CHAPTER VIII

LENDING POLICIES AND PROCEDURES

STATE GOVERNMENT AND THE POLICY MATTER

The operational pattern of the corporation is well guided by certain pre-planned policies. The State Government direct the policy matters within the parameter of IDBI guidelines. Policies expressed in general statement or understanding guide or channel thinking and action in decision-making of subordiantes. In discharge of its function the Board of Directors are guided by such instructions on question of policy as may be given to it by the State Government within the policy of IDBI. In practice, the policy cannot be formulated without the prior approval and advice of the IDBI. The spirit of enactment is not only to transform the matter into mere official consultation but practically it also means seeking of consent and approval of the IDBI in favour of certain actions. In most of the provisions of the Act the term 'Consultation with' has not been properly elaborated. In this respect, the general regulation of the corporation may elaborate the practice and manner of consultation. The provision of the Act implies, by consultation, taking of favourable consent and prior approvals which is virtually done for all practical purposes. In case of any dispute between the State Government and the Board as to whether a given question is related to policy matter, the decision of the State Government will be final. For State Financial Corporations, the statute has authorised IDBI to carry out inspection of the workings of the corporation. The IDBI may inspect the workings of the State Industrial Development Corporation also as per power given to them by the respective

SIDCs. It is not a statutory power but derivative power conferred upon it by the SIDCs for their mutual interest and benefit.

The policy decision of a development banking agency like SFCs and SIDCs is always subjective, qualitative and its policy is always dynamic, flexible and innovative. It has been kept flexible to meet the requirements of a specific case on the merits of each unit.

The State Government in policy matters, is conceived to be above the Board of Directors and Board's jurisdiction has been restricted within the policy structure of the State Government. This indicates dual character of both State and Central level organisation enjoyed by the Corporation. Hence, the Act does not give free hand to the State Government in the formation of policy matters.

This Chapter critically analysed various Plans and Policies adopted by the Corporation in the process of loan sanction and monitoring.

The Corporation is basically a term lending institution. It provides loan on various schemes of the IDBI and now SIDBI to mitigate dearth of assistance. Besides loan assistance, various subsidies and incentives are also provided to eradicate backwardness of the entrepreneurs. Some of the important schemes and incentives are discussed under.

General Scheme

The Corporation advances loan to small and medium scale industries which are technically and financially viable. The

project for loan assistance should be in accordance with the Industrial policy of Government of Sikkim.

Loan assistance was provided for creation of fixed assets such as purchase of land, construction of building thereon, purchase of plant and machinery, pre-operative expenses and other assets. Besides this, loans are also provided for setting up a new industrial project, renovation of existing plant and machinery, expansion or diversification and shifting of existing unit from non-conforming to conforming areas. The repayment period was 7½ years with a moratorium of 18 months.[1]

Composite Loan Scheme

This scheme was intended to meet the complete financial requirement of both equipment finance and working capital of artisans, village and cottage industries and small scale industries in the tiny sector. The maximum amount of loan available under this scheme was Rs.50,000. The ceiling of Rs.50,000 was not related to the project cost but to the amount of loan assistance needed by artisans. The repayment period of such loans were 5 to 8 years with an 'initial' moratorium period of 12 to 18 months. No promoter's contribution is needed in this scheme.[2]

Single Vehicle Operator Scheme

Under this scheme the corporation provides financial assistance for purchase of cars to be used as local taxies or trucks or mini trucks or tankers or buses or tourist coaches. Clearance from the Motor Vehicle department and Sikkim Nationalised Transport is necessary. The loan is available for purchase of new vehicles. Some conditions are as follows :

(1) It should be ensured that the vehicle was used as Public Transport Carrier or Contract Carrier;

(2) Preference was given to applicants with driving licence or possessing experience in the transport line as a driver, employee in transport firm or transport agent.

In practice, loan in this scheme was provided for purchase of vehicles to be used as local taxi. Educated unemployed persons were the receipient of this loan. The repayment period was 3 to 5 years with a moratorium period of 6 months. The promoter's minimum contribution was 20.0 present of the cost of the vehicle.[3]

Hotel Loans

The Corporation provides financial assistance for establishing hotels to cater to the needs of tourists. The hotel as a loanee should have boarding, lodging and restaurant facilities and should have been planned on modern lives. The hotels should also be approved by and enlisted with the appropriate authorities like the Municipality, Local Self Government, Tourism etc. Loan to hotels are sanctioned under the General Scheme. Thus, the procedure and moratorium period is same as provided in General Scheme.

Seed Capital Scheme

The scheme aims at assisting new entrepreneurs who do not have adequate resources of their own to contribute as promoter. To be eligible for assistance under the scheme, the entrepreneur should be technically or professionally qualified or possess experience or skills either in industry, business or trade and should have the traits of an entrepreneur for setting up and

running the enterprise successfully. Basically, the applicant should be a new entrepreneur. The seed capital assistance can not in any case be more than the promoters' contribution.

Single Window Scheme for Fixed Assets and Working Capital

New tiny and small scale industrial units whose project cost (excluding working capital margin) does not exceed Rs.5.0 lakhs and the total working capital requirement at the normal level of operation is upto Rs.2.5 lakhs is eligible for assistance under the single window scheme. Industrial units seeking additional assistance for expansion, modernisation, diversification are not eligible for working capital assistance. In this scheme financial assistance is eligible upto Rs.15.0 lakhs. Term loan and working capital loan is sanctioned simultaneously to meet the initial working capital requirement of tiny and SSI units. The moratorium upto 3 years is given for repayment of loan depending upon the cash generation of the unit. The loan component has to be repaid with a maximum period of 10 years including moratorium period.[4]

Rehabilitation Scheme

The units which are considered to be potentially viable but sick, are taken up for rehabilitation with relief packages to overcome its sickness. Maximum limit of loan is 90.0 lakhs with at least 10.0 percent promoters' contribution.

