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A CRITICAL REVIEW OF THE PERFORMANCE
OF ALL INDIA FINANCIAL INSTITUTIONS
(IDBI, IFCI & ICICI) DURING 1970 - 1981

A Dissertation Submitted to the
University of Poona
in Partial Fulfilment for the Degree of
Master of Philosophy

BY
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GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
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CHAPTER I

INTRODUCTION

While considering economic growth of a country, the problem of capital formation comes to the forefront. Economic growth largely depends on the rate of capital formation and when a country plans to attain a high rate of growth, particularly through ambitious programmes of rapid industrialisation, the availability of industrial finance appears to be the major bottleneck in the process. On the one hand there is growing need for more and more finance as the development process gathers momentum but on the other hand the capital markets are ill-equipped to provide for financial needs. This situation leads to various problems and a solution is sought in the establishment of new institutions with one of their main purpose being to provide long term finance for industries.

Special institutions are also necessary for the purpose of canalising the available funds in the most desirable manner. When a country is having a definite plan for industrial development along certain lines this purpose acquires greater significance. The rate of economic growth depends on how and where the funds are invested. This specific task needs to be handled by specially trained experts. The development banks enter the picture at this juncture.

A development bank is a financial institution devoted primarily to stimulating the private sector of the economy. They have been set up as catalysts for investment in the private sector, to provide injections of capital, promote enterprise and upgrade management.¹ These institutions were so designed as to be the means for mobilising resources and skills and of channelling them into approved fields.

A development bank can serve a variety of functions in an under-developed country. Capital may be in short supply; then again it may be shy in which case what may be needed particularly in untried lines of activity, is initiative. Savers may need only the confidence that comes from a going and successful enterprise. Even in developed countries, a new enterprise would find it extremely difficult to obtain capital from public sale of stocks or bonds. Again, both capital and initiative may be present, but there may be a lack of experience - technical or managerial to set up and operate an enterprise.

A development bank's functions can be categorised as functional and developmental. Among the financial functions, provision of loans and underwriting are the most important. These banks are a channel through which foreign capital and skill can flow into the national economy and reach enterprises

1 P. N. Singh, 'Role of Development Banks in a Planned Economy,' Vikas, Bombay, 1974, p. 8.

that are too small to attract foreign capital and technology by themselves.

The development functions of a development bank are more important than its financial functions. Such activities cover a wide range of functions including the promotion of new industries to fill up the gaps in the industrial structure, assisting in the formation of other development banks, provision of technical, managerial and administrative advice, conduct of techno-economic surveys and market and investment research, arrangement of suitable capital structure and last but not the least upgradation of management practices.

The following paragraphs briefly look into the history of development banking in India. The purpose of the dissertation, however, is to examine the working of three All-India Financial Institutions viz. the Industrial Development Bank of India, the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India Limited for the period 1970-1981.

In the post-independence period, the commercial banks were the only source of finance for assets formation in the private organised sector in general and industry in particular. Nevertheless what they could provide was still short of the total requirements of the private industrial sector. Moreover there were serious limitations on the extent to which these banks could assist industrial enterprises, because of

the maturity pattern of their deposit resources which would not permit them to take up significant long term advances. There was thus a large gap relating to what is conventionally known as long term capital for industries.

Over the years, it was increasingly realised that credit institutions could play an important role in fostering the industrial development, as was shown by the experience of mixed banking in countries like Germany and Japan. This realisation found concrete expression, soon after the country gained political independence in August 1947. The first specialised institution for term finance for industry viz. Industrial Finance Corporation of India (IFCI) came into being under a Central Government statute in 1948.

The establishment of IFCI was followed by the setting up of similarly patterned regional development banks, viz. State Financial Corporation to operate at the state level. As a further step for meeting the increasing financing requirements of industry, the Industrial Credit and Investment Corporation of India Limited (ICICI) was set up in 1955 with the active collaboration of the World Bank. The ICICI was an outcome of the discussions that had taken place in 1953-54 between representatives of the Government of India, the Foreign Operations Administration of the United States and the World Bank. Unlike the IFCI & SFCs, the ICICI was incorporated as a limited liability company with support from

the Government of India, the World Bank, the Commonwealth Development Finance Company (CDFC) and other foreign institutions. It was expected to provide term loans in foreign currencies and take an active part in underwriting and direct investments in the shares of industrial units.

However it was felt that something more was still required to be done in this field. This led to the formation of the Refinance Corporation for Industry (RCI) in 1958 to provide refinance to commercial banks for their term loans to industry. While the operations of all the above institutions showed steady growth and contributed substantially to the development of the economy, the rapid pace of industrialisation under India's five year plans underlined the need for a new institution with wider functions and much larger resources at its command than the existing ones. The Industrial Development Bank of India (IDBI) was accordingly established in 1964 to meet this requirement. The IDBI was originally constituted as a wholly owned subsidiary of the Reserve Bank of India, the central bank of the country, so that the new institution could benefit from the financial support, experience and authority of the central bank for effectively carrying out its tasks as the apex institution for term finance for industry. The first decade of the working of the IDBI showed that it had established itself on sound lines and that it would be able to discharge its apex role even

more effectively as an autonomous institution. Accordingly Government of India enacted in 1975 legislation for delinking IDBI from the RBI and making the IDBI the "principal financial institution for coordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industry, for assisting the development of such units and for providing credit and other facilities for development of industry and for matters connected therewith."² Under this legislation, the Public Financial Institutions Laws (Amendment) Act, the ownership of IDBI was transferred from RBI to Government of India and various responsibilities which RBI earlier had vis-a-vis industrial financing institutions in the country were vested in the reconstituted IDBI. The Act came into force effective from February 16, 1976.

Thus from a modest beginning in 1948 with the setting up of the IFCI, the institutional infrastructure has been strengthened from time to time both by addition of newer institutions with more flexible structures and by enlarging the resources and the scope of operations of the existing institutions. Accordingly the Industrial Reconstruction Corporation of India Limited (IRCI) was set up in April 1971 under the Companies Act as a specialised agency in the field of reconstruction and rehabilitation of industrial units

² Industrial Development Bank of India, A Brief Outline, Bombay, September 1981, p. 3.

which close down or face the risk of closure but which if given suitable assistance can be put back into action.

At present, the IFCI, ICICI, IDBI, IRCI at the national level and State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs)/State Industrial Investment Corporations (SIICs) at the state level together comprise the financial institutions in the country. The Life Insurance Corporation (LIC) established in 1956 and Unit Trust of India (UTI) set up in 1964 are the important investment institutions supplementing the work of financial assistance to industry in India.

With a variegated structure the development banking institutions as a group have played a significant part in the industrial development of India via the investment market and have emerged as the backbone of the financial system.

The aspects covered in this dissertation include growth of assistance extended by the IDBI, IFCI and ICICI (Chapter II), the spread of such assistance under different schemes over different states, industries (Chapter III) and sectors (Chapter IV), the distribution of assistance among developed and backward areas (Chapter VI), and also for different purposes (new, expansion, diversification, modernisation, rehabilitation or over-runs) (Chapter V), the financial performance of these institutions (Chapter VIII), the incidence of sickness in assisted units, etc. At the outset it may be mentioned that Chapter VIII does not include working

results of the IDBI because it has some peculiar features such as being the apex development bank of the country, exemption from payment of tax, etc. as a result of which its performance is non-comparable with the other two institutions (IFCI & ICICI) included in this study.

While it is true that much of the operational data relating to each institution is available in the published annual reports of the institutions concerned, it has to be noted that the accounting years of different institutions vary (for instance, in case of IDBI & IFCI the financial year ends on 30th June whereas for the ICICI it is 31st December) and it is difficult to get an aggregative picture of the operations by scanning only the reports of each institution.

CHAPTER II

REVIEW OF THE OPERATIONAL POLICIES

The functions which a financial institution generally performs can be divided into two categories : financial and developmental. This section will deal with the latter function of the three all India financial institutions viz., the IFCI, ICICI and the IDBI.

The most important financial function of these institutions is to provide loan assistance to industrial concerns in the domestic i.e. rupee as well as foreign currencies. Foreign currency lines of credit are secured from the World Bank, Kreditanstalt fur Wiederefbau, Banque Francaise Du Commerce Exterieur, etc. by the IFCI and ICICI. These play a significant role in the economic growth of the country by making available the required quantum of foreign exchange for importing the necessary capital goods and technical know-how. Another important method used by the financial institutions is underwriting. Besides, they also directly subscribe to the shares, bonds, debentures, etc. of the industrial concerns. Further the IDBI subscribes to the shares, bonds and debentures of other financial institutions like the IFCI, ICICI, SFCs, etc. and thus increases their financial resources and enables them to provide larger assistance to industry.

The financial institutions also assist industrial concerns by providing guarantees of various types, e.g., guarantees on behalf of industrial concerns in respect of : the loans raised by them in the open market or from local/foreign financial institutions, and the deferred payments due from such concerns arising out of domestic purchase or import of capital goods, etc.

As a result of the changing pattern of investment and economic growth, financial institutions acquire new and give up some of the old functions. They have to be tailored so carefully so as to meet the changing requirements of industrialisation. To be useful as a potential instrument of economic growth it is necessary that the financial institutions should be dynamic in the spheres of their operational techniques. Some of the new functions/activities, that the IFCI, IDBI and ICICI have taken up over the years, may be briefly mentioned here.

The IFCI and the ICICI sponsored the Management Development Institute at Delhi and the Institute of Financial Management and Research at Madras respectively for conducting training programmes tailored to meet the specific needs of the assisted concerns and requirements of the industry and business in general, to upgrade the managements of borrowing concerns, and to bring about financial discipline. Besides, the IFCI sponsored the Risk Capital Foundation (RCF) in 1975. The main objective of the Foundation is to provide assistance

to new entrepreneurs, particularly technologists and professionals for promoting medium sized industrial projects by granting term loans free of interest or at a nominal service charge to enable them provide a part of the promoters' equity capital for projects which have been sanctioned financial assistance by the IFCI alone or jointly with other all-India institutions. During 1981, an amount of Rs. 0.83 crores was sanctioned by the RCF to 13 promoters of 10 projects compared to Rs. 0.64 crores sanctioned in 1980 to 14 promoters of 8 projects. The ICICI took up merchant banking functions. It has a Merchant Banking Division where the range of services rendered includes management of capital issues, project counselling, project evaluation, financial planning, etc. Very recently the ICICI has taken up equipment leasing towards broadening the financial sector of the country's economy and introducing newer instruments of finance. And lastly, under the leadership of the IDBI, the all India financial institutions have sponsored the setting of Technical Consultancy Organisations (TCOs) with a view to providing the necessary consultancy services to the promoters of small and medium industries who need institutional help from the stage of project conception to project formulation and implementation. The first T.C.O. was established in Kerala in 1972. Since then thirteen T.C.O.s have been established in a number of states by the development banks. Details of the TCOs activities will be discussed in the subsequent chapters.

In this section we will examine the operations of the three All India Financial Institutions viz., the IFCI, ICICI and IDBI in respect of their assistance in terms of loans, underwritings and direct subscriptions. As regards guarantees they have been excluded from our discussion as they represent contingent liabilities and generally do not involve direct outgo of funds. This section is divided into two sections - the first will look into the operations of the IFCI and ICICI together during the period 1970-71 to 1980-81 and the second would deal with the operations of the IDBI.

Table 2.1 presents the operations of the IFCI and ICICI as regards sanctions and disbursements divided into two sub-periods - 1970-71 to 1975-76 and 1976-77 to 1980-81.

Provision of rupee loans is the major activity of the IFCI. It has been providing loans in foreign currencies too, which however, were very limited in quantum. As against this, with the ICICI, foreign currency loans have been significant. This activity of the ICICI has always been important. At the time of its inception in 1955, ICICI was the only financial institution in India which provided loans in foreign currencies.

In case of the IFCI, the rupee loans increased by almost seven times from Rs. 25 crores in 1970-71 to about Rs. 177 crores in 1980-81, whereas the increase in the rupee loan assistance by the ICICI was twenty-fold from Rs. 8

Table 2.1 : Assistance Sanctioned and Disbursed by the IFCI and ICICI

Type of assistance	(Rs. in crores)							
	IFCI (year ending June)				ICICI (year ending December)			
	1970-71 to 1975-76		1976-77 to 1980-81		1970-75		1976-81	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
1. Loans	226.83 (90.26)	173.61 (84.82)	687.07 (92.90)	396.22 (96.37)	342.35 (87.61)	221.43 (92.04)	1093.82 (92.89)	731.88 (95.07)
1) Rupee	200.60 (79.83)	156.02 (74.28)	624.96 (84.51)	358.20 (87.13)	103.96 (26.36)	59.92 (24.90)	666.08 (56.17)	651.54 (58.65)
ii) Foreign currency	26.23 (10.43)	19.39 (10.54)	62.11 (8.39)	38.02 (9.24)	238.39 (60.46)	161.51 (67.13)	427.74 (36.07)	280.36 (36.41)
2. Underwritings	19.66 (7.82)	6.85 (3.72)	49.27 (6.66)	11.33 (2.75)	27.23 (6.90)	11.36 (4.72)	65.60 (5.53)	14.56 (1.89)
of which								
1) Equity shares	13.60 (5.41)	3.19 (1.73)	42.71 (5.77)	9.93 (2.41)	15.74 (3.99)	4.12 (1.71)	54.51 (4.60)	12.84 (1.66)
ii) Preference shares	3.06 (1.22)	2.02 (1.19)	1.06 (0.14)	0.96 (0.23)	5.45 (1.38)	4.33 (1.80)	1.77 (0.14)	1.13 (0.14)
iii) Debentures	3.00 (1.19)	1.57 (0.85)	5.50 (0.74)	0.44 (0.11)	6.05 (1.53)	2.91 (1.21)	9.32 (0.78)	0.59 (0.08)
3. Direct subscriptions	3.18 (1.26)	2.28 (1.23)	2.01 (0.27)	3.02 (0.73)	21.61 (5.48)	7.77 (3.22)	18.67 (1.57)	22.61 (2.94)
of which								
1) Equity shares	1.91 (0.76)	2.00 (1.08)	1.80 (0.24)	2.79 (0.67)	4.50 (1.14)	3.38 (1.40)	6.00 (0.50)	5.29 (0.68)
ii) Preference shares	0.27 (0.10)	0.28 (0.15)	-	-	1.70 (0.43)	1.34 (0.55)	0.63 (0.05)	0.56 (0.07)
iii) Debentures	1.00 (0.39)	-	0.21 (0.02)	0.21 (0.05)	15.59 (3.95)	3.05 (1.26)	12.04 (1.01)	16.76 (2.18)
Total amount	251.28	183.94	739.47	411.07	394.27	240.57	1185.77	769.80

Figures in brackets indicate percentages to total sanctions and disbursals.

