CHAPTER - VII

CONCLUSION AND SUGGESTIONS
The overall objective of the study is to evaluate the type of assistance provided by the three State Financial Corporations i.e. Maharashtra State Financial Corporation, Uttar Pradesh Financial Corporation and Madhya Pradesh Financial Corporation, nature of industrial projects to be assisted, the functioning of the corporations and their performance.

India witnessed institutionalization of capital market in post-independence period when battery of financial institutions came into existence to mitigate gaps of capital and enterprise through supplementing rather than supplanting the existing agencies engaged in providing term financial support, entrepreneurial and managerial assistance to all those desiring industrial projects whose access to the existing channels was limited. These financial institutions have put in gargantum efforts to pump in burgeoning amount of funds of over Rs. 5 lakh crore to render support to several thousand strategic industrial projects of national priority for their growth, expansion, diversification and rationalization and played seminal role in deepening all round industrial development and widening entrepreneurial base through identification of growth potential areas in the country, and the project ideas to exploit the potentials and assisting the state levels to undertake feasibility studies of the ideas and implement the viable ones, formation of technical consultancy organizations all over the country to provide consultancy services to various state developmental and financial institutions engaged in the task of industrial development and sponsoring entrepreneurship development programmes. Beside, they have promoted new financial agencies all over the country to give fillip to development of small industries. They have also offered innovative financial products to suit the
needs of upcoming enterprises and have commenced rendering financial services to deserving entrepreneurs.

In order to meet the recent challenges of the emerging competitive environment and impending risk arising from one-product dominant portfolio they formulated market oriented strategy and re-engineered their business to offer variety of innovative products and services to the customers. Although project finance remains the sheet anchor of their business, the behemoths forayed in activities of syndication, securitization, retail banking, working capital, insurance, lease financing, factoring, venture capital, asset management, custodial services, credit rating, stock broking, investors related services and merchant banking. As part of strategy, IDBI and ICICI have laid strong emphasis on the development and marketing of corporate finance products. Within the project finance segment, these institutions have achieved substantial diversification through increased focus in infrastructure.

Thus the financial institutions in India have emerged as most dynamic, and matured species of Indian financial system and possess tremendous resilience and potentiality to face any challenge to them.

However, to be highly competitive and more useful, existing role of the existing financial institutions needs to be rationalized. They have started focusing on core business with market orientation, have risk-identification and project management skills and strengthen their infrastructural network.

In view of growing investment habits, especially of middle class people and their awareness about the operations of financial markets, these institutions have offered their shares in the open market. Shares of low denomination with buy-back facility entice moderate savers who predominates the community. High credit standing and sound financial health of the national level institutions provide them the cutting edge over others in garnering savings of the people. Thus the financial institutions in their
strategy oriented rationalized role are poised to make seminal contribution to Indian corporate in their endeavor to achieve objectives of successful survival and growth on sustainable basis in the ensuring millennium.

India is a vast country in terms of its geographical span and its activities are spread over in all parts of the country. The basic need/object is to strengthen the economy of India by development of industries and accordingly, to enhance the job opportunities and equal distribution with parity all over the country.

Private investors could not make concerted efforts in mobilizing the savings for industries. Thus, after independence, it was felt necessary to supplement the working of national level financial institutions, by establishment of state level institutions in different states, because, it was not possible for a single institution to satisfy the capital needs of smaller concerns sprawling all over the country and exploit local resources. Each state is in a better position to analyze the type of industry it can support and the various infrastructures, available to it. There was lack of well-structured organisations in various states of India. Capital was shy, capital market was ill-organized, there were regional imbalances, lack of impetus to export-oriented units, import-substitution and other socio-economic benefits.

Thus the government enacted the State Financial Corporation Act in 1951, which defines State Financial Corporation as a financial corporation established u/s 3 and includes a Joint Financial Corporation u/s 3A of the State Financial Corporation Act, 1951.

The working of the SFCs is governed by the SFC Act 1951. Punjab Government took the lead in 1953 by establishing a Corporation in its state. Since this study covers Uttar Pradesh, Maharashtra and Madhya Pradesh it is worthwhile to mention that Uttar Pradesh Financial Corporation was established in 1954, Madhya Pradesh Financial Corporation in 1955 and
Maharashtra State Financial Corporation in 1962 which was initially set up as Saurashtra State Financial Corporation in 1956-57. At present there are 18 State Financial Corporations operating in the country out of which 17 are constituted as Corporations.

The Board of Directors, including the Managing Director nominated by their respective State Government, by SIDBI, Developmental Financial Institutions and Banks and Public Share-holders, manages all the Corporations. These SFCs provide assistance to small and medium enterprises, to industrial undertakings organised as public or private companies, cooperatives, partnerships or proprietary concerns. They also act as agents of the Central and State Government, IDBI, SIDBI and some other special industrial financial institutions. SFCs help in proper diversification of resources. Such institutions are established to regulate the supply of capital to industrial concerns and pace up the rate of institutional development in the country concerted in a planned way. They supplement the existing and established sources of industrial finance in the country and help in accelerating the tempo and pace of industrial development to attain self-reliance. They reach each and every part of their respective state through specially designed schemes and organisational network.

SFCs channelise funds from various sources, provide cushion against fluctuations, undertake proper utilisation and distribution of available funds and coordinate the interest of private sources, investors, entrepreneurs and others.

SFCs carry out and/or transact business as per Sec 25(1) of the SFC Act. They provide loans to industrial concerns, up to a period of 20 years, provide guarantee in loans raised by industrial concerns from banks, cooperatives or financial institutions. They provide guarantee upon deferred payments for purchase of capital goods, underwrite issue of stock, bonds and
debentures, acting as agents of Central Government/State Government/Development Banks by subscribing to the stock, bonds and debentures and acting as underwriters. They accept/discount promissory notes and bills of exchange, undertake research and surveys for evaluating or dealing with the marketing or investments and undertake techno-economic studies for the development of any industry. They may provide technical and administrative assistance to any industrial concern for the promotion, management or expansion of any industry.

With the increasing diversification and expansion in the Indian industry especially, since the onset of economic reforms, SFCs have started providing assistance to newer type of business activities, to diversify, compete and improve profitability. They have started offering facilities to such units who provide medical facilities, information technology, tele-communication, electronics, tourism related facilities, infrastructure, merchant banking, capital market services, lease financing, debenture trusteeship services, consultancy and construction activities.

Resource mobilization is one of the basic requirements of the SFCs without which it cannot further perform its function. Generally they do not have large resources to meet the growing demand of industry within their regions. They raise resources by issue of share capital, issue of bonds and debentures guaranteed by the State Government.

Additional resources are raised by accepting deposits from public and by borrowings from State Government and development financial institution, scheduled banks, insurance companies or any other person. Other main resource available to these SFCs is refinance from the SIDBI/IDBI. RBI too has made provision for SFCs to borrow money in the form of advances. The State Government is the largest single class of shareholder of SFCs and IDBI is the second in the matter of holding of share capital of the three SFCs. In
MSFC nearly 99% of the shareholding was with them, it was nearly 98% in UPFC which came down to 88% during the review period and in MPFC too they together captured more than 99% of the total share holding. Needless to mention, the State Government and IDBI have every right to direct the financial corporation on account of their massive holdings in the share capital. Not much has been taken by these three SFCs in the form of deposits from the public, as the public is not very much interested in subscribing to deposits of these SFCs. It is only MSFC, which had issued fixed deposits of Rs. 6.57 Cr. to the public in 1999-2000, and this has come down year after year to just Rs. 0.13 Cr. in 2002-03.

It is observed that all the three SFCs have issued bonds and debentures, which is guaranteed by the state government, but the amount of bonds issued, remained consistent during the review period of 1999-2003. In UPFC it had ranged between Rs.763.48 Cr. and Rs. 820.76 Cr., in MSFC between Rs. 241.25 Cr. and Rs. 282.59 Cr., i.e., they could not grow with the pace of industrialization reflecting that normally all SFCs have fallen short of funds.

