

DEVELOPMENT BANKING IN INDIA IN TURBULENT TIMES A Case Study of Punjab

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This paper is an investigation into the gaps between the image and reality of the functioning of the Punjab Financial Corporation (PFC) in the context of regional development. Having discovered that the PFC has not properly addressed itself to the problems of small scale sector, balanced regional development etc., the authors suggest a number of ways of restructuring with which the PFC can indeed act as an engine of development in Punjab.

INTRODUCTION

The process of industrial growth requires, as one of its accompanying structural changes within the economy, the development of capital market that will provide an adequate and properly distributed finance to those entrepreneurs, public or private, who are setting up new plants or expanding existing ones. While finance itself produces no output until capital equipment and new materials are purchased with it, the availability of money and credit permits entrepreneurs to gain control over real resources which enable them to engage in an industry by producing and distributing products. Thus, capital market consists of a "series of channels through which the savings of the community are made available for industrial and commercial enterprises for public authorities. It embraces not only the system by which the public takes up long-term securities, directly or through intermediaries but also the elaborate network of institutions responsible for short-term and medium-term lendings."

The expected impact of the PFC is particularly on the industrialisation of the state and the contribution made in terms of diversification of industrial structure, regional dispersal of industries, and industrialisation of the backward areas.

The present study is an attempt to evaluate at micro level the working and performance of PFC through an indepth case study. Efforts have been made to look into the performance of Punjab Financial Corporation in an objective manner and that leads to some findings which will hopefully add to positive knowledge on the one hand, and contribute to information system of decision makers interested in improvement in the working and

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performance of PFC in particular and SFCs in general, on the other.

RESEARCH METHODOLOGY

Secondary data has been collected from the IDBI's annual reports as well as from internal circulars of PFC. Working of PFC has been examined in terms of organisation-policies, objectives, financial resources and contributions made by PFC in the process of development of Punjab State.

The state of economy of Punjab and efforts for industrialisation through successive five years plans in the state have been studied by referring to Five Year Plans and review of plans and statistical abstracts and economic survey of Punjab.

Operational performance of PFC has been measured in terms of the amount of assistance sanctioned, and disbursed. Industry-wise and region-wise analysis of the assistance provided by PFC has also been made. Fixed index number and chain base index number has been calculated to analyse the increase or decrease in the amount of sanctions and disbursements. In order to capture the trend more precisely the amount of loan sanctioned to disbursed has been regressed on the basis of time. The trend growth rate has been calculated on the semi-log scale.

PROFILE OF STATE FINANCIAL CORPORATION

The PFC was set up in 1953 to fill up the gap in meeting the financial requirements of medium and small scale industrial units in the State. Although profit is a criterion of efficiency of management of corporation, a financial corporation, however, should not be judged only in terms of its financial record. Of greater significance to the economy is the corporation's contribution in terms of its impact on the thinking; work ethos and the attitude of its clients and of the business community. Financial corporations are channels through which society achieves modernity and entrepreneurial and institutional growth. Thus, its true profitability can be found in and flows from an enhanced sense of business ethics, innovation in techniques and improvement in management practices and the operational workings.

OPERATIONAL PERFORMANCE OF FINANCIAL CORPORATION IN PUNJAB — GROWTH OF SANCTIONS AND DISBURSEMENTS

Table 1 shows the total amount of loans sanctioned and disbursed over the period 1980-81 to 1989-90 and also the fixed index numbers (1980-81=100) and chain base index numbers.

Fixed index numbers of total amount sanctioned have increased from 100 in 1980-81 to 701.73 in 1991-92. It means an increase of more than 7 times in 10 years. The corresponding index number of assistance disbursed have increased from 100 in 1980-81 to 781.48 in 1991-92. This means an increase of 7.81 times in just 10 years. Thus, though both the amount sanctioned and amount disbursed have increased over the years, the amount disbursed have increased more than the amount sanctioned.

The chain base index numbers have been computed to show the increase or decrease in the total amount sanctioned and disbursed. These show that in the years 1981-82 and 1982-83, amount sanctioned increased as compared to the previous years but in the next two years (1983-84 and 1984-85) it marginally decreased as compared to previous year.

However, in the year 1984-85 amount sanctioned decreased to a large extent. The chain base index number touched 36.93 as compared to 101.96 in the year 1983-84. After that there was a continuous increase in the amount of sanctions till 1986-87 and then a marginal decrease in 1988-89.

The chain base index numbers of amount disbursed is more than 100 for all the years except in the year 1984-85 and 1990-91. The management of PFC claimed that decline in the amount of loan sanctioned and disbursed was due to general recession in those years and increase in the amount was due to their own efforts.

