ROLE AND PERFORMANCE OF DEVELOPMENT BANKS IN INDIA : WITH SPECIAL REFERENCE TO IDBI

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DECLARATION

This is to certify that the dissertation titled, **"Role and Performance of Development Banks in India: With Special Reference to IDBI"** submitted by **Sameer Goyal** in partial fulfillment of the requirements for the award of the degree of Master of Philosophy (M.Phil) of this university, has not been previously submitted for any degree of this or any other university. This is his own work.

We recommend this dissertation to be placed before the examiners for evaluation.

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CHAPTER I

Introduction

Economic, social and political development constitute the three major mutually interacting determinants of national development. Economic growth is generally referred to as the process resulting in sustained increases in per capita income of the country without reference to changes in pattern of distribution or the manner in which the additional income is shared. Economic development, however, would imply, besides economic growth, changes in institutional structures, production relations and human capital. Development, in particular, would seek to improve all such aspects that receive attention under welfare economics.

Increases in aggregate output over time can be a result of one of the following developments or a combination of them: (a) the aggregate resource utilisation may expand without changes in organisation and/or technology i.e. previously unutilised resources may be brought into the productive process; (b) the productivity per unit of resources at work may rise as a result of organisational measures and (c) society's technological arm may become stronger (i) as worn out or obsolete plant and equipment is replaced by more efficient facilities and/or (ii) new, technologically improved, productive facilities are added to previously existing stock.[1]

At the aggregate and national level it is generally believed that capital-output ratio does not get altered in any meaningful manner over short periods. Absorption of new technologies takes much longer. New investments, being only a marginal addition to the existing capital, do not significantly alter overall capital-output ratio in the short term. What is, however, considered important is the rate of capital accumulation. Application of increasing technical knowledge and net addition to productive assets have been the most important sources of economic growth.[2] Rate of capital formation is also an essential requirement for technical progress, for financing research and development and commercial adoption of innovations in product, process and materials.

The volume and nature of net investments is directly related to the size and source of national surpluses over consumption. Process of capital formation involves three distinct factors: (a) <u>savings</u>, as a residual of income over consumption; (b) <u>a Financial System</u> that channelises domestic savings and makes the same available to investors, and (c)

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1. P.A. Baran, (1957), <u>The Political Economy of Growth</u>, Penguin Books, pp. 129-130.

2. <u>ibid</u>.

the entrepreneurs who are instrumental in organising new productive investments.

Conceptually, the term financial system includes the complex of institutions and mechanism which affect the generation of savings and effects transfers to those who invest. The two major constituents of the financial system are capital markets and financial institutions. The efficiency of a financial system can be judged by the efficiency with which it can encourage capital formation.

"The pace and pattern of economic development are function...of the sequential and circular relationship between the growth of (a) division of labour and (b) the extent of the market for real goods and services. The innovations of money and finance tend to increase the size and extent of exchange relationship of markets and thus promote division of labour leading to increasing returns to scale and technological change".[3]

Finance is one of the most potent and almost the least impeded of the agencies integrating the modern world into a single economic system. In a developing country institutional arrangements for the mobilising and channelling of financial resources must be continuously expanded and adopted to the growing and varied needs of the economy. These arrangements need

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3. V.V. Bhatt (1985), "On Financial Innovations and Credit Market Evolution", Economic and Political Weekly. Vol. XX, No. 44, p. 1889.

to take into account not merely the aspect of increasing allocation of saving but also that of directing it into the most productive avenues.

Finance for Industries

Industry, in general, requires (a) finance for acquiring land, buildings, plant, machinery and equipment which are by their nature fixed assets and long term investments, and (b) working capital to obtain raw materials, pay wages, hold inventories and meet other day to day business requirement. The proportion of the two vary from industry to industry. The size of working capital varies with the nature of industry, the duration of the manufacturing processes and stocks and inventories required to sustain continuity and economic viability. Working Capital may be next to nothing in the case of personal services but the same could be very high during uncertainties of raw material availability or industries catering to seasonal demand requiring large inventories for economic viability.[4]

There are two basic ways for the provision of finance to industry (i) Self-finance and (ii) External finance involving both direct and indirect finance. Self-financing of new capital comes from (a) appropriation of a certain proportion of profits of

4. T.V. Sethuraman (1970), Institutional Financing of Economic Development in India, Vikas, New Delhi, p. 4.

firms before declaring dividends and (b) private/personal capital. In a rudimentary financial system the absence of financial assets and financial markets assigned a primary role to self-financing.[5] In most economies the importance of and emphasis on self-financing has gradually been declining. As the size of the productive unit grows, the amount of personal/own capital becomes inadequate for enhancing production capacities or for diversifying production. There is, therefore, a need to look for sources outside that of the firm. Though self-finance continues to be important, say in the form of investment out of retained profits, overtime, Government, business and consumers alike have come to lean more heavily on external finance.[6]

External financing involves two basic methods - Direct Finance and Indirect Finance.[7] In 'direct finance' the collection of savings is appropriated directly from the savings surplus units by the savings deficit units without the formal intermediation of any specialised financial institutions. The surplus units exchange their savings for financial assets (Primary Securities). While the system of 'direct

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5. J.G. Gurley and E.S. Shaw (1960), Money in a Theory of Finance, The Brookings Institution, Washington D.C.

6. M.S. Joshi (1965), Financial Intermediaries in India, University of Bombay series in Monetary and International Economics, No. 8, p. 26.

7. Gurley and Shaw (1960), op. cit., pp. 60-61.

finance' represents a significant improvement over the system of 'rudimentary finance' it has several inherent shortcomings of its own especially in the context of a developing economy. Lacking the means for building up and managing a successful portfolio any saver without the requisite means for hiring investment advisers might infact decide to increase consumption or switch from financial to physical assets.

A system of 'indirect finance' where certain financial institutions (financial intermediaries) act as conduits for flow of savings from ultimate lenders to ultimate borrowers has certain advantages over the system of 'direct finance'. The ability of the financial intermediaries to 'transmute' primary securities (obtained from borrowers) into secondary securities (offered to lenders) enables them to reconcile the varying asset-debt preferences of lenders and borrowers. Financial intermediaries have the ability to convert a contract with a given set of characteristics into a contract with very different characteristics, and, therefore, can encourage a greater magnitude of financial savings by providing greater convenience, divisibility, liquidity, better management and lower risk to the saver.

At Independence, India inherited an economy with widespread inter-personal, inter-sectoral and inter-regional disparities. The absence of a developed capital market, low saving rate and low rate of growth of GNP made it difficult for both the public and private sectors to mobilise resources for economic development. To aid the country's economic development there was need to strengthen its financial infrastructure, filling up major institutional gaps through the setting up of new financial institutions and to reorganise the existing ones in the context of changing development and other policy needs of the economy.

In addition to the task of increasing and mobilising savings it was felt important to evolve new measures for influencing the allocation of credit in socially desired directions. Financial institutions subject to the policy of the government and the RBI were to allocate institutional finance among various sectors of the economy and amongst competing borrowers and regions. The system of financial institutions that emerged in India - Banks (commercial and cooperative);Development Banks such as IFCI, ICICI, IDBI and SFCs; non-bank financial intermediaries like LIC, GIC and UTI; Provident Funds etc. - were to serve a complex range of objectives.

Industrial Finance and Development

The need and ways of developing the financial sector to ensure overall development has been the subject matter for numerous studies. Many of the studies in the developed countries relate to a set of variables/factors/assumptions which are not of immediate relevance in a developing country like India. For example, conditions of perfect competition, full employment, constant elasticity of substitution and zero inflation are not found in developed countries, let alone the applicability of such assumptions to the underdeveloped economics.

Shaw's[8] debt-intermediation view and McKinnon's complementarity hypothesis both provided a theoretical framework linking financial development and economic growth. There have also been studies using historical approaches. Cameron et al. evaluated the relation between the banking system and industrialisation for six European countries and Japan and concluded that financial development and growth in these countries were interrelated[9]. An OECD study analysed the role and practices of public development finance corporations in industrialised countries in promoting private investment and more particularly new forms of investment in developing countries, by firms based in

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8. E.S. Shaw (1973), <u>Financial Deepening in Economic Development</u>, Oxford University Press, New York.

9. R. Cameron, H.T. Patric, O. Crisp and R. Tilly (1967), <u>Banking in the Early Stages of Industrialisation: A Study in Comparative Economic History</u>, Oxford University Press, New York.

those industrialised countries.[10] There have also been specific studies related to the working of specialised financial institutions especially development banks[11].

In India too there is a growing body of literature on the role of financial institutions in economic development. While some have attempted a macro-economic approach, others have analyzed specific factors/institutions in the financial system.

Kumarasundaram in his study of the deficiencies of the Indian Financial System suggested emphasis on new categories of members so as to create a viable secondary financial system which could fill in institutional gaps in different areas[12]. Mody, in attempting to probe the linkage between the financial mechanism and development came to the conclusion that development of an appropriate financial technology is a necessary but not a sufficient condition for an efficient use of capital resources so as to generate

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10. A.G. Mitsotaki (1986), Public Development Finance Corporations, Development Centre Papers, OECD, Paris.

11. Amongst others see: (a) W. Diamond (1957), Development Banks, Johns Hopkins Press, Baltimore; (b) J.T.D. Houk (1967) Financing and Problems of Development Banking F.A. Praeger, New York; and (c) S. Boskey (1959), Problems and Practices of Development Banking, John Hopkins Press, Baltimore.

12. S. Kumarasundaram (1982), "The Indian Financial System: Its Deficiencies and Some Remedies", Economic and Political Weekly, Vol. XVII, No. 19, pp. 793-798.

high levels of output in a mixed economy. Increasing distortion of the financial mechanism has led to an increasingly less efficient allocation of investible resources[13]. Srinivasan in his study attempted to analyse the growth and diversification of the financial assets, institutions and markets in a developing economy[14].

Studies on financial institutions in India have focussed more on commercial banks than on non-bank financial intermediaries. The former constitute a sizeable amount of literature and have looked at different aspects of banking. Deposit mobilisation has been the subject matter for several studies[15].

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13. Mody R.J., (1984), 'Financial Mechanism and Economic Growth', Economic and Political Weekly, December 8, pp. 2095-2096.

14. E.S. Srinivasan (1977), Financial Structure and Economic Development (with special reference to India), Sterling Publishers, New Delhi.

15. Amongst others see: (a) V.V. Bhatt (1970), "Some Aspects of Deposit Mobilisation", Economic and Political Weekly, Vol. V, No. 36, p. 1495; (b) A. Bagchi (1971), "Some Aspects of Deposit Mobilisation: A Comment" Economic and Political Weekly, Vol. VI, No. 16, p. 841; (c) M. Tyagarajan (1982), "Deposits with Commercial Banks: A Profile", Economic and Political Weekly, Vol. XVII, No. 43, pp. 1744-1750.

Other studies have looked at profitability[16] and efficiency of performance[17].

There have also been several studies assessing the role played by specialised financial institutions in accelerating economic development of India.[18] Bhatt in examining certain aspects of term finance for industry concluded that "financial institutions have to provide entrepreneurial and managerial guidance for accelerating the growth rate of industrial investment and output"[19].

Basu, analysing the working of Development Banks in India in the context of the proposed functions and powers of the newly established IDBI, concluded that

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16. A few relevant studies in this regard are: (a) V.B. Angadi and V. John Devaraj (1983), "Productivity and Profitability of Banks in India", Economic & Political Review, Vol. XVIII, No. 48, Review of Management, November pp. M-160-170; (b) L.G. Kulkarni (1979), "Developmental Responsibility and Profitability of Banks", Economic and Political Weekly, Vol. XIV, No. 34, Review of Management, pp. M99-100.

17. For instance see: (a) K. Banerji (1971), "Performance Appraisal in Banks", Economic and Political Weekly, Review of Management, Vol. VI, No. 22, pp. M73-76; and (b) A.M. Khusro et. al. (1971), "Banking Efficiency and Banking Growth", Economic and Political Weekly, Vol. VI, No. 23, p. 1150.

18. Amongst others see: (a) S. Sachi (1970), "Role of Financial Institutions in Planning": Economic and Political Weekly, Vol. V, No. 12, p. 513; and (b) T.K. Velayudham, (1987), "Specialised Financial Intermediaries in Development, Economic and Political Weekly, Vol. XXII, No. 39, pp. 1648-1652.

19. V.V. Bhatt (1970). "Some Aspects of Term Finance for Industry", Economic and Political Weekly, Vol. V, No. 35, Review of Management, p. M-101.

the transformation of one of the existing institutions preferably the IFCI into a fullfledged Development Bank would have been a wiser step than the proliferation of such institutions by the outright creation of yet another new Bank.[20]

Finally, we look at studies whose areas of inquiry were somewhat parallel to what is being attempted in this study.

Shetty, in an analysis of deployment of institutional credit including commercial banks juxtaposed the amount of institutional credit used by individual sectors and industries against their output and the price trends relevant to them. He concluded that certain industrial groups appropriated a relatively large share of bank credit than is warranted by their share in either value added or gross value of output.[21] He, however, qualified his conclusion by stating that other factors - socio-economic priorities, additional growth potential, potential for employment, and in the short-run, cash flow and profitability - should also be taken into consideration before any conclusive judgement can be passed.

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20. S.K. Basu (1965) Theory and Practice of Development Banking: A Study in the Asian Context, Asia Publishing House, Bombay.

21. S.L. Shetty (1976), "Deployment of Commercial Bank and other Institutional Credit: A note on Structural Change" Economic and Political Weekly, Vol. XI, No. 19, pp. 696-705.

In a later study, on major commercial banks alone in the post-nationalisation period, he suggested that significant structural changes in the deployment of commercial bank credit requires purposeful action on three planes: (a) rigorous control on the pre-emption of credit by medium and large-scale industries; (b) prescription of policies and instruments for directing credit in favour of the designated 'priority' areas; and (c) development of a framework of instruments and institutions. He concluded that a significant re-orientation in the pattern of credit deployment in favour of (i) persons of all means all along the production spectrum, (ii) 'rural' and 'semi-urban' areas, and (iii) the backward regions and states (all three of which are interlinked) does not appear to be taking place.[22]

State owned corporations were the focus of the study by Sethuraman who followed a selective and restricted approach in enquiring into the working of the various agencies set up to assist industries in India. He concluded that there is an acute lack of coordination between different institutions and that more than 70 per cent of assisted concerns were located in developed states.[23]

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22. S.L. Shetty (1978), "Performance of Commercial Banks since Nationalisation of Major Banks: Promise and Reality", Economic and Political Weekly, Vol. XIII, Special Number, p. 1407.

23. T.V. Sethuraman (1970), op. cit. p. 149.

Honavar et al., concentrating on the role played by national development banks in the development of technological capabilities with the national economy, concluded that while the financial institutions have made a significant contribution to the development of technology, they were not playing the kind of role which the earlier industrial banks in Europe had played. They also found that financial institutions in India have to work in a framework which has multiple goals but allows for little initiative.[24]

P.N. Singh's analysis covered only one set of the institutional arrangements in the Indian Capital Market -the development banks and their participation in the Private Corporate Sector. The Public Sector and the unorganised Private Sector were excluded from the ambit of the study. He concluded that "the contribution of the Indian Development Banks seems to have failed to reduce regional and industrial imbalances".[25] In terms of business groups he, however, concluded that there did not appear to be any concentration of assistance. His study was, however, limited to the period of the first three Five Year Plans.

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24. R.M. Honavar, U.M. Gumaste and A. Kanchi (1989) National Development Banks and Technological Development in India, Institute for Financial Management and Research, Madras, p. 104.

25. P.N. Singh (1974) Role of Development Banks in a Planned Economy, Vikas, New Delhi, p. 144.

Uppal in a study of the role of development banking in promoting various socio-economic objectives has concluded that (a) in general, all-India financial institutions have not been able to conform to the objective of reducing economic power and discouraging monopolies and (b) the goals of developing backward areas and achieving a balanced regional development were not followed by public financial institutions while giving assistance during 1970-82.[26]

Mention must be made of an important government report which while concentrating on the Industrial Licensing System also dealt with the role of financial institutions in India. The Industrial Licensing Policy Inquiry Committee (ILPIC) which submitted its report in 1969 was also asked "to inquire whether the policies pursued by the specialised financial institutions in advancing loans to industries have resulted in any undue preference being given to larger industrial houses and, if such is the case, further to ascertain the extent to which such undue preference has been shown".[27] Though only two specialised financial institutions, the IFCI and ICICI were specifically mentioned in their Terms of Reference the

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26. J.S. Uppal (1984), Public Financial Institutions in India, Macmillan, New Delhi.

27. INDIA, Ministry of Industrial Development, Internal Trade and Company Affairs (1969), Report of the Industrial Licensing Policy Inquiry Committee. (Main Report and four Volumes of Appendices), New Delhi, p. 141.

committee felt that other financial institutions including the IDBI, SFCs, SIDCs, UTI, LIC, State Bank of India etc., should also be included within the scope of the inquiry.

The committee concluded that there was a similarity in the overall pattern of distribution of assistance among the three main all-India financial institutions, viz., the IFCI, ICICI and IDBI and that the share of large industrial sector is predominant. The Committee further noted that the share of twenty larger industrial houses was very large with a few individual houses getting a major share.[28] The concentration of assistance was found to be even more so regarding foreign currency loans granted by the ICICI and IFCI. Similarly, in regard to underwriting the large industrial sector benefitted the most. A further conclusion was that the large industrial houses have obtained control over large projects without adequate contribution of capital funds by themselves and their collaborators.

Nature of the Study

Development banks play an important role in the economic development of the underdeveloped countries. In India, a number of development banks have been established, each with its own specific objectives. Most of these are public financial institutions and

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28. *ibid.*, p. 179.

rely on the Central or State Governments for resources to a considerable degree. These institutions were visualised as agencies for assisting the implementation of the plan targets particularly in the private sector. While processing applications for assistance, besides looking at the financial viability of the project, adequate weightage was to be given to the nature of the industry, location of the project, employment generation and other socio-economic objectives. These institutions were expected to play an important role in the planned development of India.

In this study, we have tried to address to the following research questions:

(1) To what extent have the financial institutions been able to provide assistance to industry? How effective have they been in filling gaps in the industrial structure of the economy?

(2) What has been their contribution to the development of the capital market?

(3) To what extent have they been able to assist in the reduction of regional imbalances in the economy?

(4) Who have been the main beneficiaries of their operations and what has been their role in reducing concentration of economic power?

A Note on the Data and Methodology

Since 1979-80, the IDBI has been annually publishing the Report on Development Banking in India. Most of the data used in Chapter III with respect to the operations of financial institutions has been extracted from these reports. Data for earlier periods have been taken from the IDBI's Annual Report for the year 1974-75 and Operational Statistics published annually by the IDBI since 1975-76. As no single source of data was available and despite attempts to reconcile aggregate figures, a discrepancy of less than three per cent in certain aggregate figures could not be avoided.

In Chapter IV, most of the tables have been compiled from the IDBI Handbook (unpublished) entitled "Projects Assisted by IDBI during July 1964-March 1989", which gives the project-wise details of all projects directly assisted by the Bank. Basic details of all directly-assisted companies, such as location of the project(s), industry, sector, product-mix, project cost and type of assistance sanctioned up to end of March 1989 have been presented in the Handbook. Basic aggregate tables for the period 1964-89 were available in the IDBI's Operational Statistics 1964-89. These have been used in conjunction with the tables compiled from the project-wise data.

Since most of the analysis is in relative and allocative terms it was not felt necessary to construct and use a deflator. Conversion of values to constant prices would, of course, lower the absolute figures especially the rates of growth.

To facilitate analysis, yearly data has been aggregated into five yearly periods which approximately correspond to the Five Year Plan periods. In Chapter IV, where the provision of assistance to backward areas is analysed, the data has been aggregated into three periods: (i) pre 1970, the period when backward areas were not yet clearly identified; (ii) 1970-83, the period when districts had been classified into 'non backward' or 'backward'; (iii) 1983 onwards, the period when backward areas were classified into 'A', 'B' and 'C' categories in order of the extent of their backwardness.

Organisation of the Chapters

Chapter II looks at the concept and evolution of development banks in India and abroad. Section One provides a broad outline of the scope, structure and organisation of a modern day development bank. In Section Two, we briefly look at the evolution of development banks in advanced as well as underdeveloped countries. The evolution of Development Banks and other financial institutions in India is discussed in Section Three. Their objectives and lending policies are also discussed briefly.

In Chapter III, we analyse the trends and pattern of assistance provided by the All India Financial Institutions, in the 1980s. Their performance is critically evaluated in relation to their perceived role, especially their lending policies, at the time of their establishment and as outlined in Section Three of Chapter II. Specifically, the operations of the financial institutions in the capital market, their allocations to different industries and regions, and their promotional activities are studied.

In Chapter IV, the operations of the Project Finance Scheme of the IDBI are analysed for the period 1964-89. Availability of data at the project level facilitated indepth analysis of operations of the IDBI. District-wise allocations and sanctions to MRTP Act companies are discussed in detail.

Finally, a short summary of the basic results and the likely scenario in the context of the needs of the economy and the fast changing policy environment are presented in Chapter V.

CHAPTER II

The Concept and Evolution of Development Banks

During the post World War II period most of the developing countries established specialised financial institutions to promote industrialisation through provision of institutional finance for large projects and initiated other measures to encourage entrepreneurship. These institutional devices were visualised as instruments for promoting economic development. Within a few years, specialised financial institutions became an important and familiar feature of the financial systems of practically each country.[1] Each of these financial institutions was no doubt given a separate charter of operations. These institutions, when viewed in an overall perspective were designed to play a mutually supportive role in national development. These institutions, quite different from commercial banking, are generally known as "development banks".

A development bank is primarily a financial agency, providing medium and long term capital as also expert guidance to entrepreneurs. Most development banks, it so happens, were setup as "catalysts for investment in the private sector, to provide

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1. A list of such specialised institutions established in the post war years may be found in S. Boskey (1964), <u>Problems and Practices of Development Banks</u>, Johns Hopkins Press, Baltimore, Appendix A.

injections of capital, enterprise and management, and not as administrative devices to handle the government's own investments".[2] Besides assisting corporations to mobilise long term capital, development banks are envisaged to take initiatives and organise supportive services in identification of viable proposals, extending help in preparation of project reports, provision of technical advice and management services. Sometimes, a distinction is made between "development banks" and "development corporations." A development bank is synonymous usage for a finance corporation which is engaged primarily in provision of capital. A development corporation on the other hand is an institution "which takes the initiative in the creation, direction or operation of individual enterprises. It characteristically supplies part or all of the equity capital required for such enterprises rather than loan funds and frequently assumes responsibility for management and control."[3] The distinction, however, gets blurred if one combines the function of providing long term capital and promoting and participation in managing corporate enterprises.

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2. W. Diamond (1957), Development Banks, Johns Hopkins Press, Baltimore, p. 4.

3. U.N. ECAFE (1951), Mobilization of Domestic Capital in Certain countries of Asia and the Far East, p.142 - quoted in T.V. Sethuraman (1970), Institutional Financing of Economic Development in India, Vikas, New Delhi.

Why Development Banks?

