

# THE DEVELOPMENT OF FINANCIAL INSTITUTION IN THE POST - LIBERALISATION ERA

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## INTRODUCTION

The financial system in India has witnessed a significant transformation in the post-liberalisation era. The demand and supply of funds of corporate houses have been increased; also there has been severe competition among banks and financial institutions in the supply side of funds. Banking sector started entering the domain of long term financing while the financial institutions make a foray into disbursing short term loans. In spite of these developments, it is being widely recognized that the financial institutions do have special roles to play in meeting the capital requirements of large and medium sized corporate houses. It is true that there are comparative advantages of the financial institution in project appraisal and other techniques associated with term financing and banking sectors in working capital requirements. However, it would take sometime for each of them to specialize in the skills of others. Also, it is felt that the role of financial institution at present and in the immediate future anent financial setup is critical. In this background, an attempt is made in this paper to review the development of financial institutions in terms of financial assistance (sanctioned and disbursed) during eighties and nineties (Pre-liberalisation and post-liberalisation).

## PERIOD OF THE STUDY

The period of this study covers 16 years, i.e from 1983-84

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to 1998 -99. For the purpose of analysis, the period of 16 years is divided into two, i.e, pre-liberalisation period (1983 -84 to 1990 - 91) and post-liberalisation period (1991 -92 to 1998 -99).

## SCHEME OF ASSISTANCE BY ALL FINANCIAL INSTITUTIONS

In our country, the financial assistances are detailed below:

- 1) Direct loans and advances in domestic and foreign currencies
- 2) Underwriting the public issues.
- 3) Direct subscription to industrial securities.
- 4) Guaranteeing of loans and deferred payments for imported capital goods or indigenous equipment purchase
- 5) Provision of advisory and consultancy services
- 6) Supply of machinery to SSIs on hire-purchase basis.
- 7) Provision of financial assistance, technical assistance, and managerial assistance to rehabilitate sick units, and
- 8) Undertaking merchant banking activities, lease financing and Venture capital assistance.

In short the major forms of assistance are (a) rupee loan, (b) foreign currency loans (c) underwriting and direct subscription and (d) guarantee. Therefore, the analysis of data are made as follows.

- 1) Assistance sanctioned and disbursed by all financial institution in form of rupee loan
- 2) Assistance sanctioned and disbursed by all financial institutions
- 3) Assistance sanctioned and disbursed by financial Institutions in form of underwriting and direct subscription

- 4) Assistance sanctioned and disbursed by all financial institutions in form of guarantee, and
- 5) Total assistance sanctioned and disbursed by all financial institutions

#### ASSISTANCE SANCTIONED AND DISBURSED BY ALL FINANCIAL INSTITUTION (RUPEE LOAN)

During eighties the amount sanctioned constantly increased from Rs. 3254.8 crore in 1983-84 to Rs. 14111.5 crore in 1990-91. In the same way the amount disbursed has also steadily increased from Rs. 2437.8 crore in 1983-83 to Rs. 9711.90 crore in 1990-91. However, the percentage of the disbursement has decreased from 74.98 in 1983-84 to 68.82 in 1990-91. The lowest percentage of disbursement (66.13) was registered in 1989 - 90 while the highest percentage of disbursement (74.98) was recorded in 1983-84. During nineties (1991-92 to 1998-99), the amount of assistance sanctioned significantly increased from Rs. 17009.7 crore in 1991-92 to Rs. 68993.0 crore in 1998-99. The amount disbursed by all financial institution has increased constantly from Rs. 11878.6 crore in 1991-92 to Rs. 44153.9 crore in 1998-99. But in respect of percentage of disbursement of rupee loan, it has moved downward from 69.83 in 1991-92 to 63.99 in 1998-99 with wide fluctuation. The highest percentage of the disbursement (81.14) was recorded in 1996-97, while the lowest percentage of disbursement (63.99) was registered in 1998-99.

#### Assistance sanctioned and Disbursed By All Financial Institution (Foreign Currency Loan)

During the period from 1983-84 to 1990 -91 (eighties) it is clearly understood that the sanction amount has moved upward from Rs.281.2 crore in 1983 -84 to Rs.249 crore in 1990 -91 with fluctuation. In the same way, the disbursed amount by all financial institution during the same period has increased from Rs.134.7 crore to Rs.1079.9 crore with fluctuation. The share of sanctioned

assistance in respect of foreign currency loan to the total assistance sanctioned ranged from 5.93% to 13.10% but the share of disbursed assistance to total disbursement ranged from 4.70% to 9.02% During post - liberalised period (1991 - 92 to 1998-99) the amount of sanctioned assistance in respect of foreign currency loan has constantly moved upward from Rs. 1687.3 crore in 1991-92 to Rs. 4855.5 crore in 1998-99 except in 1995-96 (Rs. 6141.9 crore) The share of sanctioned assistance to the total sanctioned assistance ranged between 5.02% and 13.06%. But the share of disbursed assistance in terms of foreign currency loan to sanctioned assistance exceeded 100% both in eighties and nineties i.e. 1987-88 (105.49%) and in 1992-93 (105.77%) It is significant to record here that the amount of disbursed assistance in the form of foreign currency loan outnumbered the amount of sanctioned assistance.

