CHAPTER - III

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CHAPTER - III

ROLE OF MSFC IN THE INDUSTRIAL DEVELOPMENT IN MAHARASHTRA STATE IN GENERAL AND IN KOLHAPUR REGION IN PARTICULAR

3.1 MSFC'S ROLE TO PROMOTE & STRENGTHEN INDUSTRIAL ACTIVITIES IN THE SMALL SCALE SECTOR IN GENERAL :

With the end of the year 1979-80 the second U.N. Development Decade (D.D.II) of the seventies has come to an end. During this decade poorest developing countries achieved just around 4% rate of growth against the targeted growth rate of at least 6%. India's national income at constant (1970-71) prices, according the Central Statistical organisation had increased over 1978-79 over the previous year by slightly over 4% but has declined by 3% expressed in terms of Gross National Product in 1979-80 reflecting the fact that the growth allowed down throughout the world in the second half of the 70's. Oil prices increased rapidly especially on account of frequent price hikes imposed by OPEC contries. This has reduced significantly the foreign exchange resources of the developing countries including India.

Hopes of the developing countries remained mere dreams by the two international conferences UNCATAD-V and UNIDO-III held during the year 1979-80 to deal with certain crucial issues like structural changes in world trade, transfer of technology, creation of global fund for promoting industrialisation in the third world,

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energy crisis, etc. The possibilities of big brother rescuing the poor have become still thinner as these conferences ended almost inconclusively.

If one takes into consideration the Indian economic scene during the year 1979-80, it may be concluded that our overall economic performance is still closely tied up with the agricultural front which has still remained vulnerable to ragaries of nature. The irregularity of the monsoon had adversely affected the Kharif harvest of foodgrains and lowered the production for the year 1979-80 to about 120 million tonnes from the reorder level of the previous year of 131.4 million tonnes. The shortfall in production of foodgrains had to be met with drawing upon the cushion of foodstocks which had been continuously deflecting so as to reach level of 14.3 million tonnes in March, 1980 from 21.6 million tonnes in July, 1979.

The year 1979-80 has also been characterised by the shortages of the supplied of practically everything needed falling short of demand, which led to the rate of inflation of the order of 20% per annum. The most distressing aspect of the performance during the year 1979-80 had been the overall stagnation spread over the industrial field. In case of a large number of industries the created capacities remained underutilised for want of crucial inputs like raw materials and

power. The whole network of interindustry relationship was disturbed and distorted. Sufficient quantities of coal could not be moved to industries and to the power generating stations as the transport system failed to utilise fully its freight traffic capacity. Inadequate supplied of coal hampered power generation leading to drastic power cuts,in additional difficulties like scarcities of certain inputs like fuel and cement which adversely affected industrial production. At the same time a budgetory deficit of Rs. 2700 crores and steep rise in the net bank credit to the Government sector and to the commercial sector added fuel to the inflationary pressure, which led to building up its own spiral of rising costs, prices, mounting deficits and outlays without making significant effect on real economic problems like absolute poverty and widespread unemployment. Such an environment leads to dissatisfaction and indiscipline among the working class, making them to conduct organised protests resulting into heavy losses of Mondays available for productive work.

It may be stated that in Maharashtra there were 47,606 units registered under Small-scale sector by the end of 1978 and the number went up to 56,154 by the end of March 1980 indicating increase of about 18%. There were about 69 industrial estates in Maharashtra State having 2699 constructed sheds with 2795 functioning units, employing 32,534 workers. Nasik, Aurangabad, Nagpur, Roha, Tarapur

and Ahmednagar had emerged as new industrial growth centres and the prospects of substantial increase in the industrial activities depended upon the fertilizer com--plex at Thal Vaishet near Alibag.

The MSFC stepped up its financial assistance performance to promote and strengthen the industrial activity in the state. With the help of revised package scheme of incentives of the State Government operated through SICOM, the MSFC had to readjust its programme to fulfil a purposeful mission of dispersing industrial ventures, along with generation of more employment, in the interior areas of the State. The scheme of incentives was observed to be the best in the entire country designed to attain rapid process of industrialisation throughout the State especially in the backward and developing areas of the state.

