

**STATE FINANCIAL CORPORATIONS
AND SMALL-SCALE INDUSTRIES**

JANUARY 1986

A. K. POPHALE

STATE FINANCIAL CORPORATIONS

AND

SMALL-SCALE INDUSTRIES

A DISSERTATION SUBMITTED TO
THE UNIVERSITY OF POONA
IN PARTIAL FULFILMENT OF
THE DEGREE OF
MASTER OF PHILOSOPHY IN ECONOMICS

BY

A.K. POPHALE

GOKHALE INSTITUTE OF POLITICS
AND ECONOMICS,
PUNE 411 004

JANUARY 1986

ACKNOWLEDGEMENTS

I am deeply indebted to the Gokhale Institute of Politics and Economics, Pune, for giving me an opportunity to work on such a pivotal subject - STATE FINANCIAL CORPORATIONS AND SMALL-SCALE INDUSTRIES. I cannot remain without thanking my Principal and the Management, Arts and Commerce College, Lasalgaon (Dist. Nashik), without whose cooperation and sympathetic view that they have about me, I could never have got such a valuable opportunity.

I take this opportunity to express my sincere gratitude to Professor B.S.R. Rao without whose encouraging words this project would not have seen the light of the day. I cannot help mentioning his valuable guidance and advice and the keen interest he took in my work. Working with him was a valuable experience for ever to be remembered.

I wish to thank Professor V.M. Dandekar, the Director of the Gokhale Institute of Politics and Economics, Dr. N. Rath and all other staff members for their timely help and cooperation.

Shri S.M. Kulkarni deserves special mention for a neat and prompt typing of this dissertation.

January 1986

A. K. Pophale

C O N T E N T S

<u>CHAPTER</u>		<u>Pages</u>
I	INTRODUCTION.....	1 to 15
II	STATE-LEVEL FINANCIAL AND DEVELOPMENTAL INSTITUTIONS - A BRIEF SURVEY.....	16 to 30
III	STATE FINANCIAL CORPORATIONS AND SMALL- SCALE INDUSTRY - AN APPRAISAL.....	31 to 55
IV	SUMMARY AND CONCLUSIONS.....	56 to 62
	BIBLIOGRAPHY.....	63 to 67

CHAPTER I

INTRODUCTION

In a developing economy, it is the small-scale industry that constitutes an important segment of its economic structure. The importance of cottage industries in India was acknowledged from the days of Dadabhoj Naoroji. Mahatma Gandhi's Sarvodaya movement clearly laid its policy priorities on village uplift. Gandhiji emphasised that cottage industries could provide employment opportunities to people in rural areas and thereby supplement agricultural incomes of people in the villages.

The importance of small-scale industries was specifically emphasized in the Industrial Policy Resolution of 1948. The Resolution positively admits that cottage and small industries have an important role in the national economy, offering as they do scope for individual, village and cooperative enterprises and in helping rehabilitation of displaced persons. These industries are particularly suited for better utilisation of local resources and for achievement of local self-sufficiency in respect of certain types of essential consumer goods.

APPROACH TOWARDS SMALL-SCALE INDUSTRIES IN THE NATIONAL PLANS

While retaining a mildly sympathetic attitude towards the development of cottage industries, the Planning

Commission embarked upon a strategy of development of large-scale industry as also of small-scale industry in the various Five Year Plans.

The Community Development Programme, which began in 1952, had emphasised the employment aspect through development of small-scale industries.

A significant policy statement came in response to the report of the Village and Small Scale Industries Committee (KARVE COMMITTEE) in 1955. The Committee, which also focussed its attention on employment aspect, recommended that any development programme for small industry should aim at gradual improvement in technique without reducing job opportunities.

In the Industrial Policy Resolution, 1956, the role of village and small-scale industries in the development of national economy was stressed once again.

The Rural Action Programme, using local resources including labour in more intensive agriculture and rural industry, was launched by the end of the Second Five Year Plan. The International Perspective Planning Team (1963) made a plea for the use of micro-efficiency criteria, in policies pertaining to small-scale industries.

There is no doubt that the Third Plan accorded preferential treatment to small industries, especially to those industries producing items such as sewing machines,

bicycles, and those engaged in metal processing, etc.. The special feature of this plan was that it promoted Industrial Estates and rural electrification in a big way.

The Fourth Five Year Plan emphasised modernisation of production techniques of village and small industries and improvement in the quality of their products, but mentioned no employment objective. The Plan also envisaged widening the range of products produced in the small-scale sector, to encourage dispersal of small units in the country and to promote exports of the sector's products.

An important landmark in this period is the nationalisation of 14 major commercial banks in July 1969. Nationalization helped acceleration of flow of funds from banks to the small-scale sector. During the Fourth Plan period, specifically in 1970, the Government announced a new industrial licensing policy. The new policy was based on the recommendations of the Industrial Licensing Policy Enquiry Committee (1967). Under the reservation system, the Government had added 8 more items to the then existing number of 47 items, which are exclusively reserved for production by small-scale industry sector. These new items were cycle tyres and tubes, tooth paste, steel furniture, mechanical toys, electric horns, aluminium utensils and fountain pens.

The Industrial Policy Resolution of 1977 reiterated the importance of development and expansion of cottage,

small-scale and village industries as an essential step towards economic self-reliance. The main thrust of the new industrial policy was the effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It was the policy of the government that whatever can be produced by small and cottage industries must only be so produced.

The emphasis by the Government of India on the development of small sector finds a clear reflection in the Fifth Five Year Plan. It rightly mentions:

"A significantly large number of persons already dependent on traditional industries like handloom, Khadi and village industries are living below the poverty line. Therefore, the principle objectives of the programme for the development of different small industries in the Fifth Plan are to facilitate the attainment of some of the major tasks for removal of poverty and inequality in consumption standards of these persons through creation of large scale opportunities for fuller and additional productive employment; and improvement of their skills so as to improve their levels of earning."¹

With a definite shift in attitude towards the village and small industries sector, the Industrial Policy Statement of July 1980 stated:

"Government is determined to promote such a form of industrialisation in the country as can generate economic viabilities in the villages. Handlooms, handicrafts, Khadi and other village industries will receive greater attention to achieve a faster rate of growth in the villages."²

PLAN OUTLAYS FOR THE DEVELOPMENT OF
SMALL-SCALE SECTOR

The share of outlay on cottage and small industries was small (5 per cent of the total outlay) in the First Plan. The total investment for cottage and small industries in the First Plan was Rs. 175 crores - Rs. 25 crores spent in public sector and Rs. 150 crores spent in private sector (i.e., 15 per cent and 85 per cent respectively).

The First Plan outlays on the sector were devoted to laying the organisational foundation for the future development of the small-scale sector. During the Plan period, a network of various all-India boards, such as the Khadi and Village Industries Board, The Handloom Board, and the Sericulture Board were established. In addition, four regional Small Industries Service Institutes (SISIs) were set up to provide technical assistance to small enterprises.

The share of outlay on the cottage and small industries in the aggregate plan outlay remained the same (i.e., 5 per cent) in the Second Plan period as well. The total investment for cottage and small industries in this plan was

Rs. 270 crores. Out of this, a sum of Rs. 120 crores was spent by the public sector and the balance by the private sector (i.e., 44 per cent and 56 per cent respectively). Thus, the share of public sector ^{increased} more than doubled between the First Plan and the Second Plan. During the latter, 60 Industrial Estates were set up, and the SISIs were spread to all the states, by setting up 42 extension centres.

The share of cottage and small industries in the total outlays declined to 4 per cent in the Third Plan. The total investment for these industries in this Plan amounted to Rs. 425 crores - Rs. 155 crores and Rs. 270 crores spent in public and private sector respectively (i.e., about 36 per cent and 64 per cent by public and private sectors.) The objectives proposed to achieve during the Third Plan with regard to the small industries were : (i) increasing labour productivity, (ii) making available institutional finance, subsidies, sales rebates, sheltered markets, etc., (iii) encouraging the spread of small industries to rural areas and small towns, and progressively making it an ancillary type industry to large-scale industry, and (iv) organising artisans and craftsmen on a cooperative basis.

The share of the cottage and small industries in the aggregate plan outlay fell further to 3 per cent in the Fourth Plan. The total investment in the cottage and small industries during this plan period was Rs. 745 crores (Rs. 185 crores for public and Rs. 560 crores for private

sector), the percentages being 25 and 75 respectively.

The Fifth Plan contemplated a total outlay of Rs. 535 crores on small industries between 1974-79, while the interim year 1979-80 alone had stipulated an outlay of Rs. 289 crores for public sector. That year marks a turn around in the policy towards the small industries as evidenced by the Sixth Plan outlay in the public sector of Rs. 1780 crores during 1980-85, to be further augmented by an estimated Rs. 12,500 crores in the private sector.