Underdeveloped economies, by their very definition have low per capita incomes which do not permit high rates of savings; this in turn is the cause of low investments and poor level of capital accumulation. Household savings deposited with commercial banking system are inadequate; but more than this by their very character commercial banks restrict their operations to short term loans and funding of working capital. Commercial banks are required to maintain high liquidity and in most Third World countries confine their operation to traditional banking functions in a framework of security first.

While it is true that per capita incomes in under-developed countries are low, it is, however a reality that developing economies have wide disparities in wealth and income levels. Higher income groups are able to save; these savings do not get mobilized and consolidated due to the absence or inefficiency of financial and other institutional mechanisms. Capital markets in most underdeveloped countries are either "ill developed"[4] or "imperfectly developed".[5] Capital markets are "ill-developed' in the sense that (i) savers have a lack of knowledge and confidence in the system, (ii) a suspicion about new

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4. S. Boskey, op. cit.

5. L.C. Gupta (1969), Changing Structure of Industrial Finance in India, Clarendon Press, London.

entrepreneurs and (iii) the capital market spread is limited to a few urban centres. They are "imperfect" as modern and sophisticated manufacturing project proposals are beyond comprehension of ordinary savers. The problem is indeed acute for professional entrepreneurs, and new entrants; most of whom are in the small and medium scale sectors but have nothing to offer as past record of performance.

Given the underdeveloped nature of the capital market, achievement of ambitious growth plans necessitates the existence of specialised financial institutions to mobilize resources and provide medium and long-term finance. Institutional mobilizers of saving such as insurance companies, unit trusts and provident funds, can of course do a lot to mobilise capital, but these institutions are essentially investors; their preference is to invest in shares of existing, profitable and safe companies rather than new ones. Thus mobilization of resources by investment companies fails to channelise resources for fresh investments. Development banks seek to fill this gap. Development banks foster capital markets by participation in new capital issues through underwriting as also direct subscription to risk capital. In countries where capital markets are developed, development banks help stimulate and stabilise capital markets by open market operations of direct sale and purchase of shares. Development banks also help achieve wide dispersal of shares to curb manipulations in change over of companies.[6] Besides strengthening capital markets development orientation of these Banks can be effectively utilized for pursuit of many-sided growth.

Section One

Scope and Coverage

How much can a development bank do? Development banks are only one of the many instruments to solve the problems in the economy. They cannot be the "engine of growth"; but they can at least provide the fuel.

The scope of a development bank is closely linked to the purpose for which it is set up. The state of development of the economy determines the relative emphasis on finance and promotional activities. Development banks are setup for diverse but specific purposes. Some cater to the needs of only the private sector while others provide assistance even to cooperative and public sectors. Depending on the specific bottlenecks identified by the promoters (mostly the state) there can be development banks which specialise in providing finance to agriculture or industry, or to the service sector. There can also

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6. W. Diamond, op. cit. p. 55.

be specialisation in the form of assistance to projects of differing in nature and size.

The ownership of a development bank can either be public, private or a mixed one. Public ownership of Development Banks does not imply that these provide finance to public sector projects only. Often, development banks finance primarily the private sector irrespective of their ownership.

Sources of their funds are linked to ownership of the development banks. The main sources of funds for development banks are: (i) Share Capital; (ii) Reserves or retained profits; and (iii) Borrowings from (a) the public (by way of bonds), (b) the Government and the Central Bank, (c) international financial institutions, and (d) borrowing by way of medium and long term deposits. In underdeveloped countries where large resources cannot be mobilised from the market, the Government and/or the Central Bank are the main sources of funds. The participation of the Central Bank in the establishment and management of development banks is fairly common. Infact, the Industrial Development Bank of Canada and Industrial Development Bank of India were established as wholly owned subsidiaries of the Central Banks in their respective countries. Irrespective of the ownership, the relationship of the development bank with the Central Bank, the main monetary authority, is important. Given the Central Bank's pivotal position in the money and capital markets, besides serving as a coordinating agency, it plays the role of promoting financial institutions in these markets.

"It is perhaps natural that in underdeveloped countries, the pioneering development banks (even though meant to stimulate the private sector) are most often those that are controlled by the governments. For it is these which are given development objectives in terms of specific priorities to follow, industries to establish or projects to carry out"[7]. Wherever the development bank is partly or wholly government owned, "a measure of government supervision is inevitable and indeed desirable, not only by way of regulation of a financial institution handling funds entrusted to the Development Bank by the public but in the broader interest of economic growth in conformity with the economic plans".[8] Even the so-called private development banks are under some degree of Government control and are expected to operate along broad guidelines provided by the Government. It is, however, recognised that the Government should minimise its interference in the day-to-day operations of the development banks.

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7. <u>ibid</u>., p. 55.

8. S.L.N. Simha (1968), "Development Banks", <u>Journal of the Indian Institute of Bankers</u>, Vol. 39, No. 4.

(i) <u>Geographical Coverage</u>

The scope of the development banks is closely associated with their geographical coverage. There are national level and international or multilateral development banks. The national development bank's operations are limited to within the country. These banks play an important role in reducing regional disparities by channelising investment to the less developed regions of the country. Wherever the size of the country is large, smaller regional or state level organisations can be setup. The national development banks usually coordinate their activities with the state-level institutions which are in a better position to ascertain the specific needs of their respective regions.

The concept of a development bank is not only relevant at the national level but also at the global level. There are multilateral development banks which operate globally and those which operate in specific regions of the world. The regional agencies, like the Asian Development Bank and the African Development Bank, provide assistance for development of the relatively more under-developed countries within their purview. Multilateral development banks belonging to or under the control of a particular country, can also contribute to the country's commercial interests. For example, DEG, a German Agency, "aims to give priority to the most needy countries, in practice the African countries, but its objective of promoting German investment requires it to seek out the most promising markets".[9] From the beginning United States viewed the multilateral development banks "as an important multilateral foreign policy vehicle to enhance our (their) security, economic and humanitarian interests."[10]

Operational Activities

Any statement of operations is related to the specific reasons for the establishment of the development bank. Some basic operations are common to all development banks. These are related to: (i) project appraisal; (ii) form of assistance; (iii) security, repayment and the rate of interest charged; (iv) and post-disbursal surveillance.

(i) Project Appraisal:

This is the most important part of a development bank's activities and forms the heart of the its operations. In project appraisal "nothing should be taken for granted and healthy skepticism is a cardinal virtue."[11] The nature of the project, scale of

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9. A.G. Mitsotaki (1986), Public Development Finance Corporation, OECD, p. 14.

10. United States Department of the Treasury (1982), Participation in Multilateral Development Banks in the 1980s, p.47.

11. Quoted as the World Bank's experience in S.L.N. Simha, op. cit.

operations, technology, raw material and its sources, power, transport facilities, market for the product and the rate of return on the project are some of the essential aspects of project appraisal. It has been well observed that "all economically important projects are not necessarily bankable nor is every bankable project necessarily economically significant."[12] Due to their character, development banks are expected to follow the following principles. Even though the resources of the development banks are limited they should, however, not be devoted to strictly 'bankable' projects without paying any regard to their significance in the schedule of economic priorities in the country's development plan or to their overall impact on the socio-economic objectives. Whether assistance is to be given to private or public limited companies, national or foreign, small or large, are also to be kept in mind. Besides these considerations, the project appraiser, especially in a developing country, must have a dynamic attitude towards encouraging new entrepreneurs and modern technology. Though the projects in less developed regions may not seem financially profitable, they should be judged in respect of the role they could play in pursuing a policy of balanced regional development.

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12. S. Boskey, <u>op. cit.</u>, p. 80.

(ii) Form of Assistance:

Development banks generally provide assistance for fixed capital and not for working capital. The size and form of assistance to a project depends on a number of factors such as, the total project cost, the promoters' contribution, the capital structure of the project and the resources that are likely to be mobilised from other sources. The main forms of assistance are (i) loans in local or foreign currency, (ii) underwriting or direct subscription of shares and debentures and (iii) financial guaranteeing of loans and deferred payments. Many national level development banks prescribe a minimum limit to their loans for the purposes of administrative convenience. Smaller projects are generally assisted through the state or regional agencies which in turn are provided refinance by national level development banks.

(iii) Security, Repayment Schedule and the Rate of Interest:

A financier is often known for his conservatism and his aversion to taking risks. Security arrangements are usually in some form of collaterals or institutional guarantees. But in the changed milieu of circumstances where increasing emphasis is being placed on socio-economic aspects, the development bank cannot be too security oriented. In this changed context the most desirable approach of a development bank has been summarised as: "a good project with economic, social and national benefits flowing from it, is any day a better security than collateral in the form of mortgages, hypothecation or institutional forms of guarantees"[13].

The repayment of the medium and long term loans is to be made over a span of 10 to 25 years, depending on the amount of the loan and the nature of the activity for which it is given. The rate of interest charged depends on the sources of funds of the development bank. If the resources have been mobilised from the market, the rate of interest charged on loans has to be in conformity with the market rate of interest. If the funds have been borrowed from the Government, which usually charges a lower rate of interest than the market, the development banks can accordingly offer loans at cheaper rates. But if there is a scarcity of capital, it should be reflected in the rate of interest charged. Usually a single rate of interest is charged to different projects. Policy preferences and different risks are however, covered by other methods such as closer surveillance and subsidies from the Government.

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13. B. Pasricha, Chairman of IFCI, in his welcome address preceding to the "Fourth IFCI Silver Jubilee Memorial Lecture". See: Antonio Ortiz Mena (1976), "Development Banking in Latin America: The Role and Experience of the IDB", Fourth IFCI Silver Jubilee Memorial Lecture, IFCI, New Delhi. The lecture was delivered on October 12, 1976.

(iv) Post-disbursal Surveillance

It is often stated that "disbursal delayed is assistance denied". The speed with which sanctions are disbursed, is very important for the timely implementation of a project. Post-disbursal surveillance, also forms an important part in the operations of the development banks. Development banks need to keep a close contact with the assisted concerns to avoid any misuse of funds and default on repayments. By appointing nominee directors on the board of directors of the assisted projects, the development banks could monitor the progress of the project and if need be suggest remedies to the problems encountered in its implementation.

Promotional Activities:

Providing capital on request is not the sole activity of a development bank. In underdeveloped countries, even when opportunities for investment exist, the initiative and willingness to grasp them may not be present. Besides scarcity of capital, shortage of entrepreneurial talent is also an important factor for the low levels of investment activity. Development banks could fill the gap by providing information regarding potential projects to prospective entrepreneurs and by conducting training programmes in various aspects of starting a new business or industry. A wide range of promotional activities which can be undertaken by development banks include, "major thrust towards entrepreneurial development programmes, strengthening of institutional infrastructure, skill upgradation programmes, identifying the industrial promotion needs of deserving segments of the industrial sector and evolving measures for their growth and development".[14]

Section Two

Evolution of Development Banks

Development banks are not a new phenomenon. Prototypes of these banks existed even in the 19th century. One of the earliest development bank was established in 1822 in Belgium. The Societe-Generale de Belgique was intended to foster the development of industry. Its main objectives were "to promote new industrial units, establish financial subsidiaries and buy a considerable sum of shares of the companies promoted and established by it".[15] Although other specialised institutions like the Comptoir d' Escompte and Credit Foncier de France were also established in the mid-19th century, the most important was the Credit Mobilier established by the Pereire Brothers of

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14. S.S. Nadkarni, "Financial Institutions: Active Promotional Role", in Survey of Indian Industries 1990, The Hindu. Mr. Nadkarni is the Chairman of IDBI.

15. P.N. Singh (1974), Role of Development Banks in a Planned Economy, Vikas, New Delhi, p. 33.

France in 1852. It promoted, financed and developed a number of industrial undertakings. Credit Mobilier aroused great interest throughout the world "as a pioneering effort towards building up an institutional structure of industrial finance".[16] Its main object was to function as a financing institution which sells the shares in the undertakings it promoted when they were ripe for the market and thus obtain the means of financing new enterprises. Though the Credit Mobilier had to close down in 1867 after a meteoric career of 15 years, it had "provided a great appeal to all countries which were anxious to develop a suitable machinery for financing a rapid rate of industrial progress."[17]

In the 20th century specialised financial institutions no longer remained confined to the European continent. The Industrial Development Bank of Japan was established in 1902 on the model of Credit Mobilier. Besides financing Japan's industrial development, it played a significant role in the overall economic development of the country. It was not purely a development bank in the modern sense as it combined the functions of an issue house, a commercial bank and a mortgage institution. Even though the Industrial Development Bank of Japan was

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16. S.K. Basu (1965), Theory and Practice of Development Banking, Asia Publishing House, Bombay, p. 3.

17. ibid., p. 2.

more of a "mixed bank" than a specialist industrial financing institution, its impressive contribution attracted the attention of many countries. Most of the German industrial banks were also "mixed banks". Their operations were more on the lines of investment trust companies and "starting of new enterprises was not their function".[18]

After World War I most of the European countries were faced with the tremendous task of economic reconstruction. This called for provision of long term industrial finance. The device of Mortgage Banks was chosen for this task. In mid-1920s a number of industrial mortgage banks were established which were authorised to issue mortgage bonds and grant long term loans upon first mortgages of industrial real property, factories, buildings, machinery and plant. Some of the larger banks were the Industrial Mortgage Bank of Finland Ltd., the National Hungarian Industrial Mortgage Bank of Saxony.[19] One of the characteristics of these institutions, which distinguishes them from the 19th century institutions, is that "they have generally played no important role as a source of equity capital and as promoters and organisers of new enterprises, but have devoted themselves largely to the problems and reorganisation

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18. ibid., p. 4.

19. For details see S.K. Basu (1953), Industrial Finance in India, University of Calcutta, Calcutta, (Third Edition), Chapter X.

of existing enterprises and to the provision of loan capital."[20]

In England, till the Great Depression the capital market was able to meet the long term financial needs of industry. In 1931 the Macmillan Committee was set up to examine the question of industrial finance. One of its findings was that there was a "gap" in the existing arrangements for the provision of credit owing to the absence of specially designed machinery to provide medium and long term finance to smaller and medium sized businesses which could not enter the capital market due to the small size of the amount involved. Though lending institutions, like the 'Credit for Industry Ltd.' (1934), were established, their attempts could not eliminate the "Macmillan gap". The need for urgently establishing new institutions was well accepted.

The recommendations of the Macmillan Committee were followed up during the post World War II period and various specialised institutions were established - Industrial and Finance Corporation in 1945, the Colonial Development Corporation in 1948 and the Commonwealth Development Corporation in 1952 are the important ones. The operations of these institutions were more in line with the modern day development banks. Similar specialised institutions were also set up in many other countries.

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20. W. Diamond, op. cit., p. 29.

An entirely different phase in the institutional development is observed in the period following the World War II. In sharp contrast to the pure industrial mortgage banks and the industrial credit companies of the inter-war period, "there could now be witnessed a remarkable trend in favour of a combination of the business of mortgage lending with that of underwriting and, in several cases, participation in the equity capital of industrial companies as well."[21] The Industrial Development Bank of Canada (1944), Industrial Finance Department of the Commonwealth Bank of Australia (1946), the Kreditanstalt fur Wiederaufbau (KFW) (1948), Industrial Development Bank of Turkey (1950) and the Industrial Finance Corporation of India (1948) were some of the development banks established.

For the underdeveloped countries the setting up of the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank, in 1946 was another attractive model to be copied. Moreover, "World Bank itself was interested in establishment of development banks in as many countries as possible so as to rely on intermediation of such agencies for achieving some of its objectives which could not itself do in view of the vast geographical area it had to cater to and the enormity

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21. S.K. Basu (1953), op. cit., p. 7.

of the challenges before it."[22] The joint efforts of the World Bank, the national Governments and in some instances the Central Banks have lead to the setting up of development banks in several underdeveloped countries. The Industrial Credit and Investment Corporation of India, the Pakistan Industrial Credit and Investment Corporation, and the Industrial and Mining Development Bank of Iran are a few of the development banks set up with World Bank's support.

Growing interest has been shown in recent years in the role of multilateral development banks originating in industrialised countries in promoting private investment in developing countries.[23] The stated common goal of these institutions is "to promote LDC development and help to expand productive investment in these countries."[24] But at times the activities of these development banks may not conform to the specific developmental needs of the country they are supporting. For example DEG, a German public finance development Corporation, has the view that "the best way to promote development is by promoting ventures in the developing countries, with the participation of private firms in the industrialised

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22. N.N. Pai (1981), "Development Banking - Retrospect and Prospect", Journal of the Indian Institute of Bankers, Vol. 52, No. 1.

23. For details see A.G. Mitsotaki, op. cit.

24. ibid., p. 9.

countries, and in particular of course Germany."[25] Clearly, however, "the interests of the German private sector are not always compatible with the development goals of Third World countries and especially those of the poorest countries."[26]

Section Three

Evolution of Specialised Financial Institutions in India

In India the need for establishing specialised financial institutions to provide long-term finance to industry had been recognised even before Independence. Commercial Banking on the British model came into existence in India during the second half of the 19th century. It confined its operations to financing only short-term requirements of industries and "there has (had) been for a long time an under-current of feeling that the Indian Banks are reluctant to furnish finance for fixed capital expenditure of industry"[27]. Before the establishment of the modern day Indian development banks we can consider two distinct periods in the banking history of India, when some attempts were made to meet the long-term financial needs of industrial

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25. ibid., p. 13.

26. ibid., p. 13.

27. S.K. Basu (1953), op. cit., p. 113.

undertakings[28]. The first phase coincided with and was a result of, the Swadeshi Movement of 1906-1913 during which many commercial banks were established to provide industrial finance. These banks undertook several kinds of business activities, including the provision of long-term credit to industry. However, their activities were confined mainly to Punjab and many of them failed in the banking crisis of 1913-15 and the others also closed down shortly afterwards.

The second phase in the history of industrial banks was influenced by the role played by them in the industrial progress made by Japan and Germany. A beginning was made with the establishment of Tata Industrial Bank in 1917 followed by seven more industrial banks[29]. Most of these banks, however, were owned by a few large companies and industrial houses and provided finance mainly to the companies associated with them. Despite functioning successfully in their initial period of establishment, all of these banks closed down within three to five years[30]. Whatever the fate of these industrial banks, the Government of India and the Indian industrialists in particular, realised the need for specialised

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28. For details on the industrial banks before independence refer to ibid.

29. ibid., pp. 118-119.

30. For reasons of their failure, see Prabhu N. Singh (1974), Role of Development Banks in a Planned Economy, Vikas, New Delhi, p. 45.

institution as an instrument of rapid industrialisation.

<u>Growth of Specialised Financial Institutions in Independent India</u>:

As early as 1931, the Central Banking Inquiry Committee (1931), had reported that the capital market was not developed enough to provide adequate finance for industrial investment and that there was an institutional "gap" especially with regard to long-term finance for industry. The Committee had recommended the setting up of provincial industrial corporations for increasing the facilities available for industrial investment. It had also contemplated the possible establishment of an all India industrial corporation. The emphasis of the discussions was on the creation of institutions which would not only provide long-term industrial finance to an investment proposal but also to provide the necessary technical and other facilities for assisting potential entrepreneurs, so as to facilitate the industrial development of the country.

The Industrial Policy statement issued by the Government of India in 1945 had indicated that it was proposing to set up an Industrial Investment Corporation.[31] The proposal was pursued after Independence and the <u>Industrial Finance Corporation of</u>

31. ILPIC Report, <u>op. cit</u>., P. 144.

India (IFCI) was set up under the provisions of the IFCI Act 1948, with a view to providing long-term credit to medium and large scale industries. The IFCI's capital was jointly owned by the Central Government, the RBI and other financial institutions. With the establishment of the IDBI in 1964, the Governments' and RBI's shareholdings were transferred to it and further shares were issued to transform IFCI into a subsidiary of IDBI. The IFCI is authorised to (a) grant loans -- both in rupee and foreign currency, (b) underwrite issues and directly subscribe to shares and debentures of industrial concerns and (c) guarantee loans.

At the time of the enactment of the IFCI Act in 1948 it was recognised that there was need for establishing similar institutions at the state level to assist smaller and medium scale industries in different provinces. The State Financial Corporation (SFC) bill was introduced in parliament in December 1950 and the SFC Act came into force in August 1952 under which SFCs could be established by State Governments to cater to the financial needs of medium and small industrial concerns. The first corporation under the SFC Act was registered in Punjab in February 1953. The Madras Industrial Investment Corporation Limited (MIIC) which had been in operation since March 1949 was also brought within the purview of the Act. By 1967-68, 18 SFCs were in operation.

The State Government determines the distribution of shares of the SFC between (i) State Government, (ii) RBI, (iii) Scheduled and Cooperative banks, (iv) other financial institutions and (v) individuals. Apart from share capital the main sources of their resources are bonds issued on the market, borrowings from the RBI and refinance loans from the IDBI (since 1964). The SFCs are authorised to (a) grant rupee loans, (b) underwrite capital issues and (c) guarantee loans.

Even though IFCI and the SFCs were authorised to assist industrial concerns by way of underwriting, they did not use this form of assistance for a long time after their establishment. The result was that "the facilities for raising equity capital, particularly for small or medium sized companies or companies with which well-known industrial houses were not connected, were far from satisfactory"[32]. In 1955, the Industrial Credit and Investment Corporation of India (ICICI) was established with the main objective of enlarging underwriting facilities for public issues of capital, as well as for directly subscribing to shares and debentures.

As early as 1951 the World Bank (IBRD) had started exploring the possibilities of utilizing the IFCI as its agency to channelise its assistance to the private sector in India. However, later the IBRD

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32. ILPIC Report, op. cit., p. 144.

missions to India thought that there was need for a new privately owned industrial financing institution.

On the recommendation of the IBRD-cum-American Investment Mission in 1954, the ICICI was set up in 1955, as a public limited company with Government and World Bank support to finance industries and to act as an underwriting institution. Thirty percent of the paid up capital was subscribed by British and American institutions, 40 percent by initial directors and Indian institutions and the remaining 30 per cent was issued for public subscription in India.[33] The main sources of its resources were the Government, the World Bank and other Indian and international financial institutions. From the very beginning ICICI had foreign exchange resources by virtue of the support by the World Bank and other foreign financial agencies. Therefore, it could extend loans in rupees as well as foreign currency.

In the 1960s the State Governments set up State Industrial Development Corporations (SIDCs) in order to promote, improve and develop industries in their respective states. "The financial functions of the SIDCs to some extent involve overlapping and conflict with the functions of the SFCs. But the origin of the SIDCs lies in the cautious approach of and emphasis on the security aspects by the SFCs for granting

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33. For further details see: ICICI (n.d.), Ten Years of Participation in Industrial Development: 1955-1965.

financial assistance"[34]. The entire share capital of the SIDCs has been subscribed by the State Governments with the exception of the statutory corporations in Maharashtra and Gujarat.

The establishment of the Industrial Development Bank of India (IDBI) in July, 1964, can be considered as the most important feature of development banking in India. The IDBI was set up under the IDBI Act, 1964 as a wholly owned subsidiary of the RBI. At the time of its establishment existing financial institutions were already serving the financial needs of industry. It was, however, felt that in relation to the investment needs likely to arise for industrial development in future "the totality of contribution of these institutions appeared to be insufficient both in magnitude and in range of financing"[35].

The main objective of setting up IDBI under a separate statute was to reorganise and integrate the structure of industrial financing in the country. The IDBI was to supplement and augment the resources of the existing term financing institutions as well as those of the short-term credit agencies. Accordingly the Refinance Corporation for Industry Limited[36] was

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34. ILPIC Report, op. cit. Appendices Volume IV, p. 79.

