

Performance Evaluation of Development Financial Institutions in India

Dr. L. Madhu Kumar (M.Com, MBA, PhD),

Post Doctoral Fellow,
Department of Commerce and Management
Studies, India.

Dr. M. Vijaya Prasad, (M.Com, MBA, PhD),

Associate Professor,
Sri Chaitanya, India.

ABSTRACT

The concept of development banking originated during the post Second World War period. Many countries of Europe were in the stage of industrial development and special financial institutions known as development banks were set up to foster industrial growth. In the US, development finance institutions came into existence for special purpose such as economic rehabilitation and filling gaps in the traditional financing pattern. Not only developed countries, but several underdeveloped countries in Asia, Africa, and Latin America established special financial institution to hasten the pace of industrialization and growth.

The International Bank for Reconstruction and Development (IBRD) known as the World Bank and the International Monetary Fund (IMF) are examples of development banks at the international level. The major objective of the World Bank is to promote world development and perform the task of transfer enormous financial and technical resources from the developed to developing nations. The IMF performs a special function of providing financial assistance to private sector projects in developing countries.

Keywords: Development Financial Institutions, SIDBI, Performance Evaluation, DFIs, IFCI

INTRODUCTION:

The need for development financial institutions was felt very strongly immediately after India attained independence. The country needed a strong capital goods sector to support and accelerate the pace of industrialization. The existing industries required long-term funds for their reconstruction, modernization, expansion and diversification programmes while the new industries required enormous investment for setting up gigantic projects in the capital goods sector. However, there were gaps in the banking system and capital markets, which needed to be filled to meet this enormous requirement of funds.

1. Commercial banks had traditionally confined themselves to financing working capital requirement of trade and industry and abstained from supplying long-term finance.
2. The managing agency house, which had served as important adjuncts to the capital market, showed their apathy to investment in risky ventures.
3. Several malpractices, such as misuse of funds, excess speculation, and manipulations were unearthed. Owing to this, the investors were not interested in investing in the capital market.
4. There were a limited number of issue houses and underwriting firms that sponsored security issues. Hence, to fill these gaps, a new institutional machinery was devised-the setting up of special financial institutions, which would provide the necessary financial resources and know-how so as to foster the industrial growth of the country.

The first step towards building up a structure of development financial institutions was taken in 1948 by establishing the Industrial Financial Corporation of India Limited (IFCI). This institution was set up by an Act of parliament with a view to providing medium- and long-term credit to units in the corporate sector and industrial concerns. In view of the immensity of the task and vast size of the country, it was not possible for a single institution to cater to the financial needs of small industries spread in different states. Hence, the

necessity for setting up regional development banks to cater to the needs of small and medium enterprises was recognized. Accordingly the State Financial Corporation Act was passed in 1951 for setting up State Financial Corporation (SFCs) in different states. By 1955-56, 12 SFCs were set up and by 1967-68; all the 18 SFCs now in operation came into existence. SFCs extend financial assistance to small enterprises. Even as the SFCs were being setup, a new corporation was established in 1955 at all India level known as the National Small Industries Corporation (NSIC) to extend support to small industries. The NSIC is a fully government owned corporation and is not primarily a financing institution. It helps Small Scale Industries Sector (SSIs) through various promotional activities, such as assistance in securing orders, marketing the products of SSIs, arranging for the supply of machinery, and training of industrial workers.

REVIEW OF LITERATURE:

Allen et al. (2012), they examine the legal and business environments, financing channels, and growth patterns of different types of firms in India. Despite the English common-law origin and a British-style judicial system, Indian firms face weak investor protection in practice and poor institutions characterized by corruption and inefficiency. Alternative finance, including financing from all nonbank, nonmarket sources, and generally backed by non-legal mechanisms, constitutes the most important form of external finance. Bank loans provide the second most important external financing source. Firms with access to bank or market finance are not associated with higher growth rates. Their results indicate that bank and market finance is not superior to alternative finance in fast-growing economies such as India.