In conformity with the policy of the Government of India, the State Government from time to time introduced various subsidies and incentive schemes to harness industrial activity. These are :

1. Central Investment Subsidy (CIS);
2. Central Transport Subsidy (CTS);
3. Subsidy on Power;
4. Subsidy on Interest on Working Capital;
5. Subsidy to Artisan-oriented Units;
6. Subsidy to beneficiaries under Differential Rate of Interest (DRI) Scheme.
7. Price Preference for marketing assistance;
8. Concessions on Sales Tax;
9. Subsidy on Publicity and Advertisement;
10. Subsidy on Power Generation and Connexion;
11. Subsidy on Registration fee of Promotion Council, Indian Standard Institute (ISI), Commodity Board and Chamber of Commerce;
12. Deferment of Excise Duty;
13. Grant on Pre-Operative Expenses;
14. Special incentive for 'High Value Low Volume' production units and units utilizing local raw-materials.

The Corporation, however, adopt any such scheme, subsidies or incentives formulated by the SIDBI as the activities of the Corporation circumscribed with it.

Amongst subsidies, central investment and transport subsidy considered a major relief to the investors and producers in the state.

CENTRAL INVESMENT SUBSIDY

All the four districts of the state have been classified

as 'No Industry Districts' and hence were eligible for investment subsidy @ 25.0 percent in the cost of fixed assets subject to a maximum of Rs.25.0 lakhs and Rs.50.0 lakhs for electronic projects[5].

A state level committee comprising government nominees, representatives of the corporation and banks, was formed to sanction such subsidy. This was an outright grant and need not be refunded. In Sikkim, the SIDICO was empowered to the sanctioned amount of central subsidy. Against the subsidy, the corporation provided bridge-loan to expedite the need for fund. Such bridge-loan was adjusted on receipt of the subsidy amount from the Central Government.

Table VIII.1 shows that the corporation received investment subsidy since 1980-81. Till 1992-93, the amount of subsidies sanctioned was Rs.497.5 lakhs and disbursement was also upto the sanction i.e. Rs.489.8 lakhs. However, some units became sick even before receiving the subsidies.

The Central Government, however, discontinued investment subsidy during 1988-89. This seizure caused wide gap in the means of project finance as the CIS contributed a large extent to the equity of the project. The promoters of projects have been adversely affected as the equity contribution required to be raised has increased to that extent and hence have had to resort to unsecured borrowings at high interest.

CENTRAL TRANSPORT SUBSIDY

Another important subsidy provided by the Central Government was central transport subsidy.

The CTS was provided on the following criteria:[6]

1. Reimbursement to the extent of 90.0 percent of the transport cost incurred on transportation of basic raw materials from the nearest rail head to the factory site and for transportation of finished goods from the factory site to the rail head. For this purpose, Siliguri or New Jalpaiguri was considered to be the nearest rail head.

2. Reimbursement to the extent of 75.0 percent of air freight incurred for transportation of raw materials and finished products in between the nearest designated airport. Here, Bagdogra and Calcutta were treated as nearest designated airport.

The first sanction and disbursement of CTS took place during 1984-85 (Tab. VIII.1). Till 1993-94, the total amount of CTS availed of and disbursed was Rs.292.2 lakhs.

Among other subsidies and incentives, some of the important are as follows[7] :

a) **Subsidy on Power :** The entrepreneurs were given free use of power upto Rs.25,000/- per annum.

b) **Subsidy on Raw Material :** A subsidy of 25.0 percent of the invoice value, subject to a ceiling of Rs.5,000.0 per annum was provided to the industrial units procuring woollen and cotton yarn from SIDICO for carpet making.

c) **Subsidy on interest on Working Capital :** The entrepreneurs were given subsidy on the interest exceeding 13.0 percent on the working capital, to the non-defaulting unit in respect of interest payment, subject to a maximum of Rs.25,000.0

d) **Price Preference :** The price preference not exceeding

15.0 percent was provided to the units in Sikkim.

e) **Concession on Sales Tax :** The units were exempted from Sales Tax upto five years from the commencement of production.

The industrial interest of the state is being served by the following agencies :

1. Directorate of Industries;
2. District Industries Centre (East & North);
3. District Industries Centre (South & West);
4. District Industries Office, District Administration Centre;
5. Sikkim Industrial Development & Investment Corporation Limited;
6. Small Industries Service Institute, Government of India;
7. The Development Commissioner (Handicrafts), Ministry of Textiles, Government of India;
8. Sikkim Khadi and Village Industries Board;
9. Small Industries Development Bank of India[8];
10. Sikkim Consultancy Centre;
11. National Small Industries Corporation Limited;
12. Directorate of Handlooms & Handicrafts;
13. Lead Bank i.e., State Bank of India;
14. State Bank of India (Main Branch);
15. United Commercial Bank (Main Branch);
16. Central Bank of India (Main Branch).

PROCESSING OF LOAN APPLICATIONS

The Corporation generally follow the guidelines as

prescribed by the IDBI in respect of procedural affairs including processing of loan application. Accordingly, the intending loanee applicant submit the application in prescribed form, prepared on the basis of guideline framed by the corporation in collaboration with the IDBI.