35. The IDBI - Purposes, Set up and Policies, quoted in ibid., p. 47.

36. The Refinance Corporation for Industry Limited, setup in 1958, provided refinance against term (continued...)

merged with it. 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"[37]. In 1975, the Government of India enacted a legislation de-linking IDBI from RBI and making 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 institutions and for providing credit and other facilities for the development of industry and for matters connected therewith".[38] The ownership of IDBI was transferred to the Government of India with effect from February 16, 1976. Besides capital which is entirely contributed by the Government, the main sources of funds are borrowings from the Government and RBI, borrowings by way of bonds, repayment of past assistance and reserves accumulated out of profits. The IDBI provides assistance by way of (a) loans, (b) underwriting and direct subscription of shares and debentures and (c)

36.(...continued)
loans made to small and medium sized industrial units by eligible lending institutions.

37. IDBI (1982) A Brief Outline, p. 2.

38. Quoted in the Lok Sabha Secretariat, Committee on Public Undertakings (1980-81), Twenty Fourth Report on Industrial Development Bank of India, p. 2.

guarantees of loans and deferred payments. For the first time in 1982, the IDBI contracted a syndicated Euro-currency loan. It has since raised more syndicated loans and has been providing foreign currency loans for import of capital equipment under its direct project financing operations.

In view of the growing problem of industrial sickness, the Industrial Reconstruction Corporation of India (IRCI) was set-up under the Companies Act, 1956 in April, 1971 by the Government jointly with commercial banks and other financial institutions. The IRCI has been established for reviving and rehabilitating sick industrial units which have economic and social justification for reconstruction and can be made viable with suitable assistance. The IRCI's charter also enables it to provide technical and managerial assistance to industrial units and develop infrastructure facilities. On March 20, 1985 the Government converted IRCI, which was registered under the Companies Act, into a statutory corporation to be called the Industrial Reconstruction Bank of India (IRBI) in order to overcome certain inherent difficulties and facilitate its functioning.

A few other financial institutions have also come to occupy an important place in the Indian financial system. The Life Insurance Corporation (LIC) came into being on September 1, 1956 in terms of the LIC Act, 1956. Two hundred and forty two life insurance companies were nationalised and brought under a centralised management. As a result LIC emerged as the single largest investor in the stock exchange securities. The entire paid-up capital of LIC was subscribed by the Central Government. The Unit Trust of India (UTI) was established in February, 1964 under the UTI Act, 1963 with a view to mobilise savings mainly from small and medium income groups. Its initial capital was contributed by RBI, commercial banks and other financial institutions. The General Insurance Corporation (GIC) was setup on January 1, 1973 under the General Insurance Business (Nationalisation) Act, 1972 and registered as a private company under the Companies Act, 1956. All of these three, LIC, UTI and GIC, are essentially investment institutions and their assistance to industry is in the form of underwriting and direct subscription to shares and debentures.

Other financial institutions like the National Small Industries Corporation Limited (NSIC), Export-Import Bank of India, (EXIM) and the Shipping Credit and Investment Corporation of India (SCICI) have also evolved over time in response to the specific requirements of the economy.[39]

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39. This process is still continuing. Some of the recent additions are: Small Industries Development Bank of India (SIDBI); Technology Development and Investment Corporation of India; and Biotech Consortium India Ltd.

Philosophy of Development Banking in India: Policies Regarding Assistance[40]

Growth and development have been a matter of serious debate in India since the mid-'forties. These two view points got expression in Bombay Plan (1944) and the People's Plan (1946). Without going into the nature of the Five Year Plans, it may suffice to say that 'capital accumulation' has received the highest priority under India's plan priorities. The Mahalanobis model, in specific, shows the relationship between savings, investment and growth rates.

At Independence, an important role was visualised for the Private Sector in India's industrialisation. The underdeveloped nature of the capital market and the absence of any major sources of institutional finance prevented the private sector from mobilising risk as well as loan capital. This was more so for medium and large investments in priority sectors. As we have seen, a number of specialised financial institutions were set up to ensure that worthwhile proposals for industrial development in the private sector do not suffer for want of investment finance. Besides mobilizing and providing assistance to the private sector, these institutions were visualised as

40. The statements made in this section regarding policy pursued by different financial institutions are based upon published reports of these institutions or the Government of India, expect where mentioned otherwise.

instruments to cover the wider domain of over all economic development.

With regard to policy for assistance, it was only "after the IFCI Inquiry Committee's Report (1952), rules were formulated in 1957, stipulating that before granting a loan,; the IFCI should satisfy itself that the purpose of assistance should have the approval of the Government, particularly, with reference to the objectives of the Five Year Plan"[41]. It was, however, only in 1965 that IFCI formulated a system of 'inter-se' priorities to be used as guidelines for evaluating applications for assistance. The priority projects were those which would contribute to defence, agriculture, export earning or import substitution. Though the ICICI did not adopt such priorities, it too was expected to keep the Plan objectives in mind before granting assistance. The IDBI was assigned a special role in "planning, promoting and developing industries to fill gaps in the industrial structure in India"[42]. Though no clear guidelines have been provided by the Government all of the development banks, being public financial institutions, are expected to grant assistance to industries of national importance.

Financial institutions were also expected to support and develop the capital market in India. As

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41. ILPIC Report, op. cit., p. 147.

42. IDBI (1982) op. cit., p. 5.

has been already explained, one of the main reasons for establishing ICICI was "to provide finance, particularly by underwriting of, and direct subscription to, share capital of companies"[43]. It, therefore, immediately undertook underwriting of and direct subscription to shares and debentures. It was followed by IFCI in 1958. The IDBI's role in the capital market was limited to the issues of large projects. The LIC, UTI and GIC have come to occupy an important position, especially with regards to underwriting of and direct subscription to debentures. Being essentially investment institutions, their investment policy is guided by the consideration of obtaining maximum returns on invested funds. But the investment policy of the LIC was to serve the larger economic and social considerations beneficial to the country and its investments were to be dispersed over different industries and different regions[44].

While providing assistance by way of underwriting the development banks were to give high priority to new and small projects. But, in practice, the large business groups were able to take away a large part of the total assistance provided by the financial institutions[45]. It was only after the passing of the

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43. ICICI, op. cit., p. 3.

44. ILPIC Report, op. cit., Appendices Volume IV, pp. 97-98.

45. ILPIC Report, op. cit., pp. 139-179.

Monopolistic and Restrictive Trade Practices Act in 1969, that it was decided to limit assistance to groups covered by this Act, except when it was necessary from the point of view of priority industries.

Another important criterion for evaluating an application for assistance is the location of the project. Locating industries in backward areas was seen as a means of reducing the wide regional disparities in the Indian economy. IFCI was specifically directed by the Government in 1948 to "assist, as far as may be practicable, the industrial development of backward provinces and areas in order that such regions may attain a more balanced economic development"[46]. On the other hand, the ICICI, on its own, said that it would give special attention to the needs of underdeveloped areas. Being the apex development bank of the country, IDBI was also expected to give special consideration to projects located in less developed areas of the country. In 1970, backward areas were identified and a number of schemes of concessional finance and other incentives were announced. The Wanchoo Working Group observed that "the cooperation of the financial institutions in eliminating the regional imbalances and in dispersing

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46. Directive to IFCI from the Government dated 21.8. 1948 - reproduced in ILPIC Report, op. cit., Appendices Volume IV, p. 22.

industries is, as such, very necessary and they have to be made conscious of their role in this regard"[47].

We have seen that development banks acquire different meanings in different environments. In underdeveloped countries, besides the purely financial role, the development banks are also expected to engage in developmental and promotional activities. In India too, the development banks were established with a view of not only providing term finance but also as instruments for achieving planned development. We now turn to the operations of some of the important financial institutions in India and analyse their performance with regard to the role perceived for them at the time of their establishment.

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47. See: summary extracts from the Report of the Working Group for Fiscal and Financial Incentives in INDIA, Planning Commission (1981), Evaluation Report on Concessional Finance and other Incentives in Industrially Backward Areas, p. 60.

CHAPTER III

Functioning of All India Financial Institutions: 1980-90

The 'eighties witnessed a rapid growth in the operations of the Financial Institutions (FIs) in India. The Financial Assets of national and state level Financial Institutions (FIs) grew from Rs.16,650 crores in 1981 to Rs. 83,566 crores by 1989.[1] In relative terms the share of FIs in the banking sector's assets rose from 26.2 per cent in 1981 to 32.1 per cent in 1989. The FIs acquired a prominent position for themselves in the banking system. By the end of the 'eighties the size of 'loans and advances' as also 'investments' made by FIs was nearly half that of the Commercial Banks. The growing significance of institutional finance is also reflected in the percentage of FIs sanctions to (i) National Income, (ii) Net Capital Formation, and (iii) Net Fixed Capital Formation. In 1988-89 these stood at 4.6, 25.2 and 34.5 per cent, respectively. The corresponding percentages for the years 1970-71 and 1980-81 were 0.7, 5.9, 7.8 and 2.3, 13.3 and 17.8 respectively. FIs have become important and their role is expanding fast.

As brought out earlier, each financial institution was established with specific ends in

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1. Reserve Bank of India (1990), Report on Trend and Progress of Banking in India, 1989-90, p.139.

view. Generally speaking, their role was not limited to provision of finance at low interest rates. In essence, the FIs were expected: (a) to assist in developing capital market in India; (b) to provide finance to priority industries especially when little private capital was available; and (c) to seek reduction in inter and intra-state regional imbalances. The FIs were not just 'gap fillers' between the demand and supply of finance for industry. They were assigned a wider developmental role. We examine the role of AFIs[2] at the national and state levels in Section One. The Section also brings out how national level development banks mobilize funds. An attempt is made to analyse the component-wise distribution of assistance and operations of financial institutions in the capital market. The related issues are also discussed briefly.

Section Two examines the allocative role of the All India Financial Institutions (AIFIs)[3]. Sector and industry-wise allocations of the AIFIs have been analysed. An attempt has been made to bring out regional dispersal of the institutional assistance provided by AIFIs and observe the salient trends. Issues related to backward area development are also

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2. All Financial Institutions (AFIs) include: IFCI, ICICI, IDBI, IRBI, LIC, UTI, GIC, SFCs and SIDCs.

3. All India Financial Institutions (AIFIs) comprise only the national level institutions -- IFCI, ICICI, IDBI, IRBI, LIC, GIC and UTI. The SFCs and SIDCs are excluded.

discussed. Section Three presents an over view of the promotional activities of select institutions.

Section One

All India Financial Institutions: Overall Trends

The financial assistance sanctioned by AFIs reached Rs. 15,992.17 crores in 1989-90; the actual disbursals, however, were around two-thirds of the sanctioned amount i.e. Rs. 10,001.73 crores. Size of the sanctions and disbursals in 1980-81 was small; nearly one-tenth of the level of 1989-90 (Table III.1 and Graph III.A). During 1965-66 and 1988-89 the sanctions made by AFIs grew at an annual average rate of growth of 21.6 per cent (Table III.2). The disbursals grew at a rate of 20.7 per cent. Total sanctions and disbursals by AFIs appear to have slowed down during the '80s as compared to the '70s. While the growth rate of sanctioned amount was higher during the Seventh Plan period as compared to the Sixth Plan period, the disbursals to sanction ratio was lower during the Seventh Plan.

III.1.1 Institution-wise Assistance Sanctioned and Disbursed

The institution-wise break-up of assistance sanctioned (Table III.3) shows that IDBI enjoys a dominant place among the FIs and it alone accounts for approximately two-fifths of the gross assistance

TABLE - III.1

(A) ASSISTANCE SANCTIONED BY ALL FINANCIAL INSTITUTIONS - INSTITUTIONWISE

(Rs. Crores)

YEARS	Total	IDBI	IFCI	ICICI	LIC	UTI	GIC	IRBI	SFCs	SIDCs
1	2	3	4	5	6	7	8	9	10	11
64-65	118.10	21.30	24.60	23.10	15.00	8.90			22.70	2.50
65-66	167.50	57.90	45.90	29.60	24.90	2.20			25.30	1.70
66-67	152.00	57.90	21.70	18.10	24.80	5.20			21.70	2.60
67-68	108.60	27.50	20.00	15.30	13.20	8.30			20.00	4.30
68-69	160.30	48.58	22.70	37.00	17.70	10.30			19.60	4.42
69-70	177.30	53.10	18.60	22.80	13.60	9.90			33.40	25.90
70-71	254.20	80.60	32.30	43.90	17.80	10.70			49.60	19.30
71-72	342.70	141.90	28.70	39.70	23.10	15.00		6.60	64.10	23.60
72-73	325.90	92.50	45.70	49.40	20.10	9.90		6.10	78.70	23.50
73-74	446.74	171.96	41.88	61.12	25.93	7.70		7.21	103.06	27.88
74-75	549.57	223.83	29.24	62.86	43.80	6.96		7.59	141.79	33.50
75-76	648.30	251.40	51.31	78.55	60.98	7.79		5.27	155.50	37.50
76-77	976.85	490.25	76.61	98.72	57.14	8.98		10.04	163.33	71.78
77-78	1201.84	636.02	113.39	108.30	52.68	26.52		10.92	166.09	87.92
78-79	1361.29	613.99	138.54	182.76	65.49	50.73		10.73	200.73	98.32
79-80	2060.47	1060.75	137.87	204.33	80.01	74.84	66.00	15.20	263.82	157.65
80-81	2525.80	1257.67	206.55	314.08	69.97	40.39	30.76	19.40	370.54	216.44
81-82	2746.79	1065.72	218.09	302.38	165.50	85.48	50.05	50.38	509.56	299.63
82-83	3231.67	1282.23	230.22	392.06	136.53	127.46	92.70	62.26	611.57	296.64
83-84	4115.58	1766.08	321.91	507.55	166.81	165.79	108.49	69.45	644.91	364.59
84-85	5647.57	2558.38	415.43	620.69	219.87	357.27	144.08	110.79	743.12	477.94
85-86	6613.12	2561.17	499.24	708.24	383.63	696.59	153.00	75.22	1009.07	526.96
86-87	7979.57	3151.15	798.05	1118.28	363.83	465.02	153.27	148.86	1210.81	570.30
87-88	9171.84	3286.91	1025.13	1283.30	362.72	1024.83	98.30	186.48	1284.74	619.43
88-89	14073.43	5020.91	1905.61	2056.11	660.19	1973.14	122.62	208.80	1391.92	734.13
1989-90	15992.17	6074.69	2299.64	2951.34	578.24	1496.58	211.17	146.57	1543.61	690.33
UPTO 1990	79375.63	30422.23	8740.70	12484.16	3645.94	6699.44	1308.43	1029.75	10024.74	4970.74

Contd...

TABLE - III.1

(B) ASSISTANCE DISBURSED BY ALL FINANCIAL INSTITUTIONS - INSTITUTIONWISE

(Rs. Crores)

YEARS	Total	IDBI	IFCI	ICICI	LIC	UTI	GIC	IRBI	SFCs	SIDCs
1	2	3	4	5	6	7	8	9	10	11
64-65	90.50	18.70	20.10	17.00	11.50	7.70			14.20	1.30
65-66	110.30	27.00	27.10	25.30	9.70	1.80			18.00	1.40
66-67	140.80	49.80	31.20	22.60	13.50	3.00			18.20	2.50
67-68	136.10	41.50	23.90	20.40	21.60	9.50			16.30	2.90
68-69	111.60	28.18	19.50	16.20	15.50	10.30			18.40	3.52
69-70	136.20	45.10	17.50	19.80	11.80	8.10			22.30	11.60
70-71	159.90	55.80	17.40	28.90	8.10	5.10			33.50	11.10
71-72	191.40	78.80	20.30	30.30	5.30	1.60		1.10	39.60	14.40
72-73	218.80	66.70	28.00	39.70	14.00	5.60		3.50	44.70	16.60
73-74	301.64	118.19	31.87	43.54	19.96	7.74		5.15	54.59	20.60
74-75	425.30	166.90	36.95	45.39	54.12	7.59		8.00	79.63	26.72
75-76	435.20	177.11	34.65	61.12	27.48	4.91		4.73	98.80	26.40
76-77	597.30	279.43	54.88	67.03	38.94	6.05		10.78	105.20	34.99
77-78	703.96	334.91	57.53	91.61	42.80	15.83		9.09	107.40	44.79
78-79	930.62	488.43	73.46	109.20	31.70	20.18		12.61	134.98	60.06
79-80	1352.21	656.04	91.01	135.81	70.88	63.92	52.00	12.49	184.75	85.31
80-81	1602.92	758.51	108.92	185.32	65.64	51.03	44.04	16.90	247.96	124.60
81-82	2064.82	861.26	169.37	264.66	135.93	62.72	33.66	28.37	317.72	191.13
82-83	2371.16	1040.03	196.10	282.20	86.60	71.69	44.70	37.85	403.99	208.00
83-84	2935.67	1298.95	224.46	334.20	140.90	139.34	84.54	41.35	435.48	236.45
84-85	3501.78	1477.72	272.88	392.73	161.54	236.24	110.54	54.82	497.74	297.57
85-86	4924.27	2099.83	403.89	482.17	261.87	528.85	107.34	67.81	608.53	364.00
86-87	5655.59	2257.56	451.55	695.47	389.76	417.59	131.60	94.66	791.89	425.51
87-88	6788.44	2673.23	660.04	771.23	342.26	749.10	103.54	101.92	937.98	449.14
88-89	9035.21	3611.24	1005.30	1085.61	442.00	1091.24	115.38	116.52	1055.03	512.89
89-90	10001.73	3720.33	1128.17	1357.05	455.22	1280.55	179.62	141.10	1190.22	549.47
UPTO 1990	56351.59	22113.23	5424.34	8089.44	2868.82	4815.21	1037.50	765.20	7550.22	3687.63

Note: IDBI and LIC figures are net of inter-institutional flows

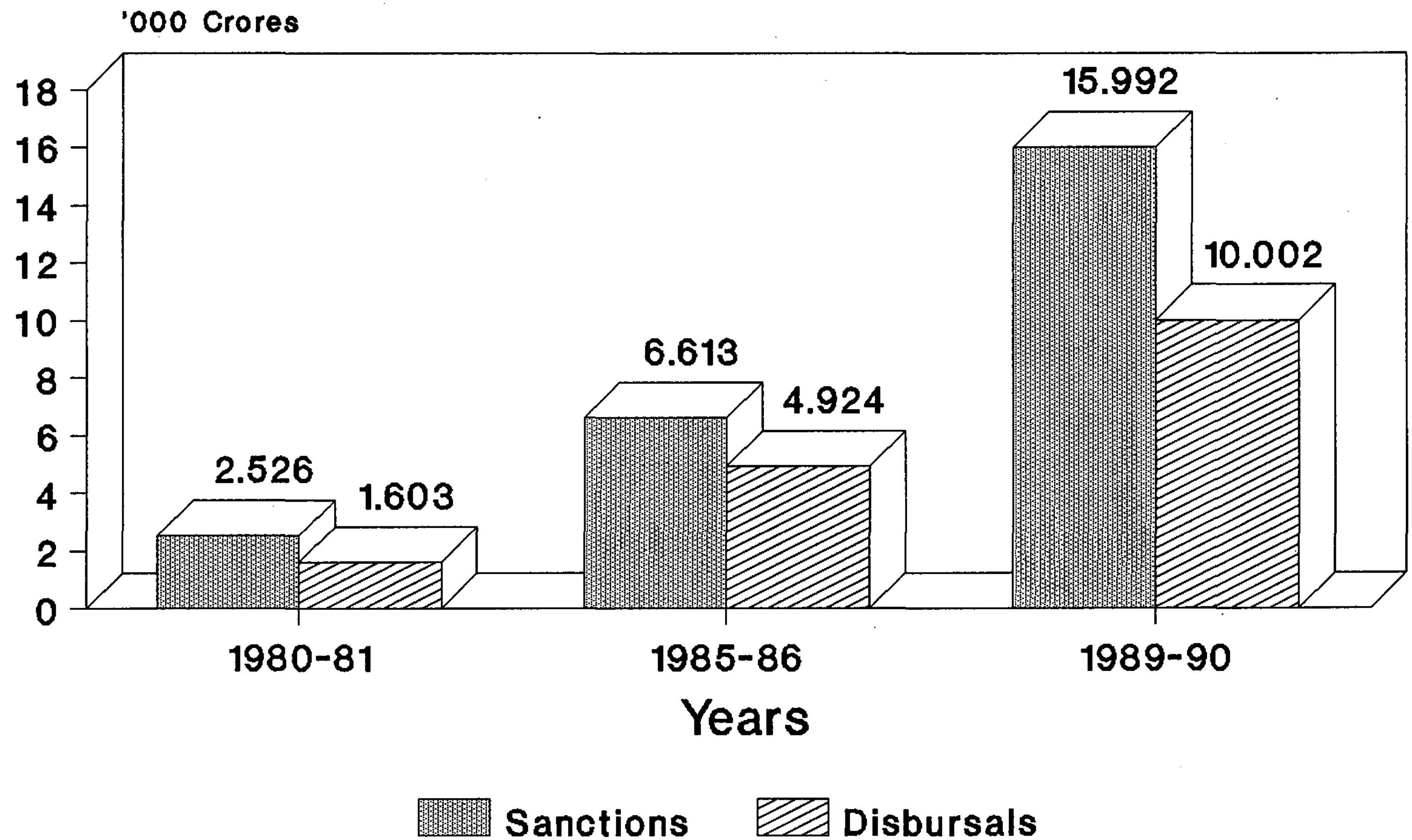
Source: (i) Chandhok. H.L. and The Policy Group (1990), India Database: The Economy, Annual Time Series Data, Vol. II, Living Media India, New Delhi.