In order to capture the trend more precisely, the amount of loan sanctioned to disbursed have been regressed on the basis of time.

The best fitted model for total assistance sanctioned is:-

$$\begin{aligned}
 Y &= ab^t \\
 \log y &= a+bx \\
 \log \hat{y} &= 3.522+0.146552 x \\
 &\quad (.004427) \\
 \text{Growth rate} &= 40.1367 \text{ per cent}
 \end{aligned}$$

The value of regression co-efficient is found to be 0.146552 showing a growth rate of 40.13 per cent. The trend growth rates have been estimated on a semi log scale.

The best fitted model for the disbursement is

$$\begin{aligned}
 Y &= ab^t \\
 \log y &= a+bx \\
 \log \hat{y} &= 3.3615 + 0.54072 x \\
 &\quad (.00569) \\
 \text{Growth rate} &= 63.99 \text{ per cent}
 \end{aligned}$$

The value of regression co-efficient has been found to be 0.5497 showing a growth rate of disbursement as 63.99 per cent. The trend growth rate has been estimated on a semi log scale.

Table 2 shows compound growth rates for plan periods for loans sanctioned, disbursed and outstanding.

Table 1 : PFC : Index Numbers of Amount Sanctioned and Disbursed

Year	Amount Sanctioned	Fixed Index Number	Chain Index Number	Amount Disbursed	Fixed Index Number	Chain Index Number
1980-81	1314.54	100.90	100.00	844.70	100.00	100.00
1981-82	1517.39	115.43	115.43	940.81	111.37	111.37
1982-83	2800.26	213.02	184.54	1467.17	173.69	555.94
1983-84	2855.30	217.95	101.96	1557.40	184.37	106.58
1984-85	1054.70	80.23	36.93	1066.30	126.23	68.46
1985-86	3139.09	238.79	297.61	1171.29	138.66	109.84
1986-87	4602.38	350.41	146.61	2983.35	353.18	254.70
1987-88	6362.36	483.99	138.24	3755.83	444.63	125.89
1988-89	6567.38	500.27	103.36	4555.56	539.31	121.29
1989-90	7190.96	548.28	113.00	7872.25	931.95	172.80
1990-91	8266.72	628.86	114.95	5903.61	698.90	74.99
1991-92	9224.54	710.73	111.58	6601.19	781.48	111.81
Growth rate	40.13 (.004427)*			63.94 (.00569)*		

Source : Annual Reports of PFC various statements issued by PFC
(The Index Number have been calculated on the basis of Annual Reports of PFC)

* Figures in parentheses are 't' values

Table 2 : Compound Growth Rates for Loans Sanctioned, Disbursed and Outstanding by PFC

Plans	Sanctioned	Disbursed	Outstanding
Annual Plans	16.51	16.80	—
IV-Plan	28.43	20.85	20.83
V-Plan	20.37	22.79	25.17
VI-Plan	16.72	17.48	17.14
VII-Plan	21.43	21.89	20.77
Upto 1989-90	20.64	20.00	21.03

Source : Punjab Financial Corporation, Annual Reports, Various Issues.

Note: Growth rate is for the period 1968-69 to 1989-90.

Table 2 indicates that sanctions and disbursements of PFC have grown almost at the same rate over the period 1965-66 to 1989-90. The growth rate of sanctions was 20.6 per cent and that of disbursements was 20 per cent per annum. However, if we look at the growth of amount sanctioned and disbursements from the angles of the plan periods, there emerges a distressing trend. After the initial steep rise in growth rates of sanctions from 16.5 per cent per annum during the annual plans to 28.43 per cent during the fourth plan, there is a declining trend whereas in the subsequent plans (during seventh plan), it again rose to more or less at the normal rate of 20 per cent per annum.

The growth of disbursements shows a consistently increasing trend till the fifth plan. During sixth plan, growth rate declined to 17.48 per cent from 22.70 per cent in the fifth plan. During the seventh plan, it again rose to 21.89 per cent but was still below the level of fifth plan. A similar trend is discerned in the amount outstanding. The whole analysis indicates that the corporation has been working under several constraints, partly due to its poor resource position and partly due to various hurdles in the industrialisation of the state.

ASSISTANCE TO SMALL SCALE SECTOR

The SFCs were established primarily to cater to the financial needs of small and medium scale units. SFCs have a special responsibility to assist the small scale sector. Year-wise trend in the amount of assistance sanctioned to SSI units shows an increase from 58.89 per cent in 1980-81 to 86.38 per cent in 1989-90. In the matter of disbursements also, the share of SSI units in the amount of loans disbursed have shown an increase from 48.67 per cent in 1980-81 to 89.47 per cent in 1989-90.