Scrutiny of application is done in two cells of the corporation, namely, financial and technical. The financial cell looks after the financial aspect of the scheme and the technical cell studies the technical feasibility of the scheme. If both the cells are satisfied about the viability, a joint discussion is made by them with the Managing Director, General Manager, Deputy General Manager or Manager, whose views are also considered. The memorandum of concensus on the loan proposal then placed before the Managing Director for his approval and comment. The same in turn, is circulated among other members of the Board and Executive Committee for their perusal and consideration in the ensuing meeting. Finally, the Board or Executive Board accords approval to the proposal with or without certain special terms and conditions, including amount of sanction, rate of interest, period of loan and mode of repayment etc.

To expedite the process of approval, sanctioning power has been bifurcated between the Managing Director and the Executive Committee. However, the cancellation power, to make it more judicious, unbiased and rational, has been vested in the Board only. Sometimes, a pre-sanction inspection is carried out jointly by Technical and Appraisal & Financial wing in order to get first hand knowledge about the feasibility of the project.

The SIDICO started maintaining accounts of application

received, sanctions, rejected and pending in the Annual Reports since 1982-83. Unitwise, number of sanctions has increased gradually over the years. Table VIII.2 exhibit that, during 1982-83, 19 out of 32 applications were sanctioned constituting 59.4 percent of the total. During 1991-92, 223 out of 236 applications were sanctioned, recording the highest ever 94.5 percent of the total. Again, in 1992-93 the percentage of sanctioned to total applications came down the lowest at 42.9 percent. This sharp decline, however, was due to scarcity of funds of the corporation. The situation of sanction improved during 1994-95, but pending rate also deteriorated.

Amountwise, the year 1982-83 witnessed sanction of Rs.42.2 lakhs of the total of Rs;.108.3 lakhs, which accounted 38.9 percent. The year 1989-90, registered a sanction of Rs.324.4 lakhs as against the total of Rs.432.2 lakhs i.e. 75.0 percent of the total, the highest since 1982-83. Unfortunately, the year 1992-93 could sanction only 16.0 percent i.e. Rs.20.9 lakhs of the total amount of Rs.130.6 lakhs for consideration. This was the lowest rate of sanction since 1982-83.

Applications were rejected, cancelled or withdrawn for variouis reasons. Both parties were responsible for such rejection. During 1991-92, rejection was the lowest. Only 3 cases out of 236 were rejected, which accounted 1.3 percent. The very next year 1992-93 experienced highest rejection of 19 cases out of 70 cases, i.e., 27.1 percent. The year, amountwise also recorded highest rejection of Rs.95.9 lakhs of the total Rs.130.6 lakhs which was 73.4 percent of the total.

Pendency in application process was resultant of

sanction and rejection. Amountwise, early eighties occupied comparatively higher rate of pendency.

Many reasons attributed in the rejection, cancellation and withdrawal of applicationsl. Non-availability of Market Survey Report, inadequate managerial capability and failure to produce assurance letter of the State Government were lacunae from borrowers side. The government assurance letter was necessary as the government departments were the major purchaser of the local product. By assurance, the respective department ensure the willingness to purchase the borrowers service.

APPRAISAL AND FINANCE

The process of considering the proposal of a project is governed by two factors viz. financing and appraisal. The guidelines of the central government, RBI and IDBI are taken into account while financing the project. The appraisal exercise involves pre-sanction inspection and verification of facts and figures given by the applicant and the prescription of suitable terms and conditions too. The appraisal of the proposal leads to the sanction of the loan after documentation of securities.

The appraisal of term loan is the most crucial job of the lending institutions. Because the term loan has to be liquidated from the surplus created out of the earnings of the project. It has to be liquidated by the realisation of asset given as security. Loan will be serviced in future, not out of present assets. The term loans are not intended to be repaid out of the sale proceeds of the fixed assets which given as security for the loan.

Assessment of earning potential and generation of cash surplus to repay the loan is a vital ingredient in the appraisal of term loans. Thus, the unit should produce goods of more economic value, both in quantity and quality, acceptable to the market which results in surplus earnings.

With a shift from "security oriented" lending to "purpose oriented lnding", the study of viability of project has become more vital while financing a project. A project should satisfy the tests of technical, commercial, financial and managerial feasibilities.

I. Technical Appraisal

Technical feasibility analysis of a project is an attempt to determine how well technical requirements of the industry can be met.

Technical study includes the following aspects :

1. **Technical Process or Technology :** The selection of process depends on quantity of production required, quality of product, its end use, availability of particular raw material and cost of process. Available technology-banks are Technology Data Bank by Government of India, venture Capital Fund by IDBI, Risk Capital and Technology Finance Corporation provided by the IFCI etc.

2. **Arrangement for Technical Know-how :** It may be ensured that satisfactory arrangements have been made to obtain necessary technical know-how required for the proposed manufacturing process.

3. **Size of the Plant :** The size of the plant or its

capacity can be expressed by the input or output or with respect to number of machines.

4. Product Mix or Product Range : Product-mix or Product-range may be decided according to market requirements.

5. Selection of Plant and Machinery : Selection of plant and machinery should be done according to manufacturing process and size of the unit.

6. Procurement of Plant and Machinery.

7. Plant Layout : Layout can be done by Line, Functional and Group Layout.

8. Location of Project : Study of the location includes selection of general location and also a particular site without the general location.

9. Schedule of Project Implementation : The Project Evaluation and Review Technique (PERT) or Critical Path Method (CPM) helps the promoters in proper planning, scheduling and controlling various activities essential for the execution of a project.