3.2 CRITERIA ADOPTED FOR GRANT OF FINANCIAL ASSISTANCE :

In scrutinising loan applications due consideration is given to several factors such as entrepreneurs background, ability and experience, technical skill, feasibility of the project with particular reference to availability of raw materials, prospects for market and profitability. Projects located in backward areas, project with large employment potential with export potential, with defence orientation and/or which produce goods, which are import substitutes are given preference. MSFC does not encourage certain types of industries which are banned by the Govt. where no refinance is available from IDBI, which are included in the low priority list of the Corporation. The prospective entrepreneurs are, therfore, advised to ensure in advance from the concerned officers of the Corporation whether the industry proposed to be set up is eligible for assistance or not.

Forms of Loan Application :

Prospective entrepreneurs should apply directly to the Corporation in the prescribed forms available at any of the MSFC's offices. Separate application forms are prescribed for :

(1) Loans under Composite Loan Scheme,

(2) Transport Loan Scheme

(3) Loans upto Rs.2-00 lakhs and

(4) Loans exceeding Rs. 2 lakhs upto Rs. 30 lakhs.

The loan application forms duly filled in should be submitted to the respective Branch/Regional offices of the Corporation along with the prescribed processing fees.

Necessary guidance for filling up the loan application forms is given to the entrepreneurs by the officers attached to the Development Assistance and Services Cell at the Head Office as well as at the Regional Offices of the Corporation or by the Branch Managers in the Branch offices of the Corporation at the District Headquarters.

Time Taken For Processing of Loan Application :

The entrepreneurs are advised to fill in the application properly and furnish requisite information mentioned in the application form in all respects along with the necessary documents while submitting the Loan application to the Corporation.

In order to enable the Corporation to process the loan application, expeditiously, the entrepreneurs are advised to ensure that relevant information on the various aspects of the projects covering managerial aspects, technical feasibility, financial and economic viability is furnished. Most of the above points on which information in detail is required to be given by the applicants have been covered in the loan application form. If the application is complete in all respects,

it is possible for the Corporation to sanction the loan within 3 months. MSFC is endeavouring to sanction the loans upto Rs. 2 lakhs within a period of less than two months and loans above Rs. 2 lakhs are sanctioned within a period of 3/4 months.

Powers to Sanction Loans :

MSFC has delegated powers to sanction the loans to the following authorities :

1) Branch Manager	Upto Rs. 50,000/-
2) Regional Manager	Upto Rs. 2 lakhs
3) Managing Director	Above Rs. 2 lakhs and upto Rs. 3 lakhs.
4) Executive Committee	Above Rs. 3 lakhs and upto Rs. 10 lakhs.
5) Board	Above Rs. 10 lakhs and Upto Rs. 30 lakhs.

Important Terms and Conditions for Considering Loan Proposals :

Promoter's Contribution :

As per the norms laid down by the IDBI, the entrepreneurs are required to bring in the promoter's contribution by way of capital in the projects as shown below :

i) Projects promoted by technician entrepreneurs..15%

ii) Projects coming up in specified backward areas..17½%

iii) Projects coming up in the non-backward areas..20%

The equity/Capital proposed to be brought in by the promoters plus seed Capital Assistance by the financial institutions will be taken into account for determining the norm of promoter's contribution.

Debt Equity Ratio (DER)

In case of SSI Units DER is insisted at 3:1. However, in the case of medium scale units, DER to be maintained is 2:1. For the purpose of computing debt equity ratio, "equity" includes, share capital, free reserves, central subsidy, state incentives and seed capital. "Debt" includes deferred payments, unsecured loans, fixed deposits and term loans.

Margin :

Loans to Small scale units are normally granted on 25% to 30% margin on security and in other cases, the margin ranges from 30% to 50% depending upon various financial aspects of the project. Small scale units are defined as units having investment in plant and machinery not exceeding Rs. 20 lakhs and in case of ancillaries upto Rs. 25 lakhs. In deserving cases, however, margins can be lower than even 25% depending on the merits of each case. In the case of special schemes operated by the Corporation for technician entrepreneurs, scheduled caste/scheduled tribe entrepreneurs, ex-servicemen, the margin is reduced to 15%.