Source : Annual Reports of IFCI and ICICI for various years.

crores to Rs. 170 crores. However, the share of foreign currency operations of the ICICI declined as compared to its rupee loans over the years. Although in 1970 the ICICI sanctioned Rs. 29 crores of foreign currency loans, in 1981 it sanctioned Rs. 129 crores i.e. the increase was only four times over that in 1970. As far as IFCI's foreign currency loans were concerned, they amounted to a very small proportion of its loan sanctions. Another point to be noted is that whereas in case of IFCI the rupee loans formed bulk of assistance during both the periods, as regards ICICI, in the second period, foreign currency loans were relegated to the second position, the loans sanctioned in rupee currency being around 56% as compared to 26% of total sanctions in the first period.

Between underwriting and direct subscriptions, in case of both the IFCI and the ICICI, underwriting operations were quite prominent. The role of the financial institutions in the system of underwriting should be judged not simply in terms of the amount underwritten by them. Their participation lends prestige to the issues and conveys to the investor an implicit guarantee regarding the soundness of the issues.¹ One of the highlights of the underwriting assistance by the IFCI and the ICICI is the prominence of equities. This is

¹ M. Y. Khan, New Issue Market and Finance for Industry in India, Allahabad Publishers Private Limited, 1978, p. 66.

necessary and desirable because by undertaking to underwrite the equity/risk capital, the financial institutions are really undertaking a risk of supporting good but financially weak units. Of the total amount sanctioned for underwriting by the ICICI from 1970 upto 1981, 76% was in respect of equities, 8% for preference shares and 16% for debentures. The corresponding figures for IFCI were 82% for equities, 6% in case of preference shares and 12% in case of debentures. The role of the financial institutions differs according to the type of issues of capital in respect of issues of variable dividend securities and fixed interest securities. A significant feature of the underwriting of capital issues by IFCI/ICICI is that devolvement was the highest in preference shares followed by debentures and then equity in which devolvement was the lowest. Since preference shares carry an obligation regarding the stated rate of dividend they qualify as eligible security for financial institutions.

Direct subscriptions by the IFCI to the shares (equity and preference) and debentures of industrial concerns aggregated Rs. 5 crores during the period 1970-71 to 1980-81. Out of this sum, Rs. 4 crores was in respect of direct subscription to equities and Rs. 1 crore to debentures. In case of ICICI direct subscriptions were larger in respect of debentures followed by equities and preference shares. The significance of these direct subscriptions by the financial institutions is that it helps the industrial

concerns to improve their financial strength. Moreover, the very fact that their shares/debentures have been subscribed by an institution like the IFCI or ICICI adds to the prestige of the concern.

Table 2.2 presents the assistance sanctioned and

Table 2.2 : Assistance Sanctioned and Disbursed by the IDBI

Type of assistance	(Rs. in crores)			
	1970-71 to 1975-76		1976-77 to 1980-81	
	Sanc- tioned	Dis- bursed	Sanc- tioned	Dis- bursed
1. Loans	371.50 (24.98)	175.50 (18.54)	1804.90 (32.55)	1067.20 (30.52)
2. Underwritings and direct subscriptions of shares and debentures of industrial concerns	58.30 (3.92)	24.40 (2.57)	181.60 (3.27)	38.80 (1.11)
3. Refinance of industrial loans	411.50 (27.68)	252.80 (26.72)	2203.10 (39.73)	1435.40 (41.05)
4. Rediscounting of bills	435.10 (29.20)	352.20 (37.22)	833.70 (15.03)	624.70 (17.86)
5. Export finance	167.20 (11.24)	93.90 (9.22)	341.80 (6.16)	153.30 (4.38)
6. Subscriptions to bonds, shares, etc. of financial institutions	42.90 (2.88)	47.30 (4.99)	179.00 (3.22)	177.30 (5.07)
Total amount	1486.60	946.10	5544.60	3496.70

Figures in brackets indicate percentages to total sanctions and disbursals.

Source : Annual Reports of IDBI for various years.

disbursed by the IDBI during 1970-71 to 1975-76 and 1976-77 to 1980-81, (i.e. percentages as well as the absolute amounts of total sanctions and disbursements) in respect of loans, underwriting and direct subscriptions, refinance of industrial loans, rediscounting of bills, finance for exports and subscriptions to shares and bonds of financial institutions.

Rupee loans sanctioned by the IDBI to the industrial concerns increased continuously during the period 1970-81. Rupee loans increased from Rs. 43 crores in 1970-71 to Rs. 104 crores in 1975-76 and to Rs. 561 crores in 1980-81. Among the institutions only the ICICI and IFCI were hitherto extending foreign currency loans, the share of the ICICI being by far larger than that of IFCI as indicated earlier. In January 1982, the IDBI raised for the first time a syndicated Euro-currency loan which is being used for extending foreign currency loans to assisted projects.

The IDBI provides support to the industrial concerns not only by underwriting and direct subscription but also directly through rediscounting and refinancing schemes. Underwritings and direct subscriptions amounted to Rs. 58 crores in the first period and it rose to Rs. 182 crores in the period 1976-77 to 1980-81. Besides there is another function which is performed by the IDBI in its role as apex development bank viz., that of subscriptions to the shares, bonds and debentures of other financial institutions like

the IFCI, ICICI, SFCs, etc. This function of the IDBI is supposed to provide support and encouragement to the other institutions. The subscription to shares of other institutions by the IDBI has a multiplier effect in the sense that the other financial institutions can raise by borrowing, sums which are in a prescribed multiple of their share capital. This category of assistance increased fourfold from Rs. 43 crores in 1970-75 to Rs. 179 crores in the second period; however, their percentage share to total sanctions remained at almost 3% during both the periods. During the year 1980-81, total subscriptions to shares and bonds of financial institutions aggregated Rs. 60 crores. Of this Rs. 15 crores were by way of subscription to share capital - Rs. 14 crores to share capital of 18 SFCs and Rs. 1 crore to share capital of IFCI. The balance amount of Rs. 45 crores was by way of subscriptions to the bond issues of ICICI (Rs. 25 crores) and IFCI (Rs. 20 crores) for support under the soft loan scheme.²

Amongst the functions of the IDBI, refinance operation occupies an important position from the standpoint of magnitude of assistance. This function was being looked after by the erstwhile Refinance Corporation for Industry till it was taken over by the IDBI with effect from 1st September 1964. Since its establishment in 1964 therefore the IDBI has been operating a scheme for grant of refinance against term loans

² IDBI, Report on Development Banking in India, 1980-81, p. 19.

granted by eligible credit institutions to industrial projects, their expansion, modernisation and diversification schemes. A significant feature of these operations is that the refinance of industrial loans sanctioned by the IDBI has increased almost twenty-five fold from Rs. 26 crores in 1970-71 to Rs. 174 crores in 1975-76 and to Rs. 677 crores in 1980-81 and it constituted about 28% and 40% of the operational assistance sanctioned by the IDBI during the two periods respectively. Its significance is that the assistance is based on differential rates of interest and quantum as between regions and industrial sectors - priority/unpriority industries, backward/developed regions, etc. Thus by controlling the volume and cost of funds between regions and industries, refinancing operations serve as an instrument for providing the correct direction for growth. The IDBI refinances 75-80% of the original loan except in case of small scale industrial units (SSI), units in backward areas and certain other specified categories, where the refinance could be upto 90% of the loan. Refinancing thus adds substantially to the availability of funds for development by the financing institution.

Apart from the refinancing operations, the IDBI also undertakes the business of rediscounting bills. The IDBI rediscounts bills or promissory notes arising out of sales of indigenous machinery on deferred payment basis. Bills or

promissory notes drawn in favour of or by the machinery manufacturers are discounted by them with their bankers who in turn rediscount the same with the IDBI. The scheme enables an industrial concern to buy machinery on deferred payment basis. These operations accounted for about 29% of total assistance in 1970-71 to 1975-76 but during 1976-77 to 1980-81 it fell to 15% of total assistance sanctioned.

IDBI provides finance for export of engineering goods and services on deferred payment terms. For this purpose the IDBI operates a variety of schemes for the promotion of exports of engineering goods and capital goods from India. Table 2.3 presents the export finance schemes of the IDBI from the years 1975-76 to 1977-78 and 1978-79 to 1980-81. The IDBI principally operates the following export promotion schemes:

1) Overseas buyers credit under which IDBI offers credit to foreign buyers for import of capital goods from India; it amounted to Rs. 18 crores in 1975-76 to 1977-78 and Rs. 57 crores in 1978-79 to 1980-81.

2) Lines of credit to overseas financial institutions; it was Rs. 32 crores in 1975-76 to 1977-78; it rose to Rs. 112 crores in the second period.

3) Overseas investment finance scheme was introduced in March 1979, to finance overseas equity investments by Indian promoters in their joint ventures abroad. This scheme

Table 2.3 : Export Finance Schemes of the IDBI

Export schemes	(Rs. in crores)			
	1975-76 to 1977-78		1978-79 to 1980-81	
	Sanc- tioned	Dis- bursed	Sanc- tioned	Dis- bursed
1. Direct export loans	56.6	42.6	44.4	43.8
2. Refinance of export credit	17.7	15.6	25.4	19.1
3. Overseas buyers credit	18.4	9.0	57.0	10.4
4. Lines of credit to overseas financial institutions	31.9	8.7	111.6	27.0
5. Overseas investment finance	-	-	12.6	3.9
6. Preshipment credit	-	-	1.0	2.4
Total	124.6	75.9	252.0	106.6

Source : Annual Reports of the IDBI for various years.

amounted to Rs. 3 crores at the time of its inception in 1979. During 1980-81 also it was Rs. 3 crores of total sanctions for export assistance by the IDBI.

4) Direct financial assistance to exporters fell from Rs. 57 crores to Rs. 44 crores.

5) Refinance of export credits increased from Rs. 18

crores of sanctions in 1975-76 to 1977-78 to Rs. 25 crores in the next period.

6) Pre-shipment credit scheme was introduced in May 1979, in which the IDBI may participate with eligible commercial banks to provide by themselves the entire guarantee of the pre-shipment finance required for exports. This category of export assistance amounted to Rs. 1 crore in 1980-81.

IDBI also acts as the focal point for clearance of deferred payments, export proposals and renders export counselling services. Total export assistance increased four fold from Rs. 25 crores in 1970-71 to Rs. 103 crores in 1980-81. However, percentage-wise export assistance accounted for 11% of the total sanctions in the first period as shown in Table 2.2. It was only 6% during 1976-77 to 1980-81 indicating a general lull in the export assistance during the second period.

CHAPTER III

INDUSTRIAL ASSISTANCE

Industrial Finance Corporation of India (IFCI)

For a long period of about sixteen years since its inception in 1948, the approach of the IFCI towards the financing of industries had been in a way 'haphazard'.¹ This is borne out by the fact that till May 1966, the IFCI had not established its own priorities for the grant of financial assistance and the attitude adopted was largely that of 'First come, first served', the only criteria having been adopted were those of 'overall development' and contribution to National Income. This was not what was expected of a development bank which was supposed to be selective in its approach and to develop its own priorities on the basis of general conditions of the economy and the goals in the plan adopted by the government. After the IDBI announced in 1965 its priorities, the IFCI too came out with its scheme of priorities in 1966. As a result, the IFCI began to give preferential treatment to projects which were export or defence oriented or import substitutes or helpful to food production. By and large, the IFCI's

1 S. K. Saksena, Industrial Finance in India, Vora, Bombay, 1974.

assistance was primarily confined to traditional industries like sugar, textiles, etc., in the beginning. However, in the late 'sixties with the emergence of sound technological base and general economic development of the country, projects coming up for assistance to the Corporation were of a varied type more often involving advanced and sophisticated technology such as the paper industry, metals industry, chemicals industry, etc.

Looking at the industry-wise distribution of financial assistance sanctioned by the IFCI as given in Appendix 'A' beginning from the year 1970-71 upto 1980-81 ending June, it seems that a sizeable amount of financial assistance had been sanctioned by the Corporation to the two traditional industries viz., sugar and textiles. However over the years, there has been increasing financial assistance to important non-traditional industries like fertilisers, iron and steel, paper, etc. Still the sugar industry occupied a prominent place in the operations of the IFCI. The industry-wise data have been presented according to the National Industrial Classification, 1970. From Appendix A it will be seen that the coverage of industries has been quite comprehensive and many of them constitute the key segments of the economy, such as cement, iron and steel, metal products, machinery industries, paper, etc.

Total sanctions to the industries increased from Rs. 35.32 crores in 1970-71 to Rs. 211.88 crores in 1980-81.

Industries of high national priority and other selected industries of importance viz., sugar, textiles, cement, paper, iron and steel, rubber products, basic industrial chemicals, etc., were the major beneficiaries of the Corporation's assistance year after year.

The period 1970-71 to 1980-81 has been divided into two sub-periods (a) 1970-71 to 1975-76 and (b) 1976-77 - 1980-81 and presented in Table 3.1. The table indicates the percentage share of industries assisted by the IFCI during the two periods.

It is clear from Table 3.1 that the Corporation's assistance to the so called industries of national priority and industries considered important for the national economy have displayed wide variations. At the same time these industries have claimed the major share of IFCI's assistance. For instance during the first period, IFCI's total assistance to industries amounted to Rs. 251.40 crores of which the above-mentioned industries (cement, sugar, textiles, basic industrial chemicals, etc.) claimed about 38% of total assistance. Their share during 1976-77 to 1980-81 became as high as ⁴⁸60% of total sanctions of Rs. 732.85 crores. In particular, the share of paper, cement, basic industrial chemicals and fertilisers and machinery rose significantly. As regards variations in the pattern of assistance by the individual industries it is to be noted that the sugar industry recorded a decline in its share from 24% in the

Table 3.1 : Industry-wise Assistance by the IFCI

Industry	(Percent to total)	
	1970-71 to 1975-76	1976-77 to 1980-81
Sugar	24.20	9.40
Cotton textiles	9.10	19.71
Synthetic fibres	4.51	3.20
Jute	1.53	1.83
Paper	4.76	8.94
Rubber	5.77	1.64
Basic industrial chemicals	4.21	8.36
Fertilisers	3.70	3.98
Glass	1.65	0.71
Cement	0.36	10.90
Iron & steel	9.61	5.03
Non-ferrous metals	0.83	0.86
Metal products	4.40	1.95
Machinery	3.68	4.23
Electrical machinery	4.52	2.79
Transport	4.54	2.23
Hotels	2.51	1.98
Others	7.16	11.56
Total	100.0	100.0
Amount (Rs. crores)	251.40	732.85

Source : Annual Reports of IFCI for various years.

first six year period to 9% in the later five year period whereas the cotton textiles industry doubled its share in the second period from 9% to almost 20% of total sanctions to the industry. The broader spread in the assistance by the IFCI indicate that the Corporation diversified its distribution of assistance. Although sugar and cotton textiles industries have continued to be its principal beneficiaries, other industries have succeeded in claiming the attention and assistance of the Corporation in a substantial way.

Industrial Credit and Investment Corporation of India (ICICI)

One of the most salutary aspects of the operational strategy of the ICICI is its alertness to the changed/ changing requirements of the Indian economy. Its investments have always been directed in a large measure to the development of non-traditional industries. The ICICI helped the growth of industrial concerns for the manufacture of chemicals/chemical products, metals/metal products, machinery, cement, etc. Its financial assistance has led to the development of new priority industries, expansion of capacities in existing priority industries as also the diversification of industrial production in tune with the socio-economic complex.