The shift in favour of small scale industries in the loan portfolio of PFC in the last few years has been the result of deliberate policies pursued by the Government (Central and State), the RBI, the IDBI and PFC itself. The small scale industries are potential source of employment for the large number of unemployed persons in our country and prevent concentration of economic power.

Table 3 shows the amount sanctioned and disbursed to SSI alongwith

index numbers with base 1980-81 and chain base index numbers.

Fixed index numbers of amount sanctioned to small scale sector have increased from 100 in 1980-81 to 796.30 in 1989-90, showing an increase of nearly 8 times in 10 years. The corresponding figures for amount disbursed have increased from 100 in 1980-81 to 1060.20 in 1989-90 thereby showing an increase of nearly 10 times.

Chain base index numbers have been calculated to show percentage increase or decrease over the previous year. Maximum increase is in year 1985-86 over 1984-85, i.e. to 290.63 from 46.93. After that amount there has been percentage decrease in amount sanctioned till 1988-89 as compared to the previous years. The chain base index number is less than 100 in 1983-84 and 1984-85. Similarly, for disbursement, chain base index numbers were less than 100 in 1984-85 for both amount sanctioned and amount disbursed, chain base index number was lowest in that year. Highest chain base index number of amount disbursed was in the year 1986-87. Rest of the years show gradual increase/decrease over the previous year. Loan sanctioned is generally less than loan disbursed as loan disbursed also included disbursements in respect of previous sanctions also.

Table 3 shows percentage of total sanctions and disbursement during the year. The Tables show that per cent of sanctions during the year to total sanctions increased constantly except in year 1986-87 and 1989-90. Per cent of disbursement during the year to total disbursement shows similar trend.

In order to capture the trend more precisely the amount of loan sanctioned and disbursed to small scale sector have been regressed on time.

The best fitted model for assistance sanctioned to small scale sector is:

$$\begin{aligned} Y &= ab^t \\ \log y &= a+bx \\ \log y &= 3.36249 + .30607 x \\ &\quad (.019334) \\ \text{Growth rate} &= 50.72 \text{ per cent} \end{aligned}$$

The value of regression co-efficient is found to be 0.30607 showing a growth rate of 50.72 per cent. The trend growth rate have been estimated on a semi log scale.

The best fitted model for assistance disbursed to small sector is:

$$\begin{aligned} Y &= ab^t \\ \log y &= a+bx \\ \log y &= 3.14437 + .184547 x \\ &\quad (.007216) \\ \text{Growth rate} &= 52.94 \text{ per cent} \end{aligned}$$

The value of regression co-efficient is found to be .18454 showing a growth rate of 52.94 per cent. The trend growth rate have been estimated on a semi log scale.

Table 3 : PFC : Index Numbers of Amount Sanctioned and disbursed

Year	Amount Sanctioned	Fixed index Number	Chain Index Number	Amount Disbursed	Fixed Index Number	Chain Index Number
1980-81	770.25	100.00	200.00	411.18	100.00	100.00
1981-82	1034.79	234.34	234.34	607.29	147.69	147.69
1982-83	2136.83	277.42	236.49	1095.34	266.38	180.36
1983-84	1820.11	236.30	85.17	1197.14	291.11	109.29
1984-85	854.25	210.90	26.93	678.37	164.98	56.66
1985-86	2482.75	322.33	290.63	900.51	219.02	132.75
1986-87	3837.09	498.16	154.54	2371.74	562.22	263.35
1987-88	5246.96	681.20	136.74	3310.90	805.22	139.59
1988-89	5202.03	675.36	99.14	4065.099	988.64	122.77
1989-90	6133.56	796.30	117.90	4359.34	1060.20	107.23
Growth rate	50.72 (.010334)*			50.94 (.007216)*		

Source : Annual Reports of PFC (1980-81 to 1989-90).

* Figures in parentheses are 't' values.

Thus, from the point of view of assistance to small scale sector, the PFC has done a good job. The average assistance to SSI units have been more than 65 per cent. The emphasis is given to small scale units during the period.

It can also be seen from the table 4 and 5 showing relative shares of small scale and medium scale industries in the sanctions of the PFC. It can be seen that percentage share of sanctions going to small scale sector has been consistently greater than that of medium scale industries. The trend growth rate over the period 1970-71 to 1988-89 shows a marginal increase of 0.73 per cent.