Security for Loans :

MSFC advances loans against the security of the fixed assets proposed to be acquired out of the financial assistance extended by the Corporation. The Charge of MSFC on the fixed assets will always be the first charge which is created by executing hypothecation and/or mortgage deed in favour of the Corporation. The Corporation can also advance loans against the default guarantee of State Govt. or Scheduled Bank or Apex State Co-op. Bank. In addition to the security of the fixed assets personnel guarantees of promoters/directors/major shareholders is also insisted. Third party guarantee is also stipulated in the case of transport and other loans.

Repayment period of loans :

The Repayment period of loan is normally 7 to 10 years with a moraterium for the first one or two years. The repayment period is fixed on the basis of the profitability estimated and availability of cash accruals. The loan is usually repayable by half-yearly instalments and the first instalment towards repayment of principal commences at the end of the second year of the first disbursement of the loan. For transport and trawler loans and special capital (Seed Capital) separate repayment schedules are stipulated.

Disbursement of Loan :

After sanction of Loan by the appropriate sanctioning authority a regular letter of sanction is issued. The Letter of sanction incorporates all the terms and conditions on which the loan is sanction. The applicant is required to convey his unconditional acceptance of the terms and conditions of the sanctioned loan within 15 days. Thereafter, the applicant is required to contact the Legal Department of the Corporation and complete legal formalities in respect of title investigation, execution of mortgage deed/hypothecation, Personal Guarantees etc. The applicant will also be required to obtain Income tax clearance Certificate under Section 230A of Income Tax Act for registering the mortgage deed. On the completion of the legal formalities and on compliance of conditions precedent to disbursement of loans, the disbursement is effected progressively depending on the acquisition of fixed assets and on the basis of valuation report or Chartered Accountant's Certificate furnished by the applicant.

Notes :

The Corporation does not recognise any consultants for the purpose of submitting loan application and/or any information or pursuing the loan application with the Corporation. For the purpose of sanctioning or disbursement of Loan, the entrepreneurs are advised to approach the officers of the Corporation directly whenever they find any difficulty or delay in disposal of their cases.

3.3 FINANCING OF MSFC IN MAHARASHTRA STATE IN GENERAL

Industry-wise Classification of Loan Applications Sanctioned And Amount Disbursed Total :

Table No. 3.1 gives industry-wise classification of the loan applications sanctioned and amount disbursed by the MSFC during the years 1978-79 to 1982-83. There are twenty three industries for which MSFC has sanctioned loans through various units.

The units working in Industries like chemicals and chemical products, miscellaneous manufacturing which covers production of plastics, surgical and scientific instruments etc., metal products except manufacturing of machinery and transport equipment, food manufacturing, except Beverages, manufacturing of textiles, Hotel industry, Printing publishing and allied industries, manufacturing of non metallic and mineral products, Basic metal industries, manufacturing electrical machinery, road transport industry have received sanctions of loan more than Rs. One crore for all these years.

It may be noted that these are the industries which provide goods essential for consumption and hence MSFC has done and is doing an outstanding job of providing financial assistance to the crucial industries, the benefits of which will be reached to the poor people not only through directly providing essential goods and services but also indirectly by providing direct and indirect employment through rapid development of these industries.

