
UNIT 12 TERM-LENDING FINANCIAL INSTITUTIONS — STATE LEVEL

Structure

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12.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the need for the state-level development banks
- describe the objectives, resources and functions of term-lending institutions at the state level
- critically evaluate the performance of term-lending institutions at the state level.

12.1 INTRODUCTION

In the previous unit you have been introduced to various all-India term-lending financial institutions. You have studied their objectives, management, functions and working. In this unit you will study about various issues relating to the development banks at the State level in India.

12.2 NEED FOR STATE LEVEL TERM-LENDING INSTITUTIONS

Industrial Finance Corporation of India (IFCI) was established in 1948 at all India level to provide finance exclusively to large scale industrial units. Financial needs of medium and small size industries were not covered by IFCI. The government, therefore, felt the need for starting development banks at the regional level to provide assistance to small scale industries. Consequently, State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs) were established in all the states. State level development banks were established with the following objectives :

- 1) To provide financial assistance to industrial units particularly small scale units in the State.
- 2) For establishing and managing the industrial estates.
- 3) To concentrate on the development of less developed parts of the States, through provision of infrastructure facilities like roads, electricity, drainage and water supply.
- 4) To establish institutes to provide training to the middle and high level technicians.
- 5) To decentralise the development banking activities and take them to semi-urban areas in the State.
- 6) To provide better access to the borrowers and clientele.
- 7) To have thorough knowledge about the local conditions and problems.
- 8) To overcome the problem of language and communication.

Now let us study the functions, types of assistance provided and the working of the two important term-lending institutions at State level namely State Financial

12.3 STATE FINANCIAL CORPORATIONS (SFCs)

State Financial Corporations Act, 1951 was brought into force to enable all State Governments (except Jammu and Kashmir) to set up State Financial Corporations as regional development banks. They are to meet the financial requirements of small and medium size industrial units in the respective States. The first State Financial Corporation was established in Punjab in 1953. Subsequently Andhra Pradesh and Bihar State Governments took the lead to set up SFCs in 1960 followed by Uttar Pradesh, Karnataka, Gujarat, Maharashtra and Orissa. At present, there are 18 SFCs operating in different States and Union Territories in the country.

Financial Resources

Capital structure of an SFC is determined by the concerned State Government with a minimum of Rs. 50 lakh and maximum of Rs. 5 crore. They are also authorised to raise funds by issue of share capital, and issue of bonds and debentures guaranteed by State Governments. They can also accept medium and long-term deposits from public. In addition, they can borrow from other financial institutions.

Management

Every SFC is managed by a 12 member Board of Directors. The State Government concerned appoints the Chairman and the Managing Director, and nominates three directors. IFCI and IDBI nominate one director each. Three directors are elected by financial institutions. The rest will be chosen on the basis of one each from schedule banks, cooperative banks and other financial institutions. One director is elected by non-institutional share holders.

Types of Assistance

SFCs provide the following types of assistance:

- 1) Granting of long-term loans to industries for the purchase of land, buildings and machinery.
- 2) Guaranteeing payment on behalf of the entrepreneur for purchasing machinery on deferred payments from suppliers within India.
- 3) Underwriting issue of shares, bonds and debentures of industrial concerns.
- 4) Guaranteeing loans raised by industrial concerns for a period not exceeding 20 years.
- 5) Guaranteeing loans raised by industries from commercial banks or co-operative banks for acquiring fixed assets.
- 6) Subscribing to debentures of industrial units.
- 7) Provision of foreign exchange loans to industries under the World Bank line of credit.
- 8) Special capital assistance upto Rs. 2 lakhs.
- 9) Loans to industries in collaboration with the central financial institutions like the IDBI, the IFCI and the ICICI, and joint financing of projects along with the SIDCs and the commercial banks.
- 10) Acting as an agent of the State or Central Government or any other financial institutions notified on this behalf by the Central Government.

Eligibility

Industrial concerns under any form of ownership viz., a proprietary concern, joint Hindu Family, registered co-operative society, private or public limited company engaged in or proposed to engage in one or more of the following activities are eligible for financial assistance.