As a result of efforts made by the Government for the rapid development of small scale industries, this sector has made much progress. For example, total output of small-scale and cottage industries increased from Rs. 2183 crores in 1973-74 to Rs. 7227 crores (estimated) for the year 1984-85. Exports had also showed an increasing trend. For example, export by this sector which aggregated Rs. 802 crores in 1973-74 increased to Rs. 1835 crores (estimated) for the year 1984-85. Likewise, employment figure rose from 102 lakh person to an estimated 195 lakh persons during the same period.³

INSTITUTIONS PROVIDING FINANCE FOR SMALL-SCALE INDUSTRIES : A BRIEF REVIEW

The absence of specialised financial institutions, at central as well as at the state level, was an important lacuna in the structure of industrial finance before independence. Hence, the Government initiated measures immediately

after attainment of Independence to fill this gap. We have a two-tier system of financial institutions:

- (1) Institutions at all-India level, and;
- (2) State level institutions.

We deal with State level institutions in the second chapter. It will not be out of place to make here a brief survey of the all-India institutions providing financial assistance to small-scale sector.

It may be noted that institutions like the ICICI and the IFCI have not been included in our review here. As the ICICI was sponsored by a mission from World Bank for the purpose of developing medium and large industries, its role has been limited in regard to financing of small units. The financial assistance was mainly in the form of foreign exchange for purchase of imported equipment, where necessary.

As regards the IFCI, it has formulated and implemented schemes like, Scheme of Subsidy for Promotion of Ancillary and Small Scale Industries, Scheme of Subsidy to Small Entrepreneurs for Meeting Cost of Feasibility Studies, etc.. The IFCI helps small-scale industries by way of subsidy through these schemes.

Industrial Development Bank of India (IDBI) (July 1964)

The IDBI, established in July 1964, is now the apex institution providing term-finance. It was a wholly-owned subsidiary of the Reserve Bank till 1975. In February 1976

the IDBI was made an autonomous institution and its ownership passed on from the RBI to Government of India.

A small and village industries wing was set up in the IDBI in 1978 for identifying action areas for promoting growth of village and small industries and for monitoring credit facilities sanctioned by various agencies. Further, of the non-banks all-India financial institutions, the IDBI alone extends assistance to small sector comprising small-scale industries (SSIs) and small road transport operators (SRTOs).

The IDBI's small and village industries' wing has two departments: Refinancing and Bill Rediscounting. The IDBI has chalked out various schemes to extend its helping hand. These schemes include the automatic refinance scheme, composite term loans, a special refinance facility, separate limits for the small-scale units and a concessional rate of discount on bills of small units. The assistance of the IDBI to SSIs (including SRTOs) is mainly extended through refinance of industrial loans and to a limited extent under machinery bills rediscounting scheme.

The IDBI's refinance assistance to small-scale sector in the year 1975-76 was Rs. 111 crores. This figure rose to Rs. 1010 crores during 1983-84. The figure of Rs. 1010 crores reflected a decline by 4 per cent compared with increase of 15 per cent and 32 per cent respectively during 1981-82 and

1982-83. There has been a steady rise in assistance under Bills Rediscounting Scheme which is mainly utilised by industrial units for financing their modernisation and expansion schemes. Assistance under Bills Rediscounting Scheme, increased by 44 per cent from Rs. 514 crores during 1982-83 to Rs. 740 crores in 1983-84.

The IDBI refinance to SFCs, constitutes a major source of funds for the latter and, hence, is covered in the next chapter.

Now we will make a brief mention of other institutions which are financing small scale industrial units either directly or indirectly.

National Small Industries Corporation Ltd. (NSIC)

NSIC, a wholly owned undertaking of the Government of India, is engaged in promotional activities for the development of small industries. Its activities cover such areas as supply of machinery on a hire-purchase basis to existing as well as prospective units, distribution of certain types of raw materials and spare parts, provision of marketing assistance, undertaking turn-key assignments in foreign countries, export of products of small-scale units and imparting technical skills and upgradation of skills in its four training centres. The NSIC's total sales turnover increased by 28.7 per cent to Rs. 22.4 crores in 1983-84 from Rs. 17.4 crores in 1982-83. Its total sales turnover

in the year 1975-76 was only about Rs. 5 crores.

The NSIC's turnover under its hire-purchase scheme for machinery was Rs. 13.4 crores during 1983-84, it was only 7.4 crores during the year 1975-76, recording a 21.8 per cent increase over the previous year. Since 1983-84, NSIC has been extending assistance on concessional terms to units in specified backward areas.

International Development Association (IDA)

Under the existing institutional set-up, the IDBI's assistance to small industrial units is channelled mostly through the SFCs. SFCs get refinance facilities from the IDBI. While this arrangement meets the SFCs rupee finance requirements, they had to go elsewhere for foreign exchange required for purchasing capital equipment from abroad.

It was felt strongly by SFCs that if they could get foreign currency from the IDBI itself it would add to their efficiency and would result in saving of their time and effort in granting loans to small scale units.

The World Bank Group showed interest in making funds available and indicated their willingness to consider a line of credit from International Development Agency (IDA). The primary objective of the IDA in getting interested in such a programme is that financing small units would ensure a wider geographical distribution of World Bank Groups' funds. Thus, after negotiations, the IDA made available a

line of credit to SFCs indirectly through the IDBI. This is dealt with in detail in Chapter III.

Commercial Banks

Commercial banks in India may be divided (into five groups); viz.,

- (1) State Bank of India (SBI) and its associates;
- (2) other nationalised banks;
- (3) regional rural banks;
- (4) private sector banks;
- (5) foreign banks.

Commercial banks have the advantage of a large network of branches all over the country through which they provide working capital for the small-scale sector.

Commercial banks are now, especially after nationalisation, taking more interest in financing small-scale sector. Outstanding amounts of bank term loans to small-scale industries have shown a significant upward trend. For example, the aggregate bank term loans outstanding to small-scale industries on June 1969 were to the tune of Rs. 286 crores. Since then there was considerable rise in the outstanding amount which totalled Rs. 3,953 crores at the end of June 1981. The outstanding amount, which decreased marginally to Rs. 3,909 crores on 30th June 1982, increased to Rs. 4,584 crores by the end of June 1983 and touched a peak level of Rs. 5,412 crores by the end of June 1984.

The percentage share of term loans outstanding to small-scale industries in the total priority sector loans outstanding was 52 per cent on 30th June 1969. It declined to 40 per cent by 30th June 1982, and further to 33 per cent by end of June 1983; the share rose marginally to 35 per cent by 30th June 1984.

It is very interesting to note that, prior to nationalisation, the share of small-scale industries in the total bank advances was only 8 per cent on June 1969, while after nationalisation much more attention was paid to small-scale industries. For example, the share of outstanding advances to small-scale industries in the banks' total advances outstanding, which was 10 per cent on 30th June 1982 increased to 12 per cent by end of June 1983 and further rose to 13 per cent by 30th June 1984.

CHAPTER SCHEME

The salient features of the SFCs are discussed in Chapter II. It also makes a brief survey of institutions at the state level, specially engaged in promoting and providing finance to small sized industries.

Chapter III analyses the financial assistance extended by the SFCs to small-scale industrial sector, particularly during the period 1969-70 to 1983-84, i.e., during the Fourth and Fifth Plan periods and first four years of the Sixth Plan.

Chapter IV, which is the concluding chapter, reviews the problems that are faced by the SFGs, and draws certain important conclusions on the basis of the study.

REFERENCES

- (1) Government of India, Planning Commission, Draft Fifth Five Year Plan, 1974-79, Part II, p. 164.
- (2) Government of India, Planning Commission, Sixth Five Year Plan, 1980-85, 1981, p. 190.
- (3) For details, please see article, "Role of Small-Scale Industries in India's Economic Development", by B. Sadasiva Reddy, Southern Economist, Annual Number, May 1, 1983.

CHAPTER II

STATE-LEVEL FINANCIAL AND DEVELOPMENTAL INSTITUTIONS - A BRIEF SURVEY

The twenties and thirties were a period of acute stagnation of the Indian Economy. Industrialisation was proceeding at a slower pace as compared with the decade before 1914. The inflow of foreign capital had also dwindled. Indian industries were facing very keen competition from imports.

In view of these adversities, perhaps, Indian Central Banking Enquiry Committee, which reported in 1931, recommended the formation of a separate industrial corporation in each province. How far this was an echo of similar advice by the Committee on Finance and Trade (Macmillan Committee) in the U.K. which reported at the same time as the Indian Committee, and how far was this a recommendation to counteract the malaise in the Indian capital market, cannot now be determined.

The Macmillan Committee visualised the functions of the institution, which would act as an intermediary between industry and investor, as follows: acting as financial adviser to the existing industrial companies; advising, in particular, as to provision of permanent capital, securing underwriting of and issuing company's securities to public, founding companies for entirely new enterprises, etc.. The

Committee also noted that small and medium-sized business units often found it difficult to raise capital needed by them.