A similar situation is observed in case of SFCs borrowing from IDBI/SIDBI in the form of re-finance. Reserve fund and other reserves u/s 35 (A) and u/s 36(1)(vii) of the Income Tax Act, 1961, have not made much headway as all the three SFCs are suffering losses. The SFCs have the power to credit a portion of their total income to the above funds.

The resources/funds thus mobilized are channelised through the various schemes of the corporations. These schemes are based on social, financial and other needs of the society and government plans and SFCs cope with them and frame schemes based on priorities and future plan of maximizing assistance to industries in small-scale sector, special treatment to industries promoted by weaker sections, ex-servicemen, women entrepreneurs, rehabilitation of sick units, modernization, import-substitution.
export-oriented, agro-based etc. The maximum assistance that these Corporations can grant is Rs. 5 Crore in case of companies and Rs. 2 Crore in case of proprietary/partnership. The present ceiling of cost of project for manufacturing unit is Rs. 12 Cr. and Rs.20 Cr. for service sector projects.

In case of all the SFCs, the schemes offered are quite similar and the conditions of the schemes varies in different states, depending upon the conditions prevalent and demand position there. The schemes, common to all SFCs are fixed assets scheme, project finance scheme, equipment finance scheme, equipment re-finance scheme, scheme for nursing homes, women entrepreneur, electro-medical equipment, IT sector, tourism sector, working capital term loan, short term loan, seed capital scheme of central government i.e., national equity fund, technology up-gradation scheme, transport loan, mahila udyam nidhi scheme, scheme for qualified professionals, seed capital scheme, single window scheme, re-finance scheme for technology up-gradation and modernisation, construction activities, line of credit for capital goods scheme for ex-servicemen and modernisation scheme.

On top of these scheme, depending upon the requirement of the state, the separate schemes launched by MSFC are scheme for acquiring computers, for quality control facilities for equipments, finance to marketing entrepreneurs for extending support to KVIC, purchase of mobile sales van, schemes for hotels and restaurants by IDBI and SIDBI. UPFC extends handloom weavers scheme, semfex scheme, ISO 9000 scheme, scheme for entertainment sector and scheme for reconstruction of working capital term loan in seasonal industries. MPFC extends special scheme for hire-purchase portfolio financing, replenishment of term loans, diesel generating set finance, finance for marketing related activities, for warehouse and godown, equity participation scheme, soft loan, closed unit purchase, fast track scheme and non fund based schemes.
Sanctions to the above schemes by all the SFCs reveals that over the review period none of the traditional and existing scheme have shown any remarkable improvement in terms of assistance granted. With the amendment of the SFC Act, 1951 in September 2000, more knowledge based and non-fund based schemes have been introduced by all the three SFCs. Marginal benefits of new scheme introduced by the Corporation’s have started to come out but more is yet to come in the coming years.

The above-mentioned aspect reveals the SFCs have emerged as a very important source of corporate financing. However, these SFCs have, contrary to our expectation, functioned exclusively as lending institution and abstained from providing venture capital and other related financial services in big way such as merchant banking, underwriting etc. All loans and no equity finance have put greater burden of debt servicing on borrowers, more so as they happen to be in the smaller or small-medium range. This also means that borrowers have to look elsewhere for equity financing, adding to them cost, toils and troubles. Their preference for granting loan finance is apparently due to the fact that it has credit guarantee umbrella of state government and also refinance is available from SIDBI. Moreover, interest income is steadier than dividend income from market, which smaller units generally face due to their limited access to capital market.

The SFCs existing resources are too limited to cater to the growing needs of upcoming burgeoning number of small and medium-scale units. They are finding it difficult to raise additional resources to meet the growing needs of smaller enterprises. As a matter of fact, these institutions have not made aggressive efforts to mop up resources from the public and have instead resorted to institutional borrowings.

Since all the three SFCs i.e., MSFC, UPFC and MPFC have been channelising their major resources for lending purposes to industrial
undertakings it is observed that during the review period between, 1999 to 2003 the number of applications received by UPFC rose from 296 to 890. Dense population of the state, proactive attitude of the corporation, number of business promotion meetings, felicitations of the borrowers, thrust of the people of UP in UPFC dedicated and unstinted support to thousands of small-scale industries, awareness about various schemes of assistance to industrial units by UPFC and enterprising entrepreneurship in the people, helped the corporation in creating new customers.

However due to over-cautions approach because of sad past experiences, incomplete applications, non-viability of the project, in-house credit rating, problem in tapping money directly from the market, resulted in rejection of quite many applications ranging between 1/4th to 1/5th of the number of applications received, thus providing finance to sound borrower having good track record.

However as regards pending applications its position has improved and the cases have come down from 7.19% to 3.2% of the applications received during the review period, thus expediting the pending cases and checking the problem of project cost overrun.

In MSFC, the situation was quite contrary to what is observed in UPFC. The number of applications received ranged from 267 in 1999-2000, to 396 in 2000-01. It was 193 in 2001-02 and just 03 in 2002-03. The state of Maharashtra heads in actual investment, in providing infrastructure facilities and pioneers in the development of modern financial sector in India and continues to hold top ranking position in the institutional finance. The state has dense network of cooperative banks and commercial banks and other institutions and so MSFC has to face intense competition, due to which lesser number of applicants go to MSFC for assistance. MSFC adopts publicity and promotional policy and is very quick in disposal of loan applications. The
industrial sector in the state is affected mainly by depressed domestic demand. The ancillary industries catering to the requirement of engineering industries including automobile sector were particularly affected due to growing imports of cheaper components. The major share of MSFC’s assistance over the years have been towards the SSI sector, and SSI units in the state are facing problem of reduced orders as well as delayed and inadequate payments, which has grossly affected the corporation as a chain reaction, on top of that stiff competition with co-operative and commercial banks too have affected the corporation. This competition and recession have severely hampered the financial position of the corporation, which has become uncontrollable. It looses no time in disposing the applications and as regards pending cases its performance has improved and such cases have come down from 7.34% to 3.2% during the review period.

In MPFC too there was a gradual downfall in the number of applications received. It was 319 in 1999, came down to 308 then to 265 and finally 205 in 2002-2003. Madhya Pradesh is endowed with rich natural resources, which is a pre-condition for industrial development. Agricultural sector contributes more economically to the state. It is a large state with 84% backward areas; thus consciousness among people is hindered. The corporation has strategically laid more emphasis on providing financial assistance to projects related to modernization, IT, infrastructure, construction of complexes, and up-gradation of units in line with government policy. The corporation follows the policy of selective financing by looking into general recession prevailing in the country for maintaining quality portfolio. Customers with good track records and financial performance were preferred. Domestic and international uncertainty, reduced confidence, depression, impact of liberalisation and globalisation have hit the industrial growth of this state too. High cost borrowing and competition with other intermediaries are eating the margins of the corporation, which are beyond the control of the
corporation. The circumstances are hardly propitious of survival what to speak of growth, of the corporation. Unawareness of the various schemes of financing, educational level of the people of state, bureaucratic functioning, complexities in the preparation of the project, procedural complexities, delay in disbursement of loans, lesser availability of power have landed the corporation at this stage. Number of rejections ranged between by 1/5th to 1/6th of the total applications received. Pending cases were around 7.3% to 5.3%.

Thus due to prolonged and deep recession prevailing in the industrial sector, lack of demand in the credit front, growing competition in the form of alternative sources of available finance, aftermath of financial sector reforms, liberalisation and its aftermath and falling interest rate regime, the operating domain of various financial intermediaries are blurred except UPFC.

In terms of constitution wise sanction of loans by the three corporations UPFC's assistance to corporate entities accounts for 70% to 75% of the total amount sanctioned. Thus medium-sized organizations are preferred over small organizations to improve its operational efficiency. MPFC's position is quite similar to UPFC. Here too corporate entities in the form of public ltd. co. and private ltd co. got the major share of assistance ranging between 72% to 83% during the review period. It too has not taken care of all types of business organization. Lesser Entrepreneurship Development Programmes are held by the corporation to promote first line entrepreneurs and this corporation is also playing the game of improving its operational efficiency by assisting more of big over small sprawling first line organizations during the review period. MSFC has on the contrary provided major assistance to partnership concerns, who account for nearly 50% to 64% between, 1999 to 2002 but in 2002-03 their assistance to small organization stands at nil. The corporation is trying its level best to develop new
entrepreneurs, it had arranged for EDP programmes, due to which the results were promising, but the impact of external forces have hit the state viz. recession, post WTO impact, acute completion, reservation policy etc, which is beyond its control and has adversely hit the existence of the corporation.