Industry-wise distribution of financial assistance sanctioned by the ICICI (cumulative totals) from 1970 to 1981 is given in the Appendix B. Total sanctions increased

from Rs. 34.14 crores in 1970 to Rs. 108.42 crores in 1976 to Rs. 358.73 crores in 1981. As can be seen from the Appendix B, metal products, manufacture of electrical equipment and basic industrial chemicals account for the major proportion of the financial assistance from the ICICI. For instance, the basic industrial chemicals claimed Rs. 10.38 crores in 1970, in 1976 it amounted to Rs. 19.47 crores and in 1981 it was Rs. 25.11 crores.

Table 3.2 indicates the percentage-wise distribution of industrial assistance during the two periods 1970-75 and 1976-81 by the ICICI. The chemicals industry claimed around 20% and 12% respectively during the two periods, the metal and metal products industry in turn claimed 18% and 14% respectively of total sanctions. Next in order came the machinery manufacture industry (10% and 11%); textiles (7% and 11%); electrical equipment (7% and 6%); etc. The textiles industry which is one of the important traditional industries ranked fourth during both the periods whereas the sugar industry another important industry ranked fourteenth and eleventh during 1970-75 and 1976-81 respectively.

As stated earlier, the ICICI made a major shift in its sanctions according to the growing requirements of the economy. A significant function performed by the Corporation is the provision of foreign currency loans and advances to enable Indian industrial concerns to secure

Table 3.2 : Industry-wise Assistance by the ICICI

Industry	(Percent to total)	
	1970-75	1976-81
Transport equipment	5.88	5.78
Cement	3.39	4.14
Basic industrial chemicals	19.71	12.28
Electricity equipment	7.28	6.16
Electricity/gas/steam	2.36	2.44
Fertilisers/pesticides	1.71	3.38
Food products	1.01	0.96
Glass, pottery, etc.	3.78	1.74
Machinery manufacture	9.59	11.14
Metals/metal products	18.13	14.29
Pulp, paper & paper products	5.51	6.19
Rubber	3.79	3.63
Shipping	4.41	3.11
Sugar	1.63	3.43
Textiles	7.49	10.59
Others	4.13	10.34
Total	100.0	100.0
Amount (Rs. in crores)	412.63	1155.89

Source : Annual Reports of ICICI for various years.

essential capital goods from foreign countries. Further it may be pointed out that the sugar industry which accounted for the major assistance from the IFCI received a comparatively lower proportion of assistance from the ICICI.

The Corporation thus attempted to study the needs of the economy at the changing levels of economic development and to adopt its policies accordingly. It realised the need to develop the 'so far neglected industries' which are now recognised as priority industries viz., machinery, metal products, electrical equipment, transport equipment, textiles, fertilisers, etc.

Industrial Development Bank of India (IDBI)

One aspect of the working of the IDBI is that soon after its establishment in 1964, it focussed attention on the question of priorities. A large part of the financial assistance sanctioned by various institutions had gone till then for the traditional industries. In the changing economic context, it had obviously become an urgent necessity to divert the flow of institutional assistance to priority sectors. In November 1965 the IDBI worked out its operational strategy with its scheme of priorities. Soon after, the other financial institutions came out with their scheme of priorities which was patterned mostly on the basis of the IDBI's scheme.

Industrial sector-wise distribution of assistance

sanctioned for the six year period 1970-76 and then for each year from 1976-77 to 1980-81 is presented in Appendix C. The industries are divided into five sectors/groups viz., basic industries, capital industries, intermediate goods industries and the service industries.

Table 3.3 presents the percentage share of the various industry groups during the two periods 1970-71 to 1975-76 and 1976-77 to 1980-81. In the case of the basic industries, this group increased its share from 18% in the first to 22% in the second period. The shares of the basic industrial chemicals, fertilisers and cement recorded increases during the second period whereas that of the basic metal industries declined.

As far as the capital goods industries are concerned, their share declined by almost half from 27% in the first period to 14% in the second period. Here the shares of the machinery, electrical machinery and the transport equipments industries declined markedly.

The intermediate goods industries did not show any significant change - its share rose from 21% to 23% in the second period. In this group, the paper industry increased its share from 5% to almost 7%. The other industries that showed increase in their share were the metal products and miscellaneous chemicals. On the contrary, the assistance claimed by the tyres and tubes, the man-made fibres, etc. fell during the second period.

Table 3.3 : Industry Group-wise Sanctions of the IDBI

	(Percent to total)	
	1970-71 to 1975-76	1976-77 to 1980-81
1. <u>Basic Industries</u>	<u>18.06</u>	<u>22.50</u>
Basic metal industries	5.25	3.33
Basic industrial chemicals	2.94	3.88
Fertilisers	3.86	5.74
Cement	3.15	4.83
Others	2.86	4.77
2. <u>Capital Goods Industries</u>	<u>27.42</u>	<u>13.68</u>
Machinery	16.05	8.01
Electrical machinery	8.66	3.75
Transport equipment	2.71	1.92
3. <u>Intermediate Goods Industries</u>	<u>20.68</u>	<u>22.92</u>
Jute	2.07	2.10
Manmade fibres	1.47	1.00
Tyres & tubes	2.65	1.14
Petro-chemicals	0.40	0.08
Miscellaneous chemicals	3.85	4.74
Others	2.37	4.02
Metal products	2.33	2.72
Paper	4.89	6.71
Glass	0.65	0.49
4. <u>Consumer Goods Industries</u>	<u>25.05</u>	<u>24.57</u>
Sugar	2.75	2.82
Food	4.39	3.96
Textiles	14.84	13.93
Others	3.07	3.76
5. <u>Services</u>	<u>8.81</u>	<u>16.26</u>
Hotel/Road transport	8.81	16.26
Total amount (Rs. in crores)	1293.36	5219.25

Source : Annual Reports of IDBI for various years.

As regards the consumer goods industries, it may be noted that its share almost remained the same during both the periods. In this group, the predominant industry was that of textiles although its share declined in the second period. In the services sector, the hotel/road transport services recorded a substantial increase from 9% in 1970-71 to 1975-76 to 16% in 1976-77 to 1980-81.

Summarising the above discussion, it may be noted that the shares of basic and intermediate goods improved in the later period; that of consumer goods remaining more or less the same and the share of services industries doubled at the cost of capital goods industries.

The progress achieved by the IDBI during the years in its role as the apex financial institution for term finance to the industries of the country has been remarkable. Right from its inception in 1964 upto 30th June 1981, it had sanctioned 60% of assistance to basic goods, capital goods and intermediate goods industries, the remaining 40% being claimed by the consumer goods and services industries.

The IDBI thus was conscious of the immediate needs of the economy. It endeavoured to channel resources into the vital and sophisticated sectors of the economy. The medium term requirements of the industry for fuller utilisation of existing capacity and a relatively quick increase in productive facilities through expansion and modernisation have been met on a substantial scale through provision of refinance.

Before we conclude this section it would be worthwhile to see the extent of assistance by these three institutions to industrial units in what are currently regarded by the IDBI as top five priority industries (i.e. fertiliser, cement, paper, sugar and textiles). Table 3.4 gives the assistance in terms of the absolute sums as well as the percentages of total sanctions by the IFCI, ICICI and the IDBI during the periods 1970-71 to 1975-76 and 1976-77 to 1980-81.

From Table 3.4 it is noticed that in IFCI's assistance the priority industries had a high share i.e. 45% and 53% during 1970-71 to 1975-76 and 1976-77 to 1980-81 respectively, compared to that in the assistance by the IDBI (18% and 34%) and the ICICI (20% and 29%).

Table 3.4 : Assistance to Priority Industries by IFCI, ICICI and IDBI

Industry	(Rs. in crores)											
	IFCI				ICICI				IDBI			
	1970-71 to 1975-76		1976-77 to 1980-81		1970-71 to 1975-76		1976-77 to 1980-81		1970-71 to 1975-76		1976-77 to 1980-81	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
1. Fertilisers	9.30	3.70	29.23	3.99	9.33	2.26	40.00	3.46	49.94	3.86	299.73	5.74
2. Cement	9.15	3.64	80.59	11.00	13.20	3.20	53.07	4.59	40.77	3.15	225.14	4.31
3. Paper	11.98	4.76	65.57	8.95	22.89	5.55	73.35	6.35	63.22	4.89	350.07	6.71
4. Sugar	60.85	24.20	68.90	9.40	7.26	1.76	40.19	3.48	35.66	2.75	147.26	2.82
5. Textiles	22.89	9.10	144.47	19.71	31.81	7.71	129.68	11.21	39.65	3.07	732.26	14.03
Total (1 to 5)	114.17	45.41	388.76	53.04	84.49	20.48	336.29	29.09	229.24	17.72	1754.46	33.61
Total amount	241.40		732.85		412.63		1155.89		1293.36		5219.25	

Source : Annual Reports of the IFCI, ICICI and IDBI for various years.

CHAPTER IV

SECTORAL ASSISTANCE

Most developing countries have adopted some form of mixed economic system in which private and public enterprises co-exist with various degrees of state intervention in the form of regulation, control and ownership. The development plans of various underdeveloped countries indicate an emphasis placed on the growth of public sector in different sectors of national economies to achieve socio-economic goals of economic development. The extent to which the public enterprises are able to deliver the expected gains would logically determine not only the future of the public sector as an instrument of economic development but also the level and pattern of economic growth.

In India the public sector is viewed as an important instrument for transformation of the economy to a 'socialist pattern of society'. The Second Five Year Plan stated that 'the adoption of the socialist pattern of society as the national objective requires that all industries of basic and strategic importance should be in the public sector.'¹ As a result the argument is that the growth of the private

¹ Government of India, Planning Commission, The Second Five Year Plan, New Delhi, p. 21.

sector should be subservient to the public sector in the industrial structure of the economy. In the industrial policy resolutions issued in 1948 and 1956 and in the economic policy declarations issued from time to time and incorporated in the five year plans, the public sector has been accorded the 'commanding heights' position in the national economy. The public sector in India was expected to realise the objectives of transforming India's economy on socialist pattern, redistribution of income and wealth and balanced regional development.

This chapter deals with the assistance sanctioned by the IDBI, IFCI and ICICI to the private, public, joint and cooperative sectors of the economy. Assistance that flows to the small sector will be dealt in the concluding part of the chapter. Due to absence of adequate comparative data on sectoral assistance by these institutions individually in the years preceding 1976-77, the discussion would be confined to the later years i.e. 1976-77 to 1980-81 for the institutions mentioned above. However Table 4.1 presents the picture of six term lending institutions' assistance to the various sectors for the years 1970-71 to 1975-76. Table 4.2 gives the proportion of financial assistance sanctioned to concerns in the different sectors by the IDBI, IFCI and ICICI for the years following 1975-76.

Table 4.1 indicates the sector-wise classification of

Table 4.1 : Sector-wise Classification of Assistance Sanctioned by All India Financial Institutions* (April-March)

(Rs. in crores)						
Sector	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76
Public	14.33	18.80	20.65	27.02	62.03	87.64
Joint	3.56	58.93	6.35	51.67	15.57	38.70
Co-operative	11.16	38.66	18.26	17.46	10.91	36.99
Private	164.19	160.59	207.22	232.45	361.32	401.18
Total	193.24	276.98	252.48	328.60	449.83	564.51

* Covered are IDBI, IFCI, ICICI, IRCI, UTI & LIC.

Source : Annual Reports of IDBI 1974-75 & 1975-76.

assistance sanctioned by All-India Financial Institutions viz. the IDBI, IFCI, ICICI, LIC, UTI and IRCI to the public, joint, cooperative and private sectors of the economy. The private sector continued to claim the lion's share of the total assistance by the institutions throughout the years as is evident from Tables 4.1 and 4.2. During the 1970s these institutions extended sizeable assistance to public sector projects. Assistance sanctioned to public sector projects increased considerably from Rs. 14 crores in

Table 4.2 : Sectoral Assistance by the IDBI, IFCI and ICICI

Institution/ Sector	(Rs. in crores)											
	1976-77		1977-78		1978-79		1979-80		1980-81		Cumulative upto end of March 1981	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
<u>IDBI</u>												
Public	114.87	18.72	85.84	11.56	74.18	9.65	109.11	9.02	165.28	11.53	758.62	12.57
Joint	36.12	5.88	157.18	21.17	29.40	3.82	169.22	13.99	50.42	3.52	513.74	8.51
Cooperative	40.77	6.64	29.31	3.95	19.83	2.56	8.66	0.72	28.07	1.96	168.48	2.79
Private	421.98	68.75	470.06	63.32	645.47	83.95	922.79	76.28	1189.37	82.99	4596.10	76.13
Total	613.74	100.00	742.39	100.00	768.88	100.00	1209.78	100.00	1433.14	100.00	6036.95	100.00
<u>IFCI</u>												
Public	11.55	15.08	22.53	19.87	12.35	8.91	19.60	14.22	44.21	20.88	131.88	11.03
Joint	15.35	20.04	8.82	7.75	27.51	19.86	27.15	19.69	21.73	10.26	127.79	10.69
Cooperative	17.04	22.24	13.48	11.89	5.28	3.81	3.75	2.72	13.66	6.45	177.71	14.86
Private	32.67	42.64	68.56	60.46	93.40	67.42	87.37	63.37	132.08	62.40	758.36	63.42
Total	76.61	100.00	113.39	100.00	138.54	100.00	137.87	100.00	211.68	100.00	1195.74	100.00
<u>ICICI</u>												
Public	-	-	1.75	1.61	3.03	1.66	2.37	1.16	8.52	2.71	30.80	1.96
Joint	20.71	20.98	12.72	11.74	25.37	13.88	26.39	12.91	24.15	7.68	140.80	8.95
Cooperative	11.50	11.65	8.27	7.64	6.81	3.73	2.40	1.17	5.44	1.73	44.60	2.83
Private	66.51	67.37	85.56	79.00	147.55	80.73	173.17	84.75	276.30	87.88	1356.68	86.25
Total	98.72	100.00	108.30	100.00	182.76	100.00	204.33	100.00	314.41	100.00	1572.88	100.00

Source : Annual Reports of IDBI, IFCI and ICICI for various years.

1970-71 to Rs. 88 crores in 1975-76. As regards the joint sector, except during the years 1971-72, 1973-74 and 1975-76 when they claimed moderate shares of assistance, during the remaining years their share ranged between Rs. 3 crores and Rs. 15 crores. The institutional assistance to the cooperative sector increased more than three-fold from Rs. 11 crores (5% of the total) to Rs. 37 crores (6.5% of the total). (Here it may be noted that the IDBI's assistance to the cooperative sector only started from 1973-74). The above is a general discussion on the sectoral assistance by the six institutions. However, the picture presented by three institutions (IDBI, IFCI & ICICI) individually indicates that the share of the cooperative sector has been declining continuously during the later years. As far as other sectors were concerned, the trends were almost similar as can be seen from the discussion that follows.