(ii) IDBI, Report on Development Banking in India, 1989-90

Graph III.A

Growth in Assistance of All FIs

1980-81 to 1989-90



Source: Table III.1

TABLE - III.2

RATES OF GROWTH OF AFIs - INSTITUTION-WISE (1965-66 TO 1988-89)

Years	Total	IDBI	IFCI	ICICI	LIC	UTI	GIC	IRBI	SFCs	SIDCs
1	2	3	4	5	6	7	8	9	10	11
					(A) SANCTIONS					
1965-66 TO 1969-70	7.84	7.38	-5.48	10.01	-6.67	17.34			10.15	64.36
1969-70 TO 1974-75	22.68	28.84	10.71	14.33	21.63	-6.19		0.40	31.30	14.79
1974-75 TO 1979-80	29.32	35.28	31.58	28.19	10.51	49.20		17.70	15.84	36.72
1979-80 TO 1984-85	22.45	18.62	20.69	21.24	29.02	49.02	28.92	41.31	23.48	23.72
1984-85 TO 1988-89	24.41	20.22	43.41	36.04	20.07	38.55	1.60	20.68	15.19	10.53
1969-70 TO 1979-80	25.96	32.02	20.70	21.06	15.94	18.31		12.47	23.33	25.28
1979-80 TO 1988-89	23.32	19.33	30.30	27.61	24.96	44.27	12.74	31.74	19.72	17.67
1965-66 TO 1988-89	21.59	22.42	19.19	21.54	14.97	27.68		22.93	19.53	28.16
DIFFERENCE IN ROG										
(1979-89)-(1969-80)	-2.63	-12.70	9.61	6.55	9.02	25.97		19.27	-3.60	-7.60
(1985-89)-(1980-85)	1.96	1.60	22.72	14.81	-8.95	-10.47	-27.32	-20.63	-8.29	-13.19
					(B) DISBURSEMENTS					
1965-66 TO 1969-70	4.52	7.82	-8.73	0.00	0.50	17.10			10.15	49.85
1969-70 TO 1974-75	23.31	29.06	13.72	18.25	23.47	-2.94		35.42	25.72	22.97
1974-75 TO 1979-80	27.30	32.72	21.45	23.46	10.62	46.19		18.63	19.49	29.64
1979-80 TO 1984-85	23.93	20.71	26.94	22.95	27.39	46.26	23.57	31.31	22.12	27.17
1984-85 TO 1988-89	22.79	19.68	32.69	27.69	21.74	36.29	7.14	21.69	19.87	13.90
1969-70 TO 1979-80	25.29	30.88	17.52	20.82	16.87	19.12		23.20	22.57	26.26
1979-80 TO 1988-89	23.42	20.25	29.46	25.03	24.85	41.74	13.28	26.94	21.11	21.09
1965-66 TO 1988-89	20.69	22.42	16.81	18.49	16.82	27.13		25.29	19.75	27.97
DIFFERENCE IN ROG										
(1979-89)-(1969-80	-1.87	-10.62	11.94	4.21	7.98	22.63		3.74	-1.45	-5.17
(1985-89)-(1980-85	-1.15	-1.03	5.74	4.73	-5.65	-9.97	-16.43	-9.63	-2.25	-13.27

Note: These rates of growth have been calculated from three year moving averages of figures given in Table III.1.

TABLE - III.3

(A) SHARE OF AFIs IN ASSISTANCE SANCTIONED - INSTITUTION-WISE (1964-1990)

(Percentages)

YEARS	Total	IDBI	IFCI	ICICI	LIC	UTI	GIC	IRBI	SFCs	SIDCs
1	2	3	4	5	6	7	8	9	10	11
64-65	100.00	18.04	20.83	19.56	12.70	7.54			19.22	2.12
65-66	100.00	34.57	27.40	17.67	14.87	1.31			15.10	1.01
66-67	100.00	38.09	14.28	11.91	16.32	3.42			14.28	1.71
67-68	100.00	25.32	18.42	14.09	12.15	7.64			18.42	3.96
68-69	100.00	30.31	14.16	23.08	11.04	6.43			12.23	2.76
69-70	100.00	29.95	10.49	12.86	7.67	5.58			18.84	14.61
70-71	100.00	31.71	12.71	17.27	7.00	4.21			19.51	7.59
71-72	100.00	41.41	8.37	11.58	6.74	4.38		1.93	18.70	6.89
72-73	100.00	28.38	14.02	15.16	6.17	3.04		1.87	24.15	7.21
73-74	100.00	38.49	9.37	13.68	5.80	1.72		1.61	23.07	6.24
74-75	100.00	40.73	5.32	11.44	7.97	1.27		1.38	25.80	6.10
75-76	100.00	38.78	7.91	12.12	9.41	1.20		0.81	23.99	5.78
76-77	100.00	50.19	7.84	10.11	5.85	0.92		1.03	16.72	7.35
77-78	100.00	52.92	9.43	9.01	4.38	2.21		0.91	13.82	7.32
78-79	100.00	45.10	10.18	13.43	4.81	3.73		0.79	14.75	7.22
79-80	100.00	51.48	6.69	9.92	3.88	3.63	3.20	0.74	12.80	7.65
80-81	100.00	49.79	8.18	12.43	2.77	1.60	1.22	0.77	14.67	8.57
81-82	100.00	38.80	7.94	11.01	6.03	3.11	1.82	1.83	18.55	10.91
82-83	100.00	39.68	7.12	12.13	4.22	3.94	2.87	1.93	18.92	9.18
83-84	100.00	42.91	7.82	12.33	4.05	4.03	2.64	1.69	15.67	8.86
84-85	100.00	45.30	7.36	10.99	3.89	6.33	2.55	1.96	13.16	8.46
85-86	100.00	38.73	7.55	10.71	5.80	10.53	2.31	1.14	15.26	7.97
86-87	100.00	39.49	10.00	14.01	4.56	5.83	1.92	1.87	15.17	7.15
87-88	100.00	35.84	11.18	13.99	3.95	11.17	1.07	2.03	14.01	6.75
88-89	100.00	35.68	13.54	14.61	4.69	14.02	0.87	1.48	9.89	5.22
89-90	100.00	37.99	14.38	18.45	3.62	9.36	1.32	0.92	9.65	4.32
UPTO 1990	100.00	38.33	11.01	15.73	4.59	8.44	1.65	1.30	12.63	6.26

Contd...

TABLE - III.3

(B) SHARE OF AFIs IN ASSISTANCE DISBURSED - INSTITUTION-WISE (1964-1990)

(Percentages)

YEARS	Total	IDBI	IFCI	ICICI	LIC	UTI	GIC	IRBI	SFCs	SIDCs
1	2	3	4	5	6	7	8	9	10	11
64-65	100.00	20.66	22.21	18.78	12.71	8.51	0.00	0.00	15.69	1.44
65-66	100.00	24.48	24.57	22.94	8.79	1.63	0.00	0.00	16.32	1.27
66-67	100.00	35.37	22.16	16.05	9.59	2.13	0.00	0.00	12.93	1.78
67-68	100.00	30.49	17.56	14.99	15.87	6.98	0.00	0.00	11.98	2.13
68-69	100.00	25.25	17.47	14.52	13.89	9.23	0.00	0.00	16.49	3.15
69-70	100.00	33.11	12.85	14.54	8.66	5.95	0.00	0.00	16.37	8.52
70-71	100.00	34.90	10.88	18.07	5.07	3.19	0.00	0.00	20.95	6.94
71-72	100.00	41.17	10.61	15.83	2.77	0.84	0.00	0.57	20.69	7.52
72-73	100.00	30.48	12.80	18.14	6.40	2.56	0.00	1.60	20.43	7.59
73-74	100.00	39.18	10.57	14.43	6.62	2.57	0.00	1.71	18.10	6.83
74-75	100.00	39.24	8.69	10.67	12.73	1.78	0.00	1.88	18.72	6.28
75-76	100.00	40.70	7.96	14.04	6.31	1.13	0.00	1.09	22.70	6.07
76-77	100.00	46.78	9.19	11.22	6.52	1.01	0.00	1.80	17.61	5.86
77-78	100.00	47.58	8.17	13.01	6.08	2.25	0.00	1.29	15.26	6.36
78-79	100.00	52.48	7.89	11.73	3.41	2.17	0.00	1.36	14.50	6.45
79-80	100.00	48.52	6.73	10.04	5.24	4.73	3.85	0.92	13.66	6.31
80-81	100.00	47.32	6.80	11.56	4.10	3.18	2.75	1.05	15.47	7.77
81-82	100.00	41.71	8.20	12.82	6.58	3.04	1.63	1.37	15.39	9.26
82-83	100.00	43.86	8.27	11.90	3.65	3.02	1.89	1.60	17.04	8.77
83-84	100.00	44.25	7.65	11.38	4.80	4.75	2.88	1.41	14.83	8.05
84-85	100.00	42.20	7.79	11.22	4.61	6.75	3.16	1.57	14.21	8.50
85-86	100.00	42.64	8.20	9.79	5.32	10.74	2.18	1.38	12.36	7.39
86-87	100.00	39.92	7.98	12.30	6.89	7.38	2.33	1.67	14.00	7.52
87-88	100.00	39.38	9.72	11.36	5.04	11.03	1.53	1.50	13.82	6.62
88-89	100.00	39.97	11.13	12.02	4.89	12.08	1.28	1.29	11.68	5.68
89-90	100.00	37.20	11.28	13.57	4.55	12.80	1.80	1.41	11.90	5.49
UPTO 1990	100.00	39.24	9.63	14.36	5.09	8.54	1.84	1.36	13.40	6.54

Source: Table III.1

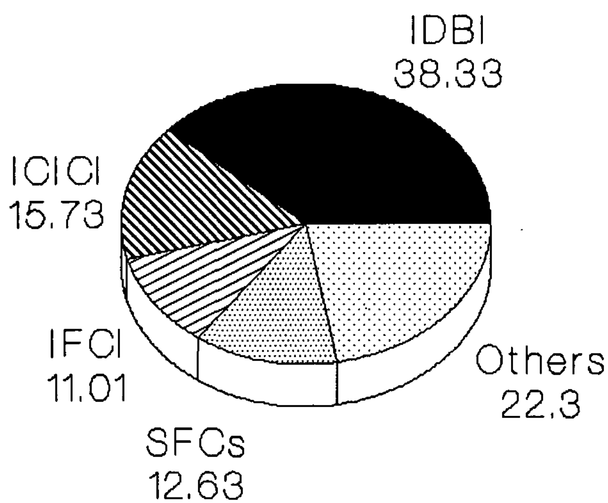
sanctioned and disbursed by AFIs (also see Graph III.B). This share is net of inter-institutional flows i.e. refinance to other financial institutions. If re-finance activity is also included, IDBI's share would be more than half of the institutional assistance provided by FIs during the past two decades. In terms of operational significance next to the IDBI falls the ICICI; there is, however, a large gap between the size of operations amongst the two. The ICICI's share remained around 10 per cent till the mid-'80s. The later part of '80s saw a spurt in the activities of the ICICI. The same was true of the IFCI. The rate of assistance sanctioned by IFCI and ICICI increased by 22.72 and 14.81 percent, respectively between 1980-85 and 1985-90 (Table III.2).

The share of LIC in the overall institutional finance generally remained around 5 per cent. UTI's growth has been phenomenal during the 'eighties. Its share rose from around 3 per cent in early '80s to 10 per cent by the end of the decade. IRBI and GIC together accounted for less than 2 per cent of total amount of sanctions or disbursals. The state level financial institutions have not grown fast enough to maintain their relative importance in the country's overall institutional finance. While their growth rate is no doubt positive, there was a steep decline in it, especially during the late '80s. The combined

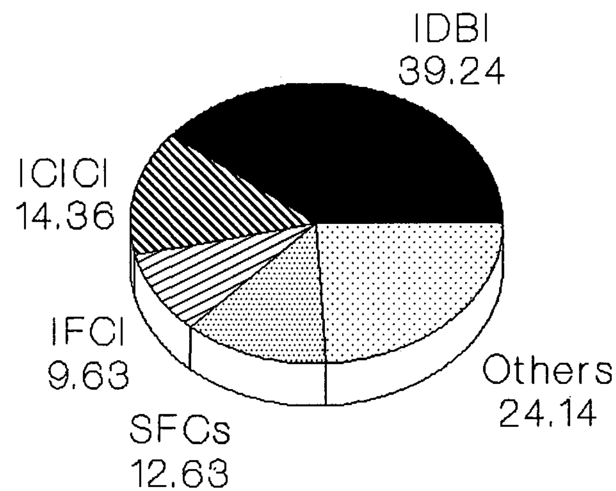
Graph III.B

Share of Different FIs in Assistance

upto 1990



Sanctions (%)



Disbursals (%)

Source: Table III.3

share of state level financial institutions in the total institutional assistance provided by the AFIs declined from around 23 per cent at the beginning of the '80s to about 18 percent by the end of the period under study. It may also be noted that re-finance from IDBI and other national level institutions accounts for nearly half of the financial base of the State Financial Institutions.

Of the past two decades, the 'eighties experienced a phenomenal growth in the operations of AFIs. Consequently, the 'eighties account for around 85 per cent of the cumulative assistance sanctioned and disbursed by AFIs since their inception. Even if these figures are deflated for price rise the '80s are likely to account for a major part of the total institutional finance in the country. For this reason and due to non-availability of dis-aggregated data for the '70s we confine this study to the decade of 'eighties for gaining an understanding of the emerging role of FIs in India.

One needs to ask : Why did the FIs expand faster during the 'eighties than the previous decades? Does it reflect a step up in overall investments in the economy? Or, is it an indicator of the larger role being assigned to organised private sector which depends heavily on institutional finance? Whom did the fast expansion benefit: the priority industries, new entrepreneurs, export oriented activities, backward regions, large industrial and big business houses, State/Central public sector, joint sector; or was it that the pattern of operations did not have any specific thrust? One can list a large variety of questions the examination of which demands collection of a wide range of data and information. During the course of the study we have become aware of many other questions but due to the limited scope of this dissertation the analysis is confined to a few aspects only.

III.1.2 Sources and Uses of Funds

The size of finance and the magnitude of FIs operations are like two faces of the same coin. The two are mutually dependent. The total amount at the disposal of IDBI, ICICI and IFCI[4] increased to almost three times: from Rs. 13,738.38 crores in 1980-85 to Rs. 41,039.16 crores in 1985-90. Correspondingly, the funds raised during 1985-90 aggregated to Rs. 40,297.9 crores (sources total less opening cash and bank balance) as against Rs. 13,604 crore raised during 1980-85. The average annual rate of growth during 1980-90 works out to 24.63 per cent for funds mobilised and 23.29 per cent for funds used.

Going by the nature of sources, during the second half of the '80s, reliance on internal sources appears to have slightly increased when compared to the early

4. Data is not available for other institutions.

'80s. The share of internal mobilization[5] in total mobilization of funds increased from 50.2 per cent during 1980-85 to 53.8 per cent in 1985-90 (Table III.4). Issue of bonds and debentures has been an important source of external resources. It accounted for 28.29 per cent of the resources in the period 1980-85. The percentage decreased to 20 during 1985-90.

Foreign currency borrowings by IFCI, ICICI and IDBI increased at a high rate during the second half of the '80s. The aggregate foreign currency borrowings increased to about nine times between the periods 1980-85 and 1985-90. Borrowing by these institutions by way of bonds and debentures did not keep pace with their sanctions and disbursals. Their share decreased from 29 percent in the Sixth Plan period to 21 percent in the Seventh Plan period. Additional disbursals accounted for more than half of the resources mobilised. A part of the resources were also deployed for repayment of foreign exchange borrowings, payment of interest, dividends, taxes, etc.

III.1.3 Component - Wise Sanctions and Disbursals

Assistance by financial institutions is broadly provide under five heads. These are:

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5. Internal mobilisation can be obtained by summing up sources under items 6, 7, 8(a) and 8(d) in Table III.4.

TABLE - III.4

SOURCES AND USES OF FUNDS OF IFCI, ICICI AND IDBI (1980-81 TO 1989-90)

(Rs. Crores)

S.No.	Sources	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	6th Plan	7th Plan
	1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Increase in Paid -up capital	23.50	64.75	30.00	241.53	41.75	40.00	53.02	45.51	65.00	126.01	345.00	329.54
2.	Borrowings from												
	(a) Government	68.56	212.34	17.15	90.81	19.28	25.96	8.96	19.07	164.34	251.19	357.43	469.52
	(b) RBI	277.70	257.90	353.90	472.28	335.75	300.60	327.65	360.00	591.00	805.00	1677.55	2384.25
	(c) Others	60.00	-	7.00	18.63	15.58	15.92	13.85	210.70	48.10	401.33	83.58	819.90
3.	Borrowings by way of bonds/debentures	478.02	712.58	779.40	988.16	132.21	1317.07	1418.20	1551.28	1786.52	1994.25	3849.21	8067.32
4.	Borrowings in foreign currency	46.23	123.58	97.62	107.51	201.18	418.22	696.79	1370.05	1604.63	1289.59	576.12	5359.28
5.	Deposits accepted from companies/ Capital Bonds			-	83.36	113.00	134.68	1.30	169.64	272.27	365.54	172.80	943.43
6.	Sale of investment in shares and debentures of industrial concerns	59.00	13.57	9.93	9.74	4.86	7.31	19.60	57.01	306.77	49.00	38.60	439.69
7.	Repayment by borrowers	410.18	592.99	751.61	1940.98*	2094.98*	2612.12*	2597.71	2814.56	2910.76	3376.09	4901.32	13836.98
8.	Others												
	(a) Interest/dividend/commission/ commitment charges received	247.44	297.45	442.80				647.39	791.54	1742.51	2564.58	1527.52	6098.87
	(b) Grants from Government	1.26	1.51					6.18	22.11	21.03	17.17	8.51	69.75
	(c) Subsidies from Government							0.55	1.64	0.53	2.35	3.26	8.15
	(d) Others	1.60	6.51					37.31	16.53	49.46	-	63.09	218.36
9.	Investment Deposit Account Scheme							74.84	342.09	326.04	509.88	-	1252.85
10.	Opening cash and bank balance	134.39	99.20	307.64	336.09	564.44	741.27	891.62	982.30	1410.43	1896.38	134.39	741.27
	Total	1754.78	2382.38	2794.05	4289.09	4423.03	5613.15	6774.97	8754.03	11299.39	13648.36	13738.38	41039.16

Contd...

(Rs. Crores)

S.No.	Uses	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	6th Plan	7th Plan
	1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Disbursement of assistance:	1295.83	1639.40	1949.94	2546.47	2713.76	3490.49	4169.06	5038.63	6711.13	7302.44	9908.08	26711.75
	(a) Rupee loans	1210.61	1486.46					3833.45	4318.86	5904.67	6078.24	9163.66	23416.50
	(b) Foreign currency loans	62.53	121.01					299.69	478.58	409.20	556.85	563.56	1938.10
	(c) Subscriptions to shares/ debentures of industrial concerns	8.74	12.89					35.33	83.54	97.06	167.24	118.85	398.52
	(d) Guarantees							0.59	1.54	0.72	0.51	-	3.44
	(e) Subscriptions to shares & bonds of financial institutions	13.95	19.04					-	156.11	299.48	499.60	62.01	955.19
2.	Repayment of loans:												
	(a) Government	33.92	17.90	12.07	20.13	6.82	8.93	15.16	34.52	35.22	40.92	80.39	134.75
	(b) RBI	31.50	53.80	56.30	82.73	51.70	95.75	99.58	96.78	67.21	300.06	246.90	659.38
	(c) Others	0.76	0.25	-	67.86	43.00	30.00	13.50	21.35	124.57	209.87	96.08	399.29
3.	Repayment in foreign currency	36.50	34.63	35.25	36.80	66.46	77.50	137.59	479.52	448.03	277.02	209.64	1419.66
4.	Redemption of bonds	13.33	5.50	4.95	45.05	45.21	99.69	188.40	164.02	260.96	350.00	89.99	1063.07
5.	Investment in government/ other trustee securities	1.99	3.66	2.39	4.21	5.78	7.85	27.40	243.46	-	-	15.26	278.71
6.	Payment of interest/dividend/ tax, etc.	223.76	303.32	453.36	787.76	749.03	911.30	1062.03	1346.32	1642.77	2134.33	2266.46	7096.75
7.	Others	17.93	16.28	50.10	1.35	-	-	79.96	49.00	113.12	286.22	84.31	528.30
8.	Closing cash and bank balance	99.19	307.64	229.69	696.73	741.27	891.64	982.29	1280.43	1896.38	2747.50	741.27	2747.50
	Total	1754.78	2382.38	2794.05	4289.09	4423.03	5613.15	6774.97	8754.03	11299.39	13648.36	13738.38	41039.17

Note: Institutions covered are IDBI, IFCI and ICICI.

* Repayments by borrowers + Income received by way of interest/Commission/Government Grants etc.

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

(1) Rupee loans;
(2) Foreign Currency loans;
(3) Underwriting and direct subscription to equity and preference shares;
(4) Underwriting and direct subscription to debentures; and
(5) Financial Guarantees.

Rupee loan scheme remains the single most important means of providing financial assistance by the AIFIs, the loans accounting for around four-fifths of the total assistance sanctioned and disbursed. From Table III.5 one can see that in the second half of the '80s: (i) foreign currency loans, (ii) underwriting of equity and preference shares, and (iii) underwriting of debentures increased their relative importance in the total assistance sanctioned by the financial institutions (also see Graph III.C).[6] The aggregate assistance by way of both foreign currency loans and underwriting of debentures increased to more than four times during the corresponding period. The combined share of the aggregate assistance by way of foreign currency loans and underwriting of debentures increased from 11.22 per cent in 1980-85 to 17.47 percent in 1985-90. The aggregate assistance under all heads trebled between the periods 1985-90 and 1980-85.

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6. 'Underwriting' here is meant to include 'underwriting and direct subscription'. We shall follow this practice for the rest of the study for convenience.

TABLE - III.5

(A) SHARES OF ASSISTANCE SANCTIONED BY AFIs - COMPONENT-WISE (1980-85 AND 1985-90)

(Rs. Crores)

PERIOD	RL	FC	EQ	DB	GR	TOTAL
1	2	3	4	5	6	7
AGGREGATE						
1980-85 (a)	14854.92	1039.88	776.19	1010.71	579.17	18260.87
1985-90 (b)	41874.26	4724.37	2083.00	4676.85	471.65	53830.87
(b)/(a)*100	281.89	454.32	268.36	462.73	81.44	294.79
PERCENTAGE SHARES						
PERIOD	RL	FC	EQ	DB	GR	TOTAL
1980-85	81.35	5.69	4.25	5.53	3.17	100.00
1985-90	77.79	8.78	3.87	8.69	0.88	100.00

(B) SHARES OF ASSISTANCE DISBURSED BY AFIs- COMPONENT-WISE (1980-85 AND 1985-90)

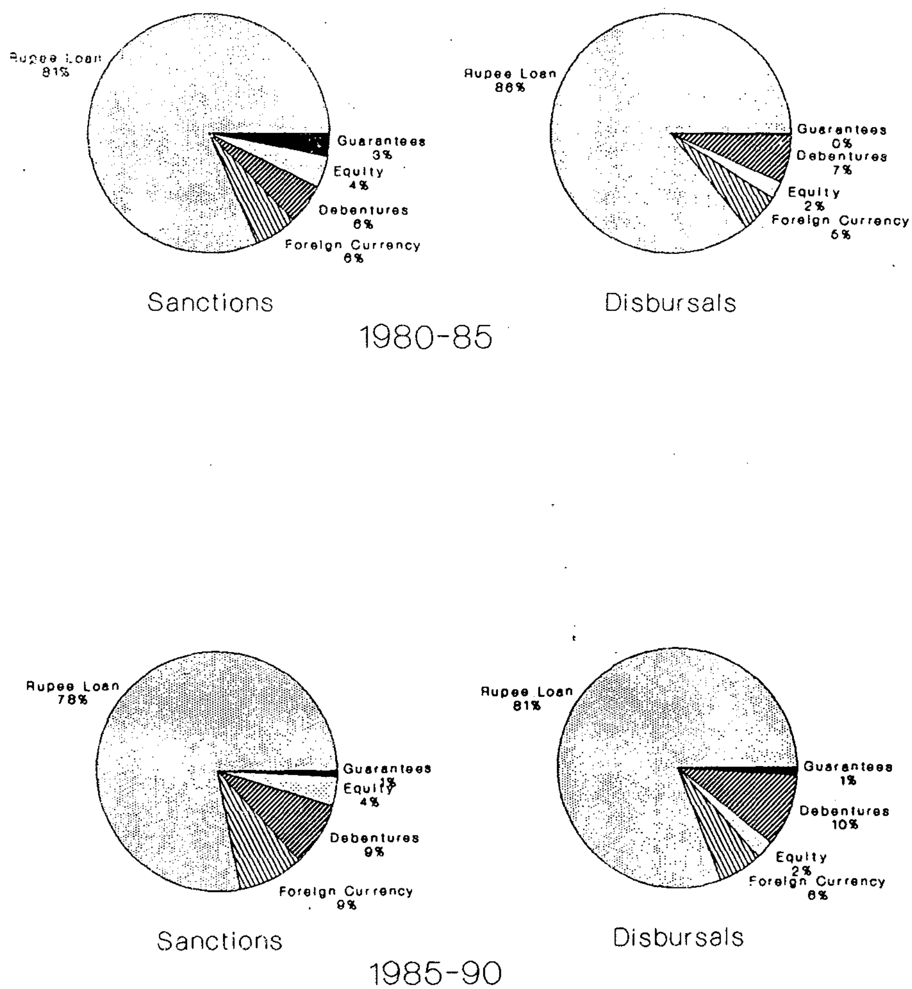
(Rs. Crores)

PERIOD	RL	FC	EQ	DB	GR	TOTAL
1	2	3	4	5	6	7
AGGREGATE						
1980-85 (c)	10649.81	641.36	299.9	808.35	17.00	12416.42
1985-90 (d)	29365.51	2168.58	886.95	3563.03	421.17	36405.29
(d)/(c)*100	275.74	338.12	295.75	440.78	2477.47	293.20
PERCENTAGE SHARES						
PERIOD	RL	FC	EQ	DB	GR	TOTAL
1980-85	85.77	5.17	2.42	6.51	0.14	100.00
1985-90	80.66	5.96	2.44	9.79	1.16	100.00

Note:
RL = Rupee Loans
FC = Foreign Currency Loans
EQ = Underwiting and Direct Subscription of Equity Shares
DB = Underwiting and Direct Subscription of Debentures
GR = Guarantees

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

Graph III.C
Composition of Project Finance
Provided by All Financial Institutions



Source: Table III.5

The 1985-90 period also saw a big jump in the AIFIs assistance by way of guarantees (disbursed). This jump, however, is explained to a large extent by the disbursal of a few large guarantees sanctioned by the IDBI during 1984-85 and the limited use of Guarantees as a means of assistance in the early 'eighties. One observes that in the '80s the financial institutions have tended to extend their operations to provision of foreign currency loans, and towards more extensive underwriting and direct subscriptions to debenture issues.[7] We shall examine the possible reasons and implications of this shift when we discuss the role of financial institutions in the capital market.