SFCs have rendered assistance to diverse groups of industries, ranging from artisans, enterprises to units engaged in sophisticated lines of manufacture. There has been concentration of the SFCs assistance to those industry groups, which are clustered in a particular state so as to finance their growth, expansion and diversification i.e. SFCs accepted all the cases without an specific line of action to develop particular industry. With the amendment of SFC Act 1951 in September 2000, the scope/business of SFCs have widened to cover up service industry and non-fund based activities, thus increasing its resources.

In UPFC traditional industries i.e. food, chemical products, metal, road transport, iron & steel, rubber, textile, paper, account for nearly 50% of the total sanctions. New schemes have been advocated to boost up IT sector, explosives, oil exploration, petroleum refinery, oil storage, and drugs & pharmaceuticals. In MSFC nearly 2/3rd of the total sanction is to traditional industries of the state i.e. food, textile, metal products, chemical and chemical products, non-metallic minerals etc., and MPFC diverts its major sanction to its traditional industries i.e. food, chemicals & fertilizer, iron & steel, transport equipment. Service sector comprise nearly 1/5th of the total sanctions. To boost the construction industry, amusement parks, cinema halls, cold storage, biotech, multiplex, horticulture, the corporation is making efforts and marginal results have started to come.

Thus in all the above SFCs, traditional industries are getting major finance and the participation of new sector is meager/negligible. In this sector, probability of geometrical growth is more, so all the corporations have
diverted their attention to these areas i.e. service sector too, to get the benefit of diversion which has started to come out, and much is awaited in the near future to come, for all round development of the economy.

Disbursement is a crucial and important part of the industrialization process and a significant activity of the economy. SFCs are entrusted with the responsibility of not only sanctioning but also disbursing it at the right time to reflect its efficiency. It has been observed that disbursements never match the sanctions. Stringent financial condition of the corporation, low recovery from the clients, high cost funds from apex bodies, non-cooperation from the government, delay in complying with legal formalities of the corporation, delay in acquisition of fixed assets, continued recession, uncertainty due to WTO impact, change in government policy, non-availability of infrastructure facility, party not willing to avail loans, change of mind, and the project consequently becoming non-viable etc are some of the reasons for the gap.

The gap between sanction and disbursement is very low in case of MSFC. Disbursement were only 18% less than sanction in 1999-2000 and in the latter years of review it was much more than sanction, reflecting good resource mobilization of funds by the corporation, to stand in competition and survive. In UPFC in the initial year i.e. 1999-2000 the disbursement was 3% more than the amount sanctioned while, in the latter years disbursements were less than sanctions. In 2000-01 it was 46%, which came down to 37% of the amount sanctioned in 2001-02. Its performance is poorest among the three SFCs, because of withdrawal of application after the sanction is made, sluggish and irresponsible behavior of the corporation, bureaucratic style of functioning and imposition of new terms and conditions. This resulted in retrieval of the projects by the entrepreneurs.

MPFC is between UPFC and MSFC. Here the gap between disbursement and sanction in the first year of analysis i.e. 1999-2000 was
9.5%, which in the latter years surrounded around 36% to 34%. Here also the above, mentioned reasons are responsible for the gap as well as the educational backwardness of the people of the state.

SFCs being patronized by the government cater to the requirement of economy and society. They function as an investment catalyst; generate employment, creating new entrepreneurs and supporting new project and technology thus contributing to overall GDP of the nation. They develop SSI sector and backward regions thus contributing socio-economically.

SSI units contribute in generation of large-scale employment opportunities with relatively low investment, promote balanced regional development and encourage dispersal of industries and effective mobilization of untapped resources. They are the backbone of economic development of the country. SFCs have given great preference to SSI over medium-scale units. The total cumulative sanction by all the three SFCs constitutes about 67% of the total assistance to SSI units. UPFC have directed nearly 61% of its total sanction in favour of SSI sector since inception. In 1999-2000 it was 67%, which came down by 2000-2003 to 49.5%. The poor performances of the core industries have been the root cause of such downfall. The aftermath of liberalization on the Indian economy, sluggish trend in output, less refinance from apex body, indifferent attitude of state government and apex body etc. went for reduced sanctions. The corporation emphasized more on large-scale undertakings than small-scale undertakings.

MSFC sanctioned nearly 93% of its loans sanctions to SSI sector. In 1999-2000 its sanction to SSI sector was 72%, which came down to 59% in 2001-2002, and, in 2002-2003, it did not make any sanction at all to SSI sector. MSFC had been taking care of SSI sector in the past, which is well reflected by the level of industrialization in the state. Its contribution to the SSI is not to be denied. Post WTO impact has hit the state by opening the
national barriers. On top of that the government has removed item from reservation list for SSI sector, and most of the SSI units from which the government has removed the restriction, fall in this state, thus affecting the fortunes of the corporation.

MPFC sanctioned nearly 87.72% of its total sanctions since its inception to SSI sector. In 1999-2000, 79% of the total sanction was to SSI sector, which came down over the analysis years to just 27.27% in 2002-03. MPFC's sanction to SSI sector is scattered to a large variety of industry with lesser quantum of funds. This corporation too is facing the same problem i.e., all related sectors are facing the challenges of liberalized era, recession, indifferent attitude of state government, IDBI/SIDBI not providing funds at low cost, removal of items from reservation list and lesser re-finance available from apex body.

Thus all the states have faced the similar problem mentioned above. The, degradation during last four years has left the SSI sector in the lurch. Added to the aforesaid woes, is, the stiff rates of interest being doled out by the SSI units on their long-term borrowings from financial institution leaving no room for the SSI units to remain alive and face the challenged scenario. The corporation by its very mandate to develop and assist SSI units in the state strives to ensure survival of SSI units at the cost of waving its dues.

In the past, SFCs have made significant contributions, by assisting 60% of its total sanctions to backward areas. But over the years it has declined to 45.7%, by 2000, because of fact that now SFCs have directed their funds in non-backward areas to strengthen their modernization and upgradation activities and to improve their operational efficiency and profitability. IDBI/SIDBI provides re-finance at concessional terms in respect of loans granted by SFCs for projects set-up in backward areas upto 55% to 70% on, case-to-case basis.
Uttar Pradesh has 71.43% of its area in backward districts and the percentage assistance by UPFC to total sanctions showed a downward trend from 52% in 1999-2000 to 25.5% by 2002-2003. The proportion of assistance provided is very less for the areas in backward regions due to lack of infrastructural facilities, and entrepreneurial talents and the corporation lacks EDPs.

Maharashtra has 53.1% of its area in backward region and over the first three years of the review period i.e. 1999 to 2002. MSFCs assistance to backward areas ranged from 82% to 80% of total assistance while in the last year it did not make any sanction at all. The corporation had been playing a vital role in the balanced regional development of the state, reflecting genuine efforts, but, it has collapsed due to reasons beyond control i.e. recession, severe demand crunch, risk role by assisting the first generation entrepreneurs, thus shattering its very own existence. Alternative finance at low interest rate has resulted in paucity of new entrepreneurs for the corporation.

Madhya Pradesh and Chhatisgarh has 83.61% of its area in backward districts while MPFCs total assistance to backward regions has marginally gone down over the review period i.e. 52.5% to 47% from 1999 to 2003 and, the corporation is concentrating mainly on already developed areas of the state. The state lacks infrastructure facility for the setting up of industries and the corporation lacks EDPs. Although Madhya Pradesh has quite substantial tribal areas yet it has not developed tiny and new technology based industries to make the best use of available resources.