- 1) Manufacture of goods
- 2) Preservation of goods
- 3) Processing of goods
- 4) Mining
- 5) Hotel industry
- 6) Development of industrial estates
- 7) Generation and distribution of electricity or any other form of power
- 8) Transport industry

- 9) Assembling, repairing or packing any article with the aid of machinery or power
- 10) Fishing or providing shore facilities for fishing or maintenance thereof
- 11) Providing special or technical knowledge or other services for the promotion of industrial growth.

Performance of SFCs

Operations of SFCs were on moderate scale during the fifties and sixties. But there was a rapid increase in their activities during seventies. It was due to the emphasis laid by Government on promotion of small scale industries, new entrepreneurs and development of backward areas. By March 1989, their cumulative sanctions and disbursements stood at Rs. 8,651 crore and Rs. 6,356 crore respectively. In 1988-89 alone, sanctions and disbursements accounted for Rs. 1,405 crore and Rs. 1,053 crore respectively. The details of financial assistance given by State Financial Corporations can be seen from Table 12.1

Table 12.1
Assistance Sanctioned and Disbursed by the State Finance Corporations from 1965-66 to 1988-89

Year	Sanctions		Disbursements	
	Amount. (Rs, crores)	Growth Rate(%)	Amount (Rs. crores)	Growth Rate (%)
1965-66	25.3		18.0	—
1970-71	49.6	—	33.5	—
1971-72	64.1	29.2	39.6	18.2
1972-73	78.7	22.8	44.7	12.9
1973-74	103.1	31.0	54.6	22.1
1974-75	141.8	37.5	79.6	45.8
1975-76	155.5	9.7	98.8	24.1
1976-77	163.3	5.0	105.2	6.5
1977-78	166.2	1.7	107.4	2.1
1978-79	200.7	20.8	135.0	25.7
1979-80	263.8	31.4	184.8	36.9
1980-81	370.5	40.4	248.0	34.2
1981-82	509.6	37.5	317.7	28.1
1982-83	611.6	20.0	404.0	27.2
1983-84	644.9	5.4	435.5	7.8
1984-85	743.1	15.2	497.7	14.3
1985-86	1,009.1	35.8	608.5	22.3
1986-87	1,210.8	20.0	791.9	30.1
1987-88	1,284.7	6.1	938.0	18.4
1988-89	1,404.7	9.3	1,053.1	12.3
Cumulative upto March,, 1989	8,651.5	—	6,356.2	—

Source: IDBI Report on Development Banking in India 1988-89, P. 49.

SFCs are playing an important role in financing small and medium scale concerns in their respective States. **They, however, are being criticised on the following grounds:**

- 1) **Recovery of Dues :** Recovery of dues is not satisfactory. For example, their arrears had trebled from Rs. 215 crore in 1979-80 to Rs. 623 crore in 1984-85. In case of many SFCs, **overdues** exceed their disbursements. Another disturbing trend is that the percentage of **overdues** to outstanding loans was increasing as is seen from Table 12.2. The mounting arrears are severely affecting resource position of SFCs.
- 2) **Assistance to Tiny Industries:** Financial assistance of SFCs to small industries sector is declining. This is evident from Table 12.3. Share of units which received assistance upto Rs, 50,000 is declining both in terms of number and amount. Contrary to this, share of units which were sanctioned assistance above Rs. 10 lakhs is continuously increasing in terms of number as well as amount. Further 6.2% of the units sanctioned loans above Rs. 10 lakh accounted for about 50% of total assistance of SFCs during 1984-85. As against this, small units which

accounted for 42% of the total units received only 3.5% of the total sanctions given by SFCs.

Table 12.2 : Percentage of Overdues to Outstanding Loans

Year	Percentage
1980-81	25
1981-82	26
1982-83	26
1983-84	27
1984-85	29

Source: Economic Times, September, 15, 1986.