TABLE NO. 3.1

INDUSTRY-WISE CLASSIFICATION OF LOAN APPLICATIONS SANCTIONED & AMOUNT DISBURSED TOTAL

Sr.No.	Type of Industry	1978-79		1979-80		1980-81		1981-82		1982-83	
		Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.	Mining & Quarrying	10.15	8.65	49.73	31.31	67.16	49.14	27.98	29.17	47.38	36.03
2.	Food Mfg. Industry except Beverage Industry	298.40	202.47	323.47	204.71	321.51	230.79	277.78	228.61	271.72	186.13
3.	Mfg. of Footwear and Other wearing Apparels & Made-up Textile Goods	23.01	12.74	5.75	8.11	15.03	11.32	13.09	6.39	0.53	14.87
4.	Textile Mfg.	254.66	136.64	423.80	160.37	213.63	198.43	206.72	151.62	184.09	128.97
5.	Mfg. of Goods & Cork except Mfg. of Furniture	42.92	20.63	31.53	33.20	33.28	25.37	31.02	20.49	15.60	24.44
6.	Mfg. of Furniture & Fixtures	4.42	5.76	8.17	3.39	17.54	7.30	20.22	8.60	47.11	23.47
7.	Mfg. of Paper & Paper Products	88.82	102.81	64.44	55.45	130.25	107.78	134.60	104.38	172.76	108.09
8.	Printing, Publishing & Allied Industries	107.57	39.35	113.23	81.42	223.71	147.74	119.97	155.21	177.52	118.71

TABLE NO. 3.1 (Contd.)

1.	2.	3.	4.	5.	6.	7.	8.	9.	40.	11.	12.
13.	Mfg. of Non-Metallic and Mineral Products	145.90	91.12	87.21	71.51	134.91	75.45	160.89	121.79	175.51	100.20
14.	Basic Metal Industries	122.15	46.63	130.99	34.01	149.30	111.35	165.34	107.86	177.56	117.59
15.	Mfg. of Metal Product except Machinery & Transport Equipments	428.70	453.15	639.98	429.79	699.54	535.36	876.77	586.59	1,031.76	648.03
16.	Mfg. of Machinery except Electrical machinery	99.29	81.54	140.46	52.49	123.28	85.33	201.33	69.50	203.15	140.62
17.	Mfg. of Transport Equipments	55.35	33.96	36.69	14.73	24.88	39.74	57.61	20.29	85.08	38.87
18.	Mfg. of Electrical machinery apparatus, appliances etc.	145.27	74.05	97.89	81.67	123.90	88.75	253.64	84.37	213.16	125.14
19.	Miscellaneous Mfg.Industry	446.93	207.83	302.61	304.57	443.37	329.99	635.63	446.30	591.64	393.63
20.	Electricity, Gas, Steam & Sanitary Services	15.40	21.73	-	2.00	-	0.47	7.64	-	25.00	3.3
21.	Hotel Industry	224.94	77.26	242.75	169.51	258.81	161.59	89.64	139.02	291.51	95.68
22.	Transport Industry :										
	(a) Road Transport	140.91	97.39	155.39	150.09	110.22	119.50	116.31	113.46	176.53	171.75
	(b) Water Transport	27.74	23.70	136.82	29.75	269.14	128.87	43.13	64.11	64.50	70.92
23.	Beverage Industries	1.69	2.29	13.30	36.70	4.31	3.99	31.53	6.56	7.56	25.47

3.4 FINANCING OF MSFC IN KOLHAPUR REGION IN PARTICULAR :

i.e. Industrywise Classification of Loan Amount Disbursed :

One of the significant aspects of the industrial development of Maharashtra State is the emergence of the new growth centres which have been successful in attracting a large number of industrial activities as a result of the policy of industrial dispersal pursued vigourslY by the State Government. The industrial activities in the State have been concentrated geographically in the well known Bombay, Pune Blet. However, in recent years the share of the districts of Bombay, Thana and Pune in industrial employment has decreased from 78% in 1973-74 to 69% in 1980-81.

The State Government is conscious of the issues of regional disparities in the State and hence the main aim of the industrial policy of the State Government and main emphasis on its implementation has been on the dispersal of industries and promoting new industries by way of the development of backward areas.

MSFC as a developing agency aims at the achievement of the higher targets of sanctions and disbursements along with serving the cause of backward areas development by adopting "Area Development" approach. At the same time it lays emphasis on the development of developing

areas on scientific lines. Another important aspect of the policy of the MSFC activities has been the implementation of Twenty Point Programme by adopting the assistance to the persons from the economically weaker sections of the society and the traditional artisans from the rural areas.

On account of various measures taken by the State Govt. and several Schemes implemented by the financial institutions especially MSFC the Kolhapur Region benefitted in several ways. Table No. 3.2 shows that the share of the Kolhapur Region in financial assistance provided by the MSFC in terms of actual disbursement ranges from 15.30% in 1980-81 to 17.77% in 1981-82 in terms of number of units assisted, and from 6.12% in 1981-82 to 8.62% in 1982-83 in terms of the amount disbursed by the MSFC.