In terms of employment generation by UPFC during the review period, it increased sharply from 3013 to 6559 between 1999 and 2002 while during the same period, in MPFC, it declined from 4560 to 3219. In case of MSFC the signs of recessionary trends started showing after 2001 when employment
generation came down from 5047 to 1833 from 2001 to 2002. Although MSFCs total sanction to new units increased from 44.39% to 68%, but, since Maharashtra is the most severely hit state due to major contribution and concentration of resources to few core industries sector, and, the core sectors are the worse hit thus affecting employment generation, which is beyond the control of the organization. The percentage share of, UPFC and MPFC have improved, reflecting the proactive and friendly approach of the corporation and more units being setup in already developed areas of the state and more assistance provided to service sector, which continued to show good performance.

This sector shall provide ample employment opportunities in near future. Both, internal and external constraints are there and if not properly dealt with shall shake the very existence of these, State Financial Corporations. Out of the three SFCs, MSFCs is the worst hit what to talk about its contribution; its existence has been questioned. UPFC and MPFC are striving hard to survive. Comparatively, less alternative sources of finance is available to these two states as compare to Maharashtra, less dependence on few industrial sector and diversity in providing loans to industrial and service sector has helped these two corporations to survive and generate employment as compared to MSFC. UPFC has definitely instilled fresh blood in state by increasing its percentage sanction to new units, as compared, to the other two corporations.

Recovery makes a substantial contribution to the total funds of the corporation. The SFC Act 1951 has empowered the SFCs in Sec.29, 30 & 31 for regular and smooth recovery. Effective persuasion/follow-up of industrial accounts and exhaustive review/inspections by the regional officer on day to day basis were done along with it’s monitoring. Genuine difficulties of the defaulting units were considered sympathetically. The corporation also tried
for One Time Settlement and simplified it form time to time. Interest rates too have been rationalized and good borrowers were offered Terminal Interest Rebate Benefits. Effective co-ordination was made with revenue authorities for Recovery Certificate/Public Revenue Certificates, so as to recover maximum amount from loss assets. The corporations have been revamping its credit appraisal system, to avoid prospective NPAs. Efforts were made to solve old cases constituting NPAs through persuasion by way of sale. Mutually agreed settlement of loans also proved to be a good method for recovery. The above mentioned methods were adopted by all the corporations and MSFCs percentage of recovery to current demand was 48%, 28%, 69% and 43% respectively in the period under consideration. UPFC, in addition to the above, appointed task managers for all units above Rs. 20 lacs, to ensure, timely implementation of the recovery, yet its recovery percentage to current demand was poorest at 35.86%, 32.32%, 26.36% and 18.12% respectively in 1999-2000, 2000-01, 2001-02 and 2002-03. In Madhya Pradesh, the Government through MOU fixes the recovery target to be attained by the corporation, and here the results were better. The recovery to current demand was 87.4%, 96.67%, 108.45% and 78.17% respectively in the analysis period.

In MSFC and UPFC the recovery was affected due to economic slow down, depressed market conditions, delayed and inadequate payment to the ancillary suppliers by the large units. The corporations adopted comprehensive recovery strategy preventing slippage of not a single account from the standard category, still the position is in doldrums. Thus external conditions i.e. recession and post WTO has severely hit the SSI sector of the states and in turn recovery position of the corporations. State Financial Corporations are required to strengthen the monitoring arrangement for prevention of sickness by providing reliefs and concessions under Rehabilitation Scheme to potentially viable units and orderly closure of those
units, which have no chances of survival. The Government of India has formulated policy guidelines and has setup Board of Industrial and Financial Reconstruction under Sick Industrial Companies Act (SICA) 1985, for timely detection of sick and potentially sick companies, but BIFR delays in dealing with industrial sickness. The Rehabilitation policy is skillfully dovetailed with non-performing assets classification policy and the extent of rehabilitation was linked with the category i.e. substandard, doubtful-I, doubtful-II or loss asset category. The corporation also tried with other government agencies to solve teething problems of industries, to help creating larger number of healthy industries. Sick units were rehabilitated by way of re-schedulement of principal, deferment of payment of interest, change in management and waiver of interest etc. The above package is applicable only to viable units.

Though the growth of the activities of the Corporations had been slow and halting, because irresponsible behaviour of SFC, irksome adherence to their red-tapism and indifferent attitude of government and apex bodies towards performance and development of SFCs, yet they are rendering valuable services to small and medium scale industries.

The SFCs as part of their development activity may assume responsibility for developing infrastructure, social utilities and maintain close liaison with the development institutions of the state like liaison with electricity board, pollution board and other agencies engaged in providing infrastructural facilities i.e. water, transport etc. But this relationship is very poor in case of all the SFCs. There is no direct involvement of the three SFCs in the development of infrastructural facilities in the state.

It is not possible to ensure industrial development of the country without adequate number of people with entrepreneurial capabilities who can ensure optimum utilization of scarce resources available in the country. Being
an important corporation of the state, SFCs are expected to actively participate for development of entrepreneurship and its dispersal in the state and providing requisite motivation to people of their state to come forward for obtaining loan, and start their own industrial unit with more emphasis on relatively backward regions. Unfortunately, UPFC and MPFC have not made much effort in the development and dispersal of entrepreneurship in their state. UPFC sends its new entrepreneurs to existing financed units of same product time for acquainting themselves with the functioning of industrial units. It is taking EDP's very casually and as routine matter, but it has a separate guidance cell for guiding entrepreneurs from stage of submission of project proposal to its final implementation. Only MSFC has made substantial contribution in making people aware of its programmes due to the basic reason that there are more alternative arrangements of finance in the state and to survive, MSFC has no alternative but to make entrepreneurs aware of various scheme and policies of the corporation.

In respect of promotion of 100% Expert-Oriented units, UPFC has made marginal contribution of sanctioning seven units for Rs. 4.61 Cr. during the period 1999-2003. MSFC and MPFC have not sanctioned any loan to 100% EOUs, but have assisted units engaged in export business.

Expansion and modernization help in ensuring optimum utilisation of scarce resources like power, capital, material etc. All the three SFCs have sanctioned loans for expansion and modernization of existing units. UPFC's and MSFC's performance in this regard shows, declining tendencies, while MPFC have put in efforts on modernization front. MSFC sanctioned just 5.73% of its total sanction for modernization in 1999-2000 which came down to 4.85% next year and by 2002-03 it came down to nil. UPFC sanctioned only 2.56% of its total sanction for modernization in 1999-2000, came down to 0.87% in 2001-02 and in 2002-03, it did not sanction at all. MPFC
sanctioned 1.56% of its total sanction for modernization and by 2002-03, the sanction rose to 11.62%. On the expansion side, UPFC is consistent in going for expansion programme at 26% of its total sanction, while both MSFC and MPFC's contribution towards expansion shows a dipping graph. In MSFC the contribution dipped from 48% in 1999-2000 to 0% by 2002-03 and in case of MPFC it declined from 31% in 1999-2000 to just 9.63% in 2002-03.

Development of relationship with entrepreneurs results in advancement of SFCs activities and builds up goodwill and confidence amongst the entrepreneurs. All the three corporations have been taking care of this relationship quite seriously, by felicitating the customers who make timely payment; tying up with other government agencies to solve teething problems of the industries, to create healthy industries. UPFC, in addition to the above has taken some image building initiative like appointing task managers and entrepreneurs counselling programme.

Finally, monitoring of projects during implementation and operational stage by SFCs is done on the basis of keeping a close watch on the assisted units, receiving reports of the progress form the assisted unit, discussing the problems faced by them and suggesting suitable remedial measure to them.

State Financial Corporations are guided by the apex bodies i.e. IDBI till 2000 and now SIDBI after 2000, and its general functioning is deeply affected by the general administration policies of these apex bodies whether it is IDBI or SIDBI.

Normally, an apex institution is empowered to promote, finance, develop, monitor and co-ordinate the activities of institutions engaged in assisting, financing and developing, that comes within its purview.