The Indian Central Banking Enquiry Committee did not go into such details. After reviewing the extent capital market facilities and the working of the State Aid to Industries Act, then in operation in a few provinces, it recommended that provincial industrial corporations be set up. Resetting up of an all-India industrial corporation to meet the needs of industries falling within the scope of the Central Government was not ruled out. With regard to provincial corporations, the Committee gave its views on their share capital and its augmentation by debentures, deposits, etc..

The Second World War gave momentum to demand in world market for goods and services which, in turn, drove up the demand for industrial capital to levels beyond the capacity of the then existing institutional arrangements. Naturally, new institutions and new organisations had to be evolved in the critical years of reconstruction and rehabilitation.

The post-war period saw many industrial finance corporations coming up even in industrially undeveloped countries.

GENESIS OF STATE FINANCIAL CORPORATIONS

With the dawn of Independence, the Government of India

declared its Industrial Policy (1948). The Policy saw the beginning of a new era in the economic development of the country. For a vast country like India, with a federal set up, it is quite obvious that development banks at the State level are necessary, besides a national level institution. This policy prompted the Government of India to set up the Industrial Finance Corporation under an Act of 1948. Its dealings were statutorily restricted to public limited companies and cooperative societies.

Speaking on the motion to refer the Industrial Finance Corporation Bill to a Select Committee in the Central Legislature, the then Finance Minister stressed the need for institutions to provide finance to small and medium-sized industries at the provincial (State) level. He said he would persuade the provinces to set-up similar corporations, mainly to finance small-scale industrial units. The proposal to this effect was discussed by the Government of India with State Governments, the Reserve Bank of India and the Industrial Finance Corporation (IFC). There was general agreement that there was scope and need for provincial industrial credit corporations. Elaborating the need to set up State corporations, the Government pointed out that the arrangements under which States gave loans to private industries under the different State Aid to Industries Acts were extremely inadequate.

After considering the views of the Provincial Governments, the Union Government introduced the SFCs Bill in Parliament in December 1950. The Act came into force on 1st August 1952. The Madras Industrial Investment Corporation (now Tamil Nadu Industrial Investment Corporation - TIIC) which was established earlier in 1949, was brought under the purview of the State Financial Corporations (SFCs) Act.

Since then, eighteen SFCs (including TIIC) have been established. A few of them, besides covering the States in which they are set up, are also catering to the needs of the adjoining States/Union Territories which do not have SFCs of their own.

ROLE OF THE RESERVE BANK OF INDIA IN SETTING UP OF THE SFCs

The Reserve Bank of India played a vital role in framing the SFCs Act, and in respect of supervision and control over the overall activities of the SFCs till the IDBI took it over in 1976. The RBI, before 1976, used to give advice to SFCs on matters of policy. It used to nominate a director on the Board of each Corporation. The Bank used to tender advice on, and granted approval to, market borrowing operations of Corporations regarding their timing and amount. Provision was made in the Reserve Bank of India Act for the Bank to grant to the SFCs short-term loans and advances for periods not exceeding 90 days. This period is extendable upto 18 months in appropriate cases.

The Bank introduced, from time to time, various schemes to provide assistance to the development of small-scale industries.

SALIENT FEATURES OF SFCs

SFCs seem to form a rather unique set of institutions. A considerable range of their functions is influenced by the concerned State Government and the environment of an underdeveloped economy, with its own socio-economic features inhibiting the emergence of a modern industrial sector. To these are added the special problems which continuously arise when a low income, largely agrarian, economy strains all its resources for industrialization under democratic planning. The funds of state governments, Reserve Bank of India, as well as of the IDBI are channelled through these corporations. Further, State Government guarantees minimum dividends on the share capital of these corporations. By subscribing to share capital, the State plays an important role in the management of the SFCs through nomination of directors, issue of directions to auditors of SFCs for special audit. Increasing attention is being given to encourage the corporations to lend adequate finance to small units.

Resources

The resources of the SFCs consist of:

- (a) share capital and reserves;

- (b) borrowings;
 - (i) through bond issues,
 - (ii) from RBI,
 - (iii) from the IDBI; and
- (c) fixed deposits.

Capital Resources

The authorised capital of the SFCs ranges between Rs. 1.0 crore and Rs. 5.0 crores.* Before 1975, their share capital was distributed among (i) State Governments; (ii) the RBI, (iii) the IDBI, (iv) scheduled banks, insurance companies and other financial institutions, and (v) other parties. The amount of shares allotted to category (v) cannot exceed 25 per cent of the total share capital. Now, in terms of the Public Financial Institutions Laws (Amendment) Act 1975, the share capital of the SFCs held by the RBI was transferred to the IDBI.

Special Class of Share Capital

In order to strengthen the resource position of the SFCs, a special class of share capital, as recommended by the Ramanujam Committee (1972), was created with effect from December 1976. The special characteristic of this capital is that it does not carry an obligation to pay a minimum dividend. This capital is contributed by the concerned State Government and the IDBI. Since December

* In August 1985, the Parliament passed legislation enhancing the authorised capital of the SFC to Rs. 50 crores.

1976, the SFCs have been operating a scheme for granting of equity type of assistance to entrepreneurs who have requisite technical expertise to start industries but do not have enough resources to provide the necessary equity fund for their venture. In such circumstances, the required funds are made available through Special Capital Scheme. Details regarding assistance granted under this scheme are discussed in Chapter III.

Reserve Funds

Under the SFCs Act, each SFC has to establish a Reserve Fund. Reserves maintained by the SFCs fall into five categories:

- (1) General Reserve Fund,
- (2) Special Reserve Fund,
- (3) Special Reserve Account,
- (4) Reserve for Bad and Doubtful Debts, and
- (5) Reserve for Bad Investments.

Under the SFCs Act, a SFC has to establish a General Reserve Fund until such Reserve Fund becomes equal to its paid-up capital and till the guaranteed sum provided by the State Government is repaid. Dividend in excess of guaranteed dividend cannot be paid. The SFCs Act was amended in 1962, providing for the establishment of a Special Reserve Fund through the forgoing of dividends by the State Government and the IDBI. The total amount in

this fund is not to exceed 10 per cent of the SFC's paid-up capital.

The Mitra Committee (which submitted its report in February 1964) recommended that this limit should be raised to 25 per cent, which was endorsed by the Ramanujam Committee (1972). The latter also suggested that the IDBI too might forgo the dividend on its share-holdings in the SFCs which may be credited to the Special Reserve Fund. In 1972, by an amendment to the SFCs Act, the 10 per cent limit was raised to 25 per cent. Besides these two Reserve Funds, SFCs have to maintain a Special Reserve Account in terms of the Finance Act, 1961; 10 per cent of profits of a SFC were exempted from tax if it sets apart the amount in a Special Reserve Account.

Borrowings

Borrowings constitute the most important source of funds for the SFCs. Borrowings from Government, the RBI and the IDBI by way of bonds and debentures, formed about 89 per cent of the aggregate externally mobilised funds in 1982-83.

Bond Issues

Bond Issues constitute the major segment of borrowings. SFCs are authorised to issue bonds and debentures in the market in consultation with the RBI and now with the IDBI. The bonds have normally a maturity of 10 years. The overall

quota of bond issues by the SFCs is determined by the IDBI, taking into account (a) the requirements of Central and State Governments and other Governmental agencies, and (b) the availability of funds to the SFCs from other avenues. Bonds are mostly subscribed to by investment and financial institutions, particularly the LIC and Commercial Banks. The IDBI usually makes good the deficiency, in case of short-fall in the subscriptions to the bond issues in the market. Market borrowings by way of bonds by the SFCs in 1983-84 totalled Rs. 118 crores.

Borrowings from Reserve Bank of India

Borrowings from the RBI are of two types:

- (i) Those repayable on demand or within 90 days against trustee securities or eligible bills and promissory notes, and
- (ii) loans for longer periods, repayable within 18 months, against Central or State Government securities or its own debentures maturing within 18 months.

The second category of loans, however, is not to exceed 90 per cent of the Corporation's paid-up capital. The reliance of the SFCs on medium-term borrowings from the RBI had shown considerable fall in recent years. Borrowings of all SFCs from the RBI which were to the tune of Rs. 33 crores in the year 1975-76, declined substantially to Rs. 19 crores in

1981-82 and increased marginally to Rs. 20 crores in 1983-84.

Borrowings from State Government

Each SFC is entitled to borrow funds from the concerned State Government. Besides, the SFCs are also eligible to borrow from any financial institution notified by the Government of India. However, the latter type of borrowings are very small in the aggregate. Borrowings from the State Governments by all the SFCs put together at Rs. 7.4 crores in 1982-83 were more than twice the amount of borrowing at Rs. 3.6 crores in the preceding year.