From Table 4.2 it is clear that in the case of IDBI, between the public, cooperative and joint sectors, it has been the public sector that has claimed a major portion of the assistance except during the years 1977-78 and 1979-80. During these two years it was the joint sector that took away a significant share of assistance. While in case of the public and joint sectors the trend has not been one of uniformity, the cooperative sector's share declined over the years from 7% in 1976-77 to 2% in 1980-81. However, the

decline in the assistance to the cooperatives according to the IDBI's Annual Report of 1976-77 was mainly due to a reduction in the project cost of sugar units and to a relatively slower growth in textile and sugar units.

The cooperative sector's share declined from Rs. 17 crores in 1976-77 to Rs. 14 crores in 1980-81 in the case of IFCI. In 1976-77, 21 projects in the cooperative sector - 16 sugar, 4 textiles and one synthetic fibre projects were sanctioned assistance amounting to Rs. 17 crores. In 1980-81 sugar and textile cooperatives numbering 22 claimed assistance of the order of Rs. 14 crores. This was substantially higher than the assistance of Rs. 4 crores sanctioned during the previous year to 9 cooperatives. The share of the public sector rose almost four times from Rs. 11 crores in 1976-77 to Rs. 44 crores in 1980-81. Although in absolute amounts the assistance to the joint sector increased from Rs. 15 crores to Rs. 22 crores in 1980-81, percentage-wise its share declined to half from 20% in 1976-77 to 10% in 1980-81.

Lastly as regards ICICI, it was the joint sector that was the major recipient (excluding the private sector) of its assistance. Its share in 1977 was Rs. 21 crores. This rose to Rs. 24 crores in 1981. The picture presented by the cooperative sector here was similar to that in the case of IDBI and IFCI. Its share declined markedly from 12% in 1977 to 2% in 1981. As far as the public sector was concerned, its share was insignificant ranging around 2% and 3%.

The private sector's position remained almost the same in case of the three institutions. It was not only the recipient of the largest assistance but also its share has been continuously increasing over the years. An analysis of the sector-wise assistance by the ICICI reveals that the share of the private sector has been increasing from 1976 onwards whereas, the share of the joint and cooperative sectors correspondingly declining which is not in tune with the socialist economic policy of the Union Government.²

The last column in Table 4.2 indicates almost the same trends as mentioned above. The only exception is the IFCI's share to the cooperative sector which in terms of cumulative totals (i.e. right from the inception of the IFCI in 1948 upto March 1981) was the second largest claimant of the assistance sanctioned. This is because the IFCI has played a major role in the development of industrial cooperatives. The major share of its assistance has gone to sugar cooperatives and cotton spinning cooperatives. In fact the sugar industry in Maharashtra owes its spectacular expansion to the assistance sanctioned by the IFCI. Of the 22 cooperatives claiming assistance from the IFCI in 1980-81, 7 of them were from Maharashtra.

The private sector claimed more than three-fourths of the total assistance from the IDBI and ICICI. Public sector,

² T. B. Rao and D. D. Murthy, 'Two-and Half Decades of ICICI,' Financial Express, December 28-29, 1982.

on the other hand, in spite of its importance in the Indian economy claimed around 13% in case of IDBI and 11% in case of IFCI as indicated in the last column of Table 4.2. As far as the ICICI was concerned, the public sector's share was almost insignificant.

It may be concluded that the decrease in the assistance to the cooperative sector was made up by an increase in the share of the public sector. Though the objective of expansion of public sector had been met, it should not have been at the cost of the cooperative sector since the Industrial Policy Resolution of 1956 and subsequent announcements emphasised the application of the principle of cooperation to the activities of the private sector.³ In India cooperative enterprises are to be encouraged as a matter of government policy and hence we find that a large amount of loans of the IFCI have gone to cooperative industries in recent years.

Assistance to the Small Scale Sector

Large scale industries which are generally concentrated in a few centres create problems of overcrowding, congestion, pollution and so on. On the other hand, small scale industries (SSIs) have been considered to be an important instrument for dispersal of industries. Because SSIs can use local resources, tap local skills, harness potential savings and provide employment opportunities for people in all

³ S. C. Kucchal, The Industrial Economy of India, Chaitanya Publishing Company, Allahabad, 1965, p. 98.

regions of the country in the decentralised pattern of industrialisation they are accorded importance.

The All-India financial institutions operate at the national level but all of them confine their attention to the medium and large scale industries.⁴ The only exception is IDBI, the apex institution for term finance which plays a crucial role in SSIs lending through refinancing term loans granted by commercial banks and SFCs and to a limited extent through the Bills Rediscounting Scheme.

The SSIs have the potential for achieving objectives like generation of additional employment, redistribution of income and assets in favour of hitherto unprivileged classes and weaker sections of society at a relatively smaller capital cost in fields where the economies of scale are not over-riding considerations for deciding the optimal size of the market.⁵ Thus with a view to accelerating the growth of small enterprises, the Government of India has reserved a large number of items for exclusive production in the small scale sector. The list of such items has been expanded and it included more than 837 items in 1982 as against 180 items reserved for this sector in the recent past. The list included food and allied industries, textile products including

⁴ W. Diamond and V. S. Raghavan, Aspects of Development Bank Management, Baltimore, John Hopkins Press, 1982, p.166.

⁵ Industrial Development Bank of India, Development Banking in India, Tata Press Limited, Bombay, p. 11.

hosiery, wood and wood products, plastic products, stationery items, sports goods, etc. The Central Government, State governments as well as financial institutions offer various concessions to promote the growth of this sector. Accordingly the refinance rate offered by IDBI for the SSIs is 1.5% lower than the normal refinance rate.

Table 4.3 gives the figures of IDBI assistance

Table 4.3 : IDBI Assistance Sanctioned to the Small Sector

(Rs. in crores)					
Year	Refinance assistance			Bills re-	Total
April- March	Small scale industries (SSI)	Small road transport operators (SRTOs)	Total	discount- ing assist- ance	
1970-71	n.a.	n.a.	18.5	-	18.5
1971-72	n.a.	n.a.	13.5	-	13.5
1972-73	17.4	2.8	20.2	-	20.2
1973-74	24.9	2.8	27.7	-	27.7
1974-75	55.3	17.8	73.1	-	73.1
1975-76	73.9	29.5	104.4	-	104.4
1976-77	106.2	53.1	159.3	-	159.3
1977-78	96.4	64.9	161.3	4.6	165.9
1978-79	144.3	102.3	246.6	9.8	256.4
1979-80	241.1	187.1	428.2	24.3	452.5
1980-81	269.8	205.0	474.8	219.5	694.7
Total	1029.3	665.3	1727.6	258.2	1986.2

n.a. = Not Available

Source : IDBI, Report on Development Banking in India, 1979-80 and 1980-81.

sanctioned to the small sector including small road transport operators (SRTOs) through the refinancing scheme and the Bills Rediscounting Scheme for the years 1970-71 to 1980-81.

While assistance taken by the small sector under the rediscounting scheme was almost negligible prior to 1977-78 it reached a modest magnitude during 1977-78 (i.e. Rs. 3 crores was the amount disbursed under the scheme). During the next 3 years there was a far larger utilisation thanks to the reduction in the rediscounting rates applicable to the small scale sector. This is evident from Table 4.3 where the rediscounting assistance rose substantially from Rs. 5 crores in 1977-78 to Rs. 219 crores in 1980-81. Refinance assistance sanctioned to SSIs increased significantly from Rs. 17 crores in 1972-73 to Rs. 270 crores in 1980-81. Likewise this assistance to the SRTOs was even more marked amounting to Rs. 205 crores in 1980-81 as against Rs. 30 crores in 1975-76.

CHAPTER V

PURPOSE-WISE ASSISTANCE

An analysis of the Industrial Policy Resolution of 1948, the First Five Year Plan and the Industrial Policy Resolution of 1956 shows that the expansion of capacity in capital goods industries and the establishment of new plants that would lend strength to the industrial structure by rectifying the existing lacuna and drawbacks were considered as priorities in the field of industrial development. During the Second and Third Five Year Plans increased production in iron and steel, development of heavy engineering and machine buildings, expansion of capital goods industries, and modernisation and re-equipment of important material industries were the priorities.¹

A review of various policy statements on government's assistance to industries brings out the following order of priorities:²

- 1) Establishment of new industries,
- 2) Expansion of capital goods industries, and
- 3) Modernisation/rationalisation of industries.

1 P. N. Singh, Role of Development Banks in a Planned Economy, Vikas, Bombay, 1974, p. 62.

2 S. C. Kucchal, The Industrial Economy of India, Chaitanya Publishing Co., Allahabad, p. 88.

The development banks assist either the existing industrial units in their expansion and modernisation programmes or the new units which are being set up. Usually the banks perform these functions simultaneously. Table 5.1 gives the purpose-wise classification of assistance sanctioned by the three All-India Financial Institutions viz., the IDBI, IFCI and ICICI during the periods 1970-75 and 1976-81.

Table 5.1 : Purposewise Classification of Assistance Sanctioned (% of assistance sanctioned)

Insti- tution	Year	New	Expansion/ diversifi- cation	Moderni- sation/ rationa- lisation	Supple- mentary assist- ance
IDBI	1970-75	55.80	18.20	14.29	11.68
	1976-81	59.64	15.98	23.96	10.39
IFCI	1970-75	62.06	24.29	11.98	6.86
	1976-81	53.06	12.05	24.48	7.39
ICICI	1970-75	24.08	52.99	14.30	7.86
	1976-81	25.27	34.18	33.58	16.58

Source : Annual Reports of IDBI, IFCI and ICICI for various years.

Table 5.1 shows that for the three institutions individually the proportion of assistance sanctioned for the establishment of new industries increased in the case of IDBI

and ICICI but declined in the case of IFCI in the second period as compared to the first period 1970-75. Further it may be noted that all the three institutions have shown a marked increase in their assistance for modernisation/rationalisation. The assistance towards modernisation/rationalisation more than doubled in case of IFCI and ICICI while the assistance by the IDBI towards this category of assistance also recorded a significant increase. As far as assistance towards setting up of new business units is concerned, IFCI's assistance declined from 62% to 53% in the second period whereas the assistance for this purpose by the IDBI and ICICI recorded only a moderate increase (e.g. ICICI from 24% to 25%; IDBI from 56% to 60%). Hence as regards the assistance for new units, it can be concluded that the share of these financial institutions had not increased substantially although the assistance under this heading still constituted the major share of their purpose-wise assistance.

A noteworthy feature is that in case of IDBI and IFCI, the percentage of assistance sanctioned under the heading 'supplementary assistance' for meeting cost overruns and relieving strain on cash resources remained more or less at the earlier levels during the second period reflecting lower incidence of project cost escalations in the second period. However, in this respect the case of the ICICI was quite contrasting. Its share of supplementary assistance almost

doubled from 8% in 1970-75 to 16% in 1976-81. This large increase could be attributed to the fact that ICICI sanctions loans mostly in foreign currencies. Moreover the rise in the world oil prices effected during 1970, 1974 and again in 1979 was responsible for steeply rising prices of imported equipment. The ICICI has been assisting largely capital intensive projects using imported equipments. This in fact could be one of the reasons for project costs exceeding their estimates thus leading to increased supplementary assistance by the ICICI.

It would be right at this point to have a brief look at the soft loans scheme operated by the IDBI. IDBI along with the IFCI and ICICI, has been operating since February 1976, the soft loan scheme under which loans for modernisation are extended to units belonging to five selected industries viz. cotton textiles, sugar, cement, jute textiles and certain engineering industries which being the older established industries in the country have a number of units in need of modernisation.³ The IFCI is the lead institution for sugar and jute industries; ICICI for engineering industries and the IDBI for cotton textiles and cement industries. Depending on the health of the units, assistance on concessional terms is granted on a graduated scale ranging from 100% in case of

³ Industrial Development Bank of India, A Brief Outline, Vijay Corporation, Bombay, September 1981, p. 10.

weak units to 25% to well off concerns.⁴ The interest on the loan is 7.5% and the repayment period could be 12 to 15 years.

The progress under the soft loan scheme has not been very encouraging. This is evident from the fact that the total disbursement under the scheme upto 30th June 1981 was Rs. 323.5 crores as against sanctions of Rs. 695.4 crores (Table 5.2). This is because of the following difficulties experienced by the industries : (1) It takes a long time before their applications are processed, (2) The rate of

**Table 5.2 : Soft Loan Operations (IDBI, IFCI, ICICI)
Upto 30th June 1981**

Industry	(Rs. in crores)			
	Sanctions		Disbursals	
	No.	Amount	No.	Amount
1. Textiles	251	364.5	189	179.6
2. Cement	17	75.9	13	49.8
3. Sugar	29	47.4	16	23.9
4. Jute	22	44.1	5	6.7
5. Engineering	103	163.5	76	63.5
Total	422	695.4	299	323.5

⁴ M. Y. Khan, Development Banking - Its Role and Problems, Artha Vijnana, March 1980.

interest is linked to dividend declared by the company and this interest rate would be increased if the company pays a dividend in excess of a stipulated ceiling. Thus the proportion of the soft loan is reduced when a high dividend is paid. (3) It is argued that the existing list of industries should be enlarged, and (4) It is necessary that a unit should be at least 10 years old to qualify for assistance under this scheme. However it is suggested that in the context of rapid technological improvements, this should be reduced to 7 years.⁵

Industrial Sickness

Another aspect of the assistance by the financial institutions is in the form of rehabilitation of 'sick' mills. 'Sickness' is an ambiguous term and hence it would be appropriate to look into what exactly is the criteria for calling a unit as a 'sick' unit. A sick unit has been variously defined. The Reserve Bank's Definition says : "A sick unit is one which incurs cash losses for one year and which in the judgement of the bank, is likely to continue to incur cash losses for the current year as well as the following year, and which has an imbalance in its financial structure, such as a current ratio of less than 1:1 and a worsening debt equity ratio." The current practice among the all India financial institutions is to consider an assisted unit as 'sick', if the unit has defaulted in the payment of four

⁵ V. Desai, Organisation and Management of Small Scale Industries, Himalaya Publishing House, Bombay, 1983, p. 46.

consecutive instalments of interest or principal and if the 'lead' institution considers such defaults as due to sickness.⁶ This assistance by the financial institutions for the revival of sick units has been institutionalised in the form of Industrial Reconstruction Corporation of India set up in 1971 jointly with the commercial banks, L.I.C. etc. The IRCI functions as a specialised agency in the field of reconstruction and rehabilitation of industrial units which close down or face the risk of closure but have economic justification for reconstruction and can be made viable with the necessary assistance.