IDBI has been instrumental in financial structure of the SFCs. For small and medium unit it performs it's two role, purveyor of supplementary resources and coordinator through its schemes of re-finance assistance and
bill discounting to SFCs and Commercial Banks, enabling industrialization in a number of states and backward areas. Its refinance scheme covers infrastructural projects and it also provides lines of credit to selected SFCs by way of resources support. SFCs help IDBI in playing its promotional role by assessing the potentiality of different regions and state for the purpose of identification of the projects in the light of national resources, demand conditions and infrastructure facilities through inter-institutional groups representing SFCs, SIDCs, and Lead Banks etc. IDBI also coordinates the functions of SFCs. SFCs board consists of nominees from the Development Bank.

SIDBI was a subsidiary of IDBI but in 2000 it was de-linked from IDBI, to function as an apex body for providing assistance to SSI in the country. SIDBI has been assigned the role of principal institution for promotion, financing and development of small and tiny enterprises and to coordinate the functioning of institutions engaged in promoting the small sector.

It provides assistance to small-scale sector through SFCs, SIDCs, Commercial Banks and Regional Rural Banks. After the de-linking of SIDBI from IDBI, the share holding of IDBI is to be transferred to SIDBI, which is still in process. It has been instrumental in financial structure of the SFCs through its subscription to bonds.

Due to this, there is reduction in sanction of IDBI over the years to SFCs from Rs. 1967 Cr. in 1999-2000 to Rs 253 Cr. in 2000-03 and disbursements too from Rs. 1614.9 Cr. to Rs.231.7 Cr. respectively. The percentage holding of IDBI in total equity of all the SFCs is 28.34%. In case of MSFC it is 40.8%, UPFC from 34% to 24% and MPFC 29.50%. The refinance provided to MSFC has come down from Rs. 107.51 Cr. to Rs. 64.95 Cr. during the review period, to UPFC from Rs.75.55 Cr. to Rs.35.59Cr. and
in the case of MPFC it has shown an increasing trend from Rs.18.19 Cr. to Rs.23.19 Cr.

SIDBI continued with the schemes operated by the IDBI, took the initiative by identifying the gaps in existing credit delivery system and devised tailor made schemes for direct lending to SSI sector so as to supplement the efforts of SFCs, SIDCs, Commercial Banks etc.

Under indirect assistance, assistance to small-scale sector is channelised through the large network of primary lending institutions across the country by way of refinance, bills re-discounting and resource support in the form of lines of credit in lieu of refinance etc.

IDBI's assistance to SFCs has decreased but, inspite of SIDBI becoming an apex body, its assistance to SFCs has not increased. SIDBIs refinance to MSFC ranged from Rs. 296.09 Cr. in 1999-2000 to Rs. 245.20 Cr. in 2002-03, to UPFC, it ranged from Rs.370.05 Cr. in 1999-2000 to Rs.318.59 Cr. in 2002-03 and to MPFC from Rs.100.71 Cr. to Rs. 134.65 Cr. in the same years under review. The re-finance share has not increased in MSFC and UPFC although: the demand from the industrial front increasing.

Such re-finance covers infrastructure technology up-gradation, modernization, quality promotion and diversification by existing and rehabilitation of sick SSI units. Re-finance covers 55% to 70% of the total sanctions by SFCs and 100% in respect of working capital. SIDBI also nominates experts to the board of SFCs for representation. IDBI and SIDBI have functional/operational control over the functioning of SFCs. Thus IDBI/SIDBI provides re-finance facilities and short term loans to SFCs through their tailor made policies and helping them, by implementing their promotional and developmental role. They have been nurturing the SFCs to
this stage, giving it, clutches to grow. SFCs too have been helping IDBI/SIDBI in its promotional role.

The SFCs as mentioned earlier have direct relation with the state government and state government has administrative control over the SFCs. It guides and guarantees financial corporation on matters relating to share capital, borrowings, bonds and debentures, relating to reserve fund, nomination of board of directors, managing director and chairman and auditor. Every audit report is forwarded to the state government and the government lays it before the legislative of the state. If the board fails to carryout the instructions on the question of policy laid down by the state, State Government has the power to supercede the board and appoint a new board in its place, and the decision of the state government cannot be questioned in any court.

SFCs also have relations with commercial banks, insurance, investment trusts, cooperative banks etc. These institutions can subscribe to the share capital of the SFCs as per the approval of the state government, and the state government guarantees dividends. SFCs can borrow money from commercial bank for short term at the rate determined by the banks. Banks treat SFCs as their normal customer and deal on commercial basis, not as institution for priority. Thus they are called for, only in emergency. During the review period, MPFC has not taken any loan from Commercial Banks while MSFC took Rs. 17.28 Cr. in 1999-2000, which by 2002-03 came down at nil. UPFCs assistance from banks ranged from Rs. 14 Cr. in 1999-2000 to Rs. 1.5 Cr. in 2000-01 and 2001-02, but in 2002-03 it leaped up at Rs. 31.50 Cr. However, the percentage share of the above-mentioned institutions in SFCs is too meager, varying between. 0.03% to 1.5% in the three SFCs. In the latest amendment of SFC Act in September 2000, the state government has withdrawn its guarantee as to the re-payment of principal and interest. Thus
the above-mentioned institution neither have any interest nor any control over the SFCs.

Council of State Industrial Development and Investment Corporation of India (COSIDICI) is a national federation of state level financial institutions, engaged in promotion, development and financing of industry mainly in small and medium sector. It provides a common platform to the SFCs for ventilating their problems and grievances to the government and all-India financial institutional and serve as a mouthpiece of the sector for influencing the policies. It has been playing its role commendably and has significantly produced the desired impact on the growth of SFCs by providing training programs as well as offering and conducting consultancy/advisory services, studies in specific areas with a view to bringing about enhancement in managerial and organizational skills of the corporations.

State Financial Corporations as primary lending institution in India have been discharging their assigned objectives, duties and operations, wholeheartedly without any break. The SFCs are now facing different quantitative problems sabotaging their expected operations, the reason being not within their reach.

The crux of the problem for all development financial institutions is that, their cost of funds available from State Government, IDBI, SIDBI, RBI etc, is higher than that of their competitors. SFC's cannot provide funds at cheaper rates to SSI units. Adequacy of financial resources is a perquisite for rapid growth of business of a development bank. The corporation lacks funds. After the amendment of the SFC Act 1951 in September 2000, the authorised share capital is to be gradually increased, to Rs.1000 Crore. The corporation does not have a formal and scientific system of financial resource planning. The state government, the major subscriber to the share capital, is not in a position to pump in funds to SFCs as share capital. Other categories
of proposed shareholders put their money for the sake of safety, and liquidity of their investment, and demand a clean and healthy balance sheet.

SFC's normally provide block capital and marginal working capital. For working capital, units depend on commercial banks. If commercial banks refuse, the entrepreneurs are put in deep crisis forcing the units to be born sick and indirectly forcing NPA of SFCs to go up. SFCs find it hard to go in for, parallel working capital lending on account of dearth of resources and lack of infrastructure for everyday banking. Projects are viable, yet due to paucity of working capital only, these turn to be sick.

SFCs are refinanced by Development Banks to a great extent. IDBI and SIDBI do not take any credit risk and they take back their refinance amount along with the interest, but never think whether the loan financed by SFCs are recovered from the borrowers or not. SFCs are forced to stick to their repayment schedule and repay the loan taken from IDBI/SIDBI by taking loans at higher cost in shape of SI.R bonds, forcing them to line up in the debt trap.

IDBI/SIDBI instead of patronizing SFCs has been directly competing with the SFCs ignoring their interest by aggressively getting into direct lending to SSI on better terms. There is a cap in SFCs lending and IDBI/SIDBI can lend at lower rates.

Non-performing assets constitute 50% of total outstanding of loan and advances. It is entirely due to the bad debts resulting from financing high-risk areas/priority sector. A good portion of the non-performing loans is traced to over-riding, socio-economic programme and directives of the Government.

The recovery mechanism is felt inadequate and has been a major contributory factor in crippling the financial health of these institutions. Filing suit against borrowers has not come much to the rescue, and is time consuming one. In the mean time the assets starts depreciating and disallows
the SFCs to dispose of the assets at fair prices. Further the mechanism to early and speedy disposal of assets acquired u/s 29 of the SFC Act 1951, at much better terms and cost of financed units are also poor. More than 90% of the NPAs, account for priority sector lending.