Refinance from IDBI

Another important and rapidly growing source of funds from the SFCs is the refinance facility from the IDBI. Most of the assistance from the IDBI to small entrepreneurs and enterprises in the backward areas flows through the SFCs. There are no statutory limits as to the amount of assistance the IDBI can provide by way of refinance. However, as a matter of policy, the IDBI has stipulated that the outstanding refinance assistance to any SFC should not exceed thrice its paid up capital and reserves at any point of time. But there were occasions when SFCs had to borrow more. There has been a steady trend towards liberalisation of the Refinance Scheme.

The close relationship between the IDBI and the SFCs had been further strengthened since February 1976, when the

restructuring of the IDBI took place. In February 1976, the IDBI was made an autonomous institution and its ownership was passed on from the RBI to the Government of India.

Since then, the IDBI's refinance assistance has increased manifold from Rs. 40 crores in 1973-74 to Rs. 174 crores in 1975-76, over 70 per cent of which had gone through the SFCs. However, after 1976 the share of the IDBI refinance in the total borrowings by the SFCs from Government, RBI and IDBI through bonds and debentures declined to 57.9 per cent in 1981-82. This share was 55.6 per cent in 1983-84 which, however, was lower compared with 60.2 per cent in the preceding year.

SFCs, availing themselves of relatively large refinance assistance from IDBI during 1983-84, were those of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh. These 8 SFCs accounted for nearly three-fourths of the total refinance assistance extended by IDBI to all SFCs together in 1983-84.

OTHER STATE LEVEL FINANCIAL INSTITUTIONS

As we have seen above, the Government stressed the need for institutions to promote and to provide finance to small and medium-sized industries at the provincial level. Many State-level institutions, besides the SFCs appeared on the scene of institutional finance. We may discuss some of the major institutions here.

State Small Industries Development Corporations/
State Industrial Investment Corporations (SSIDCs/SIICs)

Among the agencies which come forward for promotion and financing of small-scale industries at the State level, SSIDCs deserve special mention.

Andhra Pradesh and Bihar were the first to set up such Corporations in 1960. By the end of March 1970, fourteen States had set up these Corporations under the Indian Companies Act, 1956, with the exception of Maharashtra and Gujarat Corporations which were incorporated under special legislation of the respective State Legislature. By the year 1983-84 there were 26 SSIDCs/SIICs operating in various parts of the country. The general administration of each Corporation is vested in the Board of Directors nominated by the State Government concerned. A common feature of all the SSIDCs/SIICs is that they are wholly owned by the State Governments.

Functions of SSIDCs/SIICs

The Memorandum and Articles of Association of SSIDCs/SIICs (or their statutes where they are established as corporations) authorised them to undertake a wide range of functions, the main ones being:

- (i) grant of financial assistance,
- (ii) promotion and management of industrial concerns;
- (iii) provision of industrial sheds/plots; and
- (iv) promotional activities such as identification of

project ideas, selection and training of entrepreneurs, provision of technical assistance during project implementation, etc..

In practice, depending upon the degree of industrialisation achieved and institutional network existing in different states, the SSIDCs/SIICs are giving special attention to certain aspects of their operations. In Gujarat and Maharashtra, for example, special corporations (Maharashtra Industrial Development Corporation and Gujarat Industrial Development Corporation) exist for promotion of industrial estates and SIICs in these States (SICOM and GIIC) are mainly concentrating their activities on bringing about a balanced regional development.

Assistance Sanctioned and Disbursed by SSIDCs/SIICs

The assistance sanctioned and disbursed by SSIDCs/SIICs is mainly by way of loans. These institutions also provide assistance in the form of underwriting of or direct subscription to share capital of industrial units.

Table 2.1 furnishes information on assistance sanctioned by 23 SSIDCs and its utilisation during 1975-76 through 1983-84. (Since data in respect of SSIDCs of Bihar and Tripura are not available in time and SSIDC in Manipur is set up in 1983-84, these three SSIDCs are not covered.) The amounts sanctioned and utilised have increased considerably from Rs. 19 to Rs. 359 crores and from Rs. 11 to

Rs. 222 crores respectively between 1970-71 and 1983-84. While financial assistance is a major activity of SSIDCs/SIICs, development of industrial estates is a specialised activity of some SSIDCs like MIDC and GIDC.

From 1976, the IDBI has been extending its refinance facilities to SSIDCs in respect of their term loans to small and medium-sized units. This will enable State-level institutions to meet the financial requirements of the small and medium-sized units.

A large share of the assistance extended by SSIDCs has gone to industrial units in the private sector. As agents of Central and State Governments, SSIDCs administer Government incentive schemes for the development of industrial units in the private sector.

Despite organisational and operational limitations, and resources constraint, these corporations have been playing a significant role in the process of industrialization.

Though SSIDCs/SIICs have made their contribution, the SFCs are the most important as they are the institutions wholly devoted for the upliftment of small-scale sector.

An evaluation of the functioning of the SFCs is attempted in the next chapter.

**Table 2.1 : SSIDCs : Assistance Sanctioned and Utilised
During 1970-71 and 1975-76 Through 1983-84**

(In Crores of Rs.)

Year	Sanctions	Utilisation
1970-71	19.3	11.1
1975-76	37.0	26.4
1976-77	47.8	29.8
1977-78	85.3	43.7
1978-79	96.3	60.1
1979-80	157.7	85.3
1980-81	216.4	124.6
1981-82	299.6	191.1
1982-83	296.8	208.4
1983-84	359.2	222.5

Same as disbursement

Source : IDBI, Report on Development Banking in India,
(Various Issues).

CHAPTER III

STATE FINANCIAL CORPORATIONS AND SMALL

SCALE INDUSTRY - AN APPRAISAL

The State Financial Corporations, operated jointly by the IDBI and the State Government, represent an important institutional source of finance, particularly for term loans to small scale industrial sector. Broadly, the SFCs offer the following credit facilities to the small scale sector:

- (a) Grant of loans or advances to a maximum of Rs. 30 lakhs;
- (b) Underwriting of issues of stocks, shares, bonds and debentures;
- (c) Guaranteeing loans raised by industrial concerns either in the market or from Scheduled or Cooperative Banks and repayable within 20 years;
- (d) Deferred payment guarantee;
- (e) Special scheme for technocrat entrepreneurs;
- (f) Extension of foreign currency loans provided by international financing agencies;
- (g) Subscribing to debentures issued by small industrial units repayable within 20 years;
- (h) Seed capital assistance to entrepreneurs who are otherwise unable to provide the necessary equity capital.

CHANGING CONCEPT OF SMALL SCALE UNITS

There is difficulty in judging the available statistics of assistance provided by the SFCs to small-scale units, on account of the fact that the definition of a small-scale units has changed from time to time during the reference period. In the early years of the working of the SFCs, a small-scale industrial unit was defined as one with a capital investment of not more than Rs. 5 lakhs.

The Small-Scale Industries Board, at its first meeting held on 5th and 6th January 1955, adopted a working definition of a small-scale industrial unit as: "A unit employing less than 50 persons if using power, and less than 100 persons without the use of power with capital assets not exceeding Rs. 0.5 million." In 1960, employment aspect of the definition was removed.

On 31st October 1966, a new definition was adopted according to which the limit on the value of capital assets was raised to Rs. 7.5 lakhs and Rs. 10 Lakhs in case of ancillary industrial units.

The Sixth Plan (1980-85) has redefined small-scale industrial units to include those manufacturing and repairing which have investment in plant and machinery upto Rs. 20 lakhs and in case of ancillary units upto Rs. 25 lakhs.

OPERATIONS OF THE SFCs

Our main focus of analysis here is on operations of the

SFCs, especially after 1970. However, to provide a background of trends in assistance to SSIs, we have taken a very quick review of the period of 1950s and 1960s.

PERFORMANCE OF THE SFCs DURING 1950s AND 1960s

The performance of the SFCs during the 'fifties and the 'sixties was below expectations as their average annual sanctions during the First Plan period (1951-56) was Rs. 2.30 crores while disbursements stood at Rs. 1.17 crores. Average annual sanctions and disbursements rose to Rs. 5.92 crores and Rs. 3.75 crores per annum respectively during the Second Plan period (1956-61). But the average annual sanctions during the Third Plan period (1961-66) showed remarkable rise with the assistance sanctioned totalling Rs. 18.21 crores and assistance disbursed aggregating Rs. 12.01 crores. The three-fold increase in sanctions and disbursements registered between the Second and the Third Plan periods is noteworthy. The sustained growth in advances during the Third Plan period (1961-66), of course, conceals yearly fluctuations in sanctions and disbursements.