Sumon et al. (2012), they propose the use of stochastic frontier approach to modeling financial constraints of firms. The main advantage of the stochastic frontier approach over the stylised approaches that use pooled OLS or fixed effects panel regression models is that we can not only decide whether or not the average firm is financially constrained, but also estimate a measure of the degree of the constraint for each firm and for each time period, and also the marginal impact of firm characteristics on this measure. They then apply the stochastic frontier approach to a panel of Indian manufacturing firms, for the 1997–2006 period. In their application, they highlight and discuss the aforementioned advantages, while also demonstrating that the stochastic frontier approach generates regression estimates that are consistent with the stylised intuition found in the literature on financial constraint and the wider literature on the Indian credit and capital market.

Arusha (2012), in his study investigates the influence of migrant remittances on two dimensions of the financial sector, namely, size and efficiency in a sample of 94 non-OECD (Organisation for Economic Co-operation and Development) economies. Evidence suggests that migrant remittances contribute to increasing the size and efficiency of the financial sector. His study, in addition, examines the impact of remittances on financial sector size and efficiency through their interaction with the government ownership of banks. His results suggest that remittances lead to larger increases in financial sector size in countries in which the government ownership of banks is lower, and increases in efficiency in countries in which the government ownership of banks is higher.

Kalu and Thabang (2012), they used a panel of 44 developed and developing countries, their paper analyzes the macro-environmental determinants of Internet financial reporting (IFR) within the context of corporate governance models, and thus, addresses the question of which governance model's disclosure demands are more associated with IFR. Both physical and institutional infrastructures are shown to be important determinants of a country's adoption of IFR. Along with the corporate governance structure, their infrastructures combine with IFR to enhance transparency and market efficiency, both major goals of financial reporting and disclosure. Their findings point to requisite environmental infrastructures governments must provide or foster for firms within their confines to effectively adopt IFR and thus, reap the attendant benefits of disclosure. They also contribute to the debate on harmonization of international financial reporting by showing that requisite environmental infrastructures are a precondition for the success of any reporting system.

Roseline and Esman (2012), their paper investigates the dual role of financial liberalization on growth using a bank crisis model and a growth model. It applies panel econometric techniques on data covering 34 countries in Sub-Saharan Africa over the period 1983–2008. Their results indicate that the growth retarding effects of financial liberalization are dominant over growth enhancing effects, which show mixed results. Their results also indicate that institutional variables, human capital formation and foreign aid are key factors in explaining growth in Sub-Saharan Africa. Their study therefore recommends adoption of a 'managed financial openness' policy and institutional reform measures.

Manthos (2012), in his article, he estimates the degree of market power at the bank-level for 84 banking systems worldwide. Subsequently, he analyzes the sources of bank competition, placing emphasis on the impact of financial reform and the quality of institutions. He found that financial liberalization policies reduce the

market power of banks in developed countries with advanced institutions. In contrast, banking competition does not improve at the same pace in countries with weaker institutions and a lower level of institutional development. The results hold across a wide array of identification tests and estimation methods. The main policy implication to be drawn is that a certain level of institutional development is a precondition for the success of reforms aimed at enhancing the competition and efficiency of banking markets.

NEED FOR THE STUDY:

In the last five decades, the SIDBI played a vital role in the development of small scale industry and reserved a prominent position for them in the industrial scene of the country. These institutions made special emphasis on the industrialization of backward areas and encouraging first generation entrepreneurs. These DFIs were the tools in the hands of the government to be used in the development process and therefore commercial viability was not the prime focus. Therefore studies made from time to time during 1980s and 1990s 2000 mainly concern traded on the developmental role of these institutions and the recommendations were directed towards increased credit flow with the liberalized terms.

The studies conducted earlier, were pertaining to the development role pursued by the SIDBI in terms of its assistance to small-scale sector, backward areas and rehabilitation of sick units besides recovery performance. There were no studies conducted on the performance evaluation of the SIDBI considering the impact of financial reforms. It can also be noticed that considerable concentration is not paid in this area by the researchers towards practical aspects of performance evaluation of the SIDBI in India. Hence the present study is aimed to fill the research gap with a case study approach.