As at the end of December, 1981, the all India financial institutions had in their portfolio 230 sick units taken up for nursing. These included also sick units which were earlier assisted by other institutions and later taken up for nursing and rehabilitation by the all India institutions. The total overdues by these units to the six institutions (IDBI, IFCI, ICICI, LIC, UTI, GIC) aggregated Rs. 149.41 crores comprising Rs. 70.81 crores of principal and Rs. 78.60 crores of interest. The incidence of sickness among the various industries were as follows: textiles (39 units), sugar (33 units), iron and steel (24 units), machinery (17 units), electrical machinery (16 units), etc. Textiles and

⁶ Industrial Development Bank of India, Report on Development Banking in India, 1981-82, p. 13.

sugar industries therefore together accounted for about one-third of the total number of sick units. As far as sector-wise sickness was concerned, 146 were in the private sector, 21 in the public sector, 27 in the joint sector and 36 in the cooperative sector. Of the 230 sick units, 46 of them were located in Maharashtra, 31 in West Bengal and 28 in Uttar Pradesh. Upto the end of December 1981, 21 assisted units in the portfolio of the IDBI and ICICI have been revived. Of these, four units were amalgamated with healthy units. Further the Technical Consultancy Organisations that have been set up by these institutions have also started assisting the so called 'sick units'.

CHAPTER VI

REGIONAL BALANCED DEVELOPMENT

Active promotion of industries in relatively backward regions of the country is one way in which the government is endeavouring to bring about a better distribution of the benefits of growth. But the dimensions of the problem in India are very large, given the widely prevalent subsistence level of living in the country and large distances between relatively more developed and less developed regions in the country.¹

In 1968 at the time of the formulation of the Fourth Plan, the Planning Commission constituted two Working Groups - one under the chairmanship of Shri B. D. Pande for recommending criteria for identification of backward areas and the other under the chairmanship Shri N. N. Wanchoo for suggesting fiscal and financial incentives for establishing industrial units in backward regions. On the basis of the recommendations of the two groups and on some additional criteria on backwardness, the Planning Commission notified 247 districts and certain union territories as specified backward regions eligible for concessional assistance from

¹ Industrial Development Bank of India, Development Banking in India, Tata Press Limited, Bombay, 1976, p.12.

the financial institutions. Thereafter from 1970-71 the financial institutions adopted the policy of concessional assistance and favourable treatment to industries in the notified backward areas.

In this section we will examine the financial assistance sanctioned by the three All-India financial institutions to the states and regions according to their level of industrial development during the periods 1970-71 to 1975-76 and 1976-77 to 1980-81. At the same time, we will also look into the assistance by these institutions to the projects in the less developed districts/areas.

Figures relating to the proportion of financial assistance provided to industrial concerns located in the three groups of states as given by the Pande Committee viz., industrially backward, industrially developing and industrially developed states by the IFCI, ICICI and IDBI are given in Table 6.1. Table 6.2 provides the particulars of assistance to projects in less developed areas by the abovementioned institutions.

As is evident from Table 6.1, which provides a combined picture of assistance by the three institutions to the three groups of states, the industrially developed states availed of more than half of the assistance in case of IDBI and ICICI while their share in the IFCI's assistance amounted to a little less than half of its total assistance in both periods.

Table 6.1 : Proportion of Financial Assistance to States by IFCI, ICICI, IDBI During 1970-71 to 1975-76 and 1976-77 to 1980-81

State	(Percentage of total)					
	IFCI		ICICI		IDBI	
	1970-71 to 1975-76	1976-77 to 1980-81	1970-75	1976-81	1970-71 to 1975-76	1976-77 to 1980-81
1. Industrially Backward						
Andhra Pradesh	6.04	9.47	3.58	4.74	4.63	6.77
Assam	1.78	1.19	0.84	0.58	2.33	0.49
Bihar	3.98	3.15	7.04	5.49	3.73	2.93
Himachal Pradesh	-	-	-	-	-	-
Jammu & Kashmir	-	-	-	-	-	-
Madhya Pradesh	2.06	3.03	1.79	2.59	3.22	2.72
Orissa	3.18	1.92	2.23	1.66	2.48	2.43
Rajasthan	2.68	6.51	1.79	2.78	2.65	5.27
Uttar Pradesh	14.58	10.48	4.76	6.11	6.81	7.59
Total	34.30	35.75	22.03	23.95	25.85	28.21
2. Industrially Developing						
Kerala	3.23	3.56	1.79	1.81	3.34	3.77
Karnataka	8.77	8.74	5.83	6.69	8.04	7.04
Total	12.00	12.30	7.62	8.50	11.38	10.81
3. Industrially Developed						
Haryana	5.97	2.46	2.63	2.49	2.60	2.59
Punjab	2.03	5.58	0.21	1.29	2.55	3.62
Maharashtra	20.36	16.42	34.99	31.58	19.32	16.05
Gujarat	6.88	9.59	12.38	12.51	10.87	15.20
Tamil Nadu	10.76	8.17	10.88	9.73	12.84	12.03
West Bengal	3.60	6.97	7.13	6.66	9.08	5.92
Total	49.60	49.19	68.22	64.26	57.26	55.41

Note : Percentages do not add to 100 because of non-inclusion of union territories and few other others : Nagaland, Manipur, Meghalaya, Sikkim, Tripura, Jammu & Kashmir, Himachal Pradesh due to non-availability of data.

Source : Annual Reports of the IDBI, IFCI and ICICI for various years.

Table 6.2 : Assistance to Projects in Less Developed Areas by IFCI, ICICI and IDBI

Year	(Rs. in crores)								
	IFCI			ICICI			IDBI		
	Total assist- ance	Assistance to projects in less developed districts/areas	Percentage to total assistance	Total assist- ance	Assistance to projects in less developed districts/areas	Percentage to total assistance	Total assist- ance	Assistance to projects in less developed districts/areas	Percentage to total assistance
Since inception to June 1970	325.65	84.64	26.0	n.a.	n.a.	n.a.	298.60	44.70	15.0
1970-71	26.66	5.27	19.8	n.a.	n.a.	n.a.	87.00	21.00	24.1
1971-72	36.93	13.17	35.7	52.36	9.41	18.0	134.80	44.90	33.3
1972-73	41.64	19.90	47.8	59.27	19.10	32.2	121.60	40.70	33.5
1973-74	35.46	14.17	40.0	62.72	24.44	39.1	164.40	58.40	35.5
1974-75	32.09	17.26	53.8	72.16	27.08	37.5	266.10	93.10	35.0
1975-76	47.77	23.32	48.8	97.24	38.52	39.6	379.90	169.40	44.6
1976-77	92.14	59.41	64.5	127.15	39.19	38.1	597.00	314.80	52.7
1977-78	107.21	55.10	51.4	154.56	48.94	35.1	601.00	284.10	47.3
1978-79	151.88	64.12	42.2	217.21	87.85	40.0	917.70	361.40	39.4
1979-80	149.81	68.97	46.5	314.08	116.64	37.1	1204.60	577.30	47.9
1980-81	212.03	103.26	48.7	307.49	123.64	40.2	1582.70	744.80	47.1
Sub-Total from 1970-71 to 1980-81	933.62	443.95	47.5	1464.24	534.81	36.5	6056.90	2709.80	44.7
Grand Total	1259.27	528.59	41.9				6355.50	2754.50	43.3

Source : Annual Reports of IFCI, ICICI and IDBI for various years.

In fact, the share of the developed states has only nominally declined in the case of all the three institutions during the second period and yet their predominance continued in the overall assistance to various groups of states. In this category of developed states there are wide disparities as between different states' share during the two periods. For instance, the shares of Haryana, Maharashtra and Tamil Nadu declined in the assistance by all the three institutions, yet these three states continued to have a lion's share of the assistance. In the case of West Bengal, its share increased in the case of IFCI but declined in the case of ICICI and IDBI. Further, as regards Punjab and Gujarat their share increased in all the financial institutions.

In the case of industrially developing states, they have not recorded any significant changes. Whereas their share fell during 1976-77 to 1980-81 in case of IDBI, they recorded only marginal increases in respect of assistance from the IFCI and the ICICI. Here it may be noted that Kerala's share of assistance from these institutions improved in the second period.

Though industrially backward states were still (1976-81) receiving a much small proportion of financial assistance from the institutions, their share of assistance improved nominally as is evident from Table 6.1. In case of the ICICI its assistance to the backward states remained stagnant. Among the states in this group, the shares of Andhra Pradesh and

Rajasthan improved markedly; the share of assistance going to Uttar Pradesh fell in the case of IFCI's assistance but rose in the case of ICICI and IDBI; in the case of Assam, Bihar and Orissa, their shares in the assistance declined. This is particularly disturbing, as these three states together with West Bengal form the eastern region which is generally categorised as backward areas.

The financial institutions introduced in 1970 schemes of concessional assistance to projects coming up in the backward areas. The concessions are in the form of lower interest rate viz. 9.5% per annum against the then normal rate of 11%; lower underwriting commissions of 1.25% and 0.75% for shares and debentures respectively; initial moratorium period upto 5 years; longer amortisation of 15 to 20 years and participation in Risk Capital on a selected basis, etc. The IDBI also extended similar concessions on its refinance assistance. In addition, the Central Government provides an outright capital subsidy in selected districts. The subsidy is at the rate of 15% of the project cost with a maximum of Rs. 1.5 millions. The state governments also provide further financial concessions to projects coming up in the backward regions. Tamil Nadu and Gujarat together accounted for almost 24% of the aggregate investment subsidy of Rs. 159.6 crores provided by the central government for setting up various industrial projects in backward areas during the eleven year period of

1972-73 to 1982-83.² Tamil Nadu topped the list with Rs.21.9 crores (18.8%) followed by Gujarat (Rs. 16.5 crores; 10.3%), Rajasthan (Rs. 16.4 crores; 10.3%), A.P. (Rs. 15.5 crores; 9.7%) and Maharashtra (Rs. 13.7 crores; 8.6%) in that order. Union territories Manipur and Tripura had only a share of less than 1% each. The amount disbursed under this head for various states varies with the capital outlay of projects undertaken in the states, general response of the entrepreneurs to the incentives, the extent of backward areas and the pace of industrialisation in backward areas.

The developmental role of the IDBI has been given a reorientation after its restructuring in February 1976. A separate department viz., the Regional and Backward Area Development Department was created for the main purpose of project identification, project promotion and performing associated developmental activities for the backward regions.

However in spite of all these concessions the industrially backward states continued to receive a lower proportion of institutional finance. The major cause for slower increase in assistance given by these institutions is the inadequate entrepreneurship and infrastructural facilities in the backward areas, poor resources availability and market constraints. The objective of regional balance had not been

² A. P. Nayar, 'Central Investment Subsidy, Tamil Nadu, Gujarat Larger Beneficiaries,' The Economic Times, September 26, 1983, p. 4.

achieved to a socially desirable extent during the first three five year plans.³ During the Fourth Plan there had been growing awareness of the problem of regional imbalances both inter-state and intra-state.⁴ The Fourth Plan proposed the introduction of a capital subsidy scheme and a concessional finance scheme for industries in backward areas. During the Fifth Plan the emphasis was on techno-economic survey, the need for a growth centered approach, the provision of a package of services to prospective entrepreneurs and the need for a new organisational approach.⁵ In the Sixth Five Year Plan the emphasis continued on progressive reduction in regional inequalities.⁶ The broad conclusion that emerges is that the government has always evinced an interest in encouraging industrialisation of backward areas and several approaches have been outlined in the plans. However, many of these approaches towards dispersal of industries have not in fact been pursued as is evident from the fact that even today the less developed states are receiving only a very small proportion of the total assistance by the financial institutions.

3 Government of India, Report of Industrial Licensing Policy Enquiry Committee, New Delhi, 1969 (Dutt Committee).

4 Government of India, Planning Commission, Fourth Five Year Plan, New Delhi.

5 Government of India, Fifth Five Year Plan, New Delhi.

6 Government of India, Sixth Five Year Plan, New Delhi.

Table 6.2 gives the picture of assistance to the less developed districts together in all the states by the IFCI, ICICI and IDBI. (The earlier Table 6.1 was in respect of assistance provided to the states classified according to their levels of development). Here it is remarkable that while the percentage of assistance provided by the IFCI was 26% of total assistance to projects in less developed districts/areas during 1948-70 (22 years), it amounted to 48% in the period of eleven years i.e. from 1970-71 - 1980-81. If the period 1970-71 to 1980-81 is divided into two sub-periods, 1970-71 to 1974-75 and 1975-76 - 1980-81, the percentage share during the first period was 40% of total assistance; it increased to 49% during 1975-76 to 1980-81. There was a sharp increase in the assistance after 1975-76 from an average of Rs. 13.95 crores to Rs. 62.36 crores from the first to the second period. Thus the IFCI involved itself more and more in the projects in the less developed districts/areas in the recent years. This is borne out by the fact that in 1980-81 almost 49% of total assistance was claimed by the less developed districts/areas.

The percentage share of total assistance by ICICI to projects in backward areas increased steadily from 18% in 1972 to 40% in 1981. Amount-wise the assistance increased almost fourteen times, as the amount rose impressively from Rs. 9 crores in 1972 to Rs. 124 crores in 1981, which shows that there was increasing participation of the ICICI in

projects in the backward areas of the country since 1972. During the period 1972-76, the percentage share of the backward districts was 34%; during 1977-81 it went upto 37%. Here it may be added, that while the IFCI's assistance to projects in the backward areas was halting; in the case of the ICICI it was a steady increase.

Assistance sanctioned by the IDBI to projects in specified backward areas increased from Rs. 21 crores in 1970-71 to Rs. 745 crores i.e. 35 times within a period of eleven years. This is all the more significant because the assistance sanctioned was just Rs. 45 crores during the six years after the IDBI's inception in 1964 which amounted to about 15% of total assistance sanctioned. During the period 1970-71 to 1974-75, backward areas claimed 33% of IDBI's assistance which increased to 46% during 1976-81.

From the above discussion of the assistance sanctioned by the IFCI, ICICI and the IDBI to projects in less developed districts/areas, it is clear that during the seventies when the schemes of concessional assistance to projects in backward areas were started, the assistance has been increasing. However, the criticism often levelled against these institutions as regards their assistance to backward areas is that although this assistance has been increasing over the years, it is always the relatively developed districts among the category of notified less developed districts or the backward districts of developed states that have actually availed

themselves of this assistance which means that the benefits have not reached the least developed or the most backward areas among this group of districts/areas. An analysis done by the IDBI shows that 50 of the 245 backward districts assisted by the IDBI have been accounting for the bulk of the assistance sanctioned though their share has been steadily declining from 85% in 1974-75 to 69% in 1979-80. (The IDBI's assistance to backward areas flows mainly through the project finance and refinance schemes). It is noted that three districts in each state account for at least 60% of the assistance sanctioned to that state, the share going upto 70% in Assam, Haryana, Himachal Pradesh, Jammu & Kashmir, Orissa, Punjab, and Rajasthan, where such districts are by and large close to developed districts. The growth of industrialisation in backward districts would essentially depend upon the preparatory work done in regard to identification of appropriate viable projects. Considering that the process of industrial development normally spreads from the more attractive to the less attractive centres and that nearly three-fourths of the country has been identified as industrially backward, the development of backward areas is bound to be sequential rather than simultaneous. Thus the backward districts near the developed centres are likely to develop first and then the spread effects would be felt among the rest of them.⁷

7 IDBI, Annual Report 1979-80, pp. 28-29.

CHAPTER VII

PROMOTIONAL AND OTHER ACTIVITIES

The provision of capital is the hard core of the function of a financial institution. But it also has an entrepreneurial role to play by taking up the leadership in conceiving and fashioning proposals for new enterprises and organising the finance for them. In a country of considerable size and uneven development like ours, the need for a variety of promotional activities such as entrepreneurship development, coordination of the activities of regional level financial institutions, making available consultancy services to entrepreneurs, both small and new ones, survey of resources and identifying of industrial potential, etc. is all the more essential and important. In this chapter, an attempt has been made to focus attention on some of the important promotional activities undertaken by the financial institutions in India over the years. Finally, the chapter would deal with some of the new activities/developments that have taken place from time to time, e.g. the convertibility clause, participation certificate, changes in the promoter's contribution, etc.