The anaemic conditions of the SFCs in late 'fifties and early 'sixties led the RBI to appoint a working group under the chairmanship of Shri K.C. Mitra, in June 1962, to suggest ways and means of improving the usefulness of the SFCs. The Mitra Committee, which submitted its report on February 6, 1964, made important recommendations which helped in the improvement of the functioning of the SFCs. One

of the most important recommendations related to raising the limit on Special Reserve Fund from 10 per cent to 25 per cent. Mitra Committee further suggested that the IDBI too might forgo the dividend on its share-holdings in the SFCs which may be transferred to the credit of the Special Reserve Fund.

The SFCs Act was amended in the same year, incorporating changes, which included an increase in the limit of advances for any industrial unit from Rs. 10 lakhs to Rs. 20 lakhs, an expansion of the area of their activities to hotels, industrial estates and transport operators, etc.. This enlarged scope of the SFCs' activities also permitted them to guarantee deferred payments on capital goods purchased in India by the industrial units.

An increase in the limit of advances, an expansion of the area of the SFCs' activities, etc., appear to have given impetus to the working of the SFCs. Their operations have expanded considerably since the year 1966.

Prior to 1966, the SFCs were channelling a small share of their assistance to small-scale sector. For example, the proportion of outstanding loans to small-scale industries to total loans outstanding was only about 19 per cent at the end of March 1967. Thus, prior to 1966, the bulk of the annual credit given by the SFCs went to medium-scale industries. There are several reasons why small-scale industries

secured such low share in the total financial assistance extended by the SFCs during that period. For example, it was the experience of the Kerala SFC that small-scale industries were inherently weak from the points of view of their financial structure and resources. This is, to an extent, confirmed by the fact that the majority of its defaulters were small-scale industries. Most of the applications for credit rejected by the Corporations were because of absence of adequate security. Lack of scope for expansion, inadequate capital and poor management of the SSI units were the other drawbacks which impaired the progress of lending activities of the SFCs to small scale industries.

As compared to the sanctioned assistance of about Rs. 2 crores in 1954-55 by ten Corporations, the amount of financial assistance extended by fifteen Corporations was nearly Rs. 20 crores in 1964-65 which rose further to Rs. 36 crores in respect of eighteen Corporations for the year 1969-70. (See Table 3.1)

All the SFCs together provided 92 per cent of their assistance in terms of loans only during the 1968-69. Even though other forms of assistance were initiated by the SFCs in the 'sixties, their progress appears to be slow. For example, deferred payment guarantee formed only 3 per cent while their subscription to debentures accounted for less than one per cent of the total assistance extended during the year 1968-69.

The SFCs could be classified in four categories on the basis of growth rate in their lending operations during the reference period of the study.

- (1) The SFCs experiencing sustained growth in their sanctions as well as in disbursements. If we ignore the annual fluctuations in their advances, the SFCs of Gujarat, Jammu and Kashmir, Karnataka, Kerala and Maharashtra showed impressive increase in terms of annual average of their sanctions and disbursements during the three years of the post-Third Plan period as compared to averages for the Third Plan period.
- (2) At the other extreme, the SFCs of Assam, Punjab and West Bengal showed declines in their annual average sanctions and disbursements.
- (3) The SFCs of Andhra Pradesh and Madhya Pradesh showed erratic changes. Their annual average disbursements rose while their sanctions went down.
- (4) Bihar, Orissa, Rajasthan and Uttar Pradesh SFCs had shown moderate growth in their operations during the 'sixties.

It will be observed that though the SFCs had not shown much progress during 'fifties, they recorded comparatively good progress during late 'sixties.

PERFORMANCE OF THE SFCs SINCE 1969-70Trends in Sanctions and Disbursements

During the 'fifties, operations of the SFCs increased at a moderate pace while the 'sixties showed a developing picture. During the 'seventies and early 'eighties, there was rapid expansion of their activities.

The cumulative assistance sanctioned by all the SFCs upto the end of March 1984 aggregated to Rs. 3,564 crores covering 2,02,368 industrial units, while disbursements amounted to Rs. 2,310 crores. Assistance outstanding at the end of March 1984 totalled Rs. 1,820 crores.

The assistance sanctioned by the SFCs steadily increased from Rs. 36 crores in 1969-70 to Rs. 103 crores in 1973-74. Over the period of five years (i.e., 1969-70 to 1973-74), the average annual sanctions were to the tune of Rs. 66 crores. Disbursements which were of the order of Rs. 22 crores in 1969-70 rose to Rs. 54 crores in 1973-74. The average annual disbursement was Rs. 38 crores during this period. (See Table 3.2)

The assistance sanctioned by all the SFCs in the country was Rs. 141 crores in 1974-75. This figure touched Rs. 200 crore mark in 1978-79. The disbursement figures for the corresponding years were Rs. 79 crores and Rs. 134 crores respectively. The annual average figures of sanctions and disbursements during the five-year period of 1974-75 to

1978-79 were Rs. 166 crores and Rs. 125 crores respectively.

When we compare the two five-year periods (viz., 1969-70 through 1973-74 and 1974-75 through 1978-79), we find that while the figure of annual average sanctions increased by 251 per cent, disbursement increased by 328 per cent. The assistance sanctioned by all the SFCs together rose from Rs. 263 crores in 1979-80 to Rs. 642 crores in the year 1983-84. The corresponding figures for disbursements were Rs. 184 crores and Rs. 434 crores for the period. The average annual sanctions and disbursements figures for the five-year period (1979-80 to 1983-84) amounted to Rs. 474 crores and Rs. 317 crores respectively. When we compare the two five-year periods (viz., 1973-74 through 1978-79 and 1979-80 through 1983-84), we find that while the annual average sanctions rose by 285 per cent disbursements increased by 253 per cent. (See Table 3.3).

ASSISTANCE TO SSIs BY THE SFCs

Prior to 1966, a major share of financial assistance granted by the SFCs was channelised to medium-scale industries. The proportion of outstanding loans to small-scale industries to total loans sanctioned was only 19 per cent in 1966-67. This proportion increased progressively to 40 per cent in 1970-71 and still further to 58 per cent in 1975-76.

The assistance sanctioned by the SFCs to small-scale industrial units (including SRTOs) steadily increased from Rs. 22 crores in the year 1969-70 to Rs. 65 crores in the

year 1973-74. During the Fourth Plan period, the share of assistance to SSIs in the total increased marginally from 61 per cent to 63 per cent.

During the Fifth Plan period ending on 31st March 1979, the amount of financial assistance extended to the SSIs increased from Rs. 80 crores in 1974-75 to Rs. 134 crores in 1978-79. The percentage of assistance to SSIs to total sanctions by the SFCs declined to 56 per cent in the year 1974-75 and rose substantially to 67 per cent in 1978-79. During 1979-80, loans to SSIs was to the tune of Rs. 189 crores, it was 71 per cent of the total assistance sanctioned.

During the four years of the Sixth Plan period (1980-81 to 1983-84) covered in the study, the percentage share of small-scale industries in the total sanctions increased notably from 73 to 82. The share has reached its highest level in 1982-83, when it was 83 per cent. The amount of assistance to SSIs increased from Rs. 273 crores to Rs. 530 crores during the four year period. (See Table 3.4)

From the foregoing discussion, it is clear that during the span of 15 years (1969-70 to 1983-84) the SFCs have made substantial headway in sanctions as well as in disbursements. While the former increased by 599 the latter rose by 894 per cent during the 15-year period.

Remainder
amount to
medium
scale
industries
or to
other
schemes?

How important
is the finance
by SFCs
in the total
financing of
Small Scale
Industries?

ASSISTANCE TO BACKWARD AREAS

In order to stimulate interest of the SFCs in fostering industrial development of backward regions and to encourage flow of institutional finance to such regions, the IDBI decided in April 1970 to provide refinance to the SFCs, at a concessional rate of interest (i.e., at 3.5 per cent) in respect of backward districts/areas. To enable the SFCs to assist a large number of SSIs, the IDBI lowered, effective from May 13, 1970, the minimum amount of loans to be eligible for refinance to small-scale industrial concerns under the Credit Guarantee Scheme from Rs. 20,000 to Rs. 10,000.

Financial incentives like loan assistance on concessional terms, Union Government Subsidy and additional incentives provided by some of the State Governments have helped in attracting entrepreneurs to backward areas. By according preferential treatment to industries set up in backward areas, the SFCs have contributed significantly to the balanced development of different regions. The amount sanctioned to units located in backward areas increased from Rs. 12 crores in 1970-71 to Rs. 77 crores in 1976-77 and still further to about Rs. 306 crores in 1983-84. The percentage share of these units in the total sanctions rose from 25 to 46 over the period of five years (1970-71 to 1974-75) and further to 56 during the five-year period 1974-75 to 1978-79. However, the share came down sharply to 47 per cent during the period 1978-79 to 1983-84. This

percentage was more or less steady for the last two years of the study, viz., 1982-83 and 1983-84 (i.e., 48 and 47). The share of cumulative assistance to units located in backward areas in the total sanctions till the end of March 1984 stood at 47 per cent. (See Table 3.5)

During 1983-84, almost the entire assistance sanctioned by the SFCs in Assam, Himachal Pradesh and Kashmir went to units located in backward areas. Units in backward areas accounted for more than half of the assistance sanctioned by the SFCs in Karnataka, Kerala, Madhya Pradesh, Punjab and Rajasthan. Except for Maharashtra and Orissa SFCs, units in backward areas accounted, on an average, for more than 40 per cent of the assistance sanctioned by the SFCs of the states in the last year of the study.