To sum up, it would be prudent on the part of the Corporation if it ensures that the project has been prepared with an eye ever open to the technical feasibility of the project.

II. Commercial Appraisal

Commercial Appraisal is the appraisal by the Corporation of the demand forecast made by the borrowers. The information is required on :

1. Demand;
2. Supply;
3. Distribution;

4. Pricing; and
5. External forces.

The various techniques used for forecasting aggregate demand are :

a) **Import Substitution** : In case the project intends to substitute import, past trend, cost, price of such product has to be obtained;

b) Past Trend Method;

c) End Use Method;

d) Co-rrelation and Regression; and

e) Export Market.

III. Financial Appraisal

Financial Appraisal means how much and to what extent finance is required to materialise the project which is otherwise well planned and sound. The corporation is to determine whether the cost of project as envisaged is realistic. It involves the following aspects :

1. Estimation of the cost of project;
2. Sources of finance;
3. Projection of future profitability, cash flow, debt-service coverage, debt-equity and break-even analysis;
4. In case of expansion, modernisation and shifting of existing units from non-conforming to conforming areas, an analysis of the working results of the existing units, balance sheets and cash flow for the last 3 years.

PROMOTERS' CONTRIBUTION

A certain percentage of the capital cost of a project should be met by the promoters to have their stake in the project. Such contribution can be in the form of share capital, internal generation during the period of implementation of the project, additional capital or unsecured deposits or loans brought or arranged by the promoter. The extent of the promoters' contribution is determined keeping in view the nature of the industry, size of the project, location of the project and background of the promoters.

In case of project having capital cost above Rs.5.0 crores, the minimum level of promoters' contribution is generally kept at 25.0 to 30.0 percent of the project cost. In case of small and medium projects having capital cost upto Rs.5.0 crores eligible for refinance from IDBI or SIDBI, the norms for minimum promoters' contribution[9] stipulated by the refinance agency is as follows :

Category	Minimum Promoters' Contribution as Percentage of Project Cost
1. a. Loans upto Rs.50,000	
i. Under the composite loan scheme to Artisans, village and Cottage Industries and tiny units	
ii. To SC and ST entrepreneurs	
iii. To physically handicapped Entrepreneur.	
b. Loans for financing, quality control, facilities by SSI units upto Rs.7.5 Lakhs	NIL
c. Loans to Small Road Transport Operators holding national permits.	

Category	Minimum Promoters' Contribution as Percentage of Project Cost
2. Projects set up in 'A' category backward districts (All districts of Sikkim)	12.5 percent
3. a. Projects in SSI Sector set-up by women entrepreneurs in 'A' category backward districts.	12.5 percent
b. Projects in SSI sector set-up by women entrepreneurs other than 'A' Category districts.	15.0 percent
4. Projects promoted by technician entrepreneurs.	17.5 percent
5. Equipment Refinance Scheme	22.5 percent
6. SRTOs owning upto six vehicles	15.0 percent
7. Modernisation Assistance	Flexible-No fixed norms
8. Rehabilitation assistance	
9. National Equity Fund Scheme	10.0 percent
10. Scheme for assistance to Ex-Servicemen	10.0 peercent
11. All other cases not indicated above.	22.5 percent

Central or State subsidy is treated as equity for debt-equity ratio. However, it is not counted as promoters' contribution because the finance does not come from promoters.

Seed capital assistance is provided on soft term to new entrepreneurs for promoting small and medium projects having capital cost upto Rs.5.0 crore to meet the gap between the normal expected level of promoters contribution and the actual amount that the promoters could bring from their own resources. The seed

capital assistance can be given upto 10.0 percent of the project cost to a ceiling of Rs.15.0 lakhs.

IV. Economic Appraisal

Economic appraisal of the project is the examination of the economic viability of the project in the following aspects :

1. Market potential, sales promotion;
2. Employment potential of the project; and
3. Various permissions from the Government and other authorities.

The corporation follow the appraisal in parlance with the broader government policies. The contribution of the project towards employment and society as a whole, are well evaluated by the corporation.

In general, banks and financial institutions in India prefer to follow guidelines issued by the Government regarding priorities for financing instead of calculating economic rate of return based on shadow pricing. A project in backward areas get preference. The corporation calculate labour-capital employed ratio to give more importance to labour-intensive project.

V. Appraisal of Management

Manpower as an input is not only a factor but an actor, meaning thereby that utilization of input factors of an enterprise or a firm depend upon how effectively it could organise the phenomena involved in production process. The one input factor that could make the others as productive as human power is, managerial activity. Therefore, the effectiveness of an industrial project hinges on the managerial functions for survival and

prosperity. The appraisal of management is the touch stone of term capital analysis.

The appraisal mainly consist of the following :

1. Professional qualification of the promoters;
2. Promoters past industrial business experience;
3. Availability of skilled manpower requirement; and
4. Proposed Organisational patterns.

On the successful completion of all the appraisal methods the corporation evaluate other implications of term loan as under.

TIME REQUIRED FOR LOAN SANCTION

The time taken by the corporation to sanction loan assistance is largely dependent on whether the applicant has finished complete and precise information. Normally, the corporation takes about one month for sanctioning small loan and a little longer for larger amounts.

SECURITY

Business operations of an enterprise depend on exogenous and endogenous factors, hence, an amount of risk is to be calculated in view of the uncertainty. To be on safeside the corporation stress on security for the recovery of loan. Security considerations include physical security and personal guarantee.

Till 31st March, 1991, the Corporation accepted English or Registered mortgage. The following were the procedures.

i) Registered mortgage (first charge) of fixed assets viz. land, building, plant and machinery etc.

