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DEVELOPMENT OF WEAKER SECTION OF SOCIETY: A ROLE OF STATE FINANCIAL CORPORATIONS

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ABSTRACT

The state Financial Corporation's (SFCs) are state level financial institutions playing an important role in the development of small and medium enterprises, in their respective states in tandem with the national priorities. The main objectives of SFC's are to catalyze investment, generate employment and to broaden the ownership base of industries. The financial assistance includes term loan, direct subscription to equity capital. A state financial corporation operates a number of schemes of refinance and equity type assistance on behalf of IDBI, SIDBI, Besides they also have schemes for artisans and special target groups such as SC/ST, women, Ex- service men, physically handicapped etc. in tandem with the changing environment. The Present paper is based on role of Sate financial corporations in economically weaker section of the society.

KEYWORDS

state financial corporations, weaker section.

1. INTRODUCTION

Haryana Financial Corporation is one of the most important financial institution in the State of Haryana. HFC came into existence on 1st April 1967 as State Financial Corporation. HFC is set up by the State Government of Haryana under the State Financial Corporation's Act, 1951. HFC is an autonomous body and it has been established to help the Industrialists to establish their industries in the State of Haryana. HFC meets the credits needs of small, medium scale industrial units and weaker section of society by advancing term loans. Punjab Financial Corporation a premier leading institution of Punjab is a body incorporated under the State Financial Corporations Act 1951. The Corporation came into existence on 1st February, 1953. The Corporation has played significant role in bringing about decentralized economic development, development of backward regions and also reduction in regional imbalances in the State. Under various schemes of the SFCs for weaker sections of societies, artisans, village and cottage industries, SC/ST and physically handicapped persons can avail loans for equipments, working capital as also working sheds. Proprietor, family partnership courts employing not more than four persons in space under 300 sq. feet with power load up to 1 K.W. may also avail loans in residential area for selected activities. The promoter's contribution in various schemes range from nil to 10 percent, only with a processing fee up to 0.5% of the total loan. The present paper is based on the study of role state financial corporations in development of economically weaker section of society in the state of Haryana and Punjab.

2. REVIEW OF LITERATURE

State Financial Corporations are an important area of finance and research in the past as well as in the present. Empirical studies have been conducted covering the performance evaluation and role of financial institutions and development banks. Important findings of some of the studies conducted in the past having bearing on the discussion of the performance appraisal and role of the financial corporations under study have been reported below

Jain (1956) in his study looked at the total performance of various institutional financing agencies, using secondary data only. The study reveals that the assistance to small scale industrial sector has been grossly inadequate. Secondly, the agencies have developed a preference of investing their funds in the medium and large scale units and the bigger ones among the small scale units.

Agarwal, B.R. (1966) in his study on "Industrial Finance in Rajasthan" examined the role of Rajasthan Financial Corporation in extending financial assistance to the industries in the state. He pointed out that the rejection rate of loan application was very high because of procedural difficulties, and instance on 50 per cent of security margins.

Bansal (1985) in his doctoral thesis discussed the role played by PSIDC, HSIDC, HFC and PFC in the development of large and medium scale industry in the state of Punjab and Haryana. The study compared the financial procedures, policies and operations of HFC, PFC, HSIDC and PSIDC. It has been concluded that the said development banks have contributed only a small portion towards capital employed in large and medium scale industries in Punjab and Haryana.

Rao (1985) et al. examines the recovery performance of the SFC's. They have found that the bulk of funds of SFC's are blocked in over dues and the large portion of over dues is older than five years or more. They have made efforts to find out the factors responsible for defaults and pointed out that effective follow-up and supervision of assisted units would need to be strengthened by SFCs.

Somayajules (1985) evaluated the performance of Andhra Pradesh State Financial Corporation (APSFC) during the period 1962-82 in terms of trends in sanctions and disbursement to different industrial activities, to different size of industries i.e. large, medium, small to different regions i.e. backward and non-backward. The analysis revealed that the APSFC's lending during the period increased by 247 times. Nearly 50 percent of the industries obtained financial assistance. There was a higher growth rate in sanctions but growth rate in disbursement was very poor. He suggested amendments in the lending policies of the Corporation so that the industries assisted by the Corporation operating at 60 percent capacity utilization might operate at full capacity for increasing the employment potentials.

Chandra (1996) et al. Punjab in their research paper entitled, "Role of Punjab Financial Corporation in Financing the Industries in Punjab", analyzed the role of PFC in financial industries in Punjab. The study shows that PFC specifically caters to the needs of tiny and small units, where the mortality rate is very high and while guarantee the loans balanced regional growth. But the internal controls system of PFC is very weak resulting in red-tapism and bureaucracy.

Kamble (1997) outlines the conception of the Karnataka State Financial Corporation (KSFC) and analyses the role-played by KSFC in industrial development of backward areas and SSI sector in Karnataka. It is concluded that KSFC registered phenomenal progress in terms of sanctions from 1985-96, however sanction to less developed regions are lower as compared to more developed regions. Since SSI units have the potential to play a vital role in providing employment and preventing migration of people from rural to urban areas. Hence KSFC should focus more attention on increasing the sanctions to SSI sector in backward areas.

Singh (2000) in his study entitled "The role of Financial Institutions in the Industrial Development of Punjab" observed that from amongst the 18 SFCs in the country Tamil Nadu state Financial Corporation (T.N. SFC) with sanctions of 92.41 percent to S.S.I sector and Himachal Pradesh state Financial Corporation (HPSFC) with 59.6 percent of sanctions to SSI sector were at the top and bottom of the group respectively. During the years 1980 to 1984, Punjab Financial Corporation sanctioned 80 percent of its loans to the SSI sector, thus playing an important role of the industrialization of Punjab.