Table 12.3 : Size-wise Classification of Assistance

(Rs. in crores)

Year	Assistance upto Rs. 50,000		Assistance above Rs. 10 lakh	
	Number of Units	Amount	Number of Units	Amount
1980-81	19,603 (67.8)	28.82 (7.8)	787 (2.7)	142.95 (38.6)
1981-82	19,158 (59.8)	28.42 (5.6)	1,158 (3.6)	291.07 (43.4)
1982-83	17,382 (51.0)	27.99 (4.6)	1,366 (4.1)	256.63 (42.0)
1983-84	14,930 (48.1)	28.46 (4.4)	1,528 (4.9)	295.70 (16.0)
1984-85	13,087 (41.5)	26.89 (3.5)	1,955 (6.2)	385.13 (49.4)

Note: Figures in brackets indicate percentage to total.

Source: Economic Times, September 15, 1986.

- 3) Inadequate Resources : Many SFCs do not have sufficient funds to meet growing demands for their financial existence. In the recent past, the State Governments are found to concentrate more on welfare programmes. Hence, the SFCs are finding it difficult to arrange funds to meet their needs.
- 4) Increasing Sickness : Many of the assisted units are becoming sick resulting in an increase in the burden of debts.
- 5) Too many Formalities : The SFCs follow the same old process of scrutiny and processing of loan applications. Consequently, by the time a loan is finally sanctioned and disbursed, business scene may have undergone so much change, that the project is no longer an attractive proposition.

Check Your Progress A

- 1) State level term-lending institutions were needed to provide :

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- 2) State whether the following statements are True or False.
 - i) All the Board of Directors of SFCs are nominated by the concerned State Government.
 - ii) SFCs grant loans to large scale industries.
 - iii) SFCs have not been able to recover their dues efficiently,
 - iv) Almost all SFCs have surplus funds.
 - v) SFCs provide the facility of guaranteeing the payments on behalf of the industrial units.

12.4 STATE INDUSTRIAL DEVELOPMENT CORPORATIONS (SIDCs)

Since 1960, many States and Union Territories started State Industrial Development Corporations (SIDCs) for accelerating industrial development in their respective States. In certain States these are called State Industrial Investment Corporations. **Andhra Pradesh** and **Bihar** were the first to set up Such corporations in 1960 followed by **Uttar Pradesh** and **Kerala** in 1961 and **Maharashtra**, **Gujarat** and **Orissa** in 1962. By the year 1988 there were 26 SIDCs spread all over the country.

Financial Resources

Besides paid-up capital and loans from State Governments, SIDCs also borrow funds from market by way of bonds and debentures and refinance from IDBI. Of the total resources aggregating Rs. 1,113 crore mobilised by SIDCs during 1988-89, break-up of contributions from different sources was as follows:

1) Increase in paid-up capital	10.1%
2) Borrowings by way of bonds	2.8%
3) Repayments by borrowers	14.8%
4) Institutional borrowings	33.5%
5) Others	38.8%

Management

The SIDCs function under the guidance of respective State governments. Except for one nominee of the IDBI, all other members of their Boards of Directors are nominated by State governments. The boards constitute special committees as and when they feel necessary. Those committees advise the board on various issues relating to the business. Managing Director is the Chief Executive of an SIDC. He looks after its day-to-day management.

Functions

The following are the functions of State Industrial Development Corporations:

- 1) Promoting industrial activities such as project identification, preparation of feasibility reports, identifying entrepreneurs and assisting them in project implementation.
- 2) Setting up of medium and large scale industrial projects either in joint sector or as wholly-owned subsidiaries.
- 3) Provision of infrastructural facilities and market intelligence services.
- 4) Granting of financial assistance by way of term loans/bridge loans and underwriting or subscription of equity and preference shares.
- 5) Acting as agent of State and Central Governments in respect of granting subsidies, incentives, etc.

Performance of SIDCs

Sanctions and disbursements of SIDCs are given in Table 12.4. As is seen from the table, their cumulative sanctions and disbursements stood at Rs. 4,356-crore and Rs. 3,136 crore respectively by March 1989. During the year 1988-89 they accounted for Rs. 742 crore and Rs. 531 crore respectively. Rapid expansion of operations of SIDCs in recent years is brought out by the fact that their aggregate assistance during the four year period, i.e., 1985-89, was more than the total assistance given by the SIDCs from their inception till 1985.