In regard to hypothecation and personal surety;

(ii) Security of collateral assets.

It is to be noted that, in case of lease-hold land and premises, permission to mortgage from the competent authority in favour of the corporation is required. All assets subsequently acquired with the loan or otherwise and added to the mortgaged premise during the currency of the loan, shall automatically stand mortgaged to the corporation and no such assets should be disposed of or alievated without prior written approval from the corporation. However, regular inspection has not been carried out to assess the physical existence of mortgaged or hypothecated assets.

MARGIN MONEY

The security margin is the difference between the value of assets offered as security and the amount of loan sanctioned against the secured assets. The corporation normally stipulates 10.0 percent to 25.0 percent security margin on fixed assets in the project and not to the cost of project.

DOCUMENTATION

The credit facilities often extended by the corporation is under statutory obligation and administrative convenience.

The corporation was accepting simple [English] mortgage which involved Registration charges and stamp duty. The corporation fixed the Registration charge @ 2.0 percent on the loan and stamp duty @ 1.0 on the amount of loan. However, as a policy matter, the corporation incurred 2.0 percent out of total

3.0 percent i.e. Registration plus Stamp duty as an incentive towards entrepreneurs. During 1991-92, the amount incurred for such incentive by the corporation stood at Rs.16.8 lakhs. The amount is to be realised from the State Government.

COMPLIANCE WITH CERTAIN OBLIGATORY REQUIREMENTS

At any time during investigation of the application or during the currency of loan the borrower shall be bound to :

(i) Comply with any general or special requirement of the corporation, in regard to inspection of the premises, plant or stock in hand;

(ii) Permit the inspection of all accounts, relating to the enterprise;

(iii) Maintain all accounts or to furnish such statements as the corporation may require, from time to time;

(iv) Subject the accounts of the enterprise to such scrutiny or audit as the corporation may require and bear the cost of such scrutiny or audit, if such cost is required to be borne by him;

(v) Subject half-yearly and annual progress report in the forms prescribed by the corporation; and

(vi) Furnish any information required by the corporation in the interest of promotion and development of industries in the state.

RECALLING THE LOAN IN FULL

The entire loan may be recalled in case of :

(i) Mis-use of funds:

(ii) Misapplication of funds;

(iii) Proceed misrepresentation, for detaining loan assistance;

(iv) Undue delay in the implementation of the project;

(v) Any act done by the borrowing concern which is prejudicial to the interest of the corporation or the state, such as involvement in an economic offence;

(vi) A deliberate default in repayment of dues;

(vii) Failure to properly maintain and safeguard the secured property;

(viii) Breach of the agreement endorsed into at the time of sanction of loan.

REPAYMENT PERIOD

The corporation fixes the repayment schedule taking into consideration the profitability, estimated cash-generation and debt -servicing capacity of the proposed industry. In respect of certain category, the IDBI has prescribed repayment norms.

The corporation accepts premature repayment of any instalment or even full repayment of any instalment or even full repayment of loan. The corporation considers granting reschedulement of principal amount on the merits of each case with the approval of SIDBI. In any case, interest on loan should be paid regularly.

In general, the repayment period of the corporation is fixed by the IDBI. Likely, the corporation also fixes the repayment period of loanees at par with their repayment schedule.

Thus the repayment period of the corporation and borrowers are almost same.

In taxi (SVO) loan, the repayment is fixed within 4 years. In other cases repayment period ranges between 5 to 10 years.

DISBURSEMENT PROCEDURE

The corporation provide liquid cash disbursement for hotel and construction of factory sheds. Generally, loans are provided on short-term basis except two cases of long-term loans. Disbursement is generally made on the purchase and installation of machinery or for construction of building. The release of instalment depends on the progress of work as per the satisfaction of the corporation. The corporation disburses the amount direct to the supplier for delivery of machine or to the bank against presentation of documents.

The SIDICO stipulated an important criteria whereby the entrepreneur is required to raise 50.0 percent of equity as detailed in the Appraisal note, before first disbursement.[10] However, this is not being implemented in most of the cases. The rest amount is released proportionately with the term loan.

Generally, a loanee has to avail of the loan within 18 months from the date of sanction. In some cases, fulfilment of certain conditions attached on sanction become difficult within the period of 18 months.

DISBURSEMENT ELASTICITY

The efficiency of fund manaqemetn of the Corporation can be judged by 'Elasticity Co-efficient'.[11] This ratio indicates the relationship with the scale of operation i.e., inflow of fund.

The Co-efficient is calcualted as :

$D_e = (dD/D)/(dS/S)$,

where D_e = Disbursement Elasticity Co-efficient,

D = Disbursement,

S = Sources of Fund,

dD and dS Signifies changes.

Disbursement Elasticity has been calculated in Table-VIII.3. It is evident that, over the years, the Corporation experienced D_e of various degrees.

Since source of fund and disbursement is positively related, any reverse trend in the growth of source or disbursement resulted negative elasticity co-efficient.

In the earlier period i.e., in 1980-81, the co-efficient was highest at 8.8 and in later period in 1993-94, it reached at 7.6. In remaining years, the range of co-efficient lies between 2.1 to 4.9.

The co-efficient reveals that since 1990 to 1995, negative trend persisted. Although, 1993-94 shows positive sign but this was the result of two neqative growth i.e., in source of fund and disbursement. Recent trend visualises lesser utilisation of fund for disbursement. This coupled with other exogenous factors fettered the growth of disbursement.