SFC have to face stiff competition with commercial banks and its sister institutions i.e. SIDC’ s, SIIC’s and SSIDC’s etc. Unlike commercial banks and national level financial institutions, SFC’s are not allowed the coverage under Debt Recovery Tribunal to get speedy disposal of cases, forcing the SFCs to knock the doors of judicial courts.

Disbursements take long time, and procedure for disbursements of project are same irrespective of their size. The borrowers face a critical problem of project cost over run due to delay, thus making the project costly and meaningless.

IDBI/SIDBI do not have a pro-active and helpful altitude toward SFCs, rather they have all the time being devising methods to deny adequate refinances to SFCs to meet their genuine requirements. While SFCs are crippling for funds and there is aggravation on account of in difference on the part of stakeholders in coming to their rescue. On the other hand commercial banks are given refinance facilities from the apex bodies at much lower rates of interest i.e. 8.5%.

As grass root term lending institutions in the country SFCs have been discharging their assigned operations, but with passage of time and with changing of economic scenario of the country are now facing different qualitative problems.

SFC’s suffer from a crisis of identity. While many segment of the financial sector have come under scrutiny and restructuring. SFCs are kept in isolation in the context of the on-going economic liberalisation and reforms. The SFCs have been functioning under the administrative control of state
government and under operational control of IDBI/SIDBI. They cry for single parentage. They have been kept isolated from the supervisory role of RBI, thus there is lack of accountability and responsibility. SFCs at the present juncture are saddled with a large amount of contaminated loan portfolio, alarming proportions of NPAs, accumulated huge amount of assets in the bad and doubtful category mainly on account of lack of accountability, of concerned functionaries of SFCs.

IDBI/SIDBI is not performing its assigned job properly. As a result, SFCs are in an utter state of lacking proper guidance and administration. Administration from the State Government are politically motivated, IDBI/SIDBI is much interested in its own business. These financial institutions are equity holders of SFCs as well as substantial fund provider. They provide funds to SFCs at their general lending rate, which is costlier to SFCs.

IDBI/SIDBI has not at all any mechanism for a watch over the credit appraisal prepared by officers of SFCs, tempting the authorities to have fabricated credit appraisal and open a path for bad finance. They treat the SFCs as their borrower like others but not a financial institution under their patronage. They are interested in granting refinance and getting it back along with interest not caring whether SFCs have recovered the amount or not from their borrowers.

There is lack of direct administrative control of Central Government/SIDBI/RBI. Except forming SFC Act and subsequent amendment thereof, the central government has no role in the administration of SFCs, which constitute an important segment in the financial sector of the country.

As IDBI and SIDBI are 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 i.e. state government has no control over these national level financial institutions, which makes a difference.

There is no credit guarantee by Deposit Insurance Credit Guarantee Corporation. Even the board lacks absolute autonomy. The board enjoys absolute authority for sanction and disbursement of loans but in case of resource mobilization, policy and HRD matters the board plays a role of recommendatory authority to the state government. The top brasses of state government when seated in board of SFCs pass everything but when seated in government departments object to their own decisions taken at board.

There is lack of Insurance Coverage for industrial assets and no worker’s participation in management. The HRD is poor and the corporations lack internal training, skill up-gradation and professionalism in management. The board of directors and managing directors are bureaucrats who follow red tapism. The reigns of SFCs are in those hands that are not professionals in the field of finance and legal practices.

There is problem of coordination between various agencies of the government. The staff lacks, discipline and responsibility. The marketing policy is weak and most of the small entrepreneurs have got less information about the existence of new schemes of the corporation. There is no policy for branch expansion and the corporation authorities appear to be guided by ad-hocism. The rehabilitation policy is also weak and un-scientific and follow-up format of the corporation for various financial projects lacks the necessary information required by the appraisal department and the Corporation is not professionally managed.

The Corporations do not organize proper entrepreneurial development programmes. Small concerns, which need assistance cannot at times provide standardized and audited accounts to the corporations for sanctioning of loan.
Post WTO impact, globalization and recession in the economy, at the world level; too, have affected the working of SFCs in India.

To improve the performance and working of State Financial Corporations the following suggestions are given below:

**High Cost Funds:**

Suggestions to solve the basic problem of the SFCs viz. high cost funds available from State Government, IDBI, SIDBI, Banks, other Financial Institutions etc is that, the SFCs may be allowed either to open or operate a "Bank" like IDBI, ICICI or, to function as a Commercial Bank to mobilize low cost funds under different types of deposits and to compete with the commercial banks and financial intermediaries. These should be a National Level Public Sector Bank with branch network in all states to mobilize funds from public and to lend working capital to the assisted units along with the term loan including their other normal functioning.

This would also help the three SFCs to utilize their surplus manpower, which can conveniently be shifted to the banking subsidiaries.

In order to overcome the situation of losing good clientele due to high cost and to compete with commercial banks; SIDBI/IDBI should reduce the rate of interest on refinance. The above relief should be provided to SFCs on priority basis so that they could remain in the lending business in the face of competition and also retain their good clients with them, who have a tendency to move towards commercial banks.

**Inadequacy of Share Capital:**

The SFCs suffer from inadequacy of share capital. In the present shareholding pattern, as per the SFC Act, there is no berth for Government of India to park capital in the SFCs. Hence it is suggested that the SFC Act may
suitably be amended creating sufficient scope for Government of India and international agencies for infusing of funds for recapitalisation of SFCs.

The Corporations should tap the capital market to the fullest possible, to meet the fund requirement; such funds should be raised through bonds and securities.

RBI’s borrowings are of short-term nature. Therefore, financing of these needs through rolling over short-term credit is against the principle of resource mobilization. Interest charged too, is higher than the cost of capital of bonds etc; hence, SFCs must not resort to this source of finance.

**Inadequacy of Block Capital :**

To overcome the problem of inadequacy of block capital finance the SFCs may be allowed to float bond with State Government guarantee by entering into the market in a suitable trance and in such a suitable time depending on favourable market conditions. SFCs may be allowed to raise fund at a lower cost from international channels too. They must not depend on traditional avenues of resources, the channels of which are dieing up.

**Working Capital Finance :**

To cope up with the working capital finance, first hand arrangements should be insisted and a tie-up for working capital finance should be ensured simultaneously with the sanction of term loan to industrial units. If the SFCs are allowed to function as a commercial bank the paucity of working capital can be solved.

**No Credit Risk Taken by IDBI/SIDBI :**

IDBI/SIDBI does not take any risk on credit given to SFCs. It is suggested that the government should take steps to evolve some mechanism so that some relaxation is provided to SFCs in repayment of
borrowings/refinance from SIDBI/IDBI in tune with SFCs, non-recovery of these loans i.e. NPAs.

These development banks should also involve themselves to assist the three SFCs in timely realization of their loans and for this a joint task force can be more objective and of much use.

**Direct Financing by IDBI/SIDBI**:

IDBI/SIDBI directly competes with SFCs by aggressively getting into direct lending to SSI on better terms. Thus it is suggested that as a lender to primary lending institution, the IDBI/SIDBI should not be allowed to finance for a cut off limit upto which only SFCs should be allowed to finance to enhance the marketability of SFCs.

In order to fill up the credit gaps, in case of direct financing by IDBI/SIDBI, certain amount/limit may be earmarked for SFCs to finance.

IDBI/SIDBI should concentrate on its refinance role and development of primary lending institutions on healthy lines. Its growing appetite for direct financing appears to be a major contributory factor for its unhelpful attitude towards SFCs as a guardian.

The Government of India/RBI should consider allocating substantial share of tax free bonds to SIDBI to ease their fund position, the proceeds, of which should be exclusively used to provide refinance support to SFCs at a lower rate of interest.

**Alarming Non Performing Assets and Re-vamping the State Financial Corporation**:

SFCs have alarming NPAs. Non Performing Assets have accumulated over the years for reasons attributed to mandate, targeted nature of lending. Lending the high-risk areas for the socio-economic objectives of the state, poor recovery mechanism etc. It is suggested that, indiscriminate sanctioning
of loans and large-scale concentration of loans in few industries should be avoided. The strategies for containment of NPA’s should be to provide security related need based finance to potential/viable sick units for early revival to help in reducing the NPAs.