OBJECTIVES OF THE STUDY:

- To review the different studies relating to Financial Institutions.
- To study on Development Financial Institutions in India.
- To study on the Sanctions and Disbursement by Development Financial Institutions in India, Ownership pattern of financial institutions, Liabilities and Assets of financial institutions, Resource mobilised by financial institutions, Net Non-Performing Assets of financial institutions, Asset classification of financial institutions and to analyze the growth rate of sanctions and disbursement.
- To study the profile of SIDBI and to understand the Government Subsidy Schemes and other Financial Schemes, Marketing Fund for Women, Benefits of this schemes, Loan Facilitation & Syndication Service, Schemes for Senior Citizens and Interest Rates.
- To assess the financial performance of SIDBI by various financial reports.
- To evaluate the operational performance of SIDBI in terms of observance of various disciplines of financial operations.
- To analyze the service quality and to examine the attitude and feedback from the Customers of SIDBI and to offer a suggestive framework to strengthen the system in the organization further.
- To give appropriate suggestions for improving SIDBI performance.

RESEARCH METHODOLOGY:

The study is based on the both primary and secondary data. The primary data collected through questionnaire by interacting with customers of the SIDBI, the secondary data pertaining to various parameters for studying the service quality, operational and financial performance of SIDBI is collected from official records, unpublished reports, published annual reports of the SIDBI from year 2003-04 to 2012-13 and data relating to SIDBI and DFIs.

Data Collection:

The main source of information for this study is based on the data collection. Data collected from both primary and secondary source. The researcher personally visited the organizations during Jun 2012 to February 2014.

Primary Data:

Primary data has been directly collected from the customers of SIDBI by survey method through structured questionnaire. For the purpose of the study 50% of the total customers of SIDBI have been selected at random. A total of 150 questionnaire has been collected from the organization which 38 questionnaire to know the opinions regarding rate of interest, loan repayment, problems, service of SIDBI etc.

Secondary Data:

Secondary data have been collected from official website of SIDBI and Ministry of Finance. Data was also collected from other websites related to financial institutions as a whole and published and unpublished reports and periodic journals. Data relating to Financial and Operating performance has been taken from the Balance Sheet and Profit & Loss account of SIDBI.

Tools and Techniques:

The data on the SIDBI have been collected from different sources and analyzed carefully by using well established statistical and financial tools and techniques. The operational performances of the SIDBI have been measured in terms of sanctions and disbursements. To analyse the loan sanctioned and disbursed has been regressed on the basis of time. The growth rate has been calculated on the semi long scale. Important statistical techniques like percentage, growth rate, averages, Likert 5-point scale, mean, standard deviation, standard error and T-test has been used.

In addition, the financial performance of the SIDBI has been evaluated on the basis of ratios in comparison with the ratios evolved by the IDBI for evaluating the performance of the SIDBIs, like debt-equity ratio, current ratios etc. Besides the operational and financial performance and the services rendered by the SIDBI has been examined from the view point of the beneficiaries.

HYPOTHESIS:

1. **H₀:** There is no significant difference in ratios of SIDBI in financial performance.
H_a: There is significant difference in ratios of SIDBI financial performance.
2. **H₀:** There is no significant difference in ratios of SIDBI in operational performance.
H_a: There is significant difference in ratios of SIDBI operational performance.
3. **H₀:** There is no significant difference in opinion of customers of SIDBI in service quality.
H_a: There is significant in opinion of customers of SIDBI in service quality.

LIMITATIONS OF THE STUDY:

The basic inherent limitations of figures, calculations, statistical analysis and human error are the limitations of the study. Much care has been exercised in making all the calculations, statistical analysis and deriving conclusions from it but then also there can be some human error.

The study is carried out for limited numbers of customers of SIDBI. The main limitation in the present study is that the financing operations and loan disbursements were not equal in all the states. The researcher had to be contented with the information obtained from one financing agency along in this region.