ASSISTANCE TO BACKWARD AREAS

An important objective of economic planning is the balanced development of different regions of the country. It is in this context that SFC's in particular can play a crucial role as their operations are not governed by market conditions. By this preferential treatment to industries set up in the backward areas, these institutions can contribute significantly to the balanced development of different regions.

The PFC does not keep itself confined to small scale sector only. One of the aims of the corporation is also to disperse such industries in the backward areas. The industries organised in backward areas provide raw materials for industries situated in more developed areas.

The assistance sanctioned and disbursed by PFC to backward sector and non-backward sector is shown in table 6. The percentage of amount sanctioned has decreased from 51.83 in 1980-81 to 41.33 in 1989-90 to backward areas. In case of disbursement also the percentage of amount disbursed has decreased from 54.19 percentage to 42.19 per cent during the same period.

The table 6 shows the assistance sanctioned and disbursed to backward areas by PFC over the period 1980-81 to 1989-90 alongwith index numbers with base 1980-81 and chain base index numbers. Sanctions to backward areas have gone up by 4.43 times and disbursements by 4.17 times during the period.

The chain base index numbers reveal that maximum increase in the sanctions as compared to the previous year were during 1985-86 and for disbursement it was in the year 1986-87.

In order to capture the trend more precisely the amounts of loan sanctioned and disbursed to backward areas have been regressed on time.

The best fitted model of amount sanctioned to backward area is:

$$Y = ab^t$$

$$\log Y = a + bx$$

$$\log Y = 3.09761 + 0.269809 X$$

$$(.009305)$$

$$\text{Growth rate} = 86.12 \text{ per cent}$$

The value of regression co-efficient is found to be 0.269809 showing a growth rate of 86.12 per cent.

Table 4 : Total amount Sanctioned and Disbursed to Small Scale Units by PFC

Year	Amount Sanctioned	Percentage of total sanctioned during the year	Amount Disbursed	Percentage of total disbursed during the year
1980-81	770.25	58.59	411.18	48.67
1981-82	1034.79	68.19	607.29	64.54
1982-83	2136.83	76.30	1095.34	74.65
1983-84	1820.11	63.74	1197.14	76.86
1984-85	854.25	80.99	678.37	63.61
1985-86	2482.75	79.09	900.51	76.88
1986-87	3837.09	83.39	2371.74	70.49
1987-88	5246.96	82.46	3310.90	88.15
1988-89	5202.03	79.10	4065.09	89.23
1989-90	6133.56	86.38	4359.34	89.47

Source: Annual Reports of PFC (1980-81 TO 1989-90)

Table 5 : Sector-wise Agerage Size of Sanctions by PFC

(Rs. in lakhs)

Year	Small Scale	Medium Scale
1970-71	0.9703	3.377
1974-75	1.310	6.531
1979-80	3.735	20.099
1980-81	3.349	20.934
1981-82	3.164	22.981
1982-83	4.198	22.114
1983-84	3.415	29.557
1984-85	1.668	28.641
1985-86	6.130	26.253
1986-87	5.129	31.887
1987-88	5.437	33.800
1988-89	3.368	41.653
1989-90	126	35.393
Trend Growth Rate		
1970-71* to 1989-90	.0836 (0.351)	.1167 (7.979)

Source: Annual Reports of PFC

Notes: Figures in Parenthesis are 't' values

* Significant at 0.1% level

Trend Growth Rates

The best fitted model for amount disbursed is :

$$\begin{aligned}
 Y &= ab^t \\
 \log y &= a+bx \\
 \log y &= 2.933608 + 0.24814 \times \\
 &\quad (.0102279) \cdot t \\
 \text{Growth rate} &= 77.06 \text{ per cent}
 \end{aligned}$$

The value of regression co-efficient is found to be 0.24814 showing a growth rate of 77.06 per cent. The trend growth rate is estimated on a semi log scale.

An analysis of the assistance sanctioned by PFC has been carried out according to backward and non-backward regions and also on the basis of district wise sanctions.

The percentage sanctions going to backward and non-backward districts during various years are shown in Table 4.7. They have been fluctuating over time. But the proportions have increased for backward districts, i.e., Amritsar, Sangrur, Bhatinda, Hoshiarpur, Faridkot, Gurdaspur and Ferozpur.

