios, alarming proportions of NPAs, accumulated huge amount of assets in the bad and doubtful category mainly on account of lack of accountability for the concerned functionaries of SFCs. Unless and until accountability is fixed up side by side the financial powers vested with different authorities, it would be a stupendous task to check the cases of bad financing etc. It is, therefore desirable that sufficient care should be taken to have norms for fixation of accountability in
discharge of the financial power by the authorities in SFCs. However, this has not been taken care of neither in the Parent Act nor in the Amendment Act. There is no scopes and provision to impose accountability. In case of commercial banks, accountability is fixed up in the key posts and functionaries, which have yielded some good results in checking up the cases of corruption and bad financing etc.

6.2.3 Lack of Proper Guidance from the State Government /IDBI/SIDBI/RBI etc:

In terms of the provisions of the SFCs Act the administrative control is vested in the hands of State Government, and operational control is left in the hands of IDBI/SIDBI. IDBI/SIDBI are not performing their assigned job properly. As a result, SFCs are in an utter state of lacking proper guidance and administration. Administration from state government is politically motivated. Starting from appointment of M.D., withdrawal of it and upto controlling the day to day affairs of SFC, all depends upon the instructions of the government. More, plight is there when a particular government changes and new government comes to power.

IDBI/SIDBI are much interested in, their own business. These financial institutions are equity holder of SFCs as well as substantial fund provider. They, provide funds to SFCs at their general lending rate, which is more, costlier to SFCs. In case of recovering of their refinance dues, these institutions leave no stone unturned to achieve that at the cost of ailing financial status of the SFCs. Even after lapse of five decades, there is no development of SFCs for their sheer negligence, rather, the condition is deteriorating day by day.
6.2.4 Lack of Close Watch from IDBI/SIDBI on Credit Appraisal:

It is evident that there is no accountability and responsibility, fixed in SFCs. Lack of accountability tend to naturally tempting the authorities to have fabricated credit appraisal and to open a path for bad finance. On the other hand IDBI/SIDBI have not at all any mechanism for a watch over the credit appraisal of SFCs. Basing on fabricated and suppressed credit appraisal prepared by officers of SFCs, the representative of IDBI/SIDBI sitting in the board of SFCs approves the sanction and disbursement proposals and subsequently allowing refinance also. They have no mechanism to check the system from a very close end. IDBI/SIDBI always treat the SFCs as their borrower like others but not a financial institution under their patronage. It is the only cause for which officers and Chief Executive Officers of SFCs have monopoly in their own credit appraisal system. There is no mechanism to check the same and also there is no provision in the SFCs Act to impose accountability for the wrong appraisal or in other words for “Bad Finance”. IDBI/SIDBI in no way bother for this. These financial institutions are interested for their business i.e. granting refinance and getting it back along with interest whether SFC may collect the amount or not.

6.2.5 Lack of Direct Administrative Control of Central Government/ SIDBI/RBI:

Except forming SFCs’ Act and subsequent amendment thereof, the central government has been left with no role in the administration of SFCs, which constitute an important segment in the financial sector of the country. It empowered the state government to have their administrative control and IDBI (at present SIDBI) to have their operational control on SFCs.
As the IDBI/SIDBI and Commercial Banks are the national level financial institutions and are being guided by RBI, they very often overlook the administrative decisions of the state government with regard to SFCs, which makes a difference. In other words, state governments are having no control over these national level financial institutions, which also create a problem. As there is no control of central government on SFCs, the nationalised banks and national level financial institutions seldom pay any importance to the SFCs to provide working capital finance to their assisted units and share capital. It may be worthwhile to mention that the State Level Co-operative Banks and Regional Rural Banks (RRBs) are under direct guidance of RBI whereas the SFCs performing the similar pattern of roles are not getting the said privileges.