FINDINGS:

1. A study on the Current Assets to Current Liabilities Ratios shows increasing trends in Current Assets from the year 2005-06 and in Current Liabilities similar increasing trends can be seen from year 2005-06.
2. Liquid Assets to Current Liabilities Ratios. A highest liquid assets can be seen in the year 2009-10 with 5181.54, while in current liabilities highest can be seen in the year 2011-12 with 6341.13.
3. Short term financial position or liquidity position of SIDBI. A highest current ratio can be seen in the year 2012-13 with 0.890, while in liquid ratio highest can be seen in the year 2003-04 with 2.00.
4. Long term debt and Shareholders fund. A highest long term debt can be seen in the year 2006-07 with 8166.09, while in shareholders fund highest can be seen in the year 2012-13 with 7053.29.
5. Proprietor's ratio it can be observe from the shareholders fund highest fund can be seen in the year 2012-13 with 7053.29 and highest assets can be seen in the year 2012-13 with 6184.82.
6. Fixed assets to net worth ratio it can be observed from fixed assets the highest assets can be seen in the year 2008-09 with 5045.58 and highest shareholders fund can be seen in the year 2012-13 with 7053.29.
7. Fixed assets to long term funds it can be seen from fixed assets after depreciation the highest of 5045.58 crores in the year 2008-09 and highest of 8166.09 crores long term funds can be seen in the year 2006-07.
8. Current assets to proprietor's funds ratio it can be observe from current assets the highest assets can be seen in the year 2008-09 with 5878.60 crores and highest shareholders fund can be seen in the year 2012-13 with 7053.29 crores.
9. Return on shareholders' investment ratio it is seen from net profit after interest & tax the highest net profit can be seen in the year 2012-13 with 8645.40 crores and highest shareholders investment can be seen in the year 2012-13 with 7053.29 crores.

10. Return on equity capital it can be observed from N.P after tax-preference dividend the highest N.P can be seen in the year 2012-13 with 7,520.40 crores and Equity share capital is same from year 2003-04 to 2012-13 with 4,500 crores.
11. Growth percentage of Loan Sanctioned and Disbursed by SIDBI. It can be observed from the growth percent of loan sanctioned by SIDBI a highest percentage can be seen in the year 2008-09 with 80.56 percent and the lowest percentage recorded in the year 2012-13 with 5.13 percent. It can also be seen from growth percent of loan disbursement by SIDBI a highest percentage recorded in the year 2008-09 with 87.56 percent and the lowest percentage recorded in the year 2012-13 with 1.55 percent.
12. Composition of loan sanctioned by SIDBI during the year 2003-04 to 2012-13 shows that highest Re-finance can be seen in year 2012-13 with 37,193.36 crores. Equity assistance a highest can be seen in year 2012-13 with 39,055.49 crores.
13. Composition of loan disbursed by SIDBI during the year 2003-04 to 2012-13 shows that highest Re-finance can be seen in year 2012-13 with 22869.78 crores. Equity assistance a highest can be seen in year 2003-04 with 41.61crores.
14. Composition of non-performing assets of SIDBI from standard assets one can able to see that a highest standard assets can be seen in the year 2006 with 13,000.99 crores and the lowest can be seen in the year 2007 with 24.14 crores, while looking at substandard assets a highest can be seen in the year 2013 with 277.07 crores and the lowest can be seen in the year 2006 with 0.89 crores, while from doubtful assets it can be observe a highest seen in the year 2005 with 399.12 crores and the lowest seen in the year 2010 with 1.61 crores and from the total NPAs a highest seen in the year 2005 with 406.71crores and the lowest seen in the year 2007 with 22.37 crores.
15. Total NPAs to total outstanding loan portfolio shows increasing and decreasing trends in total NPAs and in total outstanding loans increasing trends can be seen. In total NPAs a highest NPAs can be seen in the year 2004-05 with 406.71 crores and in total outstanding loans a highest outstanding can be seen in the year 2012-13 with 56059.8 crores.
16. Majority of 73.33 percent of respondents expressed above ten lakhs of earnings, 16.67 percent of respondents expressed 5 to 10 lakhs of earnings, 6.67 percent of respondents expressed 2 to 5 lakhs of earnings and 3.33 percent of respondents expressed less than two lakhs of earnings.
17. Educational background it can be seen that majority of 58.67 percent of them are post-graduate, graduates are 33.33 percent and professional are 8 percent. It is good since the most of them are educated well enough.
18. Majority of 49.33 percent of respondents expressed only one earning member in the family, 35.33 percent of respondents expressed two earning members in the family and 15.33 percent of respondents expressed above two earning members in the family.
19. Source of income of the respondent's majority of 64 percent of respondents expressed income from business or profession, 14.67 percent of respondents expressed income from rent, 10 percent of respondents expressed income earning from agriculture, 8 percent of respondents expressed income from salary and 3.33percent of respondents expressed income earning from other sources.