Table 6 : PFC : Index Numbers of Amount Sanctioned and Disbursed to Backward Areas
(Rs. in lakhs)

Year	Sanctions			Disbursements		
	Amount Sactioned	Fixed Index Chain Index Number (1980-81= 100)	Number	Amount Disbursed	Fixed Index Chain Index Number (1980-81= 100)	Number
1980-81	681.38	10.00	100.00	457.78	100.00	100.00
1981-82	526.69	77.28	77.28	527.68	115.26	115.26
1982-83	767.20	112.59	145.68	604.68	132.08	114.59
1983-84	1158.71	170.05	151.03	654.89	143.05	108.10
1984-85	437.93	64.27	37.79	512.21	111.88	78.21
1985-86	1327.08	194.76	303.03	503.06	109.89	98.21
1986-87	2380.03	349.29	179.34	1299.19	283.80	258.25
1987-88	2612.52	383.41	96.10	1827.46	399.20	99.59
1988-89	2718.51	398.97	104.05	1949.41	425.83	106.67
1989-90	3021.41	443.42	111.14	1911.93	417.65	98.93
Growth rate	86.12			77.06		
	(.009305)*			(.010227)*		

Source : Annual Reports of PFC various statements issued by PFC.

* Figures in parentheses are 't' values.

During the year 1970-71 the backward districts received only 12.75 per cent of the total cumulative sanctions of the corporation and 87.25 per cent went to the non-backward districts. This clearly shows that the backward districts were industrially backward, which they were bound to and financially neglected. However, in the subsequent years their share staggered to 58.18 per cent in 1978-79. Since then it has again been dwindling and it touched as low as 27.40 per cent in 1982-83. In this respect, the PFC is to be blamed to the extent that it has not been able to encourage and promote entrepreneurship in these districts. But the PFC is of the view that it is basically a financial institution which can provide only industrial finance from wherever the viable demand for finance comes. The low demand for finance is ascribed to paucity of entrepreneurship, lack of infrastructure facilities etc. which are beyond the scope of corporation. The percentage of sanctions as given in table 7 suggests that the backward districts enjoyed fifty per cent share.

However, it is heartening to note that the trend growth rate of the sanctions to backward districts over the period, as shown by table 8, growth rate was 21.68 per cent and 14.60 per cent respectively for backward and non-backward areas. However, PFC has tried to ensure more development in the backward districts.

SECTOR-WISE ASSISTANCE

The sector-wise assistance of PFC as given in table 9 shows that it is mainly the term financier of the private sector. 99 per cent of its assistance has gone to the private sector. In terms of amount of assistance in 1988-89, the effective sanctions to the private sector accounted for 95.80 per cent of the total sanctions of the PFC and the percentage of disbursements and outstanding were 97.30 and 96.50 respectively. The assistance to co-operative sector is nil and to the joint sector and public sector negligible.

The reason for the low share of the public sector lies in the fact that it enters the field of directly productive activities in large sector. The financial assistance to large sector mainly comes from the central financial institutions.

Table 7 : Percentage of sanctions to backward and Non-backward Areas

Year	Backward Districts	Non Backward Districts
1970-71	12.75	87.25
1974-75	26.41	73.59
1978-79	58.18	41.82
1979-80	49.54	50.46
1980-81	51.83	48.17
1981-82	34.70	65.00
1982-83	27.40	73.60
1983-84	40.58	59.42
1984-85	41.50	58.50
1985-86	42.31	57.71
1986-87	57.80	49.20
1987-88	41.90	51.90
1988-89	41.34	58.66
1989-90	42.56	57.44

Source: Annual Reports of PFC

The needs of joint sector are met from the IDBI, the IFCI, the ICICI, the LIC and the UTI. Thus, for all the practical purposes, the PFC is solely the term loan financier of the private sector for small and medium industries. The main drawback of PFC has been that it has not designed ways and means through which it can shape the private entrepreneurship according to the needs of the modern industry.

In terms of amount sanctioned and disbursements, maximum sanctions have gone to private sector. Private sector received Rs.5060.92 lacs in 1987-88 which increased to 5665.78 lacs in 1989-90. It accounted for 99.07 per cent in 1988-89 and 85.85 per cent in 1989-90. In disbursements also a similar trend is seen. In 1987-88 it accounted for 100 per cent of

disbursements (Rs. 3755.83 lacs) while in 1989-90 it received 98.6 per cent (Rs.4806.91 lacs) of total disbursement.

Private sector was followed by joint sector as it received 2.96 per cent (Rs.151.00 lacs) of total amount sanctioned in 1987-88 while no amount was disbursed in that year. In 1989-90 joint sector disbursements were of Rs.6.35 lacs (1.23 per cent) only.