6.2.6 No Credit Guarantee by DICGC/SIDBI:

Deposit Insurance Credit Guarantee Corporation (DICGC) extends credit guarantee to development banks against advances of priority sector lending. In case such advances become bad, 60% to 80% is insured by DICGC. Credit guarantee extended by the DICGC has rather become deterrent to SFCs.

6.2.7 Lack of Absolute Autonomy in the Board of SFCs:

The board of SFCs enjoys absolute authority for sanction and disbursement of loans but in case of resource mobilization, allotment of shares, policy and HRD matter, the board plays a role of only recommending authority, which recommends the matter to the state government for necessary approval. The top brasses of state government when seated in board of SFC passes everything but when seated in government departments, object to their own decisions taken
at board. Further, the counter approval of IDBI/SIDBI more or less resting on the mercy of the state government.

6.2.8 Lack of Worker’s Participation in Management:

Employees in an organization especially in a financial institution like SFC, contribute largely to the tempo of growth and development. It is in the interest of the betterment of any organization, where participation of the employees in the management of affairs is having adequate weight age. In case of SFCs, no scopes and opportunities are there for participation of the employees in management. Other financial institutions of state and national level are even allowing their employees to purchase equity.

6.2.9 Poor HRD Management in SFCs vis-à-vis the role of IDBI/SIDBI:

Poor HRD management has become an irony in most of SFCs. With regards to HRD management and for taking policy decisions for fixing up pay and perks etc. the same has been linked with the state government to decide. In this connection, it is to be noted that whenever a pay revision takes place by virtue of the recommendations of pay commission set by the central government, the SFCs are not allowed to implement the same from the effective date. This leads to discontent, demoralization and loss of zeal and efficiencies amongst employees.

6.2.10 Lack of Internal Training and Skill Up-gradation:

Training needs for up-gradation of the skill of the manpower find a special mention in view of the emerging competitive economic environment of the country under the changed circumstances. It is highly essential that the executives and non-executives of SFCs need training in the matter of loan appraisal, legal and recovery monitoring.
computerization and loan accounting system to make them best suited to the present needs of the financial system. Moreover, the training is felt necessary in the new areas of merchant banking, lease and hire purchase, capital market services etc. to have exposure in the respective fields by the SFCs officials. Poor HRD management has become an irony in most of the SFCs. This has had its due impact on the operation and functioning of SFCs in the country. With a view to fulfilling the training requirements, no steps has been taken by SIDBI to having training programme at regular intervals for the SFCs personnel to enable them to achieve higher degree of efficiency in the desired areas of the financial institutions. A corpus for the purpose may be placed in the hands of SFCs and regular follow-up should be undertaken by SIDBI in this regard. There is no grievance cell, which is a must in the contemporary system of management.

6.2.11 Lack of Insurance Coverage for Industrial Assets:

As a measure of recovery mechanism and containment of NPAs, SFCs do not cover all the assets under comprehensive insurance coverage against all risks viz. theft, burglary, fire, damage, riot, earthquake, flood and cyclone etc.

Under these circumstances, SFCs do not deposit the insurance premium by collecting the same from the borrower and ensure the validity of the coverage till liquidation of their dues from the assisted concern.

6.2.12 Lack of Professionalism in Management of SFCs:

This is, another tough anomalies in State Financial Corporation. It is a financial institution managed by bureaucrats for years instead of professionals. In this great country, national level commercial bank is, managed by professionals, but professionals do, not manage state level
financial institutions. The board of directors of State Financial Corporation is basically, occupied by officers from Indian Administrative Services, the officers are habitual of bureaucracy and red tapism. Bureaucrats may be considerably good administrators but cannot be necessarily potential financial managers. The desired degree of skill is not used for the handling of cases. They do not take much initiative for carrying out innovative functions. Lack of consistency at the level of decision makers affects the functioning. Some state governments through COSIDCI are trying their level best to get their appointment of managing director to be nominated by SIDBI for chairman to the board of SFCs. It is apparent that such state governments are not willing to spare the SFCs from their administrative clutch. On the country, they are not willing for funding of SFCs for recapitalisation to strengthen the capital base of SFCs. The working of State Financial Corporation is basically based on the premises of professionals from the field of techniques, finance, legal and other backgrounds. The reign is in those hands that are not aware of the real septum of financial institutions. These, board of directors mostly do not continue long in their office. Due to their short period stay. They do not take much initiative for carrying out innovative functions.