SUGRESSION:

1. The customers are very less when compared to other financial institutions.
2. New branches need to start in rural arrears in order to give more service to customers and to increase customer.
3. A proper awareness should be created among people in order to start up new business and small scale industries.
4. Lone are given on bases of mortgage only this should be change and lone should be granted to people who cannot mortgage.
5. Operation performance of SIDBI is very bad this need to sort out be better operation in order to utilize their resources in full.
6. Lone interest should be reduced to people who are taking lone in between 5 to 10 lakhs.
7. New strategies need to be adopted by SIDBI in utilizing technology which is friendly and can make more effective to the customers.

REFERENCES:

- Upadaya.K.K., (1980). *Financing of industrial growth in a developing region*, Allahabad: Chugh Publications.
Bhattacharya, S.N., (1981). *Development of industrially backward area the Indian style*, Metropolitan book CPO. New delhi.

- Richard S.Eckaus, (September 1982). *Observations on the conditionality of international financial institutions*. Volume 10, Issue 9, Pages 767–780.
- Srivastava, R. M., (1984). *Management of Indian Financial Institutions*, Himalaya, Bombay.
- J.S.Uppal., (January–February 1986). Public financial institutions and Economic concentration in India. *Journal of Development Economics*, Volume 20, Issue 1, Pages 135–144.
- S.P.Kashyap, (June 1988). *Growth of small-size enterprises in India: Its nature and content*. Volume 16, Issue 6, Pages 667.
- Biswasroy, P.K., Panda, J. and Sahu, P.K., (1990). *Corporate Sickness and Institutional Finance in India*, Ashish Publishing House, New Delhi.
- Singha, *Financial Institutions and Industrial Development*. In: Rama Singh (ed), *Industrialization in India*, Deep& Deep Publications, Delhi 1990.
- Panda, j. and Dash R.K., (1991). *Development Banking in India: A Study of State Financial Corporation*, Discovery Publishing House. New Delhi.
- Vij, Madhu, (1991). *Management of Financial Institutions in India*, Anmol Publications, New Delhi.
- Franklin Allen, Rajesh Chakrabarti, Sankar De, Jun “QJ” Qian, Meijun Qian, (July 2012). Financing firms in India., *Journal of Financial Intermediation*, Volume 21, Issue 3, Pages 409–445.
- Sumon Kumar Bhaumik, Pranab Kumar Das, Subal C. Kumbhakar, (May 2012). A stochastic frontier approach to modelling financial constraints in firms: An application to India. *Journal of Banking & Finance*, Volume 36, Issue 5, Pages 1311–1319.
- Arusha Cooray, (October 2012). Migrant remittances, financial sector development and the government ownership of banks: Evidence from a group of non-OECD economies. *Journal of International Financial Markets, Institutions and Money*, Volume 22, Issue 4, Pages 936–957.
- Kalu Ojah, Thabang Mokoaleli-Mokoteli, (April–June 2012). Internet financial reporting, infrastructures and corporate governance: An international analysis. *Review of Development Finance*, Volume 2, Issue 2, Pages 69–83.
- Roseline Nyakerario Misati, Esman Morekwa Nyamongo, (September 2012). Financial liberalization, financial fragility and economic growth in Sub-Saharan, *Africa Journal of Financial Stability*, Volume 8, Issue 3, Pages 150–160.
- Manthos D. Delis, (March 2012). Bank Competition, Financial reform, and institutions: The importance of being developed. *Journal of Development Economics*, Volume 97, Issue 2, Pages 450–465.
