
CHAPTER-I: INTRODUCTION AND METHODOLOGY

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1.1 INTRODUCTION

'Small is beautiful' so said Schumaker in his book published in the mid 70s of the present century. Most of the developing countries of the world today are concerned with the crisis of unemployment and underemployment and the political leverage seems to be more concerned with the use of small scale industries for removing unemployment and creating job opportunities for the millions of jobless people. Various countries have come up with various tools of fostering economic development and whatever be the political motivation behind such efforts, their efficacy in discharging the due has always been a matter of interest - both academic and non-academic - for the researchers. One such instrument, which emerged in the western countries got nurtured in the countries like Japan and was adopted by the countries like India, is of development banks.

In India, of late, the Development Banks have been playing a promotional role in the field of industrial development of the country. Small scale industries, for their labour intensive, capital saving character coupled with appropriate technology and institutional support, have played no less significant a role in the process of industrialisation. The experiences of most of the developed countries of the world today have adequately proved that the small scale industries

can really promote the economic development within the constraints of resources available. The Five Year Plans in India, have from time to time emphasised the need for establishment and growth of small scale industries in the country. The Development Banks in India, in the pursuit of such policies, have been instrumental in financing the small scale industries.

It is on this background that the need for investigating the role of Development Banks in general and State Financial Corporations in particular in promoting the small scale industries, becomes significant and hence the present study aims at evaluating the performance of Maharashtra State Financial Corporation in the field of Small Scale industries.

This chapter discusses the theoretical background of Development Banking and the objects, limitations and methodology of the present study.

1.2 CONCEPT OF DEVELOPMENT BANKING

1.2(A) Meaning of Development Bank

A Development Bank is not only a financial institution, engaged in providing medium and long term assistance to business units, in the form of loans, under-writing, investment and guarantee operations. There may or may not be complete freedom with regard to operations in all these areas, especially in the



matter of underwriting and investment which carry a large risk element than mere provision of loans. But a Development Bank is expected to do something more than the provision of capital, such as acting as a catalytic agent in promoting development by initiatives and services such as discovery of investment projects, undertaking the preparation of project reports, provision of technical advice and management services and sometimes establishment and management of industrial units.¹ Thus, a Development Bank can be defined as "an institution whose primary interest lies in financing, it may (and it does mostly) undertake developmental activities as well".²

1.2(B) Distinction Between Development Bank and State Financial Corporation

The distinction between a Development Bank and a Financial Corporation or a term financing institution can be drawn on the basis of whether or not the institution provides assistance in the form of underwriting and/or direct investment. If this function is not performed, then the institution is called just a Finance Corporation or term lending institution.

Thus, in short, Development Banks are multi-purpose institutions with a broad developmental outlook rather than the conservative and short term outlook generally associated

with commercial banks. Development Banks have to adapt themselves continuously with the emerging needs of a dynamic economy.

1.2(C) Theory of Development Banking

Due to the peculiar characteristics of an underdeveloped economy such as underdeveloped capital market, shyness of capital, lack of entrepreneurship, etc. gaps have been found to exist in the field of industrial finance in India between the demand for and supply of financial resources required by the Indian industries. In order to fill up these gaps and to foster economic development since 1947 several specialised financial institutions and development corporations broadly known as development banks have been established in India. These include: Industrial Finance Corporation of India - 1948 (IFCI), State Financial Corporations established under the State Financial Corporations Act - 1951 (SFCS), National Industries Development Corporation - 1954 (NIDC), Industrial Credit and Investment Corporation of India - 1955 (ICICI), State Small Industries Development Corporations (SSIDC) and State Industrial Development Corporations (SIDCs).

Most of the development banks mentioned above provide financial assistance to industries but some of them specialise in promotional and developmental activities.

1.2(D) Role of Development Banks

The role of Development Banks differs between an advanced economy and an underdeveloped economy. In the former case, the Development Banks have just to increase the rate of growth of economy. This is done by collecting small savings from a large number of people spread over a wide area and allocating the funds so collected among different sectors. At the same time these banks extend their technical and financial expertise and thus reduce the risk of investors. These Development Banks in an advanced economy are not required to fill up the gaps in the industrial structure of the economy.

On the other hand, due to the peculiar drawbacks/ characteristics from which an underdeveloped economy suffers, the responsibilities of the Development Banks increase many fold.³ The banks have to increase rate of capital formation, induce the investors and entrepreneurs, seal the leakages of human and material resources by a careful allocation thereof, undertake developmental activities for promotion of industrial units to fill up the gaps in the industrial structure of the economy. They have to try to ensure that no good project suffers for want of financial and/or technical resources.