PURPOSE-WISE ASSISTANCE

The purpose-wise classification of sanctions and disbursements of the PFC for the years 1982-83, 1988-89 and 1989-90 is given in Table 10. The table shows that maximum assistance was given to new projects (80.37 per cent) in 1982-83 followed by assistance sanctioned for expansion and diversification (17.71 per cent) and generating assets (3.05 per cent) and supplementary assistance, no sanctions were made for modernisation, rationalisation and balancing equipment. In 1988-89 the new projects continued getting major share of sanctions of PFC (86.36 per cent) followed by expansion and diversification (10.32 per cent). Sanctions to expansions and diversification decreased from 17.71 per cent in 1982-83 to 10.32 per cent in 1988-89 modernisation/rationalisation also got quite a large amount of sanctions (101 lacs) whereas these projects were totally ignored in 1982-83. In 1989-90, new projects again got maximum share of 87.95 per cent (Rs.5010.78 lacs) of total sanctions followed by expansion and diversification (7.80 per cent), but it decreased from 10.32 per cent in 1988-89 to 7.80 per cent in 1989-90.

In disbursements also, new projects got major share in 1982-83 (86.10 per cent) as well as in 1988-89 (95.62 per cent) and 1989-90 (93.4 per cent). The disbursements to expansion and diversification projects decreased from 9.36 per cent in 1982-83 to 3.96 per cent in 1988-89 but increased to 7.80 per cent in 1989-90 whereas modernisation projects got only (0.31 per cent) of total disbursement in 1988-89 and 1.16 per cent in 1989-90 as compared to 2.34 per cent in 1982-83.

Thus, in terms of proportions of sanctions the corporation has gone out in a big way to assist the new projects and the new entrepreneurs. The emphasis of the corporation is on new projects and it has been gradually withdrawing itself from the old and well established firms which is evidenced by the declining advances for the purpose of expansion/diversification and modernisation etc. The reasons for this trend can be that old/existing firms, may not have been interested in such changes and did not avail such help from the corporation. The sanctions for expansion diversification decreased 17.71 per cent in 1982-83 to 10.32 per cent in 1988-89 and 7.80 per cent in 1989-90 whereas disbursement decreased from 9.3 per cent (1982-83) to 3.96 per cent in 1988-89 but increased to 5.07 per cent in 1989-90. A negligible supplementary assistance is given in the form of cash over run and purchase of generating assets.

On the whole, above analysis shows that loans have not been sanctioned and disbursed in a balanced way. Modernisation/rationalisation/balancing equipment have remained seriously neglected inspite of the fact

that technological changes are rapid in modern business world.

INDUSTRY-MIX ASSISTANCE OF THE PFC

The activities of the corporation cover a wide and varied field of industries. All the industries are grouped in six broad industrial groups. Table 11 shows the share of these groups in sanctions and disbursements of corporation during various plan periods. The traditional industries like agro, forest and textile based industries continued occupying the first place in all the plan periods followed by engineering goods in sanctions as well as disbursements. These were followed by rubber and chemicals, services, basic metals and metal products respectively whereas assistance for cement and non metallic industry groups has been insignificant.

The share of traditional groups declined from 48 per cent during the annual plans to 39 per cent in the 7th plan. Engineering goods improved from 14.52 per cent to 22.00 per cent during the same period. In basic metal group improvement is marginal i.e. from 12.27 per cent to 13.63 per cent. The service industries were ignored in annual plans but they received quite a good share in 4th (22.59 per cent) and 5th (17.37 per cent) plans. This analysis shows that there has been an upswing in the favour of non-traditional industries.

The industrial group wise analysis of sanctions and disbursements of PFC indicates that the share of traditional industries increased from 37 per cent to about 40 per cent and that of engineering goods industries recorded a decline from about 35.53 per cent to 19.98 per cent during the first to seventh plan period. But the rank of this industry is same in the 7th plan, as has been in the annual plans. Cement and non-metallic industries were neglected through all the plans.

CONCLUSIONS

The Punjab Financial Corporation was set up to finance small and medium sectors of industry in the State of Punjab. The growth rate of sanctions and disbursements of the corporation during the period under study was about 20 per cent. An appraisal of the growth rate of sanctions reveals that the fifth and sixth plan was the peak period of activity of the corporation.

A purpose wise analysis of the assistance by the PFC reveals wide gaps. Rationalisation, modernisation and rehabilitation etc. have remained neglected in spite of the fact that these aspects of industrialisation are very important in the changing economic scenario.

The pattern of distribution of loans according to the forms of organisation reveals that major beneficiaries continue to be partnerships, private limited companies and sole proprietary concerns which reveals that the pace of growth of corporate sector in the state continues to be slow. The partnership firms and private limited companies are predominant in the loan portfolio of PFC.