Identification of sickness for the larger projects by the follow-up department and monitoring of the projects both at the implementation stage and operational stage by the corporation is not effective.

6.2.13 Credit Extension in Backward Regions:

The industrialisation in backward areas as was imagined, could not happen what ever may be the claim of the government departments. The basic reason being poor infrastructure, poor transport
condition, non-availability of qualified and competent labour and so on.

Effective execution of credit policies is an important aspect of credit management. The implementation of the policy is related to the pattern of credit organisation in and quality of personnel, the method of credit planning appraisal, sanction, disbursement, follow-up and recovery. Dearth of entrepreneurship is also one reason for lesser credit extension in backward regions.

6.2.14 Problem of Coordination between various agencies:

For selling up an industry, different licenses and approvals such as SSI registration, sales tax number, registration of construction, pollution control board's no objection certificate and other license of commodities to be manufactured are needed. Lack of proper coordination, of SFCs with the aforesaid, and other agencies, results into a lot of chaos and confusion.

6.2.15 Marketing Policy:

There is steep fall in the performance of SFCs in post liberalization scenario, due to their vulnerability to the market forces and their inability to compete with commercial banks. SFCs do not enjoy operational flexibility and functional autonomy. Goods clients of SFCs are lured away by commercial banks by offering lower rates of interest and even induced such clients to make premature repayment to SFCs of their old dues. SIDBI has not taken any decision regarding reducing of interest rates and write-off of penalty on SFCs on the high-interest bearing refinance, with the result that SFC lost most of their good clients during the period of proposal, this further slipped SFCs deep into the financial crisis. Further, deregulation of the interest rate structure in the country and the steady decline in interest rates in the
market has further aggravated the situation. Most of the small industrial enterprises have got less information about the existence of the new schemes offered by these corporations.

6.2.16 Branch Organisational Policy:

There is no policy for branch expansion and the corporation authorities appear to be guided by ad-hocism. There is need for well-thought out long-range policy of branch expansion. Some of the branched regions do not have any regional office also.

6.2.17 Follow up:

It has been noticed that follow up format of the Corporation for various financial projects lacks the necessary information required by the appraisal department. Moreover, coordination as well as follow-up with other government’s bodies is also lacking. It leads to ineffective monitoring of the projects both at the implementation stage and operational stage.

6.2.18 Poor Entrepreneur Development Programme:

There seems to be liability of entrepreneurs also. During the survey of industries and units financed by SFCs, only 30% of the total entrepreneurs were properly experienced of the line in which they proposed to set up industry, the cost of learning as very high and out of reach of entrepreneurs.

6.2.19 Non-Availability of Standardized and Audited Accounts in Case of Small Concerns:

Non-availability of standardized and audited accounts affects the quality of assessment of these small enterprises. In turn delayed financial position of the borrowing enterprises entails a big headache since, detailed analysis of their non-standardised and non-audited
accounts has to be taken into consideration for a period of at least 4 to 5 years. Most of the businessmen do not follow the accepted principles and practices. In some cases proprietary/partnership do not keep their personal accounts separate from their business accounts.

6.2.20 Other Problems:

Other problem include problem of lethargic working environment, the staff lacks loyalty, discipline and responsibility, little participation in the development of infrastructure facilities, recession. in the economy at world level have affected the working SFCs in India.

The corporation has provided accommodation to comparatively big industrial concern on a rather disproportionate scale. Indiscriminate sanctioning of loans is done.