For the present let us examine the change in mode of finance at the institution level. The overall size of assistance extended by AIFIs, in the form of loans increased substantially during 1988-89 and 1989-90. This being particularly so in case of ICICI and IFCI. The combined share of these two institutions in the loans sanctioned rose from 14.83 per cent during 1980-85 to 24.55 per cent (Table III.6). UTI expanded its operations tremendously in the late '80s; the increase

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7. The trend in underwriting, however, may be slowing down or even getting reversed. A study of all public issues made during the period April-December 1989 observed that 27 per cent of the companies did not opt for underwriting and only 13 per cent of the total public issue amount was underwritten. See: "Companies opt out of underwriting safety net", Economic Times, March 5, 1990.

TABLE - III.6

(A) ASSISTANCE SANCTIONED BY WAY OF RUPPEE LOANS - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS	IDBI	IDBI(REF)	IFCI	ICICI	IRCI	SFCs	SIDCs	Sub-Total	LIC	UTI	GIC	Grand total
1	2	3	4	5	6	7	8	9	10	11	12	13
1980-81	1065.32	426.70	173.76	177.57	17.94	369.65	192.09	2016.33	53.05	22.67	22.82	2114.87
1981-82	1061.89	537.88	173.01	145.79	46.88	509.28	248.39	2185.24	126.66	44.15	25.84	2381.89
1982-83	1247.23	669.51	203.69	199.29	57.92	611.42	250.58	2570.13	87.72	70.28	30.23	2758.36
1983-84	1594.15	687.30	253.71	201.35	66.70	644.40	311.32	3071.63	87.45	62.54	42.78	3264.40
1984-85	2126.17	895.80	284.71	390.40	110.79	743.04	423.59	4078.70	89.50	118.98	48.22	4335.40
1985-86	2309.45	1177.65	341.67	426.05	75.22	1009.02	459.60	4621.01	124.68	227.24	59.93	5032.86
1986-87	2794.17	1275.87	503.99	666.30	148.86	1210.80	508.88	5833.00	67.01	142.91	15.34	6058.26
1987-88	3046.05	1504.36	813.52	988.80	186.48	1284.74	556.58	6870.17	127.19	584.47	25.15	7612.98
1988-89	4321.09	1937.59	1348.50	1400.43	208.80	1391.87	583.77	9254.46	325.73	1211.44	36.10	10827.73
1989-90	5303.79	2075.41	1825.64	1968.13	146.57	1543.61	603.24	11390.98	146.78	755.72	48.95	12342.43
UPTO 1990	27303.57	11769.01	6530.54	6937.96	1029.75	10023.71	4043.23	55868.76	1517.71	3345.23	442.17	61173.87
1980-85 (A)	7094.76	3217.19	1088.88	1114.40	300.23	2877.79	1425.97	13922.03	444.38	318.62	169.89	14854.92
1985-90 (B)	17774.55	7970.88	4833.32	5449.71	765.93	6440.04	2712.07	37975.62	791.39	2921.78	185.47	41874.26
(B)/(A)*100	250.53	247.76	443.88	489.03	255.11	223.78	190.19	272.77	178.09	917.01	109.17	281.89
PERCENTAGE SHARES												
1980-85	47.76	21.66	7.33	7.50	2.02	19.37	9.60	93.72	2.99	2.14	1.14	100.00
1985-90	42.45	19.04	11.54	13.01	1.83	15.38	6.48	90.69	1.89	6.98	0.44	100.00
UPTO 1990	44.63	19.24	10.68	11.34	1.68	16.39	6.61	91.33	2.48	5.47	0.72	100.00

Contd...

TABLE - III.6

(B) ASSISTANCE DISBURSED BY WAY OF RUPPEE LOANS - INSTITUTION-WISE (1979-80 TO 1989-90)

(Rs. Crores)

YEARS	IDBI	IDBI(REF)	IFCI	ICICI	IRCI	SFCs	SIDCs	Sub-Total	LIC	UTI	GIC	Grand total
1	2	3	4	5	6	7	8	9	10	11	12	13
1980-81	754.68	299.25	92.77	114.89	16.78	247.60	109.84	1336.56	53.56	20.19	31.42	1441.73
1981-82	851.70	356.60	146.62	157.26	28.03	317.15	161.30	1662.06	102.23	33.17	13.40	1810.86
1982-83	994.28	454.41	167.37	154.95	36.07	403.86	179.66	1936.19	52.21	38.41	15.33	2042.14
1983-84	1277.46	467.41	207.72	166.46	38.16	435.08	211.85	2336.73	67.71	47.21	16.54	2468.19
1984-85	1425.27	595.97	247.02	269.58	54.82	497.58	254.91	2749.18	58.59	49.43	29.69	2886.89
1985-86	1794.98	683.92	347.64	327.43	67.81	608.32	329.71	3475.89	75.60	106.76	27.89	3686.14
1986-87	2021.15	948.31	345.72	464.97	94.66	791.82	373.24	4091.56	109.79	110.66	29.43	4341.44
1987-88	2486.36	940.38	507.48	545.36	101.92	937.98	410.13	4989.23	128.53	420.18	25.70	5563.64
1988-89	3424.40	1134.51	864.36	874.72	116.52	1054.97	405.26	6740.23	243.78	608.67	20.12	7612.80
1989-90	3474.04	1364.44	955.36	1035.46	141.10	1190.22	492.92	7289.10	100.73	728.71	42.95	8161.49
UPTO 1990	20751.18	8083.78	4447.26	4429.94	765.20	7511.41	3050.48	40955.47	1191.81	2271.71	326.57	44745.56
1980-85 (A)	5303.39	2173.64	861.50	863.14	173.86	1901.27	917.56	10020.72	334.30	188.41	106.38	10649.81
1985-90 (B)	13200.93	5071.56	3020.56	3247.94	522.01	4583.31	2011.26	26586.01	658.43	1974.98	146.09	29365.51
(B)/(A)*100	248.91	233.32	350.62	376.29	300.25	241.07	219.20	265.31	196.96	1048.24	137.33	275.74
PERCENTAGE SHARES												
1980-85	49.80	20.41	8.09	8.10	1.63	17.85	8.62	94.09	3.14	1.77	1.00	100.00
1985-90	44.95	17.27	10.29	11.06	1.78	15.61	6.85	90.53	2.24	6.73	0.50	100.00
UPTO 1990	46.38	18.07	9.94	9.90	1.71	16.79	6.82	91.53	2.66	5.08	0.73	100.00

Note: IDBI and LIC figures are net of inter-institutional flows. Figures under IDBI (REF) give the inter-institutional flows of IDBI.

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

being nine-fold over the early '80s. UTI's share, however, in the total institutional accommodation by way of loans was 6 per cent only.

Foreign Currency Loans

It is only the development banks -- IDBI, ICICI and IFCI -- which are permitted to provide foreign currency loans. As has already been discussed in a previous Chapter, ICICI was the first to channel foreign currency loans from international agencies to Indian industry. This explains ICICI's dominant place in the foreign currency loans. Its share in the cumulative sanctions and disbursals up to end March 1990 stood at 58.78 per cent and 67.99 per cent, respectively (Table III.7). Though IDBI started granting foreign currency loans only from 1982-83, its share had reached to over 34 per cent in both sanctions and disbursals in 1989-90. IFCI's share has also risen appreciably in the later '80s. Due to the relative faster expansion of IFCI and IDBI, the ICICI's share has declined from 85.84 per cent in 1980-81 to 43.0 per cent in 1989-90.

Underwriting and Direct Subscription to Equity and Preference Shares

The two investment institutions, LIC and UTI, show a marked increase in their underwriting business and subscription to equity and preference shares in the '80s. Especially since 1984-85, these

TABLE - III.7

(A) ASSISTANCE SANCTIONED BY WAY OF FOREIGN CURRENCY LOAN - INSTITUTION-WISE (1980-81 TO 1989-90)

YEARS		AMOUNT (RS. CRORES)				PERCENTAGE SHARE			
		IDBI	IFCI	ICICI	TOTAL	IDBI	IFCI	ICICI	TOTAL
1		2	3	4	5	6	7	8	9
1980-81			19.65	119.14	138.79		14.16	85.84	100.00
1981-82			21.83	130.96	152.79		14.29	85.71	100.00
1982-83		22.52	5.82	103.28	131.62	17.11	4.42	78.47	100.00
1983-84		69.67	35.91	176.17	281.75	24.73	12.75	62.53	100.00
1984-85		102.10	71.63	161.20	334.93	30.48	21.39	48.13	100.00
1985-86		129.34	108.29	226.14	463.77	27.89	23.35	48.76	100.00
1986-87		166.66	221.41	349.06	737.13	22.61	30.04	47.35	100.00
1987-88		120.52	137.67	195.55	453.74	26.56	30.34	43.10	100.00
1988-89		509.32	458.65	538.83	1506.80	33.80	30.44	35.76	100.00
1989-90		540.22	345.72	676.99	1562.93	34.56	22.12	43.32	100.00
UPTO 1990		1585.02	1540.22	4456.89	7582.13	20.90	20.31	58.78	100.00
1980-85	(a)	194.29	154.84	690.75	1039.88	18.68	14.89	66.43	100.00
1985-90	(b)	1466.06	1271.74	1986.57	4724.37	31.03	26.92	42.05	100.00
(b)/(a)*100		754.57	821.33	287.60	454.32				

(B) ASSISTANCE DISBURSED BY WAY OF FOREIGN CURRENCY LOAN - INSTITUTION-WISE (1980-81 1989-90)

YEARS		AMOUNT (RS. CRORES)				PERCENTAGE SHARE			
		IDBI	IFCI	ICICI	TOTAL	IDBI	IFCI	ICICI	TOTAL
1		2	3	4	5	6	7	8	9
1980-81			15.04	66.60	81.64		18.42	81.58	100.00
1981-82			20.68	101.90	122.58		16.87	83.13	100.00
1982-83		3.69	21.10	103.36	128.15	2.88	16.47	80.66	100.00
1983-84		8.55	10.79	115.91	135.29	6.32	7.98	85.68	100.00
1984-85		41.54	21.39	110.77	173.70	23.91	12.31	63.77	100.00
1985-86		124.83	51.00	144.13	319.96	39.01	15.94	45.05	100.00
1986-87		104.30	94.37	205.32	403.99	25.82	23.36	50.82	100.00
1987-88		152.39	130.77	195.42	478.58	31.84	27.32	40.83	100.00
1988-89		115.83	121.26	172.11	409.20	28.31	29.63	42.06	100.00
1989-90		194.60	140.74	221.51	556.85	34.95	25.27	39.78	100.00
UPTO 1990		745.56	814.10	3313.28	4872.94	15.30	16.71	67.99	100.00
1980-85	(a)	53.78	89.00	498.54	641.36	8.39	13.88	77.73	100.00
1985-90	(b)	691.95	538.14	938.49	2168.58	31.91	24.82	43.28	100.00
(b)/(a)*100		1286.63	604.65	188.25	338.12				

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

institutions played a greater role by way of participation in the capital market. IFCI and ICICI show a slow and steady increase in their equity share holdings (Table III.8).[8] On the other hand, IDBI's share declined considerably both in sanctions and disbursals. SIDCs which accounted for over two-fifths of the overall disbursals during the early '80s could not keep pace with the increase in operations of the other institutions. This has resulted in a steep fall in their share in the aggregate assistance. They however, continue to occupy an important position as equity shareholders, next only to the UTI. This is probably due to their involvement in joint sector projects. The main point which emerges here is that UTI and LIC have indeed become the most important share holders in the private corporate sector due to their aggressive entry into the underwriting activity and participation in share market. As a result, the shares of UTI and LIC in the aggregate sanctions by AFIs in 1985-90 increased to 15.0 and 6.71 per cent from 1.72 and 2.78 per cent in 1980-85, respectively. Their importance probably gets reflected better when we look at the amounts disbursed, their respective shares in which were 25.08 and 12.63 respectively. The much higher share of these institutions in

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8. In the case of underwriting, it is better to look at the disbursals as all sanctions by way of underwriting are necessarily devolved or executed.

TABLE - III.8

(A) ASSISTANCE SANCTIONED BY WAY OF UNDERWRITING & DIRECT SUBSCRIPTION TO EQUITY & PREFERENCE SHARES - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS	IDBI	IFCI	ICICI	SFCs	SIDCs	Sub-Total	LIC	UTI	GIC	Grand total
1	2	3	4	5	6	7	8	9	10	11
1980-81	29.23	12.96	12.95	0.49	19.94	75.59	4.33	1.61	4.90	86.43
1981-82	56.45	12.73	13.66	0.28	28.95	112.07	2.24	2.19	10.57	127.07
1982-83	29.82	13.42	15.89	0.10	29.17	88.40	5.94	4.67	9.85	108.86
1983-84	78.71	28.73	29.39	0.23	37.49	174.55	1.41	2.23	2.80	180.99
1984-85	137.48	38.63	42.07	0.08	41.01	259.27	7.67	2.67	3.23	272.84
1985-86	65.63	33.93	33.85	0.05	55.88	189.34	7.40	25.39	7.20	229.33
1986-87	115.64	51.13	50.89	0.01	49.52	267.19	22.80	44.61	7.48	342.08
1987-88	101.00	61.47	67.45		50.80	280.72	46.69	77.85	3.25	408.51
1988-89	152.69	85.43	80.40	0.05	72.34	390.91	38.25	106.79	9.27	545.22
1989-90	196.07	80.72	102.83		79.48	459.10	24.62	57.87	16.27	557.86
UPTO 1990	1060.96	452.86	533.52	22.36	622.12	2691.82	274.22	374.38	866.26	4206.68
1980-85 (A)	331.69	106.47	113.96	1.18	156.56	709.88	21.59	13.37	31.35	776.19
1985-90 (B)	631.03	312.68	335.42	0.11	308.02	1587.26	139.76	312.51	43.47	2083.00
(B)/(A)*100	190.25	293.68	294.33	9.32	196.74	223.60	647.34	2337.40	138.66	268.36
<u>PERCENTAGE SHARES</u>										
1980-85	42.73	13.72	14.68	0.15	20.17	91.46	2.78	1.72	4.04	100.00
1985-90	30.29	15.01	16.10	0.01	14.79	76.20	6.71	15.00	2.09	100.00
UPTO 1990	25.22	10.77	12.68	0.53	14.79	63.99	6.52	8.90	20.59	100.00

Contd...

TABLE - III.8

(B) ASSISTANCE DISBURSED BY WAY OF UNDERWRITING & DIRECT SUBSCRIPTION TO EQUITY & PREFERENCE SHARES - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS	IDBI	IFCI	ICICI	SFCs	SIDCs	Sub-Total	LIC	UTI	GIC	Grand total
1	2	3	4	5	6	7	8	9	10	11
1980-81	3.29	1.11	2.46	0.19	14.15	21.20	3.87	1.69	5.60	32.36
1981-82	4.94	1.77	2.74	0.06	26.30	35.81	4.23	3.29	7.02	50.35
1982-83	40.15	6.40	6.36	0.08	24.24	77.23	4.14	3.61	8.61	93.59
1983-84	12.07	5.83	6.09	0.08	24.27	48.34	2.46	1.97	4.69	57.46
1984-85	7.75	4.28	7.41	0.06	38.76	58.26	3.00	1.47	3.41	66.14
1985-86	9.35	4.57	5.19	0.15	30.29	49.55	4.12	4.16	4.62	62.45
1986-87	28.20	8.18	9.46	0.07	42.55	88.46	16.36	23.31	11.27	139.40
1987-88	33.29	18.88	22.70		26.96	101.83	27.60	56.95	21.97	208.35
1988-89	28.97	15.91	22.34	0.06	46.11	113.39	42.75	86.46	29.61	272.21
1989-90	26.11	19.82	20.90		48.86	115.69	21.16	51.61	16.08	204.54
UPTO 1990	250.91	117.42	169.86	13.26	454.32	1005.77	216.69	269.00	710.93	2202.39
1980-85 (A)	68.20	19.39	25.06	0.47	127.72	240.84	17.70	12.03	29.33	299.90
1985-90 (B)	125.92	67.36	80.59	0.28	194.77	468.92	111.99	222.49	83.55	886.95
(B)/(A)*100	184.63	347.40	321.59	59.57	152.50	194.70	632.71	1849.46	284.86	295.75
PERCENTAGE SHARES										
1980-85	22.74	6.47	8.36	0.16	42.59	80.31	5.90	4.01	9.78	100.00
1985-90	14.20	7.59	9.09	0.03	21.96	52.87	12.63	25.08	9.42	100.00
UPTO 1990	11.39	5.33	7.71	0.60	20.63	45.67	9.84	12.21	32.28	100.00

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

disbursals relative to sanctions, also reflects their investment orientation.

Underwriting and Direct Subscription to Debentures

The assistance by way of underwriting and direct subscription of debenture issues grew at a fast rate during the late '80s.[9] Infact, aggregate sanctions and disbursals under this head have grown the fastest between the 5 year periods 1980-85 and 1985-90 (Table III.5). IFCI, ICICI, UTI and LIC seem to be mainly responsible for this phenomenon. The main actors in the debenture market are the three investment institutions, viz. LIC, UTI and GIC. Their combined share in 1989-90 stood at 85.5 per cent in sanctions and 90 per cent in disbursements (Table III.9). The share of the development banks remained around 5 per cent throughout the '80s. Among the investment institutions UTI alone accounted for more than half of the total sanctions/disbursals. GIC's share in the debentures held by AFIs declined from about 22 percent in 1980-81 to 11 percent in 1985-90. Thus underwriting and subscription of debentures is a field

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9. A study of 231 private sector companies for the year 1989-90 observed that debentures were the single largest source of finance -- 29.3 per cent of total borrowings, followed by banks with 28.9 per cent. Larger companies collected substantial amounts through debentures. For companies with more than Rs. 500 crore assets debentures worked out to 35 per cent of borrowings. Cf. T.N.T. Nair, et.al. (1990), "External funds prop more than 60% of business", Economic Times, Oct 25, 1990.

TABLE - III.9

(A) ASSISTANCE SANCTIONED BY WAY OF UNDERWRITING & SUBSCRIPTION OF DEBENTURES - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS	IDBI	IFCI	ICICI	SFCs	SIDCs	Sub-Total	LIC	UTI	GIC	GRAND TOTAL
1	2	3	4	5	6	7	8	9	10	11
1980-81	0.42	0.16	3.38			3.96	12.57	16.11	3.04	35.68
1981-82	6.13	4.05	7.72		0.25	18.15	36.60	39.14	13.64	107.53
1982-83	2.55	1.91	10.71		0.15	15.32	42.87	52.51	52.62	163.32
1983-84	0.50		4.37		0.10	4.97	77.95	101.02	62.91	246.85
1984-85			6.38			6.38	122.70	235.62	92.63	457.33
1985-86	9.08	5.89	7.11			22.08	251.55	443.96	85.87	803.46
1986-87	5.82	2.10	27.51			35.43	274.02	277.50	130.45	717.40
1987-88	1.19	1.10	5.41			7.70	188.84	362.51	69.90	628.95
1988-89	19.85	4.77	28.61		0.50	53.73	296.21	654.91	77.25	1082.10
1989-90	8.66	20.18	179.94		0.38	209.16	406.84	682.99	145.95	1444.94
UPTO 1990	71.81	57.66	317.58	0.60	1.91	449.56	1854.01	2979.83		5283.40
1980-85 (A)	9.60	6.12	32.56		0.50	48.78	292.69	444.40	224.84	1010.71
1985-90 (B)	44.60	34.04	248.58		0.88	328.10	1417.46	2421.80	509.42	4676.85
(B)/(A)*100	464.58	556.21	763.45		176.00	672.61	484.29	544.98	226.57	462.73
PERCENTAGE SHARES										
1980-85	0.95	0.61	3.22		0.05	4.83	28.96	43.97	22.25	100.00
1985-90	0.95	0.73	5.32		0.02	7.02	30.31	51.78	10.89	100.00
UPTO 1990	1.36	1.09	6.01	0.01	0.04	8.51	35.09	56.40	0.00	100.00

Contd...