Although the PFC has helped in the growth and diversification of the small sector through its financing, yet its functioning is more like that of a

commercial bank than that of a development bank. It has not done much in the field of promotion of diversification, modernisation and rationalisation. Instead of emphasis on the small sized units, its assistance is biased in favour of medium-sized units. The objective of development of backward areas also has not been fulfilled to the extent desired.

The bias in the functioning of the corporation flows from the fact that it combines in itself the function of finance of both the medium and the small sectors. The problems of small scale units are different from those of the medium scale units in several ways.

They have a special set of organisational and technical problems which call for the services of a specialised institution. Some of the peculiar problems of small units like uncertainty about continuity of management, the kind of security it may be able to offer, the absence of a corporate status, etc. have deterred the PFC from financing the small industrial undertakings progressively. Therefore, it is desirable to have separate organisation for financing the medium scale industries and the PFC should work for the small sector only.

The appraisal of the sanctions of the PFC against the assistance applied for reveals that it leaves much to be desired in its attitude towards the seekers. It should review the cases in such a way that it provides greater opportunity to dynamic elements. Many persons who had no connection with the industry in the past have come forward during recent years and have become industrial entrepreneurs. The emergence of new entrepreneurs from the ranks of traders, civil servants, landlords, technicians and professional people should be particularly helped by the PFC not only with finance but also by providing guidance and advice as well. Thus PFC should function as an engine of growth in the small scale sector.

RECOMMENDATIONS

To improve the recovery performance, it is suggested that PFC should make an in-depth review of default portfolio, reasons for default should be analysed on case by case basis and appropriate recovery strategies should be adopted in order to recover the amount due keeping in view the difficulties of loanee concerns.

The trend of arrears concerns the Corporation since it impinges upon the optimal utilisation of the available funds. In order to reverse the growing arrears, the Corporation should devise suitable plans so that it is in a position to recycle its resources.

The Corporation should be made accountable for better management and efficient operations so that the objectives for which it has been set up are accomplished without any problem.

The internal control system in PFC is very weak right from the sanction of the loan till the inspection and recovery thereof. It is therefore, suggested that PFC should have proper discipline in following the internal control system so that the benefits which it envisages to pass on to the industry are really given to the deserving cases.

Industrially backward districts need special consideration of the corpo-

ration while financing the industrial units so as to promote balanced regional development in the state.

To improve the functioning of the corporation, a system of efficiency audit could be employed. There is need to develop performance appraisal system, management audit, achievement assessment in relation to the corporation alongwith built in system of reward cum punishment for increasing the managerial efficiency.

The main criteria for judging the performance of the corporation should be financial and working results. The true picture of accountability of the Corporation should be based on the principle : the greater the autonomy, the greater the accountability. Hence the Corporation should have fair autonomy in day-to-day administration.

To monitor and periodically review the qualitative performance of the corporation, consumer councils may be set up so that the Corporation achieves its desired objectives.

To provide a push to genuine promotional and financing activities, a review of Corporation's portfolio is necessary. The researchers having taken a look at the functioning of the Corporation, suggest hiving off such activities from the Corporation which have lost relevance to the policy regime.

One major factor that has proved to be a drag on the efficient functioning of the Corporation is the multipoint interference in its day-to-day decision making. The idea of memorandum of understanding may be implemented in case of Punjab Financial Corporation, since it represents a genuine desire to give autonomy to the Corporation. At the same time the Corporation could be made accountable for better management and efficient operations of the enterprise.

Table 8 : Average Annual Growth Rate of Sanctions by PFC to Backward and Non-Backward Areas

Year	Backward Areas	Non Backward Areas
1970-71	29.00	198.45
1974-75	265.85	743.61
1978-79	518.48	372.70
1979-80	490.26	499.27
1980-81	681.38	636.16
1981-82	526.60	990.79
1982-83	767.20	2033.06
1983-84	1158.71	1696.59
1984-85	333.87	720.87
1985-86	1327.08	1812.01
1986-87	2380.03	2222.35
1987-88	2612.58	3749.84
1988-89	2718.51	3858.07
1989-90	3021.41	3858.07
Trend Growth Rates		
1970-71 to 1989-90	21.68 (6.325)*	14.694 (5.747)*

Source : Annual Reports of PFC

Note : Figures within parenthesis represent 't'