ASSISTANCE TO TECHNICIAN ENTREPRENEURS

In pursuance of the Government's policy to encourage self-employment, the SFCs have, since 1970-71, entered a new field of financing, i.e., ventures started by technician entrepreneurs. The assistance under this scheme ranges between Rs. 2 lakhs and Rs. 3 lakhs and is given usually on very liberal terms regarding margin requirements, rate of interest, etc.. Generally, graduates or diploma holders and certified technicians and/or those having adequate experience in the line are eligible for financial assistance. Upto 31st March 1974, an amount of Rs. 13.5 crores was

sanctioned under this scheme. During the following three years, namely, 1974-75 to 1976-77, the amount of sanctions recorded a rise of Rs. 26.2 crores and, thus, the cumulative sanctions upto 31st March 1977 aggregated Rs. 39.7 crores which formed only 5 per cent of the total sanctions of all the SFCs. This shows that the performance of the SFCs in this respect is not noteworthy. During the year 1977-78, Rs. 10.2 crores were sanctioned covering 634 units. During the year 1982-83, 822 projects promoted by technicians and other categories of new entrepreneurs were sanctioned assistance of Rs. 10.2 crores. Cumulative assistance sanctioned under the scheme upto end of June 1983 aggregated Rs. 134 crores in respect of 6,249 projects.

SPECIAL CAPITAL SCHEME

A recent development which deserves mention in this connection is the provision of seed capital by the SFCs to the needy entrepreneurs, from their special share capital exclusively subscribed by the IDBI and the State Governments. Such assistance may be in the form of equity or soft loans towards meeting the gap between the normal expected level of promoters' contribution and the actual amount the promoters could put in, subject to a ceiling of 20 per cent of the project cost or Rs. 1 lakh whichever is less. Further, preference is given to technicians and units coming up in the less developed areas.

The guidelines formulated for the grant of the special capital were liberal. In June 1977, the ceiling limit on the maximum amount of assistance per project was raised to Rs. 2 lakhs or 20 per cent of the cost of the project whichever is lower.

During the year 1976-77, the SFCs sanctioned and disbursed total assistance of Rs. 0.1 crores. During the year 1977-78 and 1978-79 both the sanctions and disbursements were negligible. But from 1979-80 onwards, there is improvement in the sanctions as well as in the disbursements.

During the year 1979-80, all the SFCs together sanctioned Rs. 1.7 crores under the scheme and the corresponding figure of disbursements was Rs. 0.7 crores. The sanctions and disbursements figures rose, over the period, to Rs. 3 crores and Rs. 1.7 crores respectively during the year 1983-84. Cumulative sanctions and disbursements as at the end of March 1984 were Rs. 14.2 crores and Rs. 7.6 crores respectively. (See Table 3.6).

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

A NEW LINE OF CREDIT

The IDBI and the RBI in consultation with the IDA, worked out guidelines and programmes for toning up the functioning of the SFCs. The IDA credit is available to the IDBI for refinancing loans granted by the SFCs. As regards the extent of refinance, loans to small-scale units covered under the OGS, units in backward areas and loans to Technician

Entrepreneurs would be given on 100 per cent basis.

The IDBI held final negotiations with the IDA in November 1972. The IDA credit ^{of} ~~₹~~ \$ 0.25 million sanctioned on February 9, 1973 became effective from June 22, 1973. The credit was to be utilised for refinancing loans granted by the SFCs to industrial concerns for setting up new industrial projects and also for expansion, diversification, modernization or renovation of existing units. The total project cost in such cases should not exceed Rs. 1 crore. The repayment period should be between 3 and 10 years, extendable in exceptional cases upto 15 years.

The total foreign currency loans extended by the SFCs upto 1980 stood at Rs. 59.3 crores, which constituted about 3.4 per cent of the total sanctions of the SFCs. During 1973-74 the SFCs sanctioned Rs. 4.4 crores while disbursements remained at a very low level, at Rs. 0.01 crores. Sanctions increased substantially to Rs. 8.6 crores in 1974-75 and reached a peak level of Rs. 12.3 crores in 1975-76. Since then sanctions declined from Rs. 9 crores in 1976-77 to Rs. 7.1 crores in 1979-80. Disbursements rose from Rs. 2 crores in 1974-75 to Rs. 5 crores in 1976-77 but declined marginally to Rs. 4.5 crores in 1979-80. The cumulative amount sanctioned and disbursed were Rs. 59.3 crores and Rs. 24.2 crores respectively. (See Table 3.7).

THE IDBI'S ASSISTANCE TO SMALL SCALE SECTOR

The IDBI's assistance to small-scale sector was of the order of Rs. 3,342 crores during the last two decades (1964-83) which constituted one half of its indirect assistance and 29 per cent of the total assistance of all the term-financing institutions in the country.

The small-scale sector which used to claim, on an average, around 20 per cent of IDBI's total assistance (both direct and indirect) during the years 1970-71 to 1977-78, has since then come to claim a vastly increased share. During the four years 1978-79 to 1981-82, the share of the small-scale sector rose, on an average, to around 35 per cent and in 1983-84 the sector claimed nearly 43 per cent of the total sanctions. The number of small-scale sector units assisted under refinance and bills rediscounting increased even more sharply, by nearly seven times during the last five years of the study, from 11,432 in 1977-78 to 76,110 in 1982-83. The increased attention given by the IDBI towards the small-scale sector can be assessed from the information furnished in Table 3.8.

The share of the SFCs in the IDBI's refinance facilities sanctioned to all credit institutions was 70 per cent in 1970-71. It reached its highest level of 92 per cent in 1972-73. Disbursements also rose from 72 per cent to 84 per cent during the same period. After this period, the share of the SFCs in the IDBI's refinance assistance declined

continuously, till 1979-80 when it was 37 per cent. Since then, however, the share registered a rise reaching a level of 56 per cent in 1983-84. Disbursements which formed 36 per cent of the total in 1979-80 increased to 65 per cent in 1983-84. (See Table 3.9).

The foregoing discussion, attempted an analysis and appraisal of the performance of the SFCs in our country. Our analysis pinpointed the areas in which the SFCs have fulfilled their mission as also the pitfalls in their operations. On the basis of this analysis, we now proceed, in the chapter that follows, to arrive at some conclusions as also to make a few suggestions aimed at strengthening the role of the SFCs in financing SSI units.

Which
are
these

Table 3.1 : Financial Assistance Sanctioned and Disbursed
by the SFCs, 1953-54 through 1968-69

(In Crores of Rupees)

Year	Loans Sanctioned during the Year	Loans Disbursed during the Year	Loans Outstanding*
1953-54	0.7	0.3	1.0
1954-55	2.1	1.3	2.6
1955-56	4.1	1.9	4.0
1956-57	4.4	2.9	6.4
1957-58	4.8	3.7	9.4
1958-59	4.9	3.3	11.3
1959-60	5.9	3.4	14.1
1960-61	9.5	4.9	17.1
1961-62	14.5	8.1	23.3
1962-63	18.4	11.2	32.0
1963-64	16.6	11.7	40.5
1964-65	19.9	12.9	49.0
1965-66	23.3	16.1	59.6
1966-67	19.9	17.3	70.9
1967-68	18.8	15.3	80.0
1968-69	19.6	17.3	91.5
1969-70	36.0	22.0	104.6

* ~~As~~ on 31st March of each year.

Source : IDBI, Report on Development Banking in India,
(Various issues)

Table 3.2 : Assistance Sanctioned and Disbursed by the SFCs together with Outstandings, 1969-70 through 1983-84

(In Crores of Rupees)

Year	Sanctions	Disbursements	Loans Outstandings*
1969-70	36.0	22.0	104.6
1970-71	49.6	33.5	127.9
1971-72	64.1	39.6	154.6
1972-73	78.7	44.7	184.2
1973-74	103.1	54.6	215.2
1974-75	141.8	79.6	277.5
1975-76	162.9	100.1	363.8
1976-77	163.3	105.2	445.8
1977-78	166.1	107.4	482.8
1978-79	200.7	134.9	643.0
1979-80	263.8	184.8	789.1
1980-81	370.5	247.9	969.7
1981-82	509.6	317.7	1206.7
1982-83	611.5	404.2	1503.4
1983-84	642.9	434.0	1820.0
Cumulative from end-March 1970 to end-March 1984	3564.6	2310.2	-

* As on 31st March of each year.