TABLE - III.9

(B) ASSISTANCE DISBURSED BY WAY OF UNDERWRITING & SUBSCRIPTION OF DEBENTURES - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS	IDBI	IFCI	ICICI	SFCs	SIDCs	Sub-Total	LIC	UTI	GIC	GRAND TOTAL
1	2	3	4	5	6	7	8	9	10	11
1980-81	0.54		1.37		0.10	2.01	8.21	29.15	7.02	46.39
1981-82	0.38	0.30	2.76			3.44	29.47	26.26	13.24	72.41
1982-83	1.84	1.15	6.48		0.15	9.62	30.25	29.67	20.76	90.30
1983-84	0.02	0.09	6.52			6.63	70.73	90.16	63.31	230.83
1984-85	1.00	0.13	4.46		0.10	5.69	99.95	185.34	77.44	368.42
1985-86	0.10	0.60	4.99			5.69	182.15	417.93	74.83	680.60
1986-87	1.96	2.69	15.00			19.65	263.61	283.62	90.90	657.78
1987-88	1.19	1.37	6.11			8.67	186.13	271.97	55.87	522.64
1988-89	12.54	3.05	14.25			29.84	155.47	396.11	65.65	647.07
1989-90	11.50	11.74	77.17		0.38	100.79	333.33	500.23	120.59	1054.94
UPTO 1990	46.68	31.79	169.33	0.59	1.25	249.64	1460.32	2274.50		3984.46
1980-85 (A)	3.78	1.67	21.59		0.35	27.39	238.61	360.58	181.77	808.35
1985-90 (B)	27.29	19.45	117.52		0.38	164.64	1120.69	1869.86	407.84	3563.03
(B)/(A)*100	721.96	1164.67	544.33		108.57	601.10	469.67	518.57	224.37	440.78
PERCENTAGE SHARES										
1980-85	0.47	0.21	2.67		0.04	3.39	29.52	44.61	22.49	100.00
1985-90	0.77	0.55	3.30		0.01	4.62	31.45	52.48	11.45	100.00
UPTO 1990	1.17	0.80	4.25	0.01	0.03	6.27	36.65	57.08	0.00	100.00

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

dominated by the investment corporations; it is only in the past 3-4 years that development banks, lead by ICICI, have started taking more interest in debentures.

Guarantees for Loans and Deferred Payments

Extending guarantees for loans and deferred payments is an important activity of the FIs. Amount-wise this activity, however, is not very significant (Table III.5). This form has picked up only recently (Table III.10). Large sanctions and disbursals by IDBI during the period 1984-85 to 1986-87 account for the 24 fold increase shown by disbursals of assistance in the period 1985-90 over 1980-85. But what does emerge from Table III.10 is that the ratio of disbursals to sanctions has been increasing in the later half of '80s. If we exclude the IDBI from the grand total the ratio of disbursals to sanctions for the periods 1980-85 and 1985-90 works out to 7.7 per cent and 35.8 per cent respectively. This can also be seen from the increase in the amount of disbursals between the periods 1980-85 and 1985-90 for IFCI, ICICI and the SIDCs. The investment institutions, however, do not appear to be in the business of extending support to any significant extent under this head.

TABLE - III.10

(A) ASSISTANCE SANCTIONED BY WAY OF GUARANTEES - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS		IDBI	IFCI	ICICI	SFCs	SIDCs	TOTAL
1		2	3	4	5	6	7
1980-81		142.7		1.04	0.4	4.41	148.55
1981-82		23.58	6.47	4.25		22.04	56.34
1982-83		15.79	5.38	19.46	0.05	16.74	57.42
1983-84		23.05	3.56	27.22	0.28	15.68	69.79
1984-85		192.63	20.46	20.64		13.34	247.07
1985-86		47.67	9.46	15.09		11.48	83.7
1986-87		68.86	19.42	24.52		11.9	124.7
1987-88		18.15	11.37	26.09		12.05	67.66
1988-89		17.96	8.26	7.84		77.52	111.58
1989-90		25.95	27.38	23.45		7.23	84.01
UPTO 1990		400.87	159.42	238.21	27.57	303.48	1129.55
1980-85	(A)	397.75	35.87	72.61	0.73	72.21	579.17
1985-90	(B)	178.59	75.89	96.99	0.00	120.18	471.65
(B)/(A)*100		44.90	211.57	133.58	0.00	166.43	81.44
PERCENTAGE SHARES							
1980-85		68.68	6.19	12.54	0.13	12.47	100.00
1985-90		37.86	16.09	20.56	0.00	25.48	100.00
UPTO 1990		35.49	14.11	21.09	2.44	26.87	100.00

(B) ASSISTANCE DISBURSED BY WAY OF GUARANTEES - INSTITUTION-WISE (1980-81 TO 1989-90)

(Rs. Crores)

YEARS		IDBI	IFCI	ICICI	SFCs	SIDCs	TOTAL
1		2	3	4	5	6	7
1980-81					0.17	0.49	0.66
1981-82					0.51	3.53	4.04
1982-83		0.1	0.08		0.05	3.95	4.18
1983-84		0.85	0.03		0.28	0.33	1.49
1984-85		2.16	0.06	0.51	0.1	3.8	6.63
1985-86		170.56	0.08	0.43	0.05	4	175.12
1986-87		101.95	0.59	0.72		9.72	112.98
1987-88			1.54	1.64		12.05	15.23
1988-89		29.5	0.72	2.19		61.52	93.93
1989-90		14.08	0.51	2.01		7.31	23.91
UPTO 1990		318.9	13.77	7.03	24.96	181.58	546.24
1980-85	(A)	3.11	0.17	0.51	1.11	12.10	17.00
1985-90	(B)	316.09	3.44	6.99	0.05	94.60	421.17
(B)/(A)*100		10163.67	2023.53	1370.59	4.50	781.82	2477.47
PERCENTAGE SHARES							
1980-85		18.29	1.00	3.00	6.53	71.18	100.00
1985-90		75.05	0.82	1.66	0.01	22.46	100.00
UPTO 1990		58.38	2.52	1.29	4.57	33.24	100.00

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

III.1.4 Financial Institutions in the Capital Market

One reason for the establishment of various term lending institutions and investment corporations in India was the lack of a developed capital market. As has been already discussed in the earlier chapters the financial institutions were to provide support to the capital market and help it develop over time. The operations of the public financial institutions in the capital market cultivated an atmosphere conducive for fostering a higher level of activity in the capital market. It was visualized that as the capital market would develop, the support required from financial institutions decline. In the past 20 years the activity in the capital market has definitely improved. Especially in the mid-80's the resources raised from the capital market reached record figures.[10] Going back to the component wise analysis of the assistance provided by financial institutions by way of underwriting and direct subscription to shares and debentures, one finds that the activity of these institutions has also increased during these

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10. The growth of the capital market during the 'eighties can be gauged from the following figures given for 1980 and 1990 respectively. Number of Stock Exchanges, 9 to 19; Number of Listed Companies, 2265 to 5968; Capital of Listed Companies, Rs. 3973 crores to Rs. 27761 crores; and Market Value of Capital of Listed Companies, Rs. 6750 crores to Rs. 70521 crores. (See: Bombay Stock Exchange (1991), The Stock Exchange Official Directory, Weekly Replacement Service, 25th February, p. A-21.

years. As a result the capital market is still highly dependent on financial institutions.[11]

If one looks at the share of financial institutions in the resources raised in the capital market during the last 10 years, one observes that their share in the resources mobilised increased especially during the mid-80's i.e., along with the boom in the capital market (Table III.11). It is only in the last couple of years that their share shows a decline. As was apparent from Tables III.8 and III.9 the development banks participate more in equity and preference share underwriting while the investment corporations dominate the underwriting of debentures. Debentures are safer securities and yield a regular annual return of around 14 per cent. Equity participation involves higher risk and may yield a lower return. Appreciation in the market price of equity shares is, however, an added incentive. As the investment corporations are expected to pay a minimum return to policy/unit holders and also are called upon frequently to repay the amounts, they would probably

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11. For instance, the FICCI has called for FIs and Mutual Funds intervention to 'defuse the bearish trends' in share prices. The FIs, FICCI suggested, could buy shares and support prices to appropriate levels. "FIs intervention needed to prop up market: FICCI", Economic Times, Jan. 6, 1991. The former Finance Minister, Mr. Madhu Dandavate was of the opinion that "the financial institutions had a role to play in the market as a stabilising force whenever there was a sharp drop in prices". See: "Indiscriminate investment in shares: Dandavate criticises FIs", Business Standard, Oct. 23, 1990.

TABLE - III.11

RESOURCE MOBILIZATION IN THE CAPITAL MARKET: 1980 TO 1989-90

(Rs. Crores)

Years	Amount Raised in the Capital Market	Disbursed by AFIs: Equity	Disbursed by AFIs: Debentures	Disbursed by AFIs: Total	Share of AFIs in Capital Raised
1	2	3	4	5	6
1980	163.9	32.4	46.4	78.8	48.0
1981	478.1	50.4	72.4	122.8	25.7
1982-83	706.0	93.6	90.3	183.9	26.0
1983-84	837.5	57.5	230.8	288.3	34.4
1984-85	1056.4	66.1	268.4	434.5	41.1
1985-86	1702.9	62.5	680.6	743.1	43.6
1986-87	2434.2	139.4	657.8	797.2	32.7
1987-88	1749.0	208.4	522.6	731.0	41.8
1988-89	3153.0	272.2	647.0	969.2	30.7
1989-90	5716.0	204.5	1054.9	1259.4	22.0

Note: Figures for 1980 and 1981 are for calender years.

Source: (i) Reserve Bank of India, Report on Currency and Finance.
(ii) IDBI, Report on Development Banking in India

not like to treat the market operations as long term investments. Hence the preference for debentures. In the process they would also minimise risk. In the '80s even 'mutual fund' system is being adopted by commercial banks and mutual fund schemes are becoming a growing source of resource mobilisation. Over half of their investments are in fixed income securities.[12]

There are various implications of the high share of financial institutions, especially development banks, in the capital market. Development banks were visualized as an instrument to be used to stabilise capital markets. When the market is booming they sell and when it is bearish they act as bulls. Since the institutions act contrary to the responses of an average stock dealer, the development banks, in the process could make losses too.

A higher participation by the development banks in equity participation may indeed be welcome by the managements of private concerns. This may appear contrary to general assertions by trade and industry associations. Given the policy of non-interference in the internal affairs of companies by the financial institutions, the managements are able to exercise full control over enterprises without having to hold large or majority risk capital.[13] This is especially

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12. Economic Times, November 8, 1990.

13. The situation may, however, not remain the same always. With hostile takeover bids becoming (continued...)

true about larger Indian concerns. A study of ownership pattern of shares and debentures of 575 companies conducted by the IDBI in October 1989, with June 1986 as the reference period, shows that financial institutions had majority equity holdings (greater than 50 per cent) in 10 per cent of the companies under the study.[14] Share holding of individuals was 36 per cent of the total paid up value. Financial institutions had a share of 22.6 per cent in the total equity holdings. In the same study it was brought out that individual promoters' contribution in select 101 new companies was 16.81 per cent of the paid up capital while the contribution by

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13.(...continued) prominent in the Indian private corporate sector, the managements are trying to keep a 'safe' minimum level of share in equity capital. The first indications of this emerged after Swraj Paul's attempt to acquire DCM and Escorts in 1983. Increasing opposition to convertibility of loans into equity by private companies may also be taken as an indication of their concern over becoming an easy 'prey' for takeovers. Yet another factor that may be influencing private sector managements is the possibility of financial institutions changing sides corresponding to changes in the government. The takeover of L&T by Ambanis and subsequent stepping down from the Chairmanship of L&T by Mr. Dhirubhai Ambani, and the troubles faced by Mr. A.C. Muthiah of the M.A. Chidambaram house during DMK rule in Tamil Nadu are cases in point. What probably the private sector managements would like to have is loans without the convertibility stipulations and a maximum limit for the share of financial institutions in equity capital. Also see: Ashok Mitra, "Financial Institutions: Temptation to play God", Times of India, May 8, 1990.

14. Industrial Development Bank of India (1989), Ownership Pattern of Shares and Debentures of Companies.

financial institutions was 35.5 per cent. The ownership pattern of preference shares (171 companies) and debentures (175 companies) shows that financial institutions held 72.9 per cent and 62.3 per cent share in total respectively.

The study also shows that financial institutions' share in MRTPA[15] companies' equity capital was higher (24.41) than that in non-MRTPA companies (21.17). Financial institutions' share in the ownership of preference shares in MRTPA and non-MRTPA companies stood at 76.94 and 67.61 per cent. The respective shares in debentures were 63.33 and 58.79 per cent. If we look at some of the large private companies, the combined share of public financial institutions and the state and central governments in 1982 was: 42.25 per cent in TISCO, 44.84 per cent in TELCO, 54.04 per cent in Escorts, 42.54 per cent in DCM, just to name a few[16]. By 1988, the corresponding share in TISCO reached 46.60 per cent[17]. No definite policies seem

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15. We shall discuss the objectives and provisions of the MRTP Act in Chapter IV.

16. Cf. S.K. Goyal (1983), "Private Managements and Takeovers of Public-owned Companies -- Some Issues for Debate", reproduced in Corporate Studies Group Working Papers, Volume One, Indian Institute of Public Administration, New Delhi, 1985.

17. The corresponding shares on the other three companies were: 40.73 per cent in TELCO (Aug. '90); 45.30 per cent in Escorts (Sept. '90); and 37.57 per cent in DCM (Sept. '89). Cf. Bombay Stock Exchange, The Stock Exchange Official Directory, various Weekly Replacements.

to have been followed regarding assistance to MRTPA companies and the reduction in concentration of economic power. This is surprising in view of the fact that one of the major reasons why these specialised institutions were set up was that they would assist new entrepreneurs and comparatively lesser known companies which find it difficult to attract financial support in the open capital market. We shall discuss the assistance provided by financial institutions to MRTPA companies in a little more detail in the following Chapter.

A low risk factor of the promoter may become a cause of industrial sickness. Some degree of supervision and scrutiny of functioning of the supported company becomes necessary. Nominee directors were appointed by Indian financial institutions to the boards of the assisted companies for this purpose. But due to lack of clear cut guidelines the role of nominee directors has remained a ceremonial one.[18] Issue of Government guidelines in 1981 and then in 1984 has, no doubt, made things somewhat clearer regarding the appointment and role of nominee directors. Still the <u>Twenty-Seventh Report of</u>

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18. For a discussion on the functioning of nominee director scheme see: Y. Venugopal Reddy, "Nominee directors should exist in more than name", <u>Financial Express</u>, March 25, 1990.

<u>the Committee on Public Undertakings</u> (1986-87)[19] found several deficiencies and weaknesses. The Committee found that though GOI guidelines stipulate that all assisted MRTPA companies should have a nominee of financial institutions, 36 out of 324 MRTPA companies assisted had no nominee directors even when 12 of them were making losses. There was no link with the number of nominee directors and the percentage of share holding. Out of the 1070 companies 687 companies had only one nominee appointed to their boards. It was also found that certain persons were being nominated to the management boards of as many as 15 companies. Could such a nominee director perform his role with full justice? The Committee recommended that professionals, engineers, experts in finance, marketing, industry etc. should be appointed as nominee directors in a way that the board of directors becomes truly broad-based. The financial institutions' participation in management is also considered necessary because they do provide large finance towards the project cost besides sharing the risk capital.

Financial institutions have played and will continue to play an important role in the Indian capital market. The investment corporations which

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19. Lok Sabha Secretariat, Committee on Public Undertakings (1986-87), <u>27th Report on Nominations of Directors by Financial Institutions</u>, presented to both the houses of Parliament on 29th April 1987.

have been growing rapidly in the past few years are likely to play an even more important role in the future. If recent trends are an indication, development banks may slowly revert to just term lending by way of loans.[20]

Section Two

Sectoral, Industrial and Regional Pattern of Assistance

Most of the financial institutions are central or state government undertakings. As discussed in Chapter II, these were visualized as possible instruments to assist in correcting the various structural and regional imbalances in industrial development of the Indian economy. A study of their allocational operations could reveal the contribution made by them in this regard. In this section we shall analyse the allocational pattern of financial assistance with regard to various sectors, industries and regions.

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20. Indeed, this is what the World Bank wants them to be. It was reported that the Bank's representatives suggested that "... financial institutions should increasingly turn themselves into purely commercial organisations and shed their role as "development financial institutions". For one, they have functioned as development banks for much too long and should now acquire the character of commercial bodies engaged in term lending activity". Cf. Anjan Roy, "World Bank tells FIs to end bail-outs", Economic Times, March 3, 1991

III.2.1 Sector-Wise Distribution of Assistance

At the time of the establishment of most of the public financial institutions it was decided that these institutions should concentrate their assistance to only the private, cooperative and the joint sectors. It was a widely held view that the resource mobilisation problem in the absence of a well developed capital market, was more severe in the case of these sectors, especially if the entrepreneurs were not already well established. Public sector, it was believed would always obtain resources by way Central and State budgetary provisions. Over the years, however, financial institutions have also started extending financial support to public sector enterprises.[21] This change in the earlier policy of the financial institutions has been introduced due to the rising budgetary deficits of the Central and the State governments. The problem of resource mobilisation acquires a new complexion because public enterprises invariably have (i) large size projects, (ii) high national priority, (iii) low profitability, and (iv) long gestation periods. Returns on public sector investments take long to come; and the returns

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21. On their part public sector companies have been issuing bonds in the capital market. NTPC, NHPC, IPCL, Power Finance Corporation, Indian Railway Finance Corporation, Nuclear Power Corporation and Neyveli Lignite Corporation are cases in point. The involvement of financial institutions in public sector is likely to increase with the off-loading of shares by the latter in the capital market.

need not always be accruing directly to the enterprises which undertake investments.

Table III.12 shows that private sector shared over 70 per cent of the assistance sanctioned and disbursed by the FIs in the past 20 years. Assistance to private sector also shows the highest rate of growth during the past 20 years. Its average annual rate of growth works out to 33.4 percent for the period 1970-71 to 1988-89 as compared to 25.45 percent of the aggregate assistance sanctioned to all the sectors during the corresponding period (Table III.13). A similar picture emerges if one examines the pattern of disbursals. The share of major sectors over time does not show a clear trend, especially since the early '80s. The cooperative sector has not been receiving much attention from the mid-'70s and its share has dropped to around 2-3 percent in the '80s from 6-7 percent during the early '70s. Though the rate of growth for the cooperative sector is in double digits, in real terms it is likely to be quite low. The high rate of growth shown during the '80s is because of low value during the base year, 1979-80.

The average share of the joint sector has remained around 7-8 percent during the past 20 years. Joint Sector[22] too has kept pace with the rate of

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22. The joint sector form of organisation was given great fillip by the Industrial Licensing Policy Inquiry Committee (1969) though the Maharashtra state conceived it much earlier. The central (continued...)

TABLE - III.12

(A) ASSISTANCE SANCTIONED BY AIFIs - SECTOR-WISE (1969-70 TO 1989-90)

(Rs. Crores)

Years	Public	% of Total	Joint	% of Total	Co-operative	% of Total	Private	% of Total	Total	% of Total
1	2	3	4	5	6	7	8	9	10	11
1969-70	1.06	0.86	5.56	4.52	10.32	8.39	106.03	86.22	122.97	100.00
1970-71	14.33	7.42	3.56	1.84	11.16	5.78	164.19	84.97	193.24	100.00
1971-72	18.80	6.79	58.93	21.28	38.66	13.96	160.59	57.98	276.98	100.00
1972-73	20.65	8.18	6.35	2.52	18.26	7.23	207.22	82.07	252.48	100.00
1973-74	27.02	8.22	51.67	15.72	17.46	5.31	232.45	70.74	328.60	100.00
1974-75	61.77	14.24	22.38	5.16	10.68	2.46	338.80	78.13	433.63	100.00
1975-76	89.72	16.36	38.02	6.93	36.78	6.71	383.91	70.00	548.43	100.00
1976-77	143.51	16.59	76.79	8.88	83.85	9.69	561.08	64.85	865.23	100.00
1977-78	116.82	11.08	187.73	17.81	54.45	5.17	695.21	65.95	1054.21	100.00
1978-79	104.13	8.35	89.63	7.18	32.19	2.58	1021.72	81.89	1247.67	100.00
1979-80	195.50	11.03	231.31	13.05	14.81	0.84	1331.21	75.09	1772.83	100.00
1980-81	236.29	11.47	102.69	4.99	45.15	2.19	1675.39	81.35	2059.52	100.00
1981-82	328.26	13.68	112.62	4.69	106.05	4.42	1852.11	77.20	2399.04	100.00
1982-83	276.64	9.79	129.66	4.59	229.54	8.12	2190.48	77.50	2826.32	100.00
1983-84	572.35	16.16	428.41	12.09	112.23	3.17	2429.34	68.58	3542.33	100.00
1984-85	636.46	13.32	325.95	6.82	91.67	1.92	3725.35	77.95	4779.43	100.00
1985-86	1220.03	20.68	325.35	5.51	151.64	2.57	4203.19	71.24	5900.21	100.00
1986-87	1222.17	17.94	503.47	7.39	141.72	2.08	4945.78	72.59	6813.14	100.00
1987-88	1459.49	18.03	465.56	5.75	274.23	3.39	5897.74	72.84	8097.02	100.00
1988-89	2685.45	20.93	1184.78	9.23	271.46	2.12	8687.68	67.72	12829.37	100.00
1989-90	1978.21	13.94	1161.76	8.19	267.25	1.88	10781.20	75.99	14188.42	100.00
1969-80	793.31	11.18	771.93	10.88	328.62	4.63	5202.41	73.31	7096.27	100.00
1980-90	10810.85	16.58	4971.56	7.62	1705.75	2.62	47719.47	73.18	65207.63	100.00
UPTO 1990	11388.17	16.10	5238.82	7.41	1994.52	2.82	52108.55	73.67	70730.06	100.00

(B) ASSISTANCE DISBURSED BY AIFIs - SECTOR-WISE (1969-70 TO 1989-90)

Years	Public	% of Total	Joint	% of Total	Co-operative	% of Total	Private	% of Total	Total	% of Total
1969-70	0.90	0.82	3.25	2.98	7.05	6.46	97.90	89.73	109.10	100.00
1970-71	6.46	4.92	3.07	2.34	11.03	8.41	110.67	84.33	131.23	100.00
1971-72	17.84	11.34	3.59	2.28	10.94	6.95	124.99	79.43	157.36	100.00
1972-73	13.56	7.66	9.14	5.16	16.71	9.43	137.71	77.75	177.12	100.00
1973-74	22.39	8.98	32.15	12.89	20.63	8.27	174.29	69.87	249.46	100.00
1974-75	48.92	13.92	35.24	10.03	28.53	8.12	238.83	67.94	351.52	100.00
1975-76	25.68	7.06	36.76	10.10	18.58	5.11	282.88	77.74	363.90	100.00
1976-77	85.12	16.07	33.13	6.26	47.72	9.01	363.65	68.66	529.62	100.00
1977-78	89.37	14.31	68.90	11.03	53.27	8.53	413.13	66.14	624.67	100.00
1978-79	105.54	12.45	133.12	15.70	51.16	6.03	558.01	65.82	847.83	100.00
1979-80	117.62	10.38	69.74	6.15	26.85	2.37	919.03	81.10	1133.24	100.00
1980-81	136.78	9.57	86.26	6.03	19.07	1.33	1187.26	83.06	1429.37	100.00
1981-82	158.84	8.82	120.92	6.71	37.59	2.09	1484.53	82.39	1801.88	100.00
1982-83	269.71	12.79	139.12	6.60	62.94	2.98	1636.80	77.63	2108.57	100.00
1983-84	543.16	20.88	116.78	4.49	98.68	3.79	1842.44	70.83	2601.06	100.00
1984-85	492.73	15.97	178.15	5.77	126.18	4.09	2289.15	74.17	3086.21	100.00
1985-86	848.06	20.01	293.18	6.92	194.94	4.60	2903.02	68.48	4239.20	100.00
1986-87	931.86	19.10	359.79	7.37	125.15	2.56	3463.13	70.97	4879.93	100.00
1987-88	1062.76	17.91	447.44	7.54	148.43	2.50	4276.73	72.06	5935.36	100.00
1988-89	1693.70	21.53	528.65	6.72	228.88	2.91	5414.26	68.84	7865.49	100.00
1989-90	1386.78	16.40	594.26	7.03	183.22	2.17	6291.64	74.41	8455.90	100.00
1969-80	533.40	11.41	428.09	9.16	292.47	6.26	3421.09	73.18	4675.05	100.00
1980-90	7642.00	17.55	2934.29	6.74	1251.93	2.88	31707.99	72.83	43536.21	100.00
UPTO 1990	8109.65	16.45	3268.20	6.63	1591.44	3.23	36327.22	73.69	49296.51	100.00

Source: (i) IDBI Annual Report, 1974-75
(ii) IDBI Operational Statistics 1964-75 and 1975-76 to 1980-81
(iii) IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

TABLE - III.13

(A) RATES OF GROWTH OF ASSISTANCE SANCTIONED BY AIFIs - SECTOR-WISE (1970-71 TO 1988-89)

Period	Public	Joint	Co-operative	Private	Total
1	2	3	4	5	6
1970-71 TO 1974-75	51.16	13.28	1.93	22.02	21.92
1974-75 TO 1979-80	24.59	30.47	7.26	33.36	31.12
1979-80 TO 1984-85	35.29	20.58	31.00	20.79	22.86
1984-85 TO 1988-89	26.01	27.04	22.97	25.10	25.35
1970-71 TO 1979-80	35.77	22.53	4.86	28.19	26.95
1979-80 TO 1988-89	31.08	23.41	27.37	22.69	23.96
1970-71 TO 1988-89	33.40	22.97	15.57	25.41	25.45

(B) RATES OF GROWTH OF ASSISTANCE DISBURSED BY AIFIs - SECTOR-WISE (1970-71 TO 1988-89)

Period	Public	Joint	Co-operative	Private	Total
1	2	3	4	5	6
1970-71 TO 1974-75	40.07	80.05	23.61	20.19	24.81
1974-75 TO 1979-80	29.99	22.65	7.46	30.80	28.73
1979-80 TO 1984-85	39.24	15.26	34.02	21.43	23.82
1984-85 TO 1988-89	21.78	27.83	7.50	22.77	22.37
1970-71 TO 1979-80	34.37	45.47	14.36	25.97	26.97
1979-80 TO 1988-89	31.19	20.69	21.51	22.03	23.17
1970-71 TO 1988-89	32.77	32.50	17.88	23.98	25.06

Note: Rates of Growth have been calculated on the basis of three year moving averages of the figures given in Table III.12.

combined assistance provided to all sectors. An interesting point which emerges from Table III.13 is that the public and the joint sectors have the highest rates of growth of disbursal during the past 20 years. In the '80s, however, both these sectors show a slowdown in this rate especially the rate of disbursals to the joint sector. This is in contrast to the general impression of increasing importance of the sector.

