
CHAPTER-VII: FINDINGS AND SUGGESTIONS

7.1 Summary and Findings

7.2 Suggestions

The following^o is a brief review of the main contents of this study report along with findings of the study followed by suggestions.

7.1 SUMMARY AND FINDINGS

(A) Summary

a) Concept of Development Banking: A development bank is an institution whose primary interest lies in financing for medium and long term financial requirements of industries in the country. It may undertake (and it does mostly) developmental activities as well. These developmental activities include performing the role of a development catalyst by taking initiatives and rendering services such as discovery of investment project, preparation of project reports, provision of technical advice and management services and sometimes establishment and management of industrial units.

There is basic difference between a Development Bank and a Financial Corporation. If the financial institution provides the assistance in the form of underwriting of issues and/or direct invest, it is a Development Bank and if the above function is not performed it is merely a term financing institution.

Thus, development banks are multi purpose institutions who have to adapt themselves continuously with the emerging needs

of a dynamic economy.

State Financial Corporations in India are established with a view to performing the functions of development bank. The Maharashtra State Financial Corporation is one of them.

b) History and Development of Maharashtra State Financial

Corporation; The Maharashtra State Financial Corporation is transformed from the former 'Bombay State Financial Corporation' which was established in 1953. The Maharashtra State Financial Corporation came into existence on 14th August 1962.

The Corporation made a small beginning in 1962 with total sanctions of Rs. 206.39 lakhs and disbursement of Rs. 165.40 lakhs, while in 1984-85 it has disbursed Rs. 3,559.10 lakhs.

Through a well developed network of co-ordinated efforts, the Corporation has attained the highest position among all the State Financial Corporations in the country. The Corporation has been implementing a number of schemes through 9 regional offices, 3 field offices and 20 branch offices. Earlier the Corporation had jurisdiction of the Maharashtra State only but now it has extended the same to Union Territories of Goa, Daman and Diu also.

The high ranking position of the Corporation is the outcome of the proper implementation and follow up of different

schemes with the help of a sound organisational structure.

c) Financing Schemes of the Maharashtra State Financial

Corporation: The Corporation has formulated a number of financing schemes to cover almost all types of industries. The Corporation, while formulating the schemes, has given due consideration to balanced regional development, creation of self-employment, development of educated unemployed persons, economically weaker sections of the society and promotion and adoption of modern technology and research and development for increasing productivity. There is a scheme for village and cottage industries based on local natural resources. The schemes of financing are with diverse features as to suit the requirements of entrepreneurs.

Special concessions are given to entrepreneurs from backward areas and scheduled caste and scheduled tribe entrepreneurs. The loans under all the schemes are extended for medium and long term periods. The maximum limit on loan amount extended by the Corporation is Rs. 60 lakhs.

d) Implementation of the Financing Schemes: The MSFC Sangli branch has been financing to the medium and long term financial requirements of the small industries in the district through almost all the financing schemes. However, a few schemes like those formulated for units to be set up in backward areas,

World Bank Loan Scheme etc. could not be implemented in the operational area because i) the area is not specified backward area, ii) mostly the borrowers are not so willing to avail themselves of the assistance under World Bank Loan Scheme due to limited scope of operations of their industrial activity, iii) some times the Corporation is compelled to withhold the scheme if saturation is experienced in the industrial field for which the scheme is devised specially (e.g., now assistance for printing press is stopped).

On the whole the Sangli Branch has made good efforts in implementing the schemes while covering a wider range. The Branch has fairly implemented the schemes while identifying the needs of entrepreneurs. This fact is evident by the good comments passed by almost all the sample borrowers.

e) Evaluation of Financing Made by MSFC Sangli Branch: The period from 1964-65 to 1984-85 is considered to evaluate the financing by Sangli branch in general and the period from 1980-81 to 1984-85 is studied to evaluate the role of Branch in particular.

The Sangli Branch started its operation in 1964. It has not disbursed any loan till 1966-67 whereas it sanctioned loans of Rs. 32.41 lakhs to 33 units at the end of the said period.

Since 1967 the branch has started actual disbursement of

loans sanctioned. From 1967 to 1974 fluctuation has taken place in the number of units sanctioned and amount sanctioned.