SIDCs are contributing a lot to the structural transformation of industry. In fact three-fifths of their total sanctions were in respect of units in non-traditional industries like chemicals, basic metals and metal products, machinery, etc. Their assistance for accelerating industrial development in backward regions is increasing substantially. For instance, by March, 1989, industrial units in backward areas accounted for 62.9% of the cumulative sanctions of SIDCs. Look at Table 12.5 which provides the details regarding the assistance sanctioned by SIDCs to backward areas.

Seed Capital Assistance

SIDCs have been playing an important role in widening the entrepreneurial base by operating the seed capital scheme on behalf of Small Industries Development Bank of India.

Table 12.4: Assistance Sanctioned and Disbursed by SIDCs

Year	Sanctions		Disbursements	
	Amount (Rs. crores)	Growth Rate (%)	Amount (Rs. crores)	Growth Rate (%)
1971-72	23.6	—	14.4	—
1972-73	23.5	, (-) 0.4	16.6	15.3
1973-74	27.9	18.7	20.6	24.1
1974-75	33.5	20.1	26.7	29.6
1975-76	37.5	11.9	26.4	(-) 1.1
1976-77	71.8	91.5	35.0	32.6
1977-78	87.9	22.4	44.8	28.0
1978-79	98.3	11.8	60.1	34.2
1979-80	157.7	60.4	85.3	41.9
1980-81	216.4	37.2	124.6	46.1
1981-82	299.6	38.4	191.1	53.4
1982-83	296.6	(-) 1.0	208.0	8.8
1983-84	364.6	22.9	236.5	13.7
1984-85	477.9	31.1	297.6	25.8
1985-86	527.0	10.3	364.0	22.3
1986-87	570.3	8.2	425.1	16.8
1987-88	619.4	8.6	449.1	5.6
1988-89	742.3	19.8	530.7	18.2
Cumulative upto March 1989	4356.4		3135.8	

Source: IDBI Report on Development Banking in India, 1988-89. P. 56.

Under the scheme, equity type of **assistance** is provided to deserving new generation entrepreneurs who possess necessary skill but lack adequate resources.

Table 12.5 : Assistance Sanctioned to **Backward** Areas by SIDCs

Year	(Rs. crore)		
	Backward Areas	Non-backward Areas	Total
1986-87	362.0	208.3	570.3
	(63.5)	(36.5)	(100.0)
1987-88	411.2	208.2	619.4
	(66.4)	(33.6)	(100.0)
1988-89	438.9	303.4	742.3
	(59.1)	(40.9)	(100.0)
Cumulative upto March, 1989	2,741.4	1,615.0	4,356.4
	(62.9)	(37.1)	(100.0)

Note: Figures in brackets indicate percentage to total

Source: IDBI Report on Development Banking in India, 1988-89.

But **SIDCs** also suffer from the following problems and drawbacks:

- 1) Many of them are facing the problem of funds. The present availability of funds is not sufficient for growing needs of industrial units.
- 2) **Overheads** are becoming a big problem for almost all SIDCs.
- 3) Political interference in activities of SIDCs has been increasing.

12.5 TECHNICAL CONSULTANCY ORGANISATIONS

In addition to the availability of finance, technical consultancy services play a very important role in the industrial growth of the country. The large scale industries can afford to maintain and equip separate technical consultancy departments or else they can spend **good** amount of money and can take the assistance from well established consultancy **organisations**. But the small scale units cannot afford the cost of services

of private consultancy units operating purely on commercial considerations. It is in this context that the technical consultancy organisations (TCOs) were set up in the early seventies. The IDBI, IFCI and ICICI, in collaboration with State-level financial/development institutions and commercial banks, established a network of TCOs. At present, there are 17 TCOs in the country, some of them covering more than one State.