An often made criticism of assistance to public and joint sector projects is that due to central and state governments' participation, these projects are able to get financial accommodation at a faster rate while pure private sector companies do not enjoy any such priority. The private sector enterprises have to live with long delays and consequent escalation in costs. While such a criticism appears valid with regard to the public sector it does not appear to be so for joint sector enterprises. Infact the percentage of amounts disbursed of the sanctions is

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22.(...continued)
government issued a policy statement in 1970 where it was announced that the concept would be applied in appropriate cases of major projects taken up by the private enterprise groups in the core and heavy investment sectors. The generally accepted shareholding pattern for a joint sector company is: 26 per cent by SIDCs; 25 per cent by private promotor; and 49 per cent by the general public. For a detailed discussion on the emergence of joint sector see: M.R. Murthy (1988), "Joint Sector Enterprises in India", Corporate Studies Group Working Paper, IIPA, New Delhi.

only 59 per cent for the joint sector during 1980-90 as compared to 66.4 per cent for the private sector. For the public sector this percentage is the highest for both the '70s and '80s.

The overall trends in the sector-wise analysis suggest that the public sector is increasing its share while the cooperative sector and joint sector do not seem to have had enlarged their share. Private sector continues to be the main focus of assistance by AIFIs and its share stood around 70 per cent over the past 15 years.

III.2.2 Industry-wise Allocations

The industry-wise breakup of the assistance provided by the AIFIs shows that the four industries which enjoyed the highest shares during the '80s are: (i) chemical and chemical products; (ii) services[23]; (iii) textiles; and (iv) electricity generation and distribution. These industries accounted for almost 45 percent of the aggregate assistance sanctioned and disbursed in the period 1980-90 (Table III.14). The pattern of financial allocations was similar for the 1969-80 and the 1980-90 period, but for one exception. Electricity generation emerged as an important claimant of assistance during the '80s. Non-electrical machinery, which accounted for over 5

23. 'Services' cover a variety of activities ranging from hotels, hospitals and shipping to industrial estates.

TABLE - III.14

(A) ASSISTANCE SANCTIONED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRYWISE (1969-70 TO 1989-90)

(Percentage Shares)

Industry	1969-75	1975-80	1980-85	1985-90	1969-80	1980-90
1	2	3	4	5	6	7
Food	4.81	8.51	5.30	4.44	7.31	4.65
Textiles	4.03	14.44	13.08	9.92	11.06	10.70
Paper & Paper Products	2.77	5.66	4.78	1.48	4.72	2.29
Rubber Products	3.00	1.75	1.59	1.51	2.16	1.53
Fertilizers	3.62	6.57	4.51	4.78	5.61	4.72
Chemicals and chemical products	6.50	12.19	12.26	13.59	10.34	13.26
Cement	0.68	4.96	7.54	4.54	3.57	5.28
Basic Metal Industries						
a) Iron & Steel	7.18	3.58	3.61	6.69	4.75	5.93
b) Non ferrous	0.74	0.32	0.90	0.77	0.46	0.80
Metal Products except M/c & Transport	1.56	2.43	2.91	2.04	2.15	2.25
Non Electrical Mechinery	15.60	10.18	7.72	5.37	11.93	5.95
Electrical Machinery	4.80	3.81	3.16	5.11	4.13	4.63
Transport Equipment	3.77	2.88	3.42	3.01	3.17	3.11
Electricity Generation & Distribution	0.00	3.43	5.98	9.40	2.31	8.56
Services	2.82	10.18	12.38	11.78	7.79	11.93
Others	6.59	9.13	10.85	15.59	8.30	14.42
All India Total	100.00	100.00	100.00	100.00	100.00	100.00

(B) ASSISTANCE DISBURSED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRYWISE (1969-70 TO 1989-90)

(Percentage Shares)

Industry	1969-75	1975-80	1980-85	1985-90	1969-80	1980-90
1	2	3	4	5	6	7
Food	7.45	7.15	4.76	4.73	7.22	4.74
Textiles	6.46	14.82	14.94	10.06	12.96	11.33
Paper & Paper Products	4.16	5.12	5.68	1.61	4.91	2.67
Rubber Products	2.76	2.39	1.63	1.06	2.47	1.21
Fertilizers	4.65	4.69	2.17	4.11	4.68	3.60
Chemicals and chemical products	10.08	9.24	11.42	13.39	9.42	12.88
Cement	1.54	5.25	6.65	5.72	4.42	5.96
Basic Metal Industries						
a) Iron & Steel	8.62	4.69	3.64	6.99	5.56	6.12
b) Non ferrous	1.48	0.39	0.73	0.78	0.63	0.76
Metal Products except M/c & Transport	1.93	1.91	2.98	2.17	1.91	2.38
Non Electrical Mechinery	24.61	10.03	8.30	4.92	13.26	5.80
Electrical Machinery	8.00	3.35	3.01	4.89	4.38	4.40
Transport Equipment	5.48	2.98	3.17	2.62	3.53	2.77
Electricity Generation & Distribution	0.00	6.19	6.56	9.29	4.82	8.58
Services	4.20	11.63	13.70	13.46	9.98	13.52
Others	8.58	10.43	10.65	14.21	10.02	13.29
All India Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Based on data given in IDBI, Annual Report, 1974-75; IDBI, Operational Statistics, 1974-75 and 1975-76 to 1980-81; and IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90 percent of the financial assistance sanctioned and disbursed in the '80s has had a declining share throughout the twenty year period. The share of 'electricity generation and distribution' rose to about 8.5 per cent in 1985-90 from 3.43 percent in 1975-80. The relative position of Textiles in the assistance sanctioned experienced a climb down to fourth position during 1985-90 from the first position in the early periods 1975-80 and 1980-85.

The rates of growth of various industries over different periods are given in Table III.15. During the period 1980-90, electricity generation and distribution recorded an annual average rate of growth of 49.54 percent. But most of the growth was in the early '80s; the growth slowed down during the later half of '80s. The other industries which recorded high rates of growth during the '80s were iron and steel, transport equipment, electrical machinery and rubber products. In the period 1969-80, the industries which had high rates of growth were fertilizers, services, iron and steel, metal products and textiles. Assistance to cement industry has also recorded a fast increase in the last twenty years. This, however, does not get reflected in the rates of growth calculated due to the choice of the starting and ending years, but can be seen from other figures in Table III.15 and Tables III.16 and III.17.

TABLE - III.15

(A) ASSISTANCE SANCTIONED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRY-WISE (1969-70 TO 1989-90)

(Rs. Crores)

Industry	1969-75	1975-80	1980-85	1985-90	(3)/(2) %	(5)/(4) %	1969-80	1980-90	(9)/(8) %	Rate of Growth 1969-75	1975-80	1980-85	1985-90	1969-80	1980-90
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Food	112.86	415.73	827.50	2121.44	368.36	256.37	528.59	2948.94	557.89	19.36	4.61	13.58	34.18	22.11	20.64
2 Textiles	94.68	705.61	2042.97	4744.71	745.26	232.25	800.29	6787.68	848.15	5.75	80.19	5.37	25.79	35.05	16.85
3 Paper & Paper Products	65.09	276.67	746.16	709.55	425.06	95.09	341.76	1455.71	425.95	10.25	32.78	7.61	29.81	26.81	7.88
4 Rubber Products	70.55	85.47	247.92	723.91	121.15	291.99	156.02	971.83	622.89	50.50	-20.46	24.71	62.76	7.71	29.17
5 Fertilizers	85.12	320.99	703.73	2288.03	377.10	325.13	406.11	2991.76	736.69	10.20	133.92	86.95	5.53	39.86	26.21
6 Chemicals and chemical products	152.74	595.49	1913.92	6497.59	389.87	339.49	748.23	8411.51	1124.19	16.01	55.83	24.03	19.33	33.53	24.21
7 Cement	15.94	242.29	1177.04	2170.74	1520.01	184.42	258.23	3347.78	1296.43	-5.00	19.84	20.86	11.01	43.10	12.01
8 Basic Metal Industries															
a) Iron & Steel	168.65	174.87	563.72	3197.65	103.69	567.24	343.52	3761.37	1094.95	90.73	23.92	20.18	34.06	54.64	33.51
b) Non ferrous	17.47	15.57	141.06	367.85	89.12	260.78	33.04	508.91	1540.28	7.45	40.50	27.14	24.38	24.14	21.72
9 Metal Products except M/c & Transport	36.54	118.80	454.79	974.36	325.12	214.24	155.34	1429.15	920.01	46.80	12.86	25.95	16.43	35.12	21.42
10 Non Electrical Mechinery	366.27	497.20	1205.57	2568.72	135.75	213.07	863.47	3774.29	437.11	32.59	3.22	13.06	25.73	17.77	18.08
11 Electrical Machinery	112.72	186.11	493.66	2443.25	165.11	494.93	298.83	2936.91	982.80	35.94	18.29	21.23	37.70	19.86	32.92
12 Transport Equipment	88.45	140.97	533.88	1438.71	159.38	269.48	229.42	1972.59	859.82	58.67	21.30	48.11	45.53	29.24	34.52
13 Electricity Generation & Distribution		167.37	933.22	4494.60		481.62	167.37	5427.82	3243.01			83.81	15.50		49.54
14 Services	66.16	497.29	1933.67	5632.69	751.65	291.30	563.45	7566.36	1342.86	20.13	69.93	19.63	25.22	41.15	22.44
15 Others	154.66	446.02	1694.76	7454.36	288.39	439.85	600.68	9149.12	1523.13	30.95	36.35	26.79	25.99	31.81	30.65
All India Total	2348.54	4886.45	15613.57	47828.16	208.06	306.32	7234.99	63441.73	876.87	57.03	34.34	23.32	24.53	30.68	23.87

Contd...

TABLE - III.15

(B) ASSISTANCE DISBURSED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRYWISE (1969-70 TO 1989-90)

(Rs. Crores)

Industry	1969-75	1975-80	1980-85	1985-90	(3)/(2) %	(5)/(4) %	1969-80	1980-90	(9)/(8) %	Rate of Growth 1969-75	Rate of Growth 1975-80	Rate of Growth 1980-85	Rate of Growth 1985-90	Rate of Growth 1969-80	Rate of Growth 1980-90
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Food	87.61	294.54	524.98	1483.59	336.19	282.60	382.15	2008.57	525.60	26.77	9.97	46.56	31.01	20.49	31.98
2 Textiles	75.91	610.67	1649.26	3157.47	804.47	191.45	686.58	4806.73	700.10	13.73	70.44	13.17	18.18	32.37	16.25
3 Paper & Paper Products	48.96	210.92	626.96	504.68	430.80	80.50	259.88	1131.64	435.45	53.35	52.41	21.48	-2.35	43.12	5.00
4 Rubber Products	32.48	98.59	179.90	332.08	303.54	184.59	131.07	511.98	390.62	45.22	-10.99	47.76	40.11	22.43	29.60
5 Fertilizers	54.71	193.42	239.70	1288.34	353.54	537.48	248.13	1528.04	615.82	39.23	62.17	1.57	1.85	33.37	21.04
6 Chemicals and chemical products	118.48	380.70	1260.75	4202.24	321.32	333.31	499.18	5462.99	1094.39	19.99	30.14	18.27	17.15	22.88	23.34
7 Cement	18.12	216.21	733.52	1793.38	1193.21	244.49	234.33	2526.9	1078.35	6.77	169.64	23.50	-11.32	33.47	10.15
8 Basic Metal Industries															
a) Iron & Steel	101.33	193.13	402.01	2192.14	190.60	545.29	294.46	2594.15	880.99	32.75	6.34	10.04	34.02	22.04	26.84
b) Non ferrous	17.39	16.08	80.15	244.24	92.47	304.73	33.47	324.39	969.20	-12.78	27.32	25.49	27.48	-4.32	22.49
9 Metal Products except M/c & Transport	22.70	78.52	329.40	679.31	345.90	206.23	101.22	1008.71	996.55	22.48	-1.93	39.51	10.90	21.62	23.58
10 Non Electrical Mechinery	289.38	413.11	915.89	1544.03	142.76	168.58	702.49	2459.92	350.17	25.90	-0.87	25.73	15.01	12.72	19.36
11 Electrical Machinery	94.07	137.99	332.52	1532.93	146.69	461.00	232.06	1865.45	803.87	44.56	23.51	10.69	28.49	21.60	26.45
12 Transport Equipment	64.46	122.73	350.26	822.77	190.40	234.90	187.19	1173.03	626.65	49.81	11.79	48.41	26.32	23.90	28.06
13 Electricity Generation & Distribution	0.00	255.03	723.85	2916.13		402.86	255.03	3639.98	1427.28			18.67	14.96		24.02
14 Services	49.36	479.42	1511.48	4222.80	971.27	279.38	528.78	5734.28	1084.44	-0.29	54.95	27.58	23.91	31.70	23.98
15 Others	100.83	429.71	1175.54	4459.75	426.17	379.38	530.54	5635.29	1062.18	40.25	52.55	12.12	30.85	35.98	23.41
All India Total	1175.79	4120.75	11036.17	31375.88	350.47	284.30	5296.54	42412.05	800.75	26.36	32.98	21.03	18.84	26.42	21.75

Source: (i) IDBI Annual Report, 1974-75
(ii) IDBI Operational Statistics 1964-75 and 1975-76 to 1980-81
(iii) IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

TABLE - III.16

(A) ASSISTANCE SANCTIONED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRY-WISE (1969-70 TO 1979-80)

(Rs. Crores)

S.No Industry	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5	6	7	8	9	10	11	12
1. Food	7.85	11.85	17.82	28.98	27.34	19.02	48.3	120.32	106.14	83.12	57.85
2. Textiles	14.71	14.36	11.21	10.87	24.08	19.45	28.15	118.59	169.46	92.65	296.76
3. Paper & Paper Products	5.95	4.07	22.06	14.64	8.68	9.69	20.59	67.9	82.84	41.34	64
4. Rubber Products	5.36	0.65	1.05	15.41	6.7	41.38	28.16	19.11	9.13	17.8	11.27
5. Fertilizers	4.59	5.14	56.2	7.14	4.59	7.46	4.39	4.54	153.42	27.19	131.45
6. Chemicals and chemical products	16.56	17.68	34.43	14.77	34.51	34.79	50.62	105.85	72.47	68.08	298.47
7. Cement	2.52	0.47	0.93	2.81	7.26	1.95	43.99	34.55	57.4	15.62	90.73
8. Basic Metal Industries											
a) Iron & Steel	0.92	32.81	28.91	28.57	54.22	23.22	30.51	23.53	23.04	25.85	71.94
b) Non ferrous	0.74	10.23	1.9	1.02	2.52	1.06	1.65	2.38	2.44	2.67	6.43
9. Metal Products except M/c & Transport	1.86	4.02	4.28	7.59	6.11	12.68	23.26	22.22	20.35	15.23	37.74
10. Non Electrical Mechinery	30.74	47.25	48.11	43.41	70.79	125.97	139	55.32	88.64	56.44	157.8
11. Electrical Machinery	7.95	11.32	14.37	20.88	21.3	36.9	24.84	54.12	32.09	26.42	48.64
12. Transport Equipment	3.36	1.64	10.3	20.54	18.82	33.79	20.18	38.13	17.7	21.27	43.69
13. Electricity Generation & Distribution								36.32	65.65	28.29	37.11
14. Services	7.57	12.21	4.95	13.79	8.7	18.94	28.5	88.35	85.57	57.25	237.62
15. Others	12.29	19.54	20.46	22.06	32.98	47.33	56.29	74	71.27	49.89	194.57
All India Total	122.97	193.24	276.98	252.48	328.6	1174.27	548.43	865.23	1057.61	629.11	1786.07

Contd...

TABLE - III.16

(B) ASSISTANCE DISBURSED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRYWISE (1969-70 TO 1979-80)

(Rs. Crores)

S.No Industry	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5	6	7	8	9	10	11	12
1. Food	7.12	9.31	11.37	18.96	17.54	23.31	31.41	65.14	70.11	81.95	45.93
2. Textiles	10.22	10.92	10.57	12.11	12.64	19.45	20.01	69.13	234.99	117.69	168.85
3. Paper & Paper Products	1.96	2.75	4.13	7.6	15.9	16.62	13.1	25.17	36.56	65.41	70.68
4. Rubber Products	1.46	5.69	3.18	3.79	8.93	9.43	17.6	22.77	27.2	19.97	11.05
5. Fertilizers	2.63	3.87	0.37	3.6	30.48	13.76	6.77	8.22	45.17	86.43	46.83
6. Chemicals and chemical products	13.45	18.78	18.68	21.26	12.85	33.46	36.82	52.34	108.84	77.09	105.61
7. Cement	4.98	2.34	0.82	0.72	2.35	6.91	1.69	5.49	70.39	49.3	89.34
8. Basic Metal Industries											
a) Iron & Steel	5.4	8.34	15.77	22.74	26.82	22.26	30.95	36.25	67.17	19.18	39.58
b) Non ferrous	5.27	1.55	0.79	3.15	3.97	2.66	1.29	1.26	8.69	1.45	3.39
9. Metal Products except M/c & Transport	1.97	2.88	4.63	2.78	5.01	5.43	15.08	15.43	19.85	14.21	13.95
10. Non Electrical Mechinery	28.08	31.51	46.9	37.62	56.46	88.81	96.25	65.79	87.69	70.42	92.96
11. Electrical Machinery	4.99	9.23	14.57	15.61	18.17	31.5	15.16	16.89	43.91	26.75	35.28
12. Transport Equipment	3.31	2	7.77	7.74	18.66	24.98	18.06	18.24	39.7	18.52	28.21
13. Electricity Generation & Distribution								31.13	147.14	23.82	52.94
14. Services	10.39	12.02	5.58	7.09	4.04	10.24	28.3	58.62	133.29	96.08	163.13
15. Others	7.87	10.04	12.23	12.35	15.64	42.7	31.41	37.75	110.08	80.35	170.12
All India Total	109.1	131.23	157.36	177.12	249.46	351.52	363.9	519.62	1250.76	848.62	1137.85

Source: (i) IDBI Annual Report, 1974-75
(ii) IDBI Operational Statistics 1964-75 and 1975-76 to 1980-81

TABLE - III.17

(A) ASSISTANCE SANCTIONED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRY-WISE (1980-81 TO 1989-90)

(Rs. Crores)

Sr. No.	Industry	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
	1	2	3	4	5	6	7	8	9	10	11
1.	Food	116.55	163.33	168.46	185.23	193.93	194.62	265.67	415.37	614.90	630.88
2.	Textiles	367.61	415.13	413.88	393.13	453.22	596.25	665.38	897.01	1093.46	1492.61
3.	Paper & Paper Products	124.46	253.04	71.95	129.79	166.92	86.72	103.41	162.25	110.92	246.25
4.	Rubber Products	29.89	14.89	74.19	56.64	72.31	42.63	61.71	76.52	243.87	299.18
5.	Fertilizers	34.84	13.43	126.89	102.96	425.61	228.34	471.03	183.07	1122.44	283.15
6.	Chemicals and chemical products	261.28	226.49	351.44	456.4	618.31	906.71	860.36	1114.05	1778.07	1838.4
7.	Cement	173.25	99.60	167.29	367.29	369.61	316.49	376.14	473.98	523.45	480.68
8.	Basic Metal Industries										
	a) Iron & Steel	76.89	71.33	98.09	157.00	160.41	320.92	318.45	649.03	872.73	1036.52
	b) Non ferrous	23.43	19.24	21.77	15.40	61.22	57.39	32.95	49.09	91.05	137.37
9.	Metal Products except M/c & Transport	53.30	73.35	103.48	90.52	134.14	166.42	154.58	141.49	206.05	305.82
10.	Non Electrical Mechinery	203.28	201.49	197.83	270.79	332.18	363.17	258.09	278.55	761.47	907.44
11.	Electrical Machinery	62.51	72.95	94.57	128.62	135.01	225.14	497.22	384.76	526.61	809.52
12.	Transport Equipment	43.52	94.91	78.50	107.52	209.43	139.96	253.36	235.85	181.78	627.76
13.	Electricity Generation & Distribution	35.29	96.71	117.84	280.53	402.85	741.30	695.24	702.45	1036.23	1319.38
14.	Services	271.43	309.78	420.07	376.40	555.99	682.77	850.69	973.16	1447.51	1678.56
15.	Others	188.92	273.37	320.07	424.11	488.29	831.38	948.86	1360.39	2218.83	2094.90
	All India Total	2066.45	2399.04	2826.32	3542.33	4779.43	5900.21	6813.14	8097.02	12829.37	14188.42

Contd...