Taking into consideration the data presented in the Table No. 3.1, it is observed that the amount disbursed by the MSFC for the State as a whole whows steady and continuous increase from Rs. 20.91 crores in 1978-79 to Rs. 32.15 crores in the year 1982-83, which is increased by 53.75% during the period covered by our study. During this period there is a steady and continuous increase in the amount disbursed in financing of MSFC to Maharashtra State in general.

Taking into consideration the disbursements made by MSFC in the Kolhapur Region, it may be observed that it also shows, a steady and continuous increase from 1.46 crores in the year 1978-79 to Rs. 2.77 crores in the year 1982-83 indicating an increase of 89.54% during the five years reflecting about 17.91% rate of growth per annum while the rate of growth per annum of financial assistance extended by the MSFC in Kolhapur Region has been higher by about 5 percentage points. Thus it may be concluded that the industries in the Kolhapur Region are receiving financial assistance from the MSFC at a higher rate than that for the State as a whole, as a result of which the industrial activity in this region developing significantly where the role played by the MSFC is outstanding.

The MSFC has taken a lead to provide financial assistance to a large no. of industries with a view to promote and develop a large number of budding entrepreneurs, especially from small scale industries as this Kolhapur Region has been characterised by the dominance of the Small-scale industries. Table No. 3.3 gives industry-wise break up of the financial assistance disbursed by the MSFC in the Kolhapur Region.

It is interesting to note the industries getting substantial financial assistance of the orders of 15 to 24% are those from Basic Metal Industries and Manufac-

-turing of Chemical and Chemical products. This is because of dominance of small scale industries concentrating in production of spare parts from various metals required for different types of machines produced in the large scale sector industries established in the developed regions like Poona and Bombay. There are several units working in the industry supplying their products to the Government and Semi-Government bodies like Railways, Telephones, Water Supply accessories to the Kolhapur Municipal Corporation, Municipalities of Sangli and Satara and Zilla Parishads of Kolhapur, Sangli & Satara.

The amount disbursed by the MSFC to a large number of units working in Metal Industries shows continuous increase from Rs. 34.95 lakhs in the year 1982-83, thus indicating an increase of the order of 91.67%. In terms of percentage share of the metal industries in the total also indicates not so much changes, i.e. 23.90% of the total in the years 1978-79 to 23.80% in the year 1982-83, though it shows a decrease of 0.10% which is negligible. On the whole, it may be concluded that the Metal Industries claimed for around 1/5th of the total assistance given by the MSFC at the beginning of the period covered by the Table No. 3.3 which increased to about 1/4th by the end of the period covered by our study.

The industry next in importance is that of Manufacturing of chemical and chemical products. The reason being

that this Kolhapur Region has been observed to be most suitable on account of plenty and assured supply of water, cheap labour availability of transport facilities etc. This industry claims 1/6th of the total financial assistance provided by the MSFC in the Kolhapur Region. The share of this industry in the total was 14.87% in the year 1978-79, which shows continuous and steady increase amounting to 18.26% for the year 1982-83. In terms of absolute amount this share has been received financial assistance significantly and continuously over the period which was of the order of Rs. 21.75 lakhs in the year 1978-79 which increased to Rs. 50.56 lakhs in the year 1982-83, thus indicating an increase of 132.91% the order of practically more than double by the end of the period covered by the Table No. 3.3.

The industry next in importance is that of Food manufacturing industry except Beverage industry. This industry has received financial assistance of the order of 9.66% of the total in the year 1978-79, however its share in the ~~year 1978-79~~ total shows continuous decrease when it amounted to 5.78% of the total in the year 1982-83. In terms of absolute amount the industry received Rs. 14.12 lakhs of the financial assistance in the year 1978-79 which increased to Rs. 19.13 lakhs in the year 1980-81. However, the assistance to this industry shows continuous decrease during the following two successive

years when it received only Rs. 16.04 lakhs in the year 1982-83 by way of financial assistance by the end of the period covered by the Table No. 3.3. Taking into consideration the important role played by agro-based industries, especially Food manufacturing industry except Beverage industry, it may be suggested that the MSFC should be little more liberal in extending the financial assistance to the units working in this industry. It may take necessary steps to find out dynamic entrepreneurs who are interested in taking active part in promoting Food manufacturing units so as to contribute directly and indirectly to the process of regional development and achieve optimum utilisation of the available resources.