Promotional Activities

Technical Consultancy Organisations (TCOs)

The TCOs have been set up by the financial institutions jointly to fill up gaps in the services available to small and inexperienced entrepreneurs by providing assistance right from the stage of project conception to project formulation and implementation. The TCOs have been set up on a regional basis normally one each covering the geographical boundaries of states and in some cases covering more than one state. At present (1980-81) there are about 13 TCOs functioning in the country. The services of the TCOs are available to entrepreneurs, financial institutions, banks and government agencies. During 1980-81, the 13 TCOs prepared 875 project profiles/reports and 102 feasibility and pre-investment studies. They also carried out 154 techno-economic appraisals and 80 market surveys and special studies and trained 466 potential entrepreneurs. Of late, the TCOs have also been engaged in rehabilitation programmes for sick units by carrying out diagnostic studies and implementing rehabilitation schemes. Here, mention must be made of the novel 'Adoption Scheme' evolved by the Gujarat TCO which involves tying up sick units with successful large enterprises having either sale or purchase relationships with the units.¹ In October

¹ Industrial Development Bank of India, Report on Development Banking, 1980-81, Bombay, p. 82.

1981, this scheme was extended to enable healthy small scale units also to adopt 'sick' units. Assessment of TCOs performance at this stage would not bring out the correct picture since most of them are in their formative stages. However, there is no doubt that they have the potential to stimulate the industrial growth by providing the much needed assistance to small entrepreneurs.

Technical Assistance Fund (TAF)

The IDBI constituted a TAF in 1977 to give impetus to promotional activities and was activated to sponsor a number of studies. The funds are utilised for financing techno-economic surveys, preparation of project profiles, feasibility studies, and project reports, training facilities for personnel of financial institutions in India and abroad, entrepreneurship development programmes and entrepreneurial development institutions, etc. Any other activity which the IDBI considers as essential for promoting industrial development or institutions will also be provided for from the fund.

The studies sponsored by the fund included a study of efficiency of incentives for the small industry, a techno-economic survey of Mizoram, an evaluation of the IDBI assisted industrial estates in Southern India and joint sector projects in various regions of the country.

Entrepreneurial Development Programmes (EDPs)

The IDBI has been attaching much importance to the

encouragement of EDPs in association with state level agencies. It organised a national seminar on EDPs in March 1980 to provide a forum for the concerned institutions and individuals for exchange of views on various related aspects. The major recommendations made at the seminar related to innovations in designing EDPs suited for different target groups. The IDBI is thus in the process of formulating a workable plan which envisages a wide dispersal of EDPs in the light of the deliberations at the seminar. The IDBI has been supporting EDP activity quite actively. IDBI's financial support is from its TAF and is generally restricted to 50% of the aggregate cost of an EDP and the balance is to be met by the sponsoring organisations and from the concerned state government/state level agencies.

Technical Assistance Scheme

This scheme operated by the IFCI for training middle level executives of the state financial and developmental agencies and the senior executives of these organisations is found to elicit a good response because it has been found to be very useful. Since the inception of the scheme in 1974, 78 middle level executives from 33 state level institutions and 43 senior executives from 28 state level institutions have availed themselves of the scheme, which aims at acquainting them with the policies, procedures and practices of the corporation.

Risk Capital Foundation (RCF)

The Risk Capital Foundation was sponsored by the IFCI in 1975 with a view to providing personal loans to technically or professionally qualified new entrepreneurs to enable them to contribute a part of the equity capital as promoter's contribution in respect of projects which have been sanctioned financial assistance by one of the all-India financial institutions. The operations of the foundation has been modest which is evident from the fact that as on July 31, 1983 it had with it only five applications for assistance. As a result, the RCF will shortly launch a more liberalised scheme of assistance to expand its activities so that there will be a greater inflow of eligible applications for assistance.

Under the liberalised scheme, the amount of assistance extended will be increased from Rs. 10 lakhs to Rs. 15 lakhs in the case of a single entrepreneur, from Rs. 15 lakhs to Rs. 25 lakhs for 2 entrepreneurs and from Rs. 15 lakhs to Rs. 30 lakhs where there are 3 or more of them jointly. Further it has been also decided to do away with the requirement that the promoter should be a new entrepreneur. Besides a promoter who is striving to qualify from small to medium scale would also now be eligible for assistance. The foundation also seeks to widen its financial base through participation of other institutions. Till now, the entire resources of the foundation have been provided only by the IFCI. It

has also been decided that the foundation can consider sanctioning assistance for projects which have been assisted by state level development or financial institutions or even banks.

Inter-institutional Groups (IIGs)

IDBI in collaboration with other financial institutions has taken the lead to set up 22 IIGs at the state level to bring about effective coordination and to facilitate implementation of identified projects as also for the identification of new projects. The IIGs meet periodically and they are to serve as forums for discussion as to how to accelerate the pace of industrial development in the respective states.

Directory of Industrial Consultants

This directory has been prepared jointly by the IDBI, IFCI and ICICI. It provides details of consultants available to assist entrepreneurs and others. In other words, it would be of great use to entrepreneurs, state level institutions and banks in the selection and use of appropriate consultants for a variety of purposes served by them. During 1980-81 the names of 72 more consultants were added to the directory bringing the total to 350. According to IDBI's Annual Report 1980-81, a second updated edition of the Directory would be soon brought out due to very good response for the Directory.

Seed Capital Assistance Scheme

The IDBI operates two seed capital schemes to assist entrepreneurs who have the skills but lack finance to put in the requisite promoter's contribution. The first scheme is operated mainly through the SIDCs/SIICs for providing seed capital assistance to medium size projects costing upto Rs. 100 lakhs. In case of the other scheme, the SFCs provide seed capital assistance to projects in the small scale sector from their share capital contributed by IDBI and the concerned state government. Assistance under both the schemes carry no interest, only a service charge of 1% per annum. During 1980-81 certain liberalisations were effected in this scheme to make it more attractive. For instance, the ceiling of the project cost was raised from Rs. 1 crore to Rs. 2 crores and the ceiling on quantum of assistances was increased from Rs. 10 lakhs to Rs. 15 lakhs. The definition of the term 'new entrepreneurs' was broadened to include entrepreneurs technically qualified or otherwise, who possess, acquire or secure technical knowhow, who have a worthwhile project technically feasible and economically viable and who possess the ability to set up and run the enterprise; but who lack adequate resources to bring in the required promoter's contribution. The purpose of effecting these changes in the scheme was to make it more accessible to deserving promoters having the necessary entrepreneurial potential.

Other Developments

Convertibility

According to the guidelines issued by the Government of India, the All India Financial Institutions, viz., IDBI, IFCI, ICICI, LIC, UTI and GIC have been stipulating convertibility clause since 1971 in cases of large direct assistance under the normal project finance scheme. During 1980-81, the guidelines were further revised and now the convertibility would apply only when aggregate assistance of term lending institutions exceed Rs. 1 crore as against the earlier Rs. 50 lakhs. This convertibility clause provides an option to financial institutions to convert loans given to any company into equity shares. This option had to be exercised in such a way that they do not come to hold more than 40% of the share capital of the said company. However in case of defaulting companies, mismanaged companies or companies that have been closed for some time, the financial institutions could exercise the option of converting loans notwithstanding that their holding after such conversion exceeded 51%. Soft loan assistance and modernisation assistance is completely exempt from the convertibility stipulation.

In recent times, however, there has been a demand by the private corporate sector for abolishing this convertibility clause. This stipulation it was maintained had not only become obsolete but was also not good for the long term

development of the corporate sector as the repeated application of the convertibility clause diluted the stake of the company's promoter and raised the servicing cost of loan and equity. It created management uncertainty by reducing the share of the promoter in equity and disturbed the debt-equity ratio.² It is therefore argued that the convertibility clause should not apply to companies jointly holding 26%, or more of the share holding in a company.³ As at the end of June 1981, convertibility clause had been stipulated by the All India Financial Institutions in 930 cases and out of this, the option was exercised in 143 cases involving loan of Rs. 219.92 crores, the loan converted being Rs. 42.33 crores. In respect of 234 cases the option had been waived, the loan amount and amount subject to conversion being Rs. 246.83 crores and Rs. 45.75 crores respectively.

Promoter's Contribution

Initially the promoter of a particular project had to contribute 17.5% of the total cost. This was found to be too high for entrepreneurs who did not have enough capital to start new enterprises. During 1980-81, however, there was a further relaxation in the norms regarding promoter's contribution. It was reduced to 15% in respect of new and

2 N. C. Joshi, Revamping Financial Institutions, Maharashtra Herald, October 27, 1983.

3 M. S. Patwardhan, 'Ownership and Management,' The Economic Times, December 6, 1983.

expansion projects set up by non-MRTP companies in notified backward districts. This would serve the purpose of encouraging more entrepreneurs to start industries in backward areas.

Common Documentation

In 1980-81, the all India financial institutions evolved a procedure under which the lead institution would obtain, on its behalf and as constituted attorney on behalf of all other all India institutions (except UTI), common loan agreement, common security agreement, etc., to reduce delays that often arise because of the number of formalities that have to be completed by the borrowing parties. Instead now, the borrowing party does not have to approach every institution for the loan, but only the lead institution and then complete all the legal formalities in respect of the entire loan for all the institutions thereby saving a lot of time and effort. This procedure would be applicable to all cases irrespective of the cost of the project.

Participation Certificate

During 1978-79, the IDBI, IFCI, ICICI and LIC finalised a scheme for loan participation with risk. Under the scheme, projects costing upto Rs. 10 crores would be handled entirely by one institution which would as a lead institution provide entire financial assistance, complete all the formalities and necessary documentation, etc. required for the project.

The purpose in modification of these two procedures is to save a lot of administrative delays that often crop up in the process of obtaining loans as now each borrower need approach only one institution which in turn would cope up with all the formalities required.

CHAPTER VIII

WORKING RESULTS OF THE IFCI AND ICICI

In the long run, the success or failure of the promotional efforts of a financial institution has to be judged by its own profit and loss accounts and its own balance sheet. There should be no misunderstanding about this. No financial institution can in fairness strive to maximise its profits only in order to pay larger dividends to shareholders, as its primary objective is to raise resources and make them available to projects that are essential from the point of the country's economic development. Since the lack of capital is one of the main impediments on the road to economic development, a loss of capital resources is always detrimental to progress. Financial institutions that cannot build up reserves, cannot declare reasonable dividends and cannot show promising profit prospects for the future, will be unable to attract capital and will therefore fail to pull their weight in the march forward.¹ The crux of the matter is that financial institutions must try to combine profit making with a development orientation. In India, the financial institutions are public sector financial institutions. These

¹ W. Diamond, Development Finance Companies : Aspects of Policy and Operation, John Hopkins Press, 1968, p. 21.

institutions therefore need not always direct their assistance to only excellent companies having an impressive background. They will have to, at times, in the national interest assist some projects which are not necessarily profitable in the short run but which may be absolutely necessary in the long run for the industrial development of the country. For instance, in recent years, the textile industry has been making losses because of the textile mill workers strike at Bombay. Yet the financial institutions have been assisting them in a big way as has already been seen in Chapter II where the textile industry continued to be one of the major claimants of assistance by the three institutions (i.e. IDBI, IFCI and ICICI). This is because the textile industry is considered as one of the priority industries and hence it has to be provided assistance by the institutions despite the fact that in the short run, it may not be a profit earning venture for the financial institutions.

Against the background of the operations of the All-India financial institutions as described in the earlier chapters, it would be finally rewarding to examine the financial performance of these institutions. For this purpose their balance sheets and the profit and loss accounts and the R.B.I. bulletins and Reports on Currency and Finance for various years have been taken into consideration.

Working results of the institutions may be judged from a variety of standpoints, viz., defaults, profits, management

costs, staff costs, paid-up capital, reserves, outstandings, etc. Table 8.1 presents the picture of the working results of the IFCI and ICICI for the year 1970-71 and later for the years 1977-78 to 1980-81.

Recovery and performance in the recovery of dues is an important indicator of a financial institution's performance because the repayments are usually considered as a source of funds - internally generated funds - which would facilitate larger financial assistance by the institutions in the next period/year. The resources at the disposal of the financial institution are reduced to the extent of arrears and defaults in repayments by the borrowing parties concerned. Defaults moreover adversely affect the efficiency in recycling of funds of the institution. Further, a high level of defaults adversely affect the institution's image in the capital market from where it is required to raise funds for its operations. Thus to assess the financial efficiency of the financial institution it is imperative to look into its position as regards defaults in payment of principal and interest. As indicated in Table 8.1, overdues are measured in the first instance as a percentage of total outstandings and then as a percentage of paid up capital and free reserves. It is noticed that overdues are low in ICICI as compared to those of the IFCI in relation to total outstandings. Overdues amounted to 5.24% of outstandings in case of IFCI at the end of 1970-71; at the end of 1976-77 it was

Table 8.1 : Working Results of the IFCI and the ICICI

	IFCI (year ending June)						ICICI (year ending December)					
	1970-71	1976-77	1977-78	1978-79	1979-80	1980-81	1971	1977	1978	1979	1980	1981
1. Overdues as percentage of out-standings	5.29	8.64	10.14	9.94	10.85	9.55	1.92	3.04	2.93	3.23	3.56	3.37
2. Overdues as percentage of paid-up capital and reserves	46.43	73.71	89.08	90.09	109.26	96.58	14.74	27.86	27.31	31.56	37.07	35.82
3. Interest income as percentage of outstandings	6.34	7.44	7.65	7.89	7.84	8.47	8.07	8.90	8.91	9.31	9.68	10.09
4. Spread as percentage of out-standings	2.20	2.45	2.71	2.57	2.30	3.19	2.88	2.69	2.56	2.78	2.86	3.20
5. Interest paid as percentage of outstandings	4.14	4.98	4.94	5.31	5.54	5.28	5.19	6.21	6.35	6.51	6.82	6.90
6. Profits before tax as percentage of outstandings	2.25	1.76	2.40	2.22	2.14	2.22	2.36	2.01	1.87	2.12	1.95	2.51
7. Reserves as percentage of paid-up capital	170.65	217.10	256.20	233.92	218.46	229.25	111.54	109.60	111.33	134.88	138.90	174.30
8. Overdues as percentage of reserves	73.66	101.67	118.13	115.76	160.16	138.73	27.97	53.28	51.82	54.99	63.76	56.37
9. Debt-equity ratio	6.98	7.28	7.90	7.93	9.66	9.30	7.21	8.77	9.07	9.57	10.34	11.39
10. Management costs as percentage of outstandings	0.35	0.66	0.58	0.55	0.56	0.61	0.13	0.16	0.18	0.15	0.15	0.14
11. Staff costs as percentage of outstandings	0.25	0.36	0.36	0.36	0.38	0.44	0.28	0.32	0.27	0.27	0.31	0.30

Source : 1) Annual Reports of IFCI and ICICI for various years.
2) Reports on Currency and Finance for various years.
3) RBI bulletins for the various years.