SFCs being chiefly engaged in traditional term lending and finance and assets being largely immovable in nature, separate guidelines for SFCs in the matter of income recognition, provisioning and assets classification should be made considering the default position and realizable market value of available assets. Two broad category of asset classification such as standard and bad & doubtful should be made and reviewed periodically to be realistic.

SFCs should evolve some system to identify potential Non-Performing Assets in the lines of commercial banks so that timely corrective/protective measures may be taken up, to reduce the spiral increase of NPAs.

SIDBI should issue uniform and comprehensive guidelines to SFCs for resorting to the system of “one time settlement” to compromise dues from individual borrowers.

The urgent need, is to tackle the problem of rising NPAs, and unless the balance sheet of these Corporations are cleansed by curtailing the NPAs either by way of recovery or write-off, their realization would remain a distant dream.

Poor Recovery Mechanism:

To improve the poor recovery mechanism, SFCs should cleanse their internal house keeping and launch a vigorous drive for the recovery of overdue/NPAs. All the strategies which may be perceived for reviving SFCs recovery of NPAs should occupy a place of highest priority as recycling of funds in a financial institution is absolutely necessary for its survival and sustainable growth in the long term.
A team of senior executives should monitor the progress of the recovery campaign of NPAs. The staffs so appointed should establish direct contact with the defaulters and explore the possibilities of recovering the dues.

Mechanism should be improved to dispose of the assets acquired under Section 29 at the earliest so as to get the best deal out of it. Recovery certificates should be issued at the right time so that recovery amount could not be raised so high. Assistance of marketing experts should be provided to assisted units to increase sales. To overcome the delays in recoveries the state government may set up special courts for disposal of applications made under Sec 32 of the SFC Act.

Impudent credit decisions, inadequate credit appraisal, finance to non-viable and infeasible projects are major bottlenecks in the way of recovery of loan dues and ultimately leading to NPAs in the loan portfolio. Lack of accountability provides ample scope for these. Discipline, loyalty and responsibility should be evolved and imposed on first line and second line manager. The staffing pattern warrants rationalization.

There is need for a better coordination amongst the appraisal, follow up and recovery functions in SFCs, which calls for strong Management Information System. MIS is the system of providing needed information to each manager at the right time. In right form, and relevant one, which aids his understanding and stimulates his action.

The ABC analysis should be adopted for better results, as it points the way to which control efforts are best directed for better recovery. Special incentive should be given to employees to achieve higher recovery targets.
Competitions from State Level and National Level Financial Institutions:

To enable them to face competition from state and national level financial institutions, SFCs cost of funds should be lowered in line with commercial banks. Emphasis on more recycling of own funds and to improve customers service in terms of cutting down the time consuming lengthy procedure involved in sanction/legal documentation and speedy disbursement of loans, may enable the SFCs to face competition more aggressively.

Non-availability of Coverage under Debt Recovery Tribunal:

The SFCs are not getting coverage for filing cases of recovery of loan dues, through Debt Recovery Tribunal for speedy disposal of cases. Thus it is suggested that the Government should take necessary steps to provide coverage under Debt Recovery Tribunal to SFCs to allow SFCs to file cases of recovery of dues before DRT so that speedy disposal of loans should be ensured and in turn recovery position/reduction of Non-Performing Assets of SFCs could be improved.

Problem of Project Cost Over Runs:

The borrowers are faced with the problem of project cost overruns. It is suggested that the procedure for granting loans needs to be streamlined, so that the interval between the receipt of an application and the actual date of sanction may be reduced to the minimum, to cut down the problem of project cost overrun.

The Corporations should also curtail time lag in disbursement so that financed project may run according to schedule. The procedure of disbursement of loans for various projects should vary with their sizes. As, time factor is crucial for any project, especially bigger ones, procedure needs to be simplified.
It is also necessary that Corporations should coordinate with the government agencies e.g. pollution board, electricity board etc. in such a way that the official formalities might be complied faster. On the other hand if the project is delayed from the borrower end, close follow-up and in-depth/step-to-step monitoring of implementation of project should be made by the SFCs, so that any problem arising at any stage could be sorted out and solved at the earliest.

**Refinance from IDBI /SIDBI:**

State Government has not provided SFCs with sufficient re-finance facility. Since State Government has not provided SFCs with sufficient funds and has not fulfilled their statutory obligations, because of paucity of funds and critical financial position, the central government should intervene into the matter and should evolve some mechanism to ensure sufficient supply of funds to recapitalize the SFCs.

SIDBI's criteria of re-finance do not favour SFCs and it is biased. SIDBI should not discriminate between refinance allowed to Commercial Banks and SFCs. SIDBI has sufficient resources at its disposal and claims 90% of its resources, which are utilized for providing refinance. Ironically, 80% of the refinance is provided to Commercial Banks and just 20% in the pocket SFCs, that too, at a higher interest rates than the banks.

This discrimination should be stopped by SIDBI, the interest rate should be reduced, to provide with level playing field to SFCs and to raise the limit from 55% to 70% for refinancing and 100% refinance in case of working capital.

**Crisis of Identity:**

SFCs suffer from crisis of identity. It is suggested that SFCs need to be nurtured and nourished by a single parent i.e. single national level
organization to make them vibrant and operationally viable, to infuse more accountability in the working. SIDBI should discharge its duties towards SFCs (which has been assigned to them under statute or which are expected of them) more honestly and sincerely and in a way to fulfill the expectations conceived at the time of its formation. SIDBI should be assigned with dual role, one operational and other one supervisory. Under the operational role SFCs should function within the operational ambit set by SIDBI, i.e. there should be limit set for SIDBI to provide finance below which SIDBI must not finance and only SFCs to finance below that limit. In its supervisory role, SIDBI should make SFCs function within the policy framework set by it.

**Lack of Accountability and Responsibility:**

There is lack of accountability and responsibility on top officials. It is suggested that discretionary powers coupled with accountability could speed up credit delivery process. It is the need of the hour to impose accountability on the top-level management; the functionaries and authorities for sanctions and disbursal of loans and advances. Effective surveillance and punishment is not in operation. There should be a committee comprising of professionals and technocrats, which from time to time monitor and observe the appraisals made by the Corporation officials. External influence should be considered while taking a decision. It should be imposed to increase the sense of accountability and responsibility amongst the officials of the Corporations so that contaminated loan portfolio, alarming proportion of non-performing assets and huge amount of assets in the bad and doubtful category could be controlled more effectively.

**Lack of Proper Guidance from the State Government/SIDBI:**

There is lack of proper guidance from the State Government/SIDBI. Thus the State Government/SIDBI should guide SFCs in functioning, administration, sanctioning and disbursal. Political interference of the state
government in day to day functioning should be stopped rather it should be on professional basis supported with more technical guidance and assistance from SIDBI i.e. it should act as guide for SFCs for day to day functioning. To infuse more professionalism and increase more operational interference by SIDBI for proper guidance, the managing director should be represented by SIDBI and chairman by the government. These SFCs should function within the policy and framework of SIDBI.

**Lack of Close Watch from SIDBI on Credit Appraisal:**

There is lack of close watch from SIDBI on credit appraisal, so a system should be developed to re-examine/re-appraise certain randomly selected cases, which are not refinanced by the apex bodies. Independent control and check system should be developed in the SFCs to have a proper and independent appraisal of the cases made by the officials of SFCs, so as to develop more sense of accountability amongst officials of the SFCs. SIDBI should not only watch but involve themselves in credit appraisal in order to have more effective credit worthy appraisal.

**Lack of Direct Administrative Control of Government /SIDBI:**

SFCs suffer from lack of direct administrative control of Government/SIDBI, to overcome this, a system should be introduced to have a direct administrative control of the Apex Body/RBI over the functioning of SFCs, instead of bureaucratic administrative control of the State Government. A professional person from SIDBI should be appointed as managing director of SFCs and chairman may be appointed from state government, to infuse professionalism. SIDBI should take all possible steps to strengthen administrative mechanism and improve internal monitoring. SIDBI officials comprising one from finance and other from technical side should conduct from time to time internal audit of certain randomly selected cases.
At the same time, State Government should also make some rules to have technocratic administration control over the functioning of SFCs.