Because the entrepreneurs in the district were not aware of the different schemes of finance. However, from 1974 to 1985 somewhat steady increase can be observed in respect of both units and amount sanctioned, as a result of acquaintance of various schemes run by the Branch.

f) The Sangli Branch as Compared With Other Two Districts: So long as the performance of the Sangli Branch is compared with the Kolhapur and Satara branches of the Corporation, it stands second in the rank. Kolhapur District stands first, while the Satara district ranks third. The Branch has sanctioned about 1/4 of the total amount sanctioned by the Kolhapur region and 1/3 of the total number of ~~units~~^{units} in the whole region. The sanctions made by the branch show a steady increase over the period from 1980-81 to 1984-85. The units sanctioned by the branch also show somewhat steady increase over the period.

There is a wide gap between sanctions and disbursements made by the Corporation which is the result of non-compliance of terms and conditions by the borrowers, post-sanction changes by borrowers, non-availability of margin money and guarantors, change in constitution of the business firm, etc.

g) Developmental Role: Being a development catalyst, the Branch

is expected to perform developmental role. Although it has not undertaken the underwriting of capital issues and investment in assets to a reasonable degree, it has discharged the other developmental functions, viz., conducting entrepreneurial development programmes, arranging local seminars on problems of small borrowers, attending meetings of IDBI, arranging campaigns to introduce various schemes of the Corporation, assisting the entrepreneurs in availing of funds for working capital, etc.

The Sangli Branch has also taken great deal of efforts in preventing the industrial sickness. This is achieved by frequent visits of officers to industrial units, close watch on the affairs and strict recovery practices etc. In spite of these efforts if the symptoms of sickness are seen, the Branch has taken lead in sorting them out by sympathetic consideration of their genuine difficulties.

h) Sample Survey: For evaluating the impact of financing by the Branch a sample of 20 borrowers coming from the area was taken. The results of it are evaluated under few main headings viz., capital investment, increase in production, income, employment generation, period of loan and diversified financing. The borrowers were also requested to give their frank opinions and suggestions. All the 20 sample units have shown increase in their income by a total of Rs. 21,25,700. The capital

investment made by them comes to the tune of Rs. 72,62,400 while the production is increased by Rs. 2,66,40,400. The sample units have increased the employment opportunities by 144. By advancing loans to 17 types of industries out of the sample of 20 units, the branch has made diversified financing. While providing loans with period of 3 to 5 years to 2 units, 5 to 7 years to 5 units and loans with period of 7 to 10 years to 13 units, the Branch has achieved the objective of diversified financing.

The Sample Survey brings out the fact that the borrowers have to face difficulties on account of i) rate of interest, ii) moratorium period, iii) repayment schedule, iv) procedural delays, v) compilation of documents, vi) working capital, vii) margin money, viii) formats printed in English, and ix) commitment charges of the Corporation.

(B) Findings

On the basis of the above summary and the sample survey made by the researcher and personal discussion with the official staff of the Branch, important findings of the study are shown as follows -

1) It is found that the procedure followed by the Legal Section of the Branch appears to be onerous. The borrowers from outside the MIDC area are asked to present record of the land

for last 25 years.

2) It is also found that the units, especially supplying their products to Government departments, big industries, etc. do not get the payment of their bills immediately or within a reasonable period. Under such circumstances the repayment schedule fixed by the Branch cannot strictly be followed by those units.

3) It is found that the Branch provides application forms, pamphlets/brochures and other relevant documents printed in English. It is difficult for common borrowers even to understand and fill in these forms. The problem is much severe in case of borrowers who are illiterate.

4) It is found that the Branch imposes commitment charges on the amount of loan sanctioned but the amount not availed of by the borrower within a stipulated period. If the borrower is put in difficulty by the supplier of equipments and machinery due to irregular supply, the borrower has to suffer and in addition to that he has to pay the commitment charges, which is quite burdensome.

5) It is found that the Branch does not finance for working capital requirements of the industrial units. Hence the borrower has to make arrangements with some other

financial institutions such as Commercial banks. But on many occasions the working capital cannot be advanced by the financial institutions within a reasonable period. Sometimes the borrower does not get it as soon as the project is complete and ready for actual production. Thus, the borrower has to suffer on account of working capital.

/6) It is also found that the borrowers have to submit various documents, papers, licences and certificates within a stipulated period. But in practice they find it difficult to compile all the documents etc. from the Government offices, municipalities, banks, etc. in time. Therefore delay takes place so also the sanctioning process is held up.

/7) It is found that the borrower is required to give such guarantors who are invariably income-tax payers and can provide sufficient security.

/8) It is found that the Branch uses to charge the rate of interest very low as compared to those charged by the Commercial banks.

/9) It is also found that the Branch grants moratorium for principal amount and amount of interest in respect of specific schemes only, and not in respect of all schemes it runs.