8.64% which further rose to 9.55% by the close of 1980-81. The corresponding figures for the ICICI stood at 1.92% at the close of 1971 and around 3% at the end of the years 1977 and 1981. The percentage of overdues to outstandings does not really bring out the position realistically as the disbursements are rising fast. Therefore, in spite of rapid rise in overdues the rise is hidden because of rising disbursements as shown in Table 8.2. This table indicates figures of

Table 8.2 : Disbursements and Overdues of IFCI & ICICI

(Rs. in crores)					
IFCI			ICICI		
Year (April-March)	Disbursements	Overdues	Year (December)	Disbursements	Overdues
1970-71	17.35	10.49	1971	42.52	2.73
1976-77	58.04	26.81	1977	86.68	10.95
% increase in 1976-77 over 1970-71	234.52	155.58	% increase in 1977 over 1971	103.86	301.09
1977-78	62.02	36.22	1978	107.81	12.98
1978-79	70.23	40.62	1979	125.50	16.69
1979-80	92.93	51.54	1980	176.63	21.92
1980-81	127.84	55.66	1981	222.63	26.50
% increase in 1980-81 over 1976-77	120.26	107.61	% increase in 1981 over 1977	156.84	142.01

Source : Annual Reports of IFCI & ICICI for various years.

disbursements and overdues of IFCI and ICICI as well as the percentage increase of each in 1976-77 over 1970-71 and in 1980-81 over 1977-78.

As is evident from Table 8.2, the percentage increase in disbursements in the year 1976-77 over 1970-71 was 234.52 and that of overdues was 155.58. The same change in 1980-81 over 1976-77 was 120.26 for disbursements and 107.61 for overdues. This was the case with IFCI. Similarly for the ICICI, the percentage increase in 1977 over 1971 was 103.86 for disbursements and 301.09 for overdues, the change in 1981 over 1977 was 156.84% and 142.01% for disbursements and overdues respectively. Thus although the overdues have been steadily increasing over the years, they tend to be overshadowed by the corresponding continuous rise in the disbursements from year to year indicating apparently declining percentage of overdues to outstandings.

Paid-up capital and free reserves constitute what is conventionally known as the net worth or the owned funds of a firm/institution. As far as overdues and its relation vis-a-vis the net worth is concerned, it is necessary that the overdues should form a low proportion of the owned funds so that overdues should not at any stage wipe out the owned funds. Overdues as a proportion of net worth stood at 46% in 1970-71 but rose to 97% in 1980-81 for the IFCI. In case of the ICICI it was much lower at 14.7% in 1971 and 36% in

1981. Thus in both IFCI and ICICI, the rise in overdues was marked, in the case of IFCI it can even be said to be alarming as it had exceeded the net worth (1979-80). It must be mentioned however that overdues by themselves are not that dangerous as they constitute a sizeable portion of sums that are usually recovered but only after delays. But the tendency in rise of overdues is a significant warning signal, suggesting one or the other of the following:

- a) weak appraisal or assessment of the project proposals;
- b) lack of effective follow-up and monitoring of the project;
- c) abnormal market conditions resulting in low demand for the assisted concerns or the high cost of their products, etc.

In short, high overdues or defaults in payment of the principal and interest by the borrowing concerns give signals to the institutions to improve its appraisal techniques and/or to tone up its machinery for follow-up of the sanctioned projects. Rising overdues are therefore an indication that the project appraisal undertaken by the institutions has gone wrong somewhere and this would require a re-thinking on the part of the institutions if they are to succeed in bringing down the rate of increase in overdues.

In discussing financial policies of financial

institutions, the term 'reserves' is considered very important. Reserves are always considered important and good, a sign of success; and it is commonly recommended that they be built up to the greatest extent possible. In Table 8.1, we therefore juxtapose overdues with reserves. In case of IFCI, reserves increased from Rs. 10 crores to Rs. 47 crores; as regards ICICI it rose from Rs. 14 crores to Rs. 40 crores, during the years 1970-71 to 1980-81. Now, overdues as a percentage of reserves rose from 73.66 in 1970-71 to 138.73 in 1980-81 for the IFCI indicating that the rise in overdues was faster than the increase in the reserves. In 1970-71, defaults amounted to Rs. 10 crores and the reserves stood at Rs. 14 crores. In 1980-81, defaults were Rs. 56 crores and reserves were only Rs. 40 crores. Reserves throughout 1976-81 have been smaller than the defaults in the case of IFCI. For the ICICI overdues as percentage of reserves was 27.97 in 1971 and 56.37 in 1981. Defaults here were Rs. 3 crores and reserves Rs. 10 crores; in 1981 defaults were Rs. 27 crores and reserves Rs. 47 crores. Comparatively the position of the ICICI would appear to be stronger than of the IFCI.

The difference between interest receivable on outstandings and that payable on borrowings is termed as 'spread'. This spread may be high or low depending upon the structure of the institution concerned. This 'spread' in private level organisations can be high. In fact, that is the gross profit which needs to be maximised. But in the

case of public sector financial institutions this should be lower as it would signify efficiency i.e. ability to make do with a small spread. Moreover in case of public sector financial institutions, the rates at which they lend or borrow cannot be determined by themselves at their own discretion. In such a crucial matter, a financial institution cannot decide the policy. Most governments either themselves or through the central banks determine the interest rate, i.e. deposit and lending rates in the country as a part of their monetary policy. Even if decisions do not specifically cover lending rates of financial institutions, the financial institutions which are only a part of the financial structure, would have to fall in line, because it has to compete with other institutions, to a limited extent, for its resources and to a large extent, for its clientele.² Hence the spread should be low so that the maximum advantage in the form of lower rate of interest can be passed on to the borrowing parties. Income earned from interest as a proportion of total outstandings was 6.34% in 1970-71 which rose to 7.44% in 1976-77 to 8.47% in 1980-81 in respect of IFCI. In case of ICICI, interest income was 8.07% of outstandings in 1971; in 1977 it was 8.90% and in 1981 it was 10.09%. On the other hand, interest paid as a percentage of the total outstandings

2 W. Diamond and V. S. Raghavan, Aspects of Development Bank Management, John Hopkins University Press, Baltimore, 1982, p. 204.

of its borrowings rose from 4.14 to 5.28 in case of IFCI and from 5.19 to 6.20 in the case of ICICI. Spread therefore as a percentage of outstandings is seen to be around 3% as regards both the IFCI and ICICI over the years considered. The points to be noted here are that (i) in case of the ICICI the interest income was higher than that of the IFCI (i.e. interest income for the ICICI rose from Rs. 11 crores to Rs. 79 crores in 1981 whereas that of the IFCI rose from Rs. 13 crores to Rs. 49 crores) and (ii) there was a sharp increase in the spread in 1980-81 for the IFCI and in 1981 for the ICICI. For instance, the spread in case of the IFCI rose from Rs. 6 crores in 1979-80 to Rs. 10 crores in 1980-81. For the ICICI, the spread rose from Rs. 18 crores in 1980 to Rs. 25 crores in 1981.

Both the IFCI as well as ICICI are liable for tax as a company. The argument that is often put forth against the policy of taxation is that a substantial part of profits are always wiped out by taxation.³ However this argument has been proved wrong because it has been found that the profits after tax (i.e. net profits) have increased continuously from Rs. 2 crores in 1971-72 to Rs. 8 crores in 1980-81 for IFCI and for the ICICI the net profits rose from Rs. 2 crores in 1972 to Rs. 12 crores in 1981. The large increase in the net profit during the year 1980-81 is said to be largely due to

³ R. M. Saksena, Industrial Finance in India, Vora, Bombay, 1974, p. 193.

the improved working as also the higher tax relief available to the financial institutions under Section 36(1)(VIII) of the Income Tax Act, 1961.⁴

Table 8.1 presents the profits before tax (i.e. gross profits) as a percentage of outstandings. Here we have taken profits before tax and not profits after tax (i.e. net profits) as profits before tax are regarded as a better measure of the actual improvement in the profitability of the institution concerned. This stood around 2% in the case of IFCI and ICICI during the year 1970-71 and years 1976-81.

Perhaps the most fundamental questions of financial policy for a financial institution concerns the appropriate level of debt relative to equity. The complexity of this problem has often led to simplifications as there is no literature available regarding the debt-equity ratio that a financial institution should adhere to. In the case of IFCI and SFCs it was statutorily noted that the debt-equity ratio should be around 10. However, it is understood, that the IDA recently suggested that this be reduced to 7.5% due to increased borrowings by the financial institutions from the foreign capital market. In the light of this argument, we can see what the debt-equity ratios have been for the IFCI and ICICI over a period of eleven years. In 1970-71 for the IFCI, this ratio was 6.98. During the years, 1976-77 to

⁴ Industrial Finance Corporation of India, Annual Report, 1980-81, Bombay, p. 1.

1980-81, it rose to 9.30. In the case of ICICI in 1971 the ratio of total borrowings to paid up capital plus reserves (i.e. the debt-equity ratio) was 7.21 and in 1981 it was a little over 10. It is further evident that the percentage increase in total borrowings in 1981 over 1971 was 239.72 while that of the paid up capital and reserves were 155.11 for IFCI; for the ICICI the total borrowings recorded on increase of 531.91% in 1981 over 1971 while paid up capital and reserves rose by 299.67% bringing out the fact that borrowings went up at a faster rate than the paid up capital. A higher debt-equity ratio suggests an inherent weakness. In the free capital market, funds will be difficult to come with such a high debt-equity ratio. Now that the ICICI and IFCI, as mentioned earlier, have large borrowings in international markets, they ought to be conscious of this aspect.

Finally, we will examine the ratios of management costs and staff costs to outstandings of the IFCI and ICICI. In 1970-71 the ratio of management costs to outstandings was 0.35% and since then it was around 1% throughout the years in the case of IFCI. As regards ICICI, however, it was still lower with management costs not forming even 1% of total outstandings. It is however difficult to suggest as to the level of such costs which can be considered as minimum or ideal. Expenditure on staff is an important indicator of management efficiency and it is in the nature of fixed

overheads. Staff costs as percentage of outstandings were 0.25 to 0.44 in 1970-71 and 1980-81 respectively for the IFCI. In case of the ICICI this amounted to 0.28 in 1971 and 0.30% in 1981.

CHAPTER IX

CONCLUDING OBSERVATIONS

In this study an attempt has been made to analyse various types of financial assistance given by the three All-India financial institutions in the public sector - IDBI the apex bank, IFCI and ICICI - to several thousands of industrial enterprises during the period 1970-71 to 1980-81 with the help of the limited data published by these institutions and that too with several gaps and lack of uniformity in coverage. Some of the important findings may be briefly discussed as follows:

One of the fundamental objects with which development banks are established in an under-developed country like ours is to direct the flow of most of the investment towards development of the non-traditional, basic and capital goods industries which provide a basis and infrastructure for further development. According to our study of the institutional assistance towards various industries, it is found that cotton textiles and sugar industries were given high priority because they are items of mass consumption and hence conscious efforts were made to modernise the units so as to achieve higher production out of existing capacity with modernisation of their equipment. Though some structural change is taking place in

favour of non-traditional industries, it should be noticed that the IFCI, the oldest of the financial institutions has been quite active in financing sugar, cotton and jute textiles. ICICI and IDBI who normally provide assistance to non-traditional industries have also of late been actively assisting these industries. The largest single beneficiary of the IDBI's assistance so far has been the textile industry for its modernisation and expansion programmes. Thus even though a large part of assistance may go to non-traditional industries due to the changing structure of industries, goods of mass consumption will continue to get special attention from the financial institutions as they have been getting so far.

In the case of assistance given to industrial concerns operating under private, public, cooperative and joint sectors, it is found that whereas the private sector's share continues to be unchanged, the public sector has of late received a higher proportion of institutional finance. The share of the cooperative sector however declined in the last few years. Here it may be noted that the two major industries operating in the cooperative sector have been the textile and sugar industries. As far as the textile industry is concerned, its performance in the recent years has not been very good and most of the textile units have been declared as 'sick'. In the case of sugar industry, there has been no uniform trend in its growth due to fluctuations from year to year. Hence, it may be due to the unsatisfactory record of performance by

the cooperatives that has stood in the way of larger assistance going to them. As far as purpose-wise distribution of institutional finance is concerned, our analysis shows that whereas the proportion of assistance for establishment of new industries and for expansion have declined during the second period, the proportion of funds allowed for modernisation has increased.

We also examined the role of institutional finance in reducing regional inequalities and development of backward areas. Classifying various states into three categories, we found that industrially backward states continued to receive lower proportion of institutional finance. Aware of the intrinsic limitations of financial and fiscal incentives in initiating a process of sustained industrial development in less developed regions, the IDBI initiated in 1970 schemes of concessional assistance and has also undertaken promotional work in association with other financial institutions. Efforts in this direction have been further intensified by the creation of a separate Division for Regional and Backward Area Development a cell to study problems of hilly regions. It is also significant to note that the ICICI has set up a development office at Gauhati realising the need for giving special attention to industrialisation efforts in the North-Eastern region.

Annual reports are prepared by the financial institutions to provide information to their share holders about

the progress and operations of the institutions and details of the annual reports will therefore differ. Still the information furnished in the different annual reports will be of the same nature because the functions of different institutions are similar to each other. At present different financial institutions are furnishing information in different forms and different patterns. This makes it extremely difficult to undertake any systematic comparison of the operations of the development bank with the other. For instance the IFCI and IDBI publishes data annually regarding industrial, sectoral, purpose-wise, state-wise assistance, etc. separately in a tabular form. In the case of ICICI, with the exception of industrial and state-wise assistance, we do not find the other categories of data presented in the abovementioned form. Although the ICICI has been established under the Companies Act, its functions are of an All-India nature and since it is a public financial institution it is suggested that it should submit in its reports data similar to that of the other two institutions.

In conclusion it may be noted that there is considerable scope for the financial institutions in optimising the use of scarce resources, in achieving a socially desirable product mix, in bringing about industrialisation in hitherto backward regions and in promoting the growth of entrepreneurs in the country. They will have to develop and deploy techniques which

would assure that socially more desirable projects are taken up and less desirable projects are kept out. In other words, the financial institutions will have to strive to maintain a judicious balance between the two mutually conflicting factors of economic feasibility and social desirability.