**No Credit Guarantee by DICGC/SIDBI:**

Deposit Insurance Credit Guarantee Corporation extends credit guarantee to Development Banks against advances of priority sector lending. Thus it is suggested that the refinancing agencies i.e. SIDBI should share a part of credit risk with SFCs by suitable mechanism rather than overlapping with other institution. Credit guarantee facilities should be available with SIDBI to keep a strong tie-up between finance and refinance and may save the liquidity problem of SFCs.

While extending refinance against a credit of SFCs, SIDBI should collect one time guarantee commission and allow invocation of the guarantee.

**Lack of Absolute Autonomy in the Board of SFCs:**

There is lack of absolute autonomy in the board of SFCs. So, autonomy should be given to the board of SFCs to take decisions regarding resource mobilization policy and Human Resource Development matters, so that the functioning of SFCs could be more smooth and speedy.

**Lack of Worker's Participation in Management:**

There is lack of worker’s participation in management. It is suggested that employees of SFCs may be allowed to purchase the shares of their concerned SFCs to boost up their involvement and belongingness towards the organization. Employees should be represented in the board of SFCs so as to inculcate a sense of involvement/participation in the management of the affairs of the Corporation.
Poor HRD Management in SFCs vis-a-vis the Role of IDBI/SIDBI:

The Corporation has neither a uniform policy for promotion nor a system of performance evaluation and incentives for improvement in the working of the organization i.e. poor Human Resource Development Management.

There should be a comprehensive manual of the Corporations, streamlining the procedures of recruitment, pay-fixation, pay-revision, transfer and promotion based on performance. Due consideration should be given to the past achievements, and merits. SIDBI should prescribe guidelines in the matter of pay, perks and promotion for the employees of SFCs to be considered finally by the board of SFCs i.e., a comprehensive system should be introduced for better HRD management.

Lack of Internal Training and Skill Upgradation:

To train and up-grade the employee’s skills it is suggested that the staff should be exposed to structural programmes to give their best. Such programmes should be two-tier, one for senior executives and the other for junior and middle level officers. The training module will differ, but should be interpreted in nature with a mix of both, skill up-gradation and human resource development. It should cope with the new business environment i.e., merchant banking, lease and hire purchase and capital market services, industrial policy and development in science and technology loan appraisal, recovery monitoring and loan accounting with necessary funding by SIDBI. Training of officials in plan formulation and implementation is important at all levels. The staff should be adequately motivated and must be fully conversant with the duties they are expected to perform.
Lack of Insurance Coverage for Industrial Assets:

To provide insurance coverage for industrial assets it is suggested that, assets of assisted units should be insured against comprehensive risk by collecting the premium from the borrowers. This should be implemented as a measure of recovery mechanism and as a tool for containment of NPAs.

Lack of Professionalism in Management of SFCs:

Since SFCs have started with non-fund and consultancy services, during survey; entrepreneurs emphasized it, that SFCs should hire the services of professionals to overcome the problem of professionalism in management. The Corporations should try to develop this activity so that it may sharpen the edge of their working.

With regard to developing a strong second line management based on professional re-orientation, possibility may be explored to accord priorities for selecting senior officers available in SFCs for filling up important posts of Directors.

The managers with professional qualifications have not been patronized in the organization to any significant extent. It is therefore, suggested that as far as possible, in future, persons having a degree in management with specialization in Engineering, Law, Economics, Statistics, Management Accounting, Finance, Costing etc should be recruited for managerial position.

There is difficulty in getting technical personnel of the right type to examine the soundness of the proposed scheme of the borrowing units and expeditious and efficient handling of the applications. To solve this problem, professionals should be hired either from within or from external source.
Persons with professional knowledge of the development banking and management etc. should be nominated, as Director and Managing Director who could control the functioning of SFCs.

Credit Extension in Backward Areas:

Basic infrastructure should be developed in the backward regions, and programmes of entrepreneurship awareness should be campaigned in the backward regions so that people could be motivated to set-up more and more new industries and in turn credit extension in those areas could be ensured.

The commercial banks should provide a line of credit to SFCs at 2% below their prime-lending rate. This is based on the logic that deposits mobilized by commercial banks from rural and backward regions of the states, which were prominently served by SFCs, are being deployed elsewhere and those regions were deprived of the finance for development purposes. The SFCs have a legitimate claim on the position of the public deposits mobilized by commercial banks for such areas. This was quiet apparent from the low credit ratio in rural and backward regions of the states. The Government of India and RBI may, therefore, consider issuing necessary directions in this regard to Commercial Banks.

Problem of Coordination between various agencies:

To overcome the problem of co-ordination between various agencies, SFCs should improve relations with the entrepreneurs, scheduled banks, cooperative banks, other financial institutions, and various agencies involved, which create hindrance to industries in particular, then, these SFCs shall be more effective.

Coordination with commercial banks would help, both SFCs and banks in numerous ways for e.g.- appraisal through common form, joint financing, disbursal of instalsments, and recovery of instalments and watch over the
affairs of the borrowers. The Commercial Bank’s branch should act as an agent of the SFCs at a place where SFCs branch does not exist.

It must also coordinate with agencies like trade development authorities for market survey and feasibility reports to enable the beneficiaries to sell in foreign market to earn valuable foreign exchange by exporting the projects.

**Marketing Policy:**

Since SFCs are vulnerable to market forces and have a weak marketing policy, in the post liberalization era as marketing tool, SFCs should be brought under deregulation of interest rates. Secondly, SIDBI should take effective and early decisions on high penalty and high interest bearing refinance, offered by SIDBI so that these SFCs could compete with the commercial banks on level playing field.

The Corporation should make endeavor to publicize their new policies/schemes regarding finance through various awareness promotional programmes, so that small industrial enterprises get the benefit. While introducing new product, it should consider their operational hazards.

**Branch Organisational Policy:**

Regarding branch expansion and location, the organization has not been logical, so there is a need for well thought-out range policy of branch expansions. It should not expand branches, and recruit non-professional staff without considering their impact on operations.

All branches should function as profit center, besides looking at the objective of providing the services with better geographical spread.

**Follow-up:**

The follow-up formats lacks the necessary information required. The follow-up format of the SFCs should be revised and it should also contain
current operational parameter as well as the specific problems of the industry, so that these may be taken care of, while sanctioning new cases and symptom of sickness may be identified.

The lending policy may be adjusted in the light of experience gained regarding the financial position of various industries operating in the respective regions. The Corporation’s duty does not cease with the provision of credit, but it should continue to exercise and constantly watch over the progress of customer enterprises for enabling them to proceed on right lines.

**Poor Entrepreneurial Development Programme:**

The SFCs, on a regular basis, should conduct Entrepreneur Development Programmes and give a new turn in the industrialisation of the state.

SFCs should continue playing the role of credit/services provider to SSI sector. The role of SFCs should not be confined to the traditional term lending business to SSI only. Its role needs to be broad based to cater to the needs of medium scale and large-scale sector with judicious mix of advantage with no cap on the limit of accommodation.

Presently, Indian financial system is passing through second generation reforms which lay emphasis on institutional up-gradation, strengthening internal system, attention in prudential norms, capital adequacy, containment of NPAs, functional autonomy and systematic improvements, aimed at developing effective credit delivery system. The future business canvas of SFCs is likely to be affected by stiff competition offered by commercial banks and sister institutions viz. SIDCs, etc. In the wake of WTO provisions coming into play, SSI sector will have to face new challenge. In this contest, SFCs role and their institutional and resource raising capabilities will have to be upgraded accordingly.
As a long-term strategy, after re-capitalization, even when SFCs attained better health, it is important that they should be self-sufficient and sustainable in the long run. Development Financial Institutions are moving towards gradually converting themselves into Universal Banks i.e. those banks that offer a wide range of financial services, beyond commercial banking and investment banking such as Insurance.