INTEREST

The rate of interest charged by the Corporation is subject to the rate of interest fixed by the Reserve Bank of India from time to time. Normally, rate of interest for term loans should be higher than that for working capital facilities.

Since 1984 to 25th October, 1994, the corporation has changed its interest rates five times. Table-VIII.4 exhibited the change in rate structure. The corporation maintained the same rate for the longest period from 1984-90. Since then the rate became volatile, as it changed every year. Even in few occasions, the rate changed more than once in a year. The corporation's rate of interest on the units were 3.5 percent more than the IDBI's rate of interest. It means the corporation charged 3.5 percent more in the interest rate as compared to the rate charged by the IDBI on the corporation. During 1990-91, the corporation changed the difference and the rate lowered by 0.5 percent. Since 1990-91, the corporation maintains a spread of 3.0 percent over the above refinance interest rate being charged by the SIDBI or IDBI.[12] The corporation had to charge few percent more to earn for its survival and growth.

In relation to the new economic policy, the government has simplified and reduced the interest rate structure during 1994-95. Only three categories have been formulated. These are not on the basis of industries but on the basis of quantum of loan. Interest rate varies from 12.0 percent to 17.5 percent. The spread of interest also varies from 1.0 percent to 3.0 percent. Now, the highest rate 17.5 percent is lower than the highest rate of 19.0 percent during 1992-93. The corporation is entitled to fix

interest rate over and above SIDBI's rate, as practicable. The rate of interest by the corporation is maintained with the rate followed by other financial institutions of the state.

FOLLOW UP

The follow-up and supervision is as important as lending loans. The progress of the project and its workings are continuously supervised and measures are taken to correct the errors, if any, by the lending institutions.

To ensure the sustainability and growth of the project, proper supervision and follow up is necessary during and after project implementation. The corporation generally adopts the followiing methods to follow up the units :

(i) Scrutiny of progress reports;

(ii) Analysis of annual financial statements;

(iii) Visit and Inspection;

(iv) Appointment of Nominee directors;

(v) Regulatory control; and

(vi) Discussion with management.

The corporation mainly confined the activity of follow-up and supervision on the assisted units through inspection. Other tools have been applied in a few cases only.

The inspection was undertaken annually on an average of less than 50.0 percent of the total unit. The scrutiny process was conducted for a negligible number e.g. 13 units of the total. The corporation appointed director to a total of 15 companies.

The corporation started evaluation of project reports

through format since early 90s. During 1992-93, out of 876 units in the loan portfolio, 418 units were inspected. Only in respect of 13 units, SIDICO was getting progress reports regularly. The corporation nominated 8 officers on Board of 15 companies. The assisted units hardly invite nominee director from SIDICO to their Board meetings. As a result, most of the nominee directors are not aware of the present status of the units of which they are directors. In the process, the corporation does not get any feed back from the nominees. There is, therefore, considerable scope for improvement in all these areas.

REVIEW

In a review of policies and procedures it is observed that the Corporation has to follow many modus operandi from the receipt of application till disbursement of loan amount. Both the Corporation and loanee are responsible in this formidable process.

The corporation shows relaxation in Appraisal method. However, in a state like Sikkim, where barring a few medium scale industry all others have established in tiny and small scale level, strict appraisal is not necessary. The corporation in consonance with the Government's policy, enhanced loan more with the intention of employment generation and as a source of resource generation than to adhere strictly on profit earning capacity of the unit. The corporation guide and advise at every stage to the entrepreneurs, mostly are of first generation, till the loan is repaid i.e., upto four and five years of successful operation of the unit.

The corporation is faced with a lot of anomalies

regarding Application Procedures, sanction and disbursement. The policies and practices noticed a phenomenal gap resulting difficulties in the operation of the corporation. A discussion on the difficulties, reasons for delays in sanction and disbursement and measures to be taken can be summarised as below.

In general, a loanee has to avail of the loan within 18 months from the date of sanction. In some cases, fulfilment of certain conditions attached to sanction becomes difficult within the period of 18 months.

It has been observed that in certain occasion loan granted by the corporation was diverted by the entrepreneurs into personal consumption expenditure. Under the SFC Act, in case of diversion of loan amount for other purposes, the corporation may recall the entire loan money from the loanee. To avert diversion that may arise from the influential quarter, the corporation had simply to insist upon the borrower to clear the dues at the earliest. The IDBI may be authorised to conduct such informal investigation into the affairs of assisted units to check this undesirable drainage of resources. Table VIII.2, op.cit., exhibited the trend of activities of the corporation, as reflected by the amount of loan sanctioned and disbursed by it during the past years and also loan availed of by various units. The spurt in number of applications in 1984-85 is due to coverage of a large number of artisans and similar village and cottage industries i.e., tiny sector under the composite loan scheme. The same trend is also followed during 1991-92 and this time also it is due to huge application from the tiny sector.

It may be mentioned in this connection that loan

sanctioned is always made during the year. Loan disbursement may be done in respect of previous sanctions also. This is because of non-fulfilment of condition often delay disbursement. Thus, in some years disbursal is higher than the sanction because of the disbursement of previous sanction in following years. The corporation has no system of segregating the amount disbursed since disbursement procedure automatically necessitates that disbursement will be made in various instalments from time to time which may linger from one year to the next year and so on. Similarly, in next year some additional new loans may be sanctioned. It is a chain system based on cyclical process.

The coefficient of correlation between loan applied for (X) and loan sanctioned (Y).

$r_{xy} = 0.57$ and

the coefficient of correlation between sanction (Y) and disbursement (Z).