Appendix A : Industrywise Distribution of Financial Assistance Sanctioned by IFCI (Year ended June)

Industry	(Rs. in lakhs)											
	1970-71		1971-72		1972-73		1973-74		1974-75		1975-76	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
1. Sugar	829.00	23.5	945.00	24.1	1992.00	43.2	675.00	17.2	370.00	10.0	1274.00	23.3
2. Cotton textiles	273.00	7.7	145.14	3.7	374.03	8.1	471.27	12.0	415.00	11.2	611.00	11.2
3. Synthetic fibres	532.00	15.1	134.31	3.4	51.17	1.1	98.82	2.5	116.00	3.2	199.00	3.6
4. Jute	-	-	65.00	1.6	225.00	4.9	93.74	2.4	1.00	-	-	-
5. Paper	70.00	2.0	188.42	4.8	355.76	7.7	95.78	2.4	144.00	3.9	344.00	6.3
6. Rubber products	-	-	300.67	7.7	122.78	2.7	27.20	0.7	613.00	16.6	290.00	5.3
7. Basic industrial chemicals	57.00	1.6	157.29	4.0	109.76	2.4	371.62	9.5	250.00	6.8	115.00	2.1
8. Fertilisers	6.00	0.2	773.22	19.7	-	-	60.00	1.5	91.00	2.5	-	-
9. Glass	-	-	56.00	1.4	88.98	1.9	186.81	4.7	35.00	0.9	50.00	0.9
10. Cement	50.00	1.4	20.00	0.5	215.00	4.6	-	-	80.00	2.2	550.00	10.1
11. Iron & steel	479.00	13.5	318.74	8.2	189.67	4.1	798.94	20.3	152.00	4.1	479.00	8.8
12. Non ferrous metals	170.00	4.8	35.00	0.9	-	-	-	-	4.00	0.1	-	-
13. Metal products	244.00	6.9	191.68	4.9	212.65	4.6	126.29	3.2	183.00	5.0	149.00	2.7
14. Machinery	95.00	2.7	109.21	2.8	87.53	1.9	172.82	4.4	286.00	7.8	175.00	3.2
15. Electrical machinery & equipments	299.00	8.5	162.30	4.2	158.34	3.4	183.10	4.7	123.00	3.3	213.00	3.9
16. Transport equipment	244.00	6.9	211.48	5.4	97.25	2.1	79.00	2.0	278.00	7.6	233.00	4.3
17. Hotels	15.00	0.4	-	-	49.50	1.1	365.50	9.3	113.00	3.1	90.00	1.7
18. Others	169.00	4.8	102.35	2.7	285.00	6.2	125.32	3.2	432.00	11.7	688.00	12.6
Total	3532.00	100.00	3915.81	100.00	4614.92	100.00	3931.30	100.00	3686.00	100.00	5460.00	100.00

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Appendix A : (Continued)

Industry	1976-77		1977-78		1978-79		1979-80		1980-81	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
1. Sugar	2126.00	21.3	1804.00	15.4	182.00	1.2	331.00	2.2	2447.00	11.5
2. Cotton textiles	925.00	9.3	1843.00	15.7	3189.00	20.7	4554.00	30.4	3936.00	18.6
3. Synthetic fibres	337.00	3.4	290.00	2.5	403.00	2.6	845.00	5.6	472.00	2.2
4. Jute	351.00	3.5	581.00	5.0	301.00	1.9	-	-	111.00	0.9
5. Paper	1774.00	17.8	1028.00	8.8	663.00	4.3	1444.00	9.6	1643.00	9.2
6. Rubber products	234.00	2.3	229.00	2.0	206.00	1.3	74.00	0.5	464.00	2.2
7. Basic industrial chemicals	370.00	3.7	652.00	5.5	2572.00	16.7	1330.00	8.9	1207.00	5.7
8. Fertilisers	172.00	1.7	1100.00	9.4	364.00	2.4	324.00	2.2	963.00	4.3
9. Glass	123.00	1.2	2.00	-	233.00	1.5	126.00	0.8	42.00	0.2
10. Cement	663.00	6.6	1196.00	10.2	1730.00	11.2	2027.00	13.5	2443.00	11.5
11. Iron & steel	261.00	2.6	455.00	3.9	1457.00	9.5	706.00	4.7	813.00	4.1
12. Non ferrous metals	107.00	1.1	34.00	0.3	50.00	0.3	295.00	2.0	145.00	0.7
13. Metal products	100.00	1.0	255.00	2.2	16.00	0.1	327.00	2.2	738.00	3.5
14. Machinery	345.00	3.5	782.00	6.7	158.00	1.0	583.00	3.9	1233.00	5.8
15. Electrical machinery & equipments	400.00	4.0	134.00	1.1	452.00	2.9	286.00	1.9	773.00	3.7
16. Transport equipment	365.00	3.7	116.00	1.0	655.00	4.3	85.00	0.6	419.00	2.0
17. Hotels	308.00	3.1	113.00	1.0	248.00	1.6	-	-	788.00	3.7
18. Others	1016.00	10.2	1096.00	9.3	2550.00	16.5	1644.00	11.0	2166.00	10.2
Total	9977.00	100.00	11710.00	100.00	15429.00	100.00	14981.00	100.00	21188.00	100.00

Source : Report on Currency & Finance, 1979-80 and 1980-81 and Annual Reports of IFCI. Data relates to total financial assistance comprising direct loans, guarantees for foreign loans and deferred payments, direct subscription to shares and debenture and underwritings.

Appendix B : Industrywise Distribution of Assistance Sanctioned by ICICI (As on 31st December)

Industry	(Rs. in crores)											
	1970		1971		1972		1973		1974		1975	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
1. Sugar	0.03	0.9	0.05	1.4	0.06	1.7	0.09	1.9	10.38	2.0	12.83	1.9
2. Food products	0.03	1.1	0.04	1.1	0.04	1.1	0.04	1.0	0.04	0.9	0.06	0.9
3. Textiles	20.17	6.8	21.96	6.6	26.74	6.9	37.70	8.5	42.38	8.3	53.11	7.9
4. Paper and paper products	14.51	4.9	18.12	5.4	23.08	6.0	28.43	6.1	30.05	6.0	40.92	5.9
5. Rubber products	0.10	3.3	10.01	3.0	12.32	3.2	15.87	3.6	25.40	5.0	33.40	5.0
6. Basic industrial chemicals	64.39	21.8	74.28	22.3	85.14	22.0	77.11	17.3	88.38	17.4	118.02	17.5
7. Fertilisers and pesticides	-	-	-	-	-	-	17.18	3.9	17.75	3.5	19.76	2.9
8. Cement	13.09	4.4	13.44	4.0	12.60	3.3	13.44	3.0	13.86	2.7	20.12	3.0
9. Metal and metal products	51.85	17.6	78.55	23.6	70.09	18.2	81.93	18.4	90.43	17.8	123.88	18.4
10. Machinery (except electrical)	29.59	10.0	30.30	9.1	33.91	8.8	40.77	9.1	50.54	9.9	72.36	10.7
11. Electrical equipment	24.49	8.3	25.83	7.7	28.77	7.4	31.12	7.0	34.62	6.8	43.41	6.5
12. Transport equipment	17.47	5.9	18.18	5.5	24.75	6.4	26.68	6.0	29.68	5.8	38.71	5.7
13. Electricity generation and distribution	0.07	2.5	0.08	2.3	0.09	2.4	12.15	2.7	12.17	2.4	12.97	1.9
14. Shipping	17.57	5.9	16.17	4.8	17.19	4.4	17.18	3.9	19.08	3.8	24.51	3.7
15. Glass, pottery, etc.	0.08	2.7	11.42	3.7	15.50	4.0	19.68	4.4	22.19	4.4	27.88	4.1
16. Others	11.44	3.9	16.86	5.0	15.96	4.2	14.04	3.2	16.74	3.3	27.13	4.0
Total	295.69	100.0	333.75	100.0	386.11	100.0	445.38	100.0	508.10	100.0	674.18	100.0

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Appendix B : (Continued)

Industry	1976		1977		1978		1979		1980		1981	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
1. Sugar	22.10	2.8	33.66	3.8	41.70	3.9	41.96	3.3	45.12	3.1	67.50	3.7
2. Food products	7.90	1.0	0.10	1.1	9.30	0.4	11.94	1.0	13.68	0.9	15.73	0.9
3. Textiles	61.40	7.9	80.76	9.1	112.50	10.6	142.43	11.3	180.04	12.2	228.10	12.5
4. Paper and paper products	46.50	5.9	55.36	6.3	67.40	6.3	76.62	6.1	92.36	6.3	123.14	6.7
5. Rubber products	39.50	5.1	37.18	4.12	41.20	3.9	40.40	3.2	39.95	2.7	48.38	2.7
6. Basic industrial chemicals	141.10	18.0	149.69	17.0	171.40	16.1	208.30	16.5	240.27	16.3	287.44	15.7
7. Fertilisers and pesticides	22.70	2.9	25.03	2.8	37.60	3.5	49.66	4.0	55.50	3.8	61.30	3.3
8. Cement	22.20	2.8	29.42	3.3	35.70	3.4	56.48	4.5	73.35	5.0	107.96	5.9
9. Metal and metal products	126.80	16.2	134.82	15.3	152.30	14.3	176.65	14.0	196.09	13.3	231.19	12.7
10. Machinery (except electrical)	79.30	10.1	90.65	10.3	109.10	10.3	135.49	10.8	184.99	12.6	234.51	12.8
11. Electrical equipment	50.80	6.5	58.05	6.6	65.50	6.2	74.31	5.9	88.30	6.0	106.48	5.8
12. Transport equipment	47.50	6.1	49.42	5.6	57.70	5.4	70.79	5.6	84.81	5.8	114.07	6.2
13. Electricity generation and distribution	12.90	1.7	19.89	2.3	35.60	3.4	34.43	2.7	34.67	2.4	40.24	2.2
14. Shipping	33.90	4.3	34.53	3.9	36.70	3.4	35.72	2.8	34.66	2.3	37.49	2.0
15. Glass, pottery, etc.	28.70	3.7	29.03	3.3	36.70	3.5	-	-	-	-	-	-
16. Others	39.30	5.0	45.73	5.1	52.2	4.9	104.35	8.3	108.65	7.3	126.74	6.9
Total	782.60	100.0	882.65	100.0	1062.60	100.0	1259.59	100.0	1471.54	100.0	1830.27	100.0

Source : Annual Reports of ICICI for various years.

Appendix C : Industry (Sector) wise Assistance Sanctioned by IDBI

Industry	(Rs. in crores)													
	1970-71 to 1975-76		1976-77		1977-78		1978-79		1979-80		1980-81		July 1964 to June 1981	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
Basic Industries														
1. Basic metal industries	67.93	5.25	11.15	1.64	16.03	2.33	55.18	5.8	41.60	3.3	49.89	3.01	262.86	3.95
2. Basic industrial chemicals	38.01	2.94	24.11	3.55	14.67	2.13	55.72	5.8	43.04	3.5	65.12	3.93	224.62	3.38
3. Fertilisers	49.94	3.86	76.28	11.24	80.47	11.67	18.20	1.9	114.85	9.2	9.93	0.60	369.93	5.56
4. Cement	40.77	3.15	33.89	4.99	12.73	1.85	38.88	4.1	70.26	5.7	96.38	5.81	303.22	4.56
5. Others (mining etc.)	36.96	2.86	18.14	2.67	24.49	3.55	89.32	9.4	43.87	3.5	73.06	4.41	397.14	5.97
Total	233.61	18.06	163.57	24.10	148.39	21.52	257.30	27.1	313.62	25.2	294.38	17.76	1557.77	23.42
Capital Goods Industries														
6. Machinery (other than electrical)	207.54	16.05	45.37	6.69	68.11	9.88	54.37	5.7	89.27	7.2	160.93	9.71	650.07	9.77
7. Electrical machinery	111.99	8.66	53.75	7.92	46.19	6.70	27.62	2.9	24.26	2.0	44.01	2.66	213.24	3.21
8. Transport equipment	35.02	2.71	20.03	2.95	9.93	1.44	23.82	2.5	24.08	1.9	22.33	1.35	130.06	1.95
Total	354.55	27.42	119.15	17.56	124.23	18.02	105.82	11.1	137.61	11.1	227.27	13.72	993.37	14.93
Intermediate Goods Industries														
9. Jute	26.71	2.07	16.60	2.45	25.68	3.72	24.53	2.6	34.58	2.8	8.21	0.50	39.47	0.59
10. Man-made fibres	19.07	1.47	3.20	0.47	4.80	0.70	3.07	0.3	17.11	1.4	19.14	1.15	68.93	1.04
11. Tyres and tubes	34.23	2.65	7.12	1.05	8.88	1.29	13.62	1.4	8.73	0.7	21.29	1.28	94.03	1.41
12. Petro-chemicals	5.15	0.40	-	-	-	-	2.64	0.3	-	-	1.77	0.11	27.36	0.41

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Industry	1970-71 to 1975-76		1976-77		1977-78		1978-79		1979-80		1980-81		July 1964 to June 1981	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
13. Miscellaneous chemicals	49.76	3.85	28.29	4.17	24.11	3.50	51.82	5.5	60.51	4.9	82.87	4.99	345.43	5.19
14. Others (furnitures & fixtures)	30.70	2.37	14.37	2.12	14.21	2.06	29.44	3.1	40.75	3.3	111.24	6.71	359.59	5.41
15. Metal products	30.16	2.33	18.38	2.71	17.42	2.53	19.61	2.1	28.98	2.3	57.45	0.32	176.58	2.65
16. Paper	63.22	4.89	33.32	4.91	45.12	6.54	24.05	2.5	41.56	3.3	206.02	12.43	412.61	6.20
17. Glass & glass products	8.44	0.65	5.57	0.82	1.16	0.17	8.17	0.9	5.57	0.4	5.34	0.32	36.38	0.55
Total	267.44	20.68	126.85	18.70	141.38	20.51	176.95	18.6	237.79	19.1	513.33	30.96	1560.38	23.45
Consumer Goods Industries														
18. Sugar	35.66	2.75	42.53	6.27	35.30	5.12	9.61	1.0	9.02	0.7	50.80	3.06	184.49	2.77
19. Food industries (except sugar)	56.77	4.39	31.28	4.61	26.80	3.89	42.26	4.4	50.63	4.1	55.93	3.37	255.19	3.84
20. Textiles	191.87	14.84	83.46	12.30	97.17	14.09	146.41	15.4	179.71	14.5	225.51	13.60	1074.57	16.15
21. Others	39.65	3.07	16.70	2.46	28.43	4.12	56.30	6.0	66.56	5.3	28.48	1.72	87.01	1.31
Total	323.85	25.05	173.97	25.64	187.70	27.22	254.58	26.8	305.92	24.6	360.72	21.75	1601.26	24.07
Services														
22. Hotel/Road transport & others	113.90	8.81	94.92	14.00	87.74	12.73	155.43	16.4	248.55	20.0	262.07	15.81	939.83	14.13
Grand Total	1293.36	100.00	678.50	100.00	689.44	100.00	950.05	100.00	1243.49	100.00	1657.77	100.00	6652.61	100.00

Source : Annual Reports of IDBI for various years.

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