Source : IDBI, Report on Development Banking in India (Various issues).

**Table 3.3 : Trends in Sanctions and Disbursements
by the SFCs, 1969 through 1983-84**

Five Year period	Average Annual Sanctions (In Crores of Rupees)	Average Annual Disbursements (In Crores of Rupees)	Percentage increase	
			Sanc- tions	Disburse- ments
1969-70 through 1973-74	66	38		
1974-75 through 1978-79	166	125	251	328
1979-80 through 1983-84	474	317	285	253

Source : Compiled from Table 3.2.

Table 3.4 : Assistance Sanctioned by the SFCs to SSIs
(including SRTOs), 1969-70 through 1983-84

Year	Total Assistance Sanctioned (In Crores of Rupees)	Assistance Sanctioned to SSIs (In Crores of Rupees)	Percentage of (3) to (2)
(1)	(2)	(3)	(4)
1969-70	36.0	22.3	61
1970-71	49.6	35.9	71
1971-72	64.1	50.1	78
1972-73	78.7	54.1	69
1973-74	103.1	65.8	63
1974-75	141.8	80.4	56
1975-76	162.9	91.8	56
1976-77	163.3	113.7	69
1977-78	166.1	116.1	69
1978-79	200.7	134.2	67
1979-80	263.8	189.1	71
1980-81	370.5	273.6	73
1981-82	509.6	409.3	80
1982-83	611.5	512.3	83
1983-84	642.9	529.9	82
Cumulative from end-March 1970 to end-March 1984	3564.6	2588.6	

Source : IDBI, Report on Development Banking in India, (Various Issues).

Table 3.5 : Loans Sanctioned by the SFCs to Units in Backward Areas, 1970-71 through 1983-84

Year (1)	Total Assistance (In Crores of Rupees) (2)	Assistance to Backward Areas (In Crores of Rupees) (3)	Percentage of (3) to (2) (4)
1970-71	49.6	12.4	25
1971-72	64.1	19.9	28
1972-73	78.7	24.4	30
1973-74	103.1	40.9	38
1974-75	141.8	65.3	46
1975-76	162.9	74.7	45
1976-77	163.3	77.1	47
1977-78	166.1	92.6	55
1978-79	200.7	113.5	56
1979-80	263.8	139.1	52
1980-81	370.5	193.8	52
1981-82	509.6	232.6	45
1982-83	611.5	278.7	48
1983-84	642.9	306.4	47
Cumulative from end-March '71 to end-March 1984	3528.6	1671.4	47

Source : IDBI, Report on Development Banking in India (Various Issues)

Table 3.6 : SFCs : Amount of Capital Raised and Assistance Sanctioned and Disbursed under the Special Capital Assistance Scheme

(In Crores of Rupees)

Year	Special Capital Raised	Sanctioned	Disbursements
1976-77	3.5	0.1	0.1
1977-78	2.2	0.5	0.1
1978-79	0.1	0.9	0.3
1979-80	0.6	1.7	0.7
1980-81	2.8	1.7	1.4
1981-82	0.9	3.3	1.5
1982-83	1.1	2.7	1.7
1983-84	0.3	3.0	1.7
Cumulative upto end of March 1984*	15.3	14.2	7.6

* Annual figures do not add upto the cumulative figures.

Source : IDBI, Report on Development Banking in India (Various issues).

Table 3.7 : SFCs : Foreign Currency Loans Sanctioned and Disbursed

(In Crores of Rupees)

Year	Sanctions	Disbursements
1973-74	4.4	0.01
1974-75	8.6	2.0
1975-76	12.3	4.6
1976-77	9.0	5.0
1977-78	8.5	3.3
1978-79	9.4	4.8
1979-80	7.1	4.5

Source : (1) IDBI, Operational Statistics, (Various issues)
 (2) IDBI, Report on Development Banking in India
 (Various issues)

Table 3.8 : IDBI's Assistance to SSIs

Year (1)	Total Assistance (In Crores of Rupees) (2)	Assistance to SSIs (In Crores of Rupees) (3)	Percentage of (3) to (2) (4)
1975-76	395	91	23
1976-77	601	125	20
1977-78	619	115	18
1978-79	941	256	27
1979-80	1237	452	37
1980-81	1257	512	32
1981-82	1148	589	33
1982-83	1317	791	36
1983-84	1776	737	43

Source : IDBI, Report on Development and Banking in India
(Various issues).

Table 3.9 : Share of the SFCs in the IDBI's Refinance Facilities Extended to all Credit Institutions

Year	Sanctions		Disbursement	
	Amount (Rs. in Crores)	% to Total	Amount (Rs. in Crores)	% to Total
1970-71	18.4	70	15.3	72
1971-72	26.3	82	17.0	71
1972-73	32.5	92	21.1	84
1973-74	38.7	84	23.1	83
1974-75	78.9	73	39.1	75
1975-76	59.0	58	19.1	58
1976-77	80.9	58	24.9	34
1977-78	72.6	53	34.6	39
1978-79	193.9	48	114.8	45
1979-80	239.0	37	149.0	36
1980-81	297.2	42	177.6	37
1981-82	392.5	58	211.7	38
1982-83	510.3	60	294.2	42
1983-84	446.1	56	303.7	65

Source : IDBI, Report on Development Banking in India
(Various issues)

CHAPTER IV

SUMMARY AND CONCLUSIONS

On the basis of the analysis presented in earlier chapter we may briefly summarize the observations and offer a few suggestions to mitigate the problems faced by the SFCs. *Which problem
where
discuss*

SUMMARY OBSERVATIONS

During the 'fifties and the 'sixties, operations of the SFCs increased at a moderate pace, but during the 'seventies and early 'eighties there has been a rapid expansion in their activities. Almost 50 per cent of the cumulative sanctions ending 31st March 1984 was accounted for by the SFCs' operations during the last three-years of the study period, viz., 1981-84. Sanctions at Rs. 642 crores in 1983-84 alone formed about 18 per cent of their cumulative sanctions.

The SFCs, prior to 1966, were channelising a major share of assistance to medium-scale sector. The trend has since been reversed, which is well reflected in the increasing proportion of outstanding loans of this sector. This proportion was 15 per cent in 1966-67, 40 per cent in 1970-71 and 74 per cent in 1982-83. During 1981-82, loans sanctioned by the Maharashtra State Financial Corporation (MSFC) to SSI and ancillary units was 97 per cent by total number of units and 84 per cent by amount.

In recent years, the development of backward areas has become an equally important objective of the SFCs, since *84 % of
which amount
What does
the SFC
show*

preferential treatment to industries set up in backward areas can contribute significantly to balanced regional development in India. More than half the assistance sanctioned in 1982-83 by the SFCs in Assam, Bihar, Gujarat, Rajasthan and Uttar Pradesh was claimed by units in backward areas.

Financial incentives like loan assistance on concessional terms, Central Government subsidy and additional incentives provided by some state Governments had helped, to an extent, in attracting entrepreneurs to backward areas. It is worth mentioning here, that until there exist infrastructure facilities in such areas, the ability of the SFCs to extend financial support in a big way would not significantly help the dispersal of industries to backward areas. The Central and State Governments, therefore, should give top priority for providing such facilities. Other institutions should also come forward and supplement and intensify promotional activities undertaken by the SFCs.

The performance of the SFCs in regard to providing assistance to technician entrepreneurs has been far from satisfactory. Further, implementation of this scheme is somewhat lopsided geographically as only the SFCs of Gujarat, Orissa and Uttar Pradesh accounted for over 55 to 60 per cent of the total assistance provided under this scheme.

The educated unemployed are receiving the attention of the SFCs in recent years. They receive financial

assistance from the SFCs at lower margins. The age limit set by the MSFC for these technicians to be eligible for its assistance is between 21 and 35 years. The educated unemployed are also given finance for purchasing auto-rickshaws and taxis.

The resource structure of the SFCs is lop-sided in the sense that they depend considerably on the IDBI's refinance facilities. For example, while in 1970-71, 21 per cent of the total sources of funds of the SFCs were obtained from the IDBI's refinance facilities, it was 35 per cent in 1981-82. Refinance assistance provided by the IDBI to all SFCs accounted for 65 per cent of the total assistance disbursed by them under the scheme during 1983-84. No doubt, this is an assured source of funds and is also relatively cheap. But excessive reliance on refinance should be avoided. For one thing, since project proposals have to be submitted to the IDBI for scrutiny and sanction, it leads to delays in sanctions, leading to over-runs in project costs.