In short, in an underdeveloped economy the development banks are charged with the responsibility of increasing the rate

of growth of the economy through speedy industrialisation, increasing per capita real national income and help the economy leap forward in the phase of self-generated and self-sustained growth.

1.2(E) Objects and Scope

The objects and scope of the Development Banks differ widely from one country to another, one region in a country to another and even from objects at some stage of economic development to the other. This is because of the fact that the development banks have been established in countries with different socio-economic backgrounds. Each Development Bank is modelled on a pattern best suited to the economic, social, cultural and industrial set up of the country/region in which it operates. Some Development Banks⁴ confine their activities to the industrial sector only while some other Development Banks⁵ also provide financial assistance for agricultural development. Furthermore, some other Development Banks⁶ provide financial help for housing, fisheries, deep sea fishing, tourism, transport, crafts, slaughter houses, etc. etc. There are some Development Banks* also extending their activities to investments in other countries, whereas most Development Banks confine their activities to their own countries in which they operate.

* German Development Company.

In some countries, separate development banks are established for different purposes/industries. Some Development Banks extend financial assistance only for private sector, while some others also provide assistance for public sector.

By and large, it is being acknowledged that one single institution should not finance both these sectors. Since the public sector undertakings get direct share from the public revenue, the Development Banks should not participate in financing for them; instead they should shift their attention to private sector industries.

Some Development Banks provide assistance only for small sized or large sized organizations, while some others offer financial assistance to industries of all size.

1.2(F) Functions of Development Banks

The functions performed by Development Banks can be divided into two parts A) Financial Functions and B) Developmental Functions.

A) Financial Functions: The most important financial function of most of the Development Banks is to provide loan assistance to industrial concerns. Loans are provided by some Development Banks in both currencies - local as well as foreign. Bank of Sudan, Industrial Development Bank of Turkey, Japan Development

Bank, etc. provide such types of loan.

The foreign currency is borrowed by the "World Bank", "Kreditanstalt für Wiederaufbau of Germany", etc. The assistance in the form of foreign currency is of an immense importance for industries in an underdeveloped country for importing capital goods and technical know-how from advanced countries.

Development Banks confine their activities to medium term and long term loans only and do not enter the area of commercial banking by providing short term financial assistance. However, in some exceptional cases, when the assistance for initial working capital requirements is not easily forthcoming from other sources, the Development Banks may provide short term financial assistance in the interest of the project it finances. This is done with a view to avoid unnecessary competition with commercial banks.

Another important financial function performed by most of the Development Banks is underwriting. Only a few Development Banks do not perform this function.

Development Banks also subscribe to shares/debentures, bonds, stocks, etc. of different industrial concerns and other Development Banks. Certain Development Banks are also authorised to provide equity capital of industrial concerns, for example,

State Financial Corporations in India. Though, it is true that, the risk, imagination and courage involved in this function are high, the development institutions should undertake this function voluntarily and the Government should empower them with this right.

Development Banks also assist the industrial concerns by guaranteeing on behalf of them (the concerns) in respect of -

- i) the loans raised by them in open market or from the local/foreign financial institutions including banks;
- ii) the delayed payments arising out of domestic purchases or import of capital goods, etc.;
- iii) the obligations of other financial institutions as well.

This function encourages the financial institutions to come forward and participate in industrial financing. The Industrial Development Bank of India, and Canada are the instances.

Development Banks in Pakistan, Turkey, Singapore, Malaysia, etc. try to induce capital market and encourage investment activity of both, the public and financial institutions by selling their own shares, bonds etc. acquired by them earlier. They also invite financial institutions to participate in loans/financial

assistance. This, gradually but certainly reduces the shyness of capital and accelerates the rate of capital formation.

B) Developmental Functions: The developmental functions are more important than the financial functions mentioned earlier. This is because, in almost all the underdeveloped countries some institutions exist for the provision of financial assistance, but hardly there is any development bank which undertakes developmental activities in those countries.

The developmental functions include - promotion of new industries to fill up the gaps in the industrial structure, providing assistance in the formation of other Development Banks, provision of technical, managerial and administrative advice, conduct of techno-economic surveys, market and investment research, arrangement of suitable capital structure, improving the investment opportunities/climate to induce foreign capital participation, laying out of industrial estates, creation and stimulation of security market, participating the management of industrial concerns (as managers, secretaries) arranging the supply/import of capital goods and industrial raw material, providing disaster loans for human welfare, etc.