$r_{yz} = 0.71$

Testing the significance of the coefficients with the help of 'student t',

$t^{13} = 2.30$; $t = 4.03$.

Tabulated value of

$t_{.05,11} = 1.80$

$t_{.01,11} = 2.72$; and

$t_{.05,16} = 1.75$

$t_{.01,16} = 2.58$

Since the calculated value of t for r_{xy} is greater than the tabulated value at 5% level, the value of correlation

coefficient is significant thereby implying the closest positive relation between the loan applied and the amount of loan sanctioned. But, at 1% level, the calculated value is less than the tabulated value indicating the non-significance of correlation coefficient at that level. Again, as the calculated value of t for r_{yz} is higher than the tabulated value at both the level, the correlation coefficient is significant.

The Corporation had to adopt liberal lending policy and sometimes norms of financing had to be relaxed in the initial stages in order to generate an atmosphere of industrial growth. As a result, within few years, the corporation became burdened with a backlog of arrear dues, when many such industrial units approached the corporation for extention of time to repay their dues. It is worth mention that the corporation being a development agency for a backward region, it has to give due consideration for development of industries in remote and backward areas often by relaxing usual norms of term lending. Instances are not rare when the corporation had to come to the assistance of some sick units even by ignoring their default, to help them revive their position.

It may be mentioned that disbursement is made as per the disbursement schedule to be furnished by the borrower to the corporation. It was stipulated that the loans should be availed of within 18 months from the date of sanction. The borrower may submit the disbursement schedule immediately before or after the sanction of the loan but invariably before the execution of mortgage deed. It is presumed that after the sanctioning of loan, it is on the part of the borrower to avail of the sanctioned amount at the earliest convenience for their own benefit. The

periodicity of availment of loan varies from 2 months to 2 years. Here, the Board can extend the period by the specific request from the concerned borrower. If the party fails to avail of the loan within the specified period mentioned in the Board's resolution of sanctioning loan and if no proper request for extension is made to the corporation, the sanctioned amount will be treated as automatically lapsed. The Board's resolution usually carries the term of availment of loan varying from Rs.7.5 lakhs and above. It is observed that due to inability and delay in utilization of the amount by the loanee, the whole amount sanctioned cannot be disbursed.

REASONS FOR DIFFERENCE

The reasons for difference in amount sanctioned and disbursed may be attributed by inadequate information, improper maintenance of accounts, legal formalities and complications, unsatisfactory functioning of the applicant in the past, scanty financial position, inability to arrange for working capital, insufficient security, doubtful title over the property offered as secrurity. Sometimes, the property offered as security does not stand in the name of the promoters but rather it stands in the name of partners or others. In such case necessary legal formalities have to be complied with. Execution of mortgage deed and other ancillary papers require enough time. Title deed of the mortgaged property have to be examined thoroughly and legal formalities have to be fulfilled. Often, the applicants fail to furnish full particulars and then further information is called for clarification which cause some delay in disbursement.

Besides the value of security, the earning capacity of

the proposed project, efficiency of its plant and machinery, soundness of management, availability of raw materials, viability and profitability of the project, certification of antecedents by other related agencies like bank etc. about the financial stability and integrity of applicant concerned are also to be assessed before any proposal is finalised. It has been observed in the SIDICO that time and again an applicant applies for loan with an intention to start a business but in the mid-way gives up the plan to carry out the business for various reasons and keeps the loan money idle in his hand and hence liquidity of the corporation is reduced to that extent. All these factors taken together cause the delay in sanctioning and disbursing loan and also account for the difference between loan sanctioned and loan disbursed. The various other reasons as per priority attributed to delay in disbursement of loan are as follows :

1. Gradual loss of interest in the projects undertaken by the promoters for adotping other occupations cause delay in disbursement.
2. Getting the requisite machinery from the supplies either for distance and delayed despatch or transport bottleneck create set back for the project.
3. Absence of industrial background, technical know-how and first generation entrepreneurship causes delay in proper utilization of the disbursement.
4. Inability of promoters to bring in their contribution in time, insistence on bringing the same in full or on pro-rata basis before disbursement have also caused delay in disbursement.
5. Excessive time taken by commercial banks to sanction

working capital required by units causes delay in disbursement of term loan.

6. Delay due to non-fulfilment of conditions made in sanctions prior to availment of loans by the entrepreneurs.

7. Poor quality of documentation submitted by promoters due to lack of knowledge about pre-requisites also result delay in disbursement of sanctioned amount.

Last but not least, the delay occurs due to lack of infrastructural facilities, power shortages and non-availability of raw materials. In cases where disbursement was delayed due to fund constraint of the corporation, very often a concern had to face overrun. In that case the corporation was to some extent responsible for the delay.

REFERENCES

1. SIDICO, Scope of Financing and Guidelines for Entrepreneurs, 1991, p.15.

2. Ibid, p.18.

3. Ibid, pp. 15-31.

4. Ibid, pp. 21-22.

5. Ibid, p.10.

6. GOS, Assistance to Industrial Entrepreneurs, 1991, p.36.

7. SIDICO, Scope of Financing, op.cit., pp.8-10.

8. SIDBI opened its branch at Gangtok during 1991-92.

9. SIDICO, Scope of Financing, op.cit., pp. 17-31.

10. Ibid, p.14.

11. Reddy, C.R. Model on Finance function in the Management of Co-operative Banks, 'Indian Management'. Vol.XVIII, No.4, April, 1978, p.26, quoted by P. Kallu Rao, 'Development Banking - SIDCs in India', Anmol Publication', New Delhi, 1993, p.48.