#### Assistance Sanctioned and Disbursed By All Financial Institutions (underwriting and direct subscription)

It is understood that during the eighties the amount of Rs.437.1 crore (sanctioned) in 1983-84 increased constantly to Rs.2295.4 crore in 1990-91 except in 1987-88. In respect of disbursement of assistance, the year 1983-84 received Rs.287.1 crore which was 65.68% of the total sanction, while the year 1990-91 accounted for Rs.1091.3 crore which constituted 47.54% to the sanction.

The amount of disbursement constantly increased during eighties except 1987-88. With reference to the percentage of disbursement of assistance to the sanction ranged between 74.97 in 1986-87 and 47.54 in 1990-91. The analysis reveals the fact that during the nineties the year 1991 -92 accounted for the sanctioned assistance to the tune of Rs.3688.3 crore, the lowest sanctioned assistance during this decade. The same was moved upward to Rs.17399.1 crore in 1998 - 99, the highest sanctioned assistance during this decade. In respect of disbursement of assistance in the form of underwriting and direct subscription,

the year 1991 -92 received Rs.2382.1 crore which increased to Rs.11772.4 crore in 1998 -99 with fluctuation. It is also noted that 64.59% of sanctioned assistance was disbursed in 1991-92 which increased to 74.20% in 1998 -99 with fluctuation. The lowest percentage of disbursement (48.69) and the highest percentage of disbursement (92.99) were recorded in 1992 -93 and in 1996 -97 respectively.

#### **Assistance Sanctioned and disbursed by All Financial Institutions (Guarantee)**

In respect of disbursed assistance, its percentage ranged between 0.10 and 3.56 to the total sanctioned during eighties while its percentage to its total ranged between 0.27 and 1.89 during nineties. The aggregate amount of sanctioned assistance in the form of guarantee during eighties and nineties was Rs.934.3 crore and Rs.33075.4 crore respectively while Rs.525.7 crore and Rs.3080.2 crore were accounted respectively.

#### **Total Assistance Sanctioned and Disbursed by all Financial Institutions**

The analysis shows that average annual growth rate of amount sanctioned assistance in terms of rupee loan during eighties and nineties increased by one i.e. from 23.0 to 24.0 whereas in the case of average annual growth rate of disbursement, it has slightly decreased from 21.8 to 21.3 during the same period. However, the quantum of assistance sanctioned and disbursed moved upward from Rs. 63660.8 crore to Rs.295291.9 crore and from Rs.44401.9 crore to Rs.203027.3 crore.

In respect of assistance in the form foreign currency, the average annual growth of 62.5 (sanction) was recorded in eighties while only 19.0 was registered in nineties. It is surprise that the growth rate (sanction) recorded during nineties was three and half times lesser than that of eighties. The average annual growth of disbursement of 34.8 and 22.8 were recorded during eighties and nineties respectively. The average annual growth rate of sanctioned assistance (in the terms of underwriting and direct subscription)

during eighties, was 33.0 which was increased to 36.7 during nineties. In the case of disbursement assistance was 28.4 during eighties and 39.6 during nineties.

In respect of sanctioned assistance (Guarantee), the annual average growth rate regarding sanction was 35.7 which significantly moved up to 103.1 during nineties. The overall analysis exhibits that the annual average growth rate of sanctioned assistance (all forms) has decreased from 25.5 during eighties to 24.4 during nineties. On the contrary, the annual average growth rate of assistance disbursed (all forms) has moved upward marginally from 22.9 during eighties to 23.0 during nineties.

#### **CONCLUSION**

The financial institutions have been an integral part and have played important roles in financing investment activities. The analysis indicates two significant changes that have taken place in the financing of investment activities by financial institutions during nineties as compared to eighties. The importance of foreign currency business of financial institutions has declined during nineties; on the other hand, non-fund based business such as underwriting and guarantee have increased. The structural change in the financial activities of financial institutions reflects partly the increased competition and partly resource problem being faced by them. It is also true that presently the concessional source of funds in the form LTG fund of RBI and Government guarantee bonds are no longer available. The overall analysis of present study shows that financial institutions have started playing relatively more emphasis on non -fund based business.