There are certain Development Banks* which do almost

* National Credit Bank of Laos,
Korean Reconstruction Bank



everything connected with the industrial and economic development of their countries.

The Development Banks are supposed to be very dynamic as regards their operational techniques. These banks have to be tailored very carefully so as to meet the requirements of ever changing process of industrialisation.

1.3 OBJECTIVES AND SIGNIFICANCE OF THE STUDY

The main objective of the present study is to examine the role played by the Sangli Branch of Maharashtra State Financial Corporation in promoting the small scale industries through its financing schemes. The other objectives include -

- (A) to study the various financial schemes of the corporation and the problems faced by the Branch while implementing the schemes.
- (B) to study the extent to which the financial assistance of the Branch has helped in increasing the production and capital investment of the industries.
- (C) to know the extent of employment opportunities created and the effect on income of the industries financed through various financing schemes.
- (D) to know the reaction and experience of borrowers about

procurement of loan, period required for actual receipt of loan, rate of interest, repayment schedule, etc.

The importance of such studies lied in their potential strength of bringing about the results which would indicate the quantitative performance and the drawbacks if any, in the working of the institution. These results need not necessarily resemble in all the aspects with the results elsewhere, but they certainly indicate the trend of the working of the institutions. Hence, the present study will help the corporation to know the performance of the Sangli Branch.

1.4 SCOPE OF THE STUDY

The present study is related to the small industrial concerns coming under the operational area of the Sangli Branch of Maharashtra State Financial Corporation in general and some of the selected small industrial units in Sangli city in particular. Similarly, the term 'Small Scale Industry' as defined by the Corporation and the main industries included therein are considered for the study, which are as under:

- a) Manufacture, preservation or processing of goods,
- b) Mining,
- c) Hotel industry,

- d) Road transport,
- e) Generation or distribution of electricity or any other form of power,
- f) Development of land as an industrial estate,
- g) Fishing or providing shore facilities for fishing or the manufacture thereof,
- h) Providing special or technical knowledge or other services for the promotion of industrial growth.

The processing of goods includes any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electric or any other like operation.

The types of industry considered for the purpose of the study are:

- a) Printing press,
- b) Engineering industries,
- c) Food products,
- d) Confectionery,
- e) Automobile repairs and servicing and painting,
- f) Steel containers,
- g) Chemical industry,
- h) Foundry,
- i) Timber industry,
- j) Plastic,
- k) Paper packaging,
- l) Wooden packaging.

For the purpose of retrospection of the history and development of the Maharashtra State Financial Corporation, the period from 1960-61 to 1980-81 is considered. However, for the evaluation of the performance of Sangli Branch, the period from 1980-81 to 1984-85 is given much emphasis.

Considering the time factor at the disposal of the researcher, a small sample of industrial units is selected and limited criteria are applied for evaluating the impact of financing by Maharashtra State Financial Corporation Sangli Branch.

1.5 METHODOLOGY OF THE STUDY

Considering the objectives of the study, the empirical survey method is mainly adopted for this study. The assessment of the growth of Maharashtra State Financial Corporation is made with the help of the relevant data obtained from the secondary sources. The evaluation of financing activities of Maharashtra State Financial Corporation Sangli Branch is made by following the sample survey method.

While constructing the questionnaire for the purpose of sample survey, efforts have been made to formulate the questions as simple to understand as possible.

Personal discussions are also made with the Branch

Manager of the Sangli Branch and also with the concerned officers of the Branch.

The pamphlets, brochures and booklets provided by the MSFC Sangli Branch are also used as a source of information.

1.6 CHAPTER SCHEME

The present work is divided into seven Chapters. This first Chapter has dealt with the theoretical background and the objectives and significance and methodology of the study.

The second Chapter describes the history and development of MSFC along with operational policies and practices, organisational set up etc.

The third Chapter brings out the profile of the study area i.e., Sangli city.

The fourth chapter elaborates the various financing schemes of Maharashtra State Financial Corporation in respect of small scale industries and their implementation by the Sangli Branch.

The fifth Chapter discusses the evaluation of working of financing schemes and the problems faced by the Branch and the borrowers.

The sixth Chapter highlights the results of the sample survey in respect of the impact of financing schemes on the small scale industrial units.

The seventh, i.e., the last Chapter discusses the findings and the suggestions based on the study.

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