12. SIDICO, Annual Report, 1990-91, p.6.

13. $t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{n-2}$

Table VIII.1

CENTRAL SUBSIDIES

(Rs. in Lakhs)

Years	Central Investment SUBS.		Central Transport SUBS.	
	Sanction	Disbursement	Sanction	Disbursement
1980-81	2.0	0.9	-	-
1981-82	-	1.2	-	-
1982-83	12.5	17.5	-	-
1983-84	21.5	34.1	-	-
1984-85	33.4	18.6	1.4	0.9
1985-86	53.8	28.2	-	8.9
1986-87	130.2	137.1	-	
1987-88	125.1	61.4	7.8	4.3
1988-89	-	73.8	-	-
1989-90	97.8	117.0	39.3	61.4
1990-91	21.2	-	60.8	39.1
1991-92	-	-	125.2	120.0
1992-93	-	-	2.2	2.1
1993-94	-	-	55.5	55.5
TOTAL	497.5	489.8	292.2	292.2

Source : Annual Reports and Official Records of the SIDICO, 1980-94, SIDICO.

Table VIII.2

APPLICATIONS RECEIVED AND DISPOSED

(Rs. in Lakhs)

Year	Sanctioned		Rejected/ Withdrawn		Pending at the end of yr.		Total for consideration	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
1982-83	19	42.2	-	-	13	66.1	32	108.3
	(59.4)	(38.9)			(40.6)	(61.1)	(100.0)	(100.0)
1983-84	61	99.1	7	15.5	17	71.5	85	186.1
	(71.8)	(53.2)	(8.2)	(8.3)	(20.0)	(38.4)	(100.0)	(100.0)
1984-85	148	179.4	19	22.8	51	304.3	218	506.5
	(67.9)	(35.4)	(8.7)	(4.5)	(23.4)	(60.1)	(100.0)	(100.0)
1985-86	140	257.9	15	104.0	67	331.2	222	693.1
	(63.1)	(37.2)	(6.8)	(15.0)	(30.1)	(47.8)	(100.0)	(100.0)
1986-87	152	392.5	39	284.7	51	228.9	242	906.1
	(62.8)	(43.3)	(16.1)	(31.4)	(21.1)	(25.3)	(100.0)	(100.0)
1987-88	139	402.3	49	189.3	11	24.8	199	616.4
	(69.8)	(65.3)	(24.6)	(30.7)	(5.6)	(4.0)	(100.0)	(100.0)
1988-89	83	363.0	8	471.7	24	114.7	121	949.4
	(73.6)	(38.2)	(6.6)	(49.7)	(19.8)	(12.1)	(100.0)	(100.0)
1989-90	97	324.4	16	29.3	10	78.5	123	432.2
	(78.9)	(75.0)	(13.0)	(6.9)	(8.1)	(18.1)	(100.0)	(100.0)
1990-91	82	213.4	8	46.8	5	40.6	96	300.9
	(86.5)	(70.9)	(8.3)	(15.6)	(5.2)	(13.5)	(100.0)	(100.0)
1991-92	223	369.3	3	126.2	10	85.1	236	580.6
	(94.5)	(63.6)	(1.3)	(21.7)	(4.2)	(14.7)	(100.0)	(100.0)
1992-93	30	20.9	19	95.9	21	13.8	70	130.6
	(42.9)	(16.0)	(27.1)	(73.4)	(30.0)	(10.6)	(100.0)	(100.0)
1993-94	27	51.7	21	23.9	7	28.4	55	104.0
	(49.1)	(49.7)	(38.2)	(23.0)	(12.7)	(27.3)	(100.0)	(100.0)
1994-95	28	43.6	7	28.7	10	44.5	45	116.8
	(62.2)	(37.3)	(15.5)	(24.6)	(22.3)	(38.1)	(100.0)	(100.0)

N.B. Figure in bracket indicates percentage.

Source : Annual Reports, 1982-95, SIDICO.

Table VIII.3

DISBURSEMENT ELASTICITY

Year	Disbursement Elasticity (D_e)
1979-80	1.1
1980-81	8.8
1981-82	1.1
1982-83	0.8
1983-84	0.4
1984-85	4.9
1985-86	0.2
1986-87	1.0
1987-88	1.3
1988-89	1.4
1989-90	0.3
1990-91	-0.2
1991-92	-0.6
1992-93	-0.3
1993-94	7.6
1994-95	-2.1

Source : Annual Reports, 1979-95, SIDICO.

Table VIII.4

CHANGES IN INTEREST STRUCTURE (IN PERCENT PER ANNUM)

Category	1984-85	1990-91	1991-92	1992-93	1993-94	1994-95
1. SSIs	12.5	13.5	18.5	19.0	17.0	-
2. Hotels	12.5	13.5	18.5	19.0	17.0	-
3. SRTOs	12.5	15.0	20.0	19.0	18.0	-
4. Single window Scheme :						
i. Block Capital	-	13.0	15.5	16.5	-	-
ii. Working Capital	-	15.0 to 16.5	19.0	19.0	-	-
5. i. Upto Rs.25000.0	10.0	11.0	13.5	13.5	12.0	12.0
ii. Rs.25000.0 to Rs.2.0 Lakhs	10.0 (upto Rs.50000)	11.0	14.0 to 15.0	15.0	14.0	13.5
iii. Above Rs.2.0 Lakhs	-	-	18.0	19.0	18.0	17.5

Source : Annual Report, 1984-95, SIDICO.

CHANGES IN HIGHER AND LOWER RATE OF INTEREST