* Significant at 0.1% level

Table 9 : Section-wise Assistance by PFC

	1987-88				1988-89				1989-90			
	Effective Sanctions		Disbursements		Effective Sanctions		Disbursements		Effective Sanctions		Disbursement	
	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount
Public	2(.25)	80.00	—	—	2	74.50	—	10.00	1	34.00	1	4.99
		(1.51)	—	—	(.26)	(1.43)	—	(.219)	(0.15)	(.59)	—	(.10)
Joint	4(.50)	151.00	—	—	5	143.00	2	116.92	—	—	2	60.35
		(2.96)	—	—	(.66)	(2.75)	(.32)	(2.43)	—	—	(.01)	(1.23)
Co-operative	—	—	—	—	—	—	—	—	—	—	—	—
Private	795	5060.92	664	3755.83	750	4978.12	613	4434.64	655	5665.78	5704	4806.9
	(99.52)	(95.52)	(100)	(100)	(99.07)	(95.80)	(99.67)	(97.3)	(0.85)	(99.4)	(.99)	(.98)
Total	801	5297.92	1664	3755.83	757	5793.62	615	4555.56	656	5699.78	572	1872
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source : Annual Reports of PFC of respective years

* Figures in parentheses show percentage to total

Table 10 : Section-wise Classification of Sanctions and Disbursements by PFC

Sectors	1987-88				1988-89				1989-90			
	Effective Sanctions		Disbursements		Effective Sanctions		Disbursements		Effective Sanctions		Disbursement	
	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount
New Projects	367	1806.01	230	192.04	704	4485.46	595	4356.23	621	5010.78	1536	4551
	(79.96)	(80.87)	(85.19)	(86.10)	(92.99)	(86.36)	(96.75)	(95.62)	(96.6)	(87.95)	(94.87)	93.4)
Expansion/Diversification	77	395.58	22	129.64	37	515.95	19	180.33	30	445.01	26	247.0
	(16.78)	(17.71)	(8.15)	(9.36)	(4.88)	(10.32)	(3.00)	(3.96)	(4.57)	(7.80)	(4.5)	(5.07)
Modernisation/Rationalisation and balancing equipment	—	—	5	32.42	0.5	101.00	—	—	4	66.36	—	—
			(1.85)	(2.34)	(.66)	(1.94)			(.60)	(1.16)		
Rehabilitation	—	—	—	—	—	—	—	—	2	—	—	—
Supplementary Assistance	1.88	1	—	—	—	—	-1	4.70	29	(.50)	—	—
	(0.02)	(.02)					(.16)	(.10)	(1.37)	148.61	9	71.53
(a) Cash overruns	—	—	—	—	—	—	—	—	—	—	—	—
(b) Correction of balance in current position	—	—	—	—	—	—	—	—	—	—	—	—
(c) Relieving Strain on cash resources	—	—	—	—	—	—	—	—	—	—	—	—
(d) Repayment of pressing liab/financial re-organisation	—	29.79	13	29.63	—	1.60	—	—	—	—	(0.17)	1.50
(e) Generating Sets 14	—	—	—	—	—	—	—	—	—	—	—	—
Total	459	2233.26	270	1384.42	757	5193.62	675	4555.56	656	5699.78	572	4872

Source : Annual Reports of PFC of respective years

* Figures in parentheses shows percentage to total

Table 11 : Share of Broad Industrial Groups in the Sanctions and Disbursement of the PVC during Plans

(Rs. in lakhs)

Industry Group	Annual Plans (1966-69)		IV Plan (1969-74)		V Plan (1974-79)		VI Plan (1980-85)		VII Plan (1985-90)	
	S	D	S	D	S	D	S	D	S	D
Agro, Forest and textile based	47.78	36.87	31.83	33.65	18.01	38.30	38.22	40.23	38.70	39.91
Rubber and Chemical based	14.56	17.96	5.52	7.89	12.09	11.58	20.94	18.67	19.20	18.90
Cement Nonmaterial mineral	1.41	1.17	1.09	1.78	5.43	0.05	1.29	0.80	1.30	0.78
Basic Materials and Metal products	12.27	8.07	15.44	15.75	10.84	9.45	13.45	13.26	13.63	12.91
Engineering goods	14.32	35.53	23.53	22.56	21.26	26.92	21.40	20.33	22.00	19.89
Services	9.45	2.40	22.59	18.37	18.37	14.34	4.70	6.71	5.16	7.52
Total	283.24*	194.45*	1843.00*	3265.67*	3456.13	3265.67*	9542.19	12256.09*	20675	5765.92
	(100)		(100)							

Source : Annual Reports of PFC

*Total Amount sanctioned and disbursed during the

Notes : S = Sanctions, D = Disbursements

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