3. RESEARCH METHODOLOGY

3.1 OBJECTIVES OF THE STUDY

The main objective of the study is evaluation of the performances of HFC and PFC in terms of loan sanctioned among economically weaker section of society in Haryana and Punjab.

3.2 SCOPE OF THE STUDY

At present there are 18 SFCs operating in India. Out of 18 SFCs, Haryana and Punjab Financial Corporations have been selected for study. The present research has been carried out by studying the working results of these two SFCs over a period of 10 years (2000-01 to 2009-10). A time frame of ten years considered adequate to throw light on the comparative performance of these corporations. Further, due to liberalization and financial sector reforms introduced in the country during the last decade of the millennium, many dynamic changes have occurred. Therefore the study has also reflected the impact of these changes on the working of these Corporations.

3.3 COLLECTION OF DATA

The study under consideration is based on secondary data. The main sources of the secondary data are published annual reports, journals, Newspapers, SFC's Act, 1951 and other printed literature of these institutions. Further data from annual reports of SIDBI and IDBI, has been also collected to enrich the study.

3.4 STATISTICAL ANALYSIS

The collected data has been analyzed in the form of simple statistical tables. Uses of sample techniques like percentages and correlation-analysis have been used. More advance statistical technique such as t-test has also been used to enrich the results.

4. RESULTS AND DISCUSSIONS

4.1 ASSISTANCE SANCTIONED TO ECONOMICALLY WEAKER SECTION BY HFC

The economic development of a region cannot be possible without improving the economic condition of the majority of its population. The institutional development banking infrastructure setup in the country had contemplated a very important role for HFC in the empowerment of economically weaker sections of the State of Haryana. The performance of HFC towards the weaker sections is not sufficient.

The total assistance of loans sanctioned vis-à-vis loans sanctioned to economically weaker sections by HFC has been depicted in Table No. 4.1 It may be observed, that sanctions to weaker sections (entrepreneur who avail loans up to Rs. 5.00 lacs have been presumed as economically weak) by HFC declined from Rs. 1.57 crores in 2000-01 to Rupees .06 crores in 2009-10, thus showing a negative growth of 2516 percent. The share of sanctions to weaker sections out of total sections also increased from 1.20 percent in 2000-01 to 8.03 percent in 2003-04, thereafter it has start declined trend. The role of sanctions to weaker sections out of total sanctions ranged between 0.26 to 8.03 percent. However, the average sanction to economically weaker sections out of total sanctions was 1.93 percent.

TABLE – 4.1: ASSISTANCE SANCTIONED TO ECONOMICALLY WEAKER SECTIONS BY HFC (Rs. in Crores)

Year	Total Sanctions (1)	Sanctions up to Rs. 5.00 lacs (2)	(2) as Percentage of (1)
2000-01	130.37	1.57	1.20
2001-02	137.72	1.96	1.42
2002-03	90.66	4.13	4.56
2003-04	34.88	2.8	8.03
2004-05	51.7	2.24	4.33
2005-06	78.18	1.87	2.39
2006-07	170.67	.91	0.53
2007-08	59.17	.49	0.83
2008-09	64.57	.17	0.26
2009-10	23.48	.06	0.26
Cumulative during the period	841.4	16.2	1.93

Coefficient of correlation between (1) and (2) = 0.8

T-value (significant at 5 percent level) = 0.22

Source: Annual Reports of HFC

4.2 ASSISTANCE SANCTIONED TO ECONOMICALLY WEAKER SECTION BY PFC

The economic development of a region cannot be possible without improving the economic condition of the majority of its population. The institutional development banking infrastructure setup in the country had contemplated a very important role for PFC in the empowerment of economically weaker sections of the State of Punjab. The performance of PFC towards the weaker sections is not adequate.

The total assistance of loans sanctioned vis-à-vis loans sanctioned to economically weaker sections by PFC has been shown in Table No. 4.2 .

TABLE – 4.2: ASSISTANCE SANCTIONED TO ECONOMICALLY WEAKER SECTIONS BY PFC (Rs. in Crores)

Year	Total Sanctions (1)	Sanctions up to Rs. 5.00 lacs (2)	(2) as Percentage of (1)
2000-01	41.5	.58	1.20
2001-02	74.7	.72	1.42
2002-03	22.27	40.04	179.79
2003-04	-	-	-
2004-05	-	-	-
2005-06	2.76	-	-
2006-07	-	-	-
2007-08	-	-	-
2008-09	-	-	-
2009-10	-	-	-
Cumulative during the period	141.23	41.34	29.27

Source: Annual Reports of PFC

It may be observed, that sanctions to weaker sections (entrepreneur who avail loans up to Rs. 5.00 lacs have been presumed as economically weak) by PFC declined from Rs. .58 crores in 2000-01 to Rupees .0 crores in 2009-10, thus showing a negative growth. The share of sanctions to weaker sections out of total sections also increased from 1.20 percent in 2000-01 to 179.79 percent in 2003-04, thereafter it has start declined trend. The percentage of sanction to weaker section during the period is 29.27 percent of the total sanction which is adequate.

5. CONCLUSIONS

The efforts of the Corporation in various spheres to fulfill social obligations of the State are creditable, however the Corporation should have done more to improve the lot of economically weaker sections of the society. Haryana Financial Corporation is pioneer in the development weaker sections of the State. The Corporation has sanctioned only 1.93 percent of its funds to the economically weaker sections of the State, which is inadequate. PFC has also helped the social duties of the State by earmarking around 29.27 percent of its resources for the economically weaker sections of the society. Thus, the Corporation has done its bit for improving the lot of people in the society but it is felt that still more efforts are required in this regard.

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