TCOs have been set up to provide a package of total consultancy services covering all stages in the project cycle under a single roof. TCOs also provide consultancy services to State Governments, State-level development financing institutions and banks. The major thrust of operations of TCOs is in the area of preparation of project reports and feasibility studies. Having gained experience over the years, TCOs have diversified into the fields of identification of potential entrepreneurs and their training, project implementation, rehabilitation, management consultancy, detailed design engineering, and turn-key services, besides energy audit and conservation.

During the year 1988-89, TCOs completed a total of 3,550 assignments, as against 3,082 during the previous year. The assignments included :

- 2,983 feasibility studies/project reports/profiles
- 31 project appraisals
- 170 industrial potential/ market/area development and other surveys
- 9 functional industrial complexes/turn-key assignments
- 219 modernisation/rehabilitation/diagnostic studies
- 138 other assignments/special studies

TCOs also prepared techno-economic feasibility reports involving investment of Rs. 503 crore and employment potential for 31,438 persons. Besides, they conducted 178 entrepreneurship development programmes (EDPs) where 3,316 entrepreneurs were trained. TCOs also conducted 54 entrepreneurship awareness camps and 12 training programmes under the self-employment scheme for educated unemployed youth (SEEUY).

Check Your Progress B

1) What are the major activities of SIDCs?

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2) Fill in the blanks :

- i)and were the first states to set up SIDCs.
- ii) The SIDCs function under the guidance of respective
- iii) Under the scheme, equity type of assistance is provided to deserving new generation entrepreneurs.

3) State whether the following statements are True or False.

- i) SIDCs have been playing an important role in widening the entrepreneurial base.
- ii) Except for one nominee of State government, all other members of the Board of Directors of SIDCs come from IDBI.
- iii) SIDCs are contributing a lot to the structural transformation of industry.
- iv) TCOs provide technical consultancy to only the State level development financing institutions.

12.6 LET US SUM UP

State level term-lending institutions were needed to provide infrastructural facilities, training facilities and financial assistance to small scale units, besides helping in the development of backward areas in the State:

State Finance Corporations were established in 18 States and Union Territories to finance small and medium size industrial units. Every SFC is managed by a Board of

Directors with 12 members at present. It grants loans to industries to purchase land, buildings and machinery. It also guarantees payment on behalf of the entrepreneur, besides directly providing foreign exchange loans and subscribing to debentures of industrial units. The SFCs are playing an important role in financing small and medium scale concerns in their respective states. However, recovery of dues is not satisfactory and financial assistance to small industries is declining. However, SFCs suffer from inadequacy of resources and unnecessary formalities.

State Industrial Development Corporations (SIDCs)/State Industrial Investment Corporations (SIICs) have been set up by different states in India to promote medium and large scale industrial projects by providing financial and infrastructural assistance. There has been rapid expansion in the activities of SIDCs/SIICs in recent years, particularly in non-traditional industries, development of backward areas and providing seed capital assistance. Like SFCs, SIDCs/SIICs are also facing the problem of shortage of funds and overheads.

At the State level Technical Consultancy Organisations (TCOs) were set up to help small scale units. At present there are 17 TCOs in India and have significant contribution in providing technical consultancy.

12.7 KEY WORDS

Term Lending : A bank advance for a specific period (normally 3 to 10 years) to be repaid with interest usually at regular intervals.

Seed Capital Assistance : Equity type of assistance is provided to deserving new generation entrepreneurs who possess necessary skill but lack adequate resources.

12.8 ANSWERS TO CHECK YOUR PROGRESS

- A 1) Financial assistance to small scale units; helping the development of less developed areas; providing infrastructural & training Facilities.
 2) i) False ii) False iii) True iv) False v) True
- B 1) promoting industrial activities; providing infrastructural and financial assistance; setting up industrial projects; Acting subsidies etc. on behalf of state governments.
 2) i) A.P. and Bihar ii) State government iii) seed capital
 3) i) True ii) False iii) False

12.9 TERMINAL QUESTIONS

- 1) Describe the structure of term lending financial institutions at the State level in India.
- 2) Critically evaluate the role of SFCs in the industrial development of states in India.
- 3) Discuss briefly the management, functions and performance of SIFCs/SIICs.

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.