10) It is found that the 20 sample units financed by the

Branch made a capital investment of Rs. 72,62,400. The major share in the capital investment is claimed by steel container industry and confectionery industry financed by the Branch.

11) It is also found that there is a net increase in income of Rs. 21,25,700 together made by 20 sample units. The fact that the Branch has prevented industrial sickness in its operational area is evident from the above increase. Had the units been sick, there would not have been profits generated by them.

12) It is found that, steel container industry, which has increased the employment opportunities by 65 is the industry with high employment potentials. It is followed by confectionery industry increasing the opportunities by 16. The plastic industry, wooden packaging industry, iron industry and food industry are the industries with medium employment potentials, while the rest of the industries show potentials mainly for self-employment of the entrepreneurs providing one or two employment opportunities. But on the whole it is observed that most of the industries financed by the Branch are with good employment potential.

13) The net addition in the production of Rs. 2,66,40,400 made by 20 sample units mostly comprise the share of steel container industry, confectionery industry and chemical and

engineering industry. The rest of the industries have shown reasonable performance in increasing the production.

14) It is found that the Branch has achieved the objective of diversified financing since 12 types of industries out of a sample of 20 units are given loan assistance. It means that after financing for every 1.66 unit the Branch has diverted the finance to different type of industry.

15) It is found that the Branch has achieved the objective of medium and long term financing by disbursing loans to 2 units for a period between 3 and 5 years to 5 units for a period between 5 and 7 years which together constitute medium term financing and to 13 units for a period of 7 to 10 years constituting long term financing.

16) On the whole, as far as the performance of the Maharashtra State Financial Corporation, Sangli Branch is concerned, a reasonable degree of fair operational practices can be found. The Sangli Branch has performed its role in financing the small scale industries with a deep sense of sincerity.

The Branch Manager, with the help of the subordinate staff, has ably sorted out problems and difficulties of small borrowers from time to time. The good comments passed about

the Branch Manager and staff of the Branch is a testimony of fair business dealings between the Branch and the borrowers.

The sincere efforts made by the Branch will definitely elevate the Maharashtra State Financial Corporation to much higher position in the country.

7.2 SUGGESTIONS

On the basis of the findings, the researcher would like to make the following suggestions:

1) The procedural delays in legal investigation can be avoided by following much realistic approaches while investigating legal documents and papers. If possible this job can be entrusted to local advocate by charging moderate fees to the respective borrower.

2) The borrowers, sometimes, do not get the payment of their bills as per anticipations. Therefore, they are unable to follow the repayment schedule strictly as fixed by the Branch. The Branch, under such circumstances, should allow some flexibility in the repayment schedule.

3) The Branch should provide to the borrowers, forms, documents, pamphlets and brochures printed in Marathi. Because, Marathi is the mother tongue of a majority of the people

residing in the Sangli district.

4) In genuine cases, the Branch should not impose commitment charges on amount sanctioned but not availed of by the borrower.

5) The Branch should come forward for financing some portion of working capital requirements of the enterprises to avoid inconvenience occurring due to non-availability of the same immediately on the completion of their projects.

6) To avoid delay in collection of various documents, licences, certificates, extracts, etc., the Branch, as far as possible, should reduce the number of such documents. It should, if possible, make arrangements to get these documents directly from the concerned offices. For the collection of these documents the Branch should impose service charges on the respective borrowers. The work of collection of various documents can be entrusted to the cells to be established at the Branch.

7) It is rather difficult for entrepreneurs, especially for small one, to provide guarantors who are income-tax payers and who can provide sufficient security. Hence, the Branch should not insist upon the provision of guarantors who are invariably income-tax payers. In case of small borrowers those guarantors should also be accepted by the Branch who have

sufficient security but who are not income-tax payers.

8) Since the gestation period in respect of units with big capital investment generally uses to be longer as compared with units having small capital investment, the Branch should -

- i) increase the period of moratorium.
- ii) provide loans with a repayment period of more than 10 years.
- iii) if possible reduce the rate of interest or grant rebate on timely repayment.

9) The Branch may examine the possibility of charging the rates of interest according to the slabs of loan amount. For example, loans upto Rs. 1 lakh be charged the lowest possible rate of interest. Loans from Rs. 1 lakh to Rs. 5 lakhs be charged medium rate of interest, while the loans above Rs. 5 lakhs be charged the highest rate of interest as compared to other two slabs of loan amount.

10) It can be suggested that the Branch should, especially for small entrepreneurs, grant moratorium for both principal and amount of interest for all the schemes instead of confining it to a few schemes only.