Prompt repayment by the borrower of the SFCs is a real source of economic strength. But unfortunately repayment by borrowers has not been satisfactory, particularly in recent years. Arrears outstanding as at the end of March 1984 were Rs. 289 crores (Principal Rs. 158 crores and interest Rs. 131 crores). An amount of Rs. 329 crores fell due during the year 1983-84. (Principal Rs. 173 crores and

interest Rs. 156 crores). Overdues at the end of March 1984 were 29 per cent higher than that at the beginning of the year, and constituted nearly 16 per cent of the aggregate outstanding assistance of Rs. 1820 crores. Owing to rising overdues and the consequent retardations in recycling of funds, the SFCs are compelled to depend on external sources for financing fresh loan operations received by them as well as for meeting debt service obligations. Against this background, refinance from the IDBI and bond issues have become major sources of finance.

An important aspect of lending is the systematic evaluation of loan proposals which has acquired increased significance now. Proper evaluation makes for selection of good projects which, in its turn, minimises the risk of bad debts. Ultimately, it favourably affects the long run efficiency of the SFCs.

Till the early 'seventies, when the total assistance disbursed by all the SFCs together was small, project evaluation might not have had that much importance. The situation has altered since then. The total assistance disbursed by the SFCs, which was 33.5 crores in 1970-71 rose significantly to Rs. 434 crores in 1983-84. The question of project evaluation is also closely related to the problem of overdues. Inadequate and inefficient evaluation of projects is one of the most important causes for this unfavourable position.

It is important to note that the total annual disbursements of all the SFCs during the year 1983-84 come close to 25 per cent of the funds disbursed combinedly by the three all-India financial institutions, viz., IDBI, ICICI and IFCI.

The SFCs, as they are dealing with small-scale projects, do not get adequate data from the borrowers. The SFCs also find it difficult to carry-out systematic appraisals of projects before sanctioning assistance to them as they do not have the required personnel. In such a situation, subjective judgement about the capabilities of promoters to implement and manage projects assumes importance.

Some of the difficulties experienced by the SFCs in dealing with the applications from small-scale industries are: incomplete and vague application and reluctance of a majority of the applicants to disclose full facts of their affairs.

Many proprietary and partnership firms find it difficult to offer adequate security for their loans because of the defects in title to ownership and difficulties in evaluating fixed assets. Further, industrial units seeking financial assistance from the Corporations do not realise the intricacies entailed in mortgage banking.

SUGGESTIONS

Most important, the SFCs need to reduce their mounting overdues, so that they can recycle their resources. High

overdues are a result of the SFCs' inefficient management, delays in commissioning the production facilities, non-availability of adequate power and raw materials for the assisted units, industrial recession, etc.. It has also been found that one of the reasons for mounting arrears is diversion of the term finance for working capital purposes by the concerned units. This is due to the large differential between the low rate charged by the SFCs on term loans and the higher interest rate on loans by commercial banks for working capital finance. While, quantitatively, the progress of the SFCs in regard to lending of funds is quite satisfactory, qualitatively it is not so. It is essential that strict measures are introduced against defaulters. The penal rate of interest should be high enough to really work as a penalty (12 per cent at present).

At the stage of sanction, sufficient care should be taken to see that only economically sound projects are sanctioned credit. The defaulting units should not only be debarred from getting future loans, but they should be made ineligible for loans from other financial institutions including banks as well.

The SFCs should make its recovery machinery more efficient and active and should explore new avenues for augmenting their resources. These measures would strengthen the financial position of the SFCs in the years that lie

ahead. To make the SFCs true regional development banks, it is necessary for them to take greater interest in underwriting issues of securities by the corporate sector.

BIBLIOGRAPHY

BOOKS

- Avadhani, V.A., Studies in Indian Financial System, Jaico Publishing House, Bombay (1978).
- Balkrishnan, G., Financing Small-Scale Industries in India, 1950-52, Asia Publishing House.
- Bhole, L.M., Financial Markets and Institutions Growth, Structure and Innovations, Tata McGraw-Hill Publishing Co.Ltd., New Delhi (1982).
- Chaudhuri, Pramit. The Indian Economy Poverty and Development, Crosby Lockwood Staples, London (1979).
- Desai, Vasant, Indian Banking Nature and Problems, Jan. 1979. Himalaya Publishing House, Bombay.
- Dagli, Vadilal (Ed.), Financial Institutions of India, Vora & Co. Publishers Pvt. Ltd., Bombay.
- Gupta, G.P., The Reserve Bank of India and Monetary Management, Asia Publishing House (1962).
- Khan, M.Y., Indian Financial System - Theory and Practice, Vikas Publishing House Pvt. Ltd. (1981).
- Kuchhal, S.G., Corporation Finance - Principles and Problems, Chaitanya Publishing House, (1985).
- Mathur, O.P., Public Sector Banks in India's Economy, -A Case Study of the State Bank (1978).

- Mongia, J.N. (Ed.), India's Economic Policies, 1947-77, Allied Publishers Pvt. Ltd. (1980).
- Nigam, B.M.L., Banking and Economic Growth (With Special Reference to India), Vora & Co. Publishers Pvt.Ltd. (1967).
- Rama Rau, B., Evolution of Central Banking in India,.
- Saksena, R.M., Development Banking in India, Vora & Co. Publishers Pvt. Ltd. (1970).
- Singh, Prabhu N., Role of Development Banks in a Planned Economy, Vikas Publishing House Pvt.Ltd. (1974).
- Simha, S.L.N., Development Banking in India With Special Reference to a State Level Institution - Karnataka, Institute For Financial Management and Research (IFMR) (1976).
- Uppal, J.S., India's Economic Problems - An Analytical Approach, (3rd Edn.), Tata McGraw-Hill Publishing Co.Ltd., New Delhi (1983).
- Vepa, Ram K., Small Industry in the Seventies, Vikas Publications, (1971).
- Vepa, Ram K., Small Industry - The Challenges of the Eighties, Vikas Publishing House Pvt.Ltd. (1983).
- Wadhva, Charan D. (Ed.), Some Problems of India's Economic Policy, (2nd Edn), Tata Mc-Graw Hill Publishing Co., (1977).

JOURNALS AND PERIODICALS

- Appa Rao, B., "Role of State Financial Corporations in Promoting Small Enterprises", Yojana, 26:3, 16-31 July 1982.
- Bhattacharya, H.K., "Changing Concept of Small-Scale Industries in India", Yojana, 26:7, 16-30 April 1982.
- Bhattacharya (Manas), "Small Industries Have a Big Role", Yojana, 26:18, 1-15 Oct. 1982.
- Khan, A.U., "State Financial Corporation and Small Industry Development", Southern Economist, 19:23, 1 April 1981.
- Kumarasundaram, S., "The Indian Financial System : Its Deficiencies and Some Remedies", Economic and Political Weekly, 17:19, 8 May 1982.
- Panandikar, S.G., "Industrial Finance Corporations for States", Commerce, 2 June 1951.
- Om Prakash, M.A., "Financing of Small-Scale Industries Need for Specialised Agencies Besides Banks", Commerce, 10 March 1951.
- Radha Raman Sing, "Village and Small-Industries Under Sixth Plan", Khadi Gramodyog, 28:12, Sep. 1982.
- Ramakrishnan, V.G., "Small-Scale Industries of India - How to Plan Their Future Development", Commerce, Annual Review Number, Dec. 1950.
- Rangarajan, S., "Role of SFC's in Financing Industries - Case Study of Three Corporations", Southern Economist,

18:23-24, 1 April 1980.

Roy, R.K., "Development Banking at Cross Roads", Yojana,
25:1-2, 26 Jan. 1981.

Sadasiva Reddy (B), "Role of Small-Scale Industries in
India's Economic Development", Southern Economist,
22:1, 1 May 1983.

Srinivasan, R., "The Sixth Plan : Mid-term Appraisal", Yojana,
26:3, 16-31 July 1982.

"Institutional Finance : An Analysis of Regional Distribution",
Bank of India Bulletin, 6:4, April 1968.

GOVERNMENT REPORTS

Seminar on Financing of Small-Scale Industries in India,
Volume I and II, July 20, 23, 1959. Reserve Bank of
India Publication.

Financing of Small-Scale Industries in India (With Special
Reference to Second Plan Period), Central Small Industries
Organisation, Ministry of Industry, New Delhi, 1963.

Report of the Working Group on State Financial Corporations
Constituted in June 1962, Constituted in April 1970,
Reserve Bank of India.

Chari, V.V., Role and Achievement of SFCs, RBI Bulletin,
29:5, May 1975.

Government of India, Planning Commission, Sixth Five Year
Plan, 1980-85.

IDBI : (1) Annual Reports, Various Issues.

(2) Report on Development Banking in India, Various
Issues.

RBI : (1) Reports on Currency and Finance.

(2) Reports on Trend and Progress of Banking in
India, Various Issues.

RBI : Functions and Working, Fourth Edition, 1983.