The manufacturing of Textile Industry stands next in orders of importance, although the share of financial assistance given to the units working in this industry shows increase from Rs. 9.55 lakhs in the year 1978-79 to Rs. 16.54 lakhs in the year 1980-81. However, the financial assistance to this industry shows continuous decrease during the following two successive years when it received only Rs. 11.11 lakhs in the year 1982-83. Some picture is reflected if we take into consideration the percentage share of this industry to the total because this industry has received financial assistance of the order of 6.53% of the total in the year 1978-79, however its share in the total decreased when it amounted

to only 4% of the total in the year 1982-83. In this context, it may be noted that the centres like Gadhinglaj, Ichalkaranji, Jaysingpur, Kurundwad, Kupari, Lat, Shiradwad, Budhagaon, Kendal, Madhavnagar, Kangoli, Tasgaon, Sangli, Bhuinj, Koregaon, Atit, Satara etc., which are characterised by large number of power loom units and some of these growth centres indicate signs of rapid growth of power loom industries on account of facilities like cheap and plenty supply of labour, water, raw materials and the proximity of rapidly developing m markets. Thus, in this context it is worthwhile to mention that the MSFC should provide financial assistance to the units in manufacturing of Textile Industry on still a larger scale as they have got potentialities to contribute significantly to the process of regional development.

Kolhapur Region is famous for Kolhapuri Chappals which are in heavy demand in foreign countries like Russia, America and Mid-Eastern Countries. It is also true that this Kolhapur Region has got enough talents and raw materials required for industrial units working in the manufacturing of Leather, and Leather Products Industry. Kolhapur Sangli and Satara have got a large number of Leather Tanning Units where tanning is carried out on traditional lines by using the internal back of the Babhul Trees and Myrobalan Fruits available in the forest area of Amba Ghat. It is in this context the MSFC should take

a lead by way of preparing a special scheme exclusively for small scale industries working in the Manufacturing of Leather and Leather products industry and Manufacturing of Footwear industry because these industries will provide stimuleus not only to expand number of units but also can help to improve the standard of living of the rural artisians who can get employment opportunities.In spite of most favourable circumstances this industry has not received proper attention from the MSFC because the financial assistance received by the small scale units working in the manufacturing of Leather and Leather Products and Foot wear industries have received financial assistance which is quite negligible and which has not amounted even to 2% of the total throughout the period covered by the table No. 3.3.

TABLE NO. 3.2 SUMMARY OF AMOUNT DISBURSED IN MAHARASHTRA STATE (TOTAL) AND IN THE KOLHAPUR REGION

(Amount in Lakhs of Rs.)

Sr. No.	Years	Amount Disbursed				% Share of K.P.R. Rgn. of Maharashtra State.	
		Maharashtra State (Total)		Kolhapur Region		No. of Units	In the total Amt. disbursed
		No of. Units	Rs.	No. of Units	Rs.		
1.	1978-79	1746	3,274.44	234	216.21	13.40	6.60
2.	1979-80	1980	2,365.35	306	207.68	15.45	8.78
3.	1980-81	2157	3,016.81	330	250.10	15.30	8.29
4.	1981-82	1975	3,086.63	351	250.58	17.77	8.12
5.	1982-83	2562	3,215.53	391	277.15	15.26	8.62

SOURCE : Office Records : MSFC Kolhapur Region and

17th Annual Report 1978-79 Annexure 14.C Page 56
18th Annual Report 1979-80 Annexure 14.C & 6, Page 56 & 42
19th Annual Report 1980-81 Annexure 14.C & 5, Page 59 & 44
20th Annual Report 1981-82 Annexure 14.C & 5, Page 61 & 46
21st Annual Report 1982-83 Annexure 6.C & 9 Page 46 & 50