TABLE - III.17

(B) ASSISTANCE DISBURSED BY ALL INDIA FINANCIAL INSTITUTIONS - INDUSTRY-WISE (1980-81 TO 1989-90)

(Rs. Crores)

Sr. No.	Industry	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
	1	2	3	4	5	6	7	8	9	10	11
1.	Food	37.89	69.99	105.58	136.72	174.80	156.30	218.91	239.80	408.14	460.44
2.	Textiles	234.56	304.96	347.38	377.67	384.69	466.14	540.13	507.86	734.09	909.25
3.	Paper & Paper Products	68.45	100.98	129.94	178.52	149.07	116.77	91.45	81.53	108.74	106.19
4.	Rubber Products	12.99	12.21	29.03	63.75	61.92	34.78	29.09	57.40	76.78	134.03
5.	Fertilizers	40.99	56.32	60.67	38.10	43.62	212.50	193.94	315.89	337.35	228.66
6.	Chemicals and chemical products	164.19	224.34	270.8	280.14	321.28	575.81	695.15	783.11	1063.54	1084.63
7.	Cement	109.12	122.09	101.30	147.17	253.84	421.31	347.00	352.40	412.15	260.52
8.	Basic Metal Industries										
	a) Iron & Steel	61.80	82.63	77.50	89.46	90.62	162.74	197.96	431.37	875.04	525.03
	b) Non ferrous	10.13	26.19	6.76	11.95	25.12	23.82	63.88	41.86	51.78	62.90
9.	Metal Products except M/c & Transport	24.93	52.48	75.33	82.23	94.43	110.75	123.52	136.22	141.27	167.55
10.	Non Electrical Mechinery	109.34	149.02	171.52	212.75	273.26	307.29	208.76	214.16	276.25	537.57
11.	Electrical Machinery	48.23	46.46	67.33	98.11	72.39	146.22	242.72	326.62	418.79	398.58
12.	Transport Equipment	27.80	50.13	72.56	64.89	134.88	101.15	130.50	180.78	152.77	257.57
13.	Electricity Generation & Distribution	103.28	98.02	83.70	234.05	204.80	410.59	465.17	600.70	722.63	717.04
14.	Services	180.96	235.52	295.69	319.88	479.43	531.36	643.74	734.20	1061.03	1252.47
15.	Others	203.79	170.54	213.48	265.67	322.06	461.67	688.01	931.46	1025.14	1353.47
	All India Total	1438.45	1801.88	2108.57	2601.06	3086.21	4239.20	4879.93	5935.36	7865.49	8455.90

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

As postulated in Chapter II the term lending financial institutions had a much broader role than just making finance available to industry. The objectives and functions of these institutions indicate that these institutions would promote and develop industries to fill gaps in the industrial structure in the country and finance projects in accordance with national and plan priorities.[24] Let us try and see to what extent these institutions have been able to operate in line with the industrial policies and objectives of the past three plans.

During the Fifth Plan (1975-80), high priority was assigned to the expansion of steel, non-ferrous metals, fertilizers, machine-building and export oriented industries. If we look at the sanctions to these industries over the five years of the Plan (Tables III.15 and III.16) we observe that fertilizers and non-ferrous metals had a marked increase in the financial sanctions awarded to them. Iron and steel and machine building industries (metal products, non-electrical machinery) had a lower growth rate than the average for 'all industries'. It is well known that India's export basket mainly comprises of traditional industries. The relevant export industries here are food, textiles, chemicals, and iron and steel. Food and textiles industries had an increase in sanctions

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24. Industrial Development Bank of India (1982), <u>A Brief Outline</u>, pp. 5-6.

coming their way but in the case of food and food products in the last 3 years of the plan, the sanctions declined.

The main objectives relating to industry in the Sixth Plan were to encourage electronics, capital goods, basic metals, fertilizer and energy related industries. From Tables III.15 and III.17 one can see that sanctions to fertilizers and electricity generation were the only ones which could get significantly higher assistance during the period 1980-81 to 1984-85. All the other high priority industries saw a marginal growth in assistance. Another objective of the Plan was speedy implementation of expansion schemes. Purpose-wise direct assistance by AIFIs show an increase in the first year of the Plan but during the Plan as a whole the increases are moderate as compared to the average increase (Table III.18). It is in the late '80s that sanctions under this head showed a significant increase.

Plan objectives for the industrial sector under the Seventh Plan remained the same as those in the Sixth Plan except for the additional emphasis on modernisation and technical upgradation. Due to major shortages in the power sector during the Sixth Plan period greater stress was placed on expansion and improvements in this sector. Fertilizers and electronics industries were given special attention.

TABLE - III.18

PURPOSE-WISE DIRECT ASSISTANCE SANCTIONED BY AIFIs (1979-80 TO 1989-90)

(Rs. Crores)

YEARS	NEW	EXPANSION/ DIVERSIFICATION	MODERNISATION/ REHABILITATION/ BALANCING EQUIPMENT	SUPPLEMENTARY ASSISTANCE	TOTAL
1	2	3	4	5	6
1979-80	262.01	178.89	259.88	227.56	928.34
1980-81	445.47	253.13	294.39	147.71	1140.7
1981-82	561.75	277.59	336.22	185.17	1360.73
1982-83	609.67	286.87	304.26	231.36	1432.16
1983-84	948.99	244.86	352.5	371.14	1917.49
1984-85	1485.95	301.05	447.04	669.49	2903.5
1985-86	1369.83	613.94	532.11	892.29	3408.17
1986-87	1891.04	566.66	786.73	962.69	4207.12
1987-88	1860.87	1192.18	1070.62	897.29	5020.96
1988-89	3840.5	2055.18	1311.27	1695.58	8902.53
1989-90	3064.65	2994.75	1683.6	1990.79	9733.79
1980-85	(A) 4051.83	1363.5	1734.41	1604.87	8754.58
1985-90	(B) 12026.89	7422.71	5384.33	6438.64	31272.57
(B)/(A)*100	296.83	544.39	310.44	401.19	357.21
PERCENTAGE SHARES					
1980-85	46.28	15.57	19.81	18.33	100.00
1985-90	38.46	23.74	17.22	20.59	100.00

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

Electrical machinery, a major part of which is electronics, had experienced sharp increase in sanctions in the first year itself and this increase continued over the years. Fertilizer industry was specially favoured by way of financial assistance during 1988-89. Though electricity generation and distribution got a boost in the first year of the Seventh Plan it had a lower than the average growth in amounts sanctioned during the rest of the plan years. Iron and steel industry was also a favoured industry and there was a marked growth in the financial sanctions as compared to the other industries. Capital goods industries, strangely enough, did not appear to have priority in allocation of financial assistance by AIFIs. The capital goods industries had a decrease in the rate of growth of sanctions achieved during the Sixth Plan. Food industry had an impressive increase in the sanctions but it needs to be examined further if this was in the export-oriented industries or not. Financial sanctions for modernisation and rehabilitation did treble in Seventh Plan compared to the Sixth Plan but the size of allocations did not occupy a significant position (Table III.18).

From the above analysis, we find that the pattern of financial sanctions by AIFIs has been in line with Plan priorities only in a few respects. This seems to be true at least for the last three Five Year Plans examined by us. This is surprising on various counts.

One, since all financial institutions except ICICI, are established, owned and controlled by the Government, they are obliged to evolve their policies as per requirements of national plans; two, the financial institutions are known to sanction funds only after all official clearances (licences etc.); and three, a continuing interaction between FIs, Government and the Planning Commission is expected. If the industrial policy is in line with the plan objectives, one should expect a direct relationship and similarity in the pattern of financial assistance granted by FIs and Plan priorities for the industrial sector. Two possible reasons for the observed trend could be: (a) lack of coordination of industrial licensing and the plan priorities, or (b) independence of the system of industrial approvals and procedures and criteria adopted by FIs for granting financial support. This is an area of management and coordination between government policies and financial institutions and would need extensive investigations.

Employment generation has been an important objective in most of the plans. The national level financial institutions have sanctioned most of their assistance to industries which are relatively more capital intensive. Whether the effect of financial institutions operations on employment generation is significant or not it would be difficult to judge. To the extent new investments create more opportunities, the FIs would have contributed to generation of additional employment. There is, however, also a possibility that the emergence of capital intensive units might have displaced many in the labour intensive processes within the same industry.[25] Also, if FIs assist mainly large industrial projects and stand for adoption of modern and sophisticated technologies, the financial institutions' support and activities cannot be resulting in employment oriented investment programmes the capital/output or capital/labour ratios would be higher in these projects than those in small industries and traditional processes.

In contrast to national level FIs, State level financial organizations are the medium through which financial assistance is routed to medium and small scale sectors. Though it is a questionable hypothesis, there is no doubt that labour intensity is likely to be higher in large scale projects founded by national level FIs than State level developmental agencies. But unfortunately the share of state level agencies and institutions in the total financial support provided for financial institutions is only between

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25. It may not be out of place to mention that employment in the private sector manufacturing experienced stagnation during the 'eighties. Industrial establishments employing 10 or more persons employed 44.17 lakh persons in 1980. The corresponding figures for 1985 and 1988 were 44.21 and 43.91 lakhs respectively. See: INDIA, Ministry of Finance (1990), Economic Survey: 1989-90, p. S-48.

15-20 percent (including refinance from development banks).[26]

Another criticism usually made of financial institutions is that their presence encourages a high debt-equity ratio in companies due to the easy availability of loans at concessional terms.[27] This contributes to the growing problem of sickness in industry. Some standard debt-equity ratios have been suggested for approval of loans by financial institutions, but these are difficult to maintain due to the varying capital intensities of industries. Many critics even question the meaningfulness of a safe debt-equity ratio as financial institutions often hold high shares in both equity and debt. In the case of new companies, heavy dependence on loan capital makes their financial health weak right from the inception due to the high burden of fixed interest payments. This and the absence of an effective system

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26. There is considerable evidence to the effect that SIDCs have also been involving more and more in large projects thereby leaving the SFCs to look after the needs of small units. The setting up of Small Industries Development Bank of India (SIDBI) may be welcome from the point of view of small providing finance for units.

27. Even the Chairman of the ICICI was of the view that "It is doubtful whether in any other country, assistance is available from development financial institutions on as liberal terms as in India. Not only is the debt-equity ratio quite liberal but in several new projects, a substantial portion of equity has also been taken up by the financial institutions. See: N. Vaghul, "By all accounts, a considerable performance", Economic Times, March 5, 1991.

of nominee directors are likely to lead to a high probability of sickness among companies depending heavily on easy institutional finance. Availability of loan capital from financial institutions at lower than market interest rates has also possibly contributed to sickness in industry by permitting undeserving cases to enter industry. There appears to be a built-in mechanism for industrial sickness. The extent to which easy and cheap finance is available, the promoters would have a lower stake. Once a company becomes sick there is a hope that special concessional funds would become available. It is no surprise if a large number of companies assisted by FIs have declared themselves sick.

The question of concentration of economic power and the extent of financial support to MRTPA companies is also a relevant one. We shall address to ourselves this question in the next chapter. One could go on relating all the aspects of industrial development to financial allocations to different industries by FIs. What one finds clearly even from the limited analysis undertaken is that there is a need for evolving a set of clear guidelines regarding allocations to industries. In the absence of clear guidelines it becomes difficult to relate financial institutions operations and trends or changes in industrial structure of the country. Unless there is strong institutional mechanism to relate financial institutions operations and planning process one cannot hope to have a direct relationship between plan objectives and the pattern of allocations or plan implementation. [28]

III.2.3 Analysis of State-Wise Distribution of Assistance

Independent India inherited an economy marked by concentration of industries only in pockets close to sea ports. The regional spread of industries was evolved under the British policies to link Indian industries with that of the requirements of Britain. D.R Gadgil[29] and many other scholars have shown how the railways and other physical infrastructure in India was evolved to serve foreign interests. It was,

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28. In this background, we may refer to the observations of the Committee to Examine Principles of a Possible Shift from Physical to Financial Controls. The Committee noted:

> We are not convinced that a mere transfer of this (regulation of investment and production) authority to financial institutions to sanction investment would be an improvement over the present situation. If the system is one where there is an excessive and even exclusive reliance on the exercise of discretion in individual cases, it makes little difference whether the discretion is exercised by government officials or by executives of financial institutions.

See: INDIA, Ministry of Finance (1985), Report of the Committee to Examine Principles of a Possible Shift from Physical to Financial Controls, p. 3.

29. D.R. Gadgil(1971), The Industrial Evolution of India in Recent Times, 1860-1930, Oxford University Press, New Delhi, (Fifth Edition, 1984).

therefore, natural that Indian political leadership and policy planners recognised the need to take immediate and long-term measures to reduce regional imbalances. Inter and intra-State disparities in industrial development were particularly wide. In the early days of planning, location of large public sector investments in backward regions was taken as a means to reduce regional imbalances. Another assumption in Indian planning has been that industrialisation is a method of resolving unemployment problem of the country. Large projects tend to become islands of prosperity and their location in backward areas neither helps the region to experience development of its people nor enlarge employment.[30] Viewed from another angle it is found that lack of basic facilities - like transport, electricity, skilled workers etc. - in the backward regions soon highlight the serious limitations of such an approach. As private sector was to play an important role in the planned process of industrial development, it was thought that this sector should be encouraged to set up industries in the backward areas through the licensing system and support from

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30. The Sivaraman Committee while referring to a study of industrial units in Alwar observed that "... the benefit of additional employment did not accrue so much to other districts in Rajasthan as to persons from outside the State". See: INDIA, Planning Commission (1980), National Committee on the Development of Backward Areas, <u>Report on Industrial Dispersal</u>, p. 56.

financial institutions. It seems that due to lack of infrastructural and other facilities just a liberal attitude in licensing did not give any real boost to investments in backward areas.

The ILPIC Report (1969)[31] pointed out that important reasons for the lack of investment in backward areas were: (i) no clear identification of backward areas; and (ii) lack of adequate and clear-cut incentives from the central and state governments. Two Working Groups were appointed in 1969 -- one for the identification of backward areas and the other for recommending incentives for attracting industries to these areas.[32] Two hundred and forty five out of three hundred and eighty six districts were identified as backward. Various schemes of concessions to be provided by financial institutions and the central and state governments for promoting industries in these regions were listed by them. The backward area policy underwent substantial changes over time. We now describe the pattern of financing of the All India Financial Institutions across different states and backward areas. This is followed by a discussion on

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31. ILPIC Report, op. cit.

32. These were: (i) INDIA, Planning Commission (1969), Identification of Backward Areas: Report of the Working Group (Chairman, B.D. Pande); and (ii) INDIA, Planning Commission (1969), Fiscal and Financial Incentives for Starting Industries in Backward Areas: Report of the Working Group (Chairman, N.N. Wanchoo).

the possible reasons for these trends and the problems associated with regional development.

III.2.(3.1) State-wise Distribution of Assistance

The state-wise distribution of assistance by the All India Financial Institutions over the past two decades shows that in both the decades five states have been able to corner about 55-60 percent of the total institutional assistance sanctioned (Tables III.19 and III.20). In the '70s Maharashtra, Gujarat, Tamilnadu, Uttar Pradesh and West Bengal together accounted for 60.76 percent of aggregate sanctions. In the '80s the first four retained their position but Andhra Pradesh replaced West Bengal as the state getting the fifth highest share of sanctions. These five states accounted for 60.15 percent of aggregate assistance sanctioned during 1980-90. The disparity becomes quite apparent from the fact that the share of aggregate sanctions to the five relatively less developed states, Madhya Pradesh, Bihar, Orissa, Rajasthan and Haryana was only 14.77 percent and 18.34 percent during 1970-80 and 1980-90, respectively. If one were to find the combined share of the financial sanctions to the North-Eastern states, one would find that these hilly States do not get even one - tenth of the national institutional finance. Some states have been able to increase their share over the past two decades. Andhra Pradesh has more than doubled its

TABLE - III.19

(A) ASSISTANCE SANCTIONED BY AIFIs - STATE-WISE (1970-71 TO 1979-80)

(Rs. Crores)

State	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1970-75	1975-80	(13)/(12) %	Percentage Shares 1970-75	Percentage Shares 1975-80	Percentage Shares 1970-80	Rate of Growth (%) 1970-75	Rate of Growth (%) 1975-80	Rate of Growth (%) 1970-80
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Andhra Pradesh	5.27	8.61	8.13	11.56	15.5	26.21	80.85	51.6	81.6	68.55	49.07	308.81	629.33	3.30	5.63	5.13	30.96	27.17	32.98
Arunachal Pradesh								0.18	0.06		0.00	0.24	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assam	0.05	16.23	1.25	11.18	3.63	6.79	8.55	3.73	5.43	6.07	32.34	30.57	94.53	2.18	0.56	0.90	191.90	-2.76	70.44
Bihar	22.19	14.67	12.07	14.75	9.11	16.98	33.58	41.85	45.42	39.32	72.79	177.15	243.37	4.90	3.23	3.58	-19.95	23.36	6.56
Goa								20.96	14.06		0.00	35.02	0.00	0.00	0.64	0.50	0.00	0.00	0.00
Gujarat	26.77	55.55	19.03	42.05	44.21	55.24	89.09	241.25	183.55	287.91	187.61	857.04	456.82	12.63	15.62	14.98	13.36	51.10	30.20
Haryana	6.42	7.47	6.69	9.31	10.32	10.13	24.35	32.63	23.4	43.37	40.21	133.88	332.95	2.71	2.44	2.50	12.60	43.85	23.65
Himachal Pradesh	0.17	0.56	0.34	1.2	1.58	3.4	6.82	7.91	4.55	6.52	3.85	29.20	758.44	0.26	0.53	0.47	74.60	17.68	49.96
Jammu & Kashmir	0.05	0.16	0.23	0.27	1.5	2.32	13.34	7.26	8.22	10.27	2.21	41.41	1873.76	0.15	0.75	0.63	134.03	45.05	80.70
Karnataka	3.67	26.51	22.17	27.57	46.63	45.92	53.21	83.93	73.97	148.21	126.55	405.24	320.22	8.52	7.38	7.63	88.80	34.04	50.82
Kerala	3.39	4.78	11.75	4.56	16.08	25.56	21.94	35.55	30.49	97.43	40.56	210.97	520.14	2.73	3.84	3.61	47.58	39.73	45.23
Madhya Pradesh	10.62	6.32	4.01	6.28	15.73	10.42	27.63	25.31	32.54	69.83	42.96	165.73	385.78	2.89	3.02	2.99	10.32	60.90	23.28
Maharashtra	54.9	50.92	70.94	69.47	102.16	90.34	143.02	139.14	261.99	392.00	348.39	1026.49	294.64	23.46	18.70	19.72	16.80	44.33	24.41
Manipur					0.01		0.18	0.1	0.6	0.79	0.01	1.67	16700.00	0.00	0.03	0.02	0.00	0.00	0.00
Meghalaya				0.13	0.14	4.77	2.73	0.42	0.72	0.60	0.27	9.24	3422.22	0.02	0.17	0.14	0.00	-40.45	0.00
Mizoram									0.04		0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nagaland			1		0.01	0.29	0.06	0.09	0.15	1.29	1.01	1.88	186.14	0.07	0.03	0.04	0.00	45.23	0.00
Orissa	5.69	1.85	6.59	2.04	6.26	16.43	17.12	15.37	28.78	46.46	22.43	124.16	553.54	1.51	2.26	2.10	2.42	29.68	26.28
Punjab	0.51	3.78	3.41	8.57	10.23	11.66	23.56	19.09	44.62	47.41	26.50	146.34	552.23	1.78	2.67	2.48	111.63	42.00	65.46
Rajasthan	2.85	6.12	3.93	5.45	21.56	12.1	34.72	45.14	49.16	70.01	39.91	211.13	529.02	2.69	3.85	3.60	65.84	55.09	42.72
Sikkim									0.04	0.24	0.00	0.28	0.00	0.00	0.01	0.00	0.00	0.00	0.00
Tamil Nadu	13.42	41.37	20.66	38.04	49.61	74.63	78.48	84.02	123.95	146.77	163.10	507.85	311.37	10.98	9.25	9.62	38.66	18.42	30.45
Tripura			0.1		0.01		0.24	2.84	0.51	0.93	0.11	4.52	4109.09	0.01	0.08	0.07	0.00	0.00	0.00
Uttar Pradesh	16.22	11.28	26.44	21.06	29.05	60.13	100.79	100.62	75.7	146.36	104.05	483.60	464.78	7.01	8.81	8.43	15.68	24.91	27.69
West Bengal	14.21	14.23	21.47	47.82	25.81	42.29	71.92	84.26	136.46	100.39	123.54	435.32	352.37	8.32	7.93	8.01	16.09	24.13	24.26
Union Territories	6.84	6.57	12.27	7.29	24.5	32.81	33.05	10.96	21.65	42.10	57.47	140.57	244.60	3.87	2.56	2.84	37.57	6.43	22.37
Grand Total	193.24	276.98	252.48	328.6	433.64	548.42	865.23	1054.21	1247.66	1772.83	1484.94	5488.35	369.60	100.00	100.00	100.00	22.39	34.09	27.92

Contd...

TABLE - III.19

(B) ASSISTANCE DISBURSED BY AIFIs - STATE-WISE (1970-71 TO 1979-80)

(Rs. Cror

State														Percentage Shares			Rate of Growth (%)		
	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1970-75	1975-80	(13)/(12) %	1970-75	1975-80	1970-80	1970-75	1975-80	1970-80
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Andhra Pradesh	5.61	6.59	6.88	9.56	11.38	11.49	30.24	46.85	67.68	78.12	40.02	234.38	585.66	3.75	6.70	6.01	19.34	61.48	34.00
Arunachal Pradesh								0.14	0.53		0.00	0.67	0.00	0.00	0.02	0.01	0.00	0.00	0.00
Assam	0.72	0.26	3.3	8.44	10.54	7.81	9.57	4.56	4.22	6.20	23.26	32.36	139.12	2.18	0.92	1.22	95.60	-5.61	27.03
Bihar	5.69	5.42	17.62	18.49	9.88	13.69	23.12	23.18	18.43	24.10	57.10	102.52	179.54	5.35	2.93	3.50	14.79	15.19	17.40
Goa								13.87	14.28		0.00	28.15	0.00	0.00	0.80	0.62	0.00	0.00	0.00
Gujarat	16.42	16.43	21.67	32.24	44.1	37.83	57.25	89.61	171.63	151.53	130.86	507.85	388.09	12.27	14.51	13.99	28.02	41.47	28.01
Haryana	4.31	7.59	6.84	4.65	6.85	7.75	16.68	17.82	26.84	32.72	30.24	101.81	336.67	2.83	2.91	2.89	12.28	43.34	25.26
Himachal Pradesh	0.2	0.3	0.3	0.6	0.8	2.39	2.1	2.77	5.07	6.37	2.20	18.70	850.00	0.21	0.53	0.46	41.42	27.77	46.90
Jammu & Kashmir		0.2	0.2	0.22	1.16	2.23	2.93	9.21	8.4	11.26	1.78	34.03	1911.80	0.17	0.97	0.78	0.00	49.90	0.00
Karnataka	6.6	6.69	9.19	23.08	35.46	44.01	41.84	38.02	63.75	109.94	81.02	297.56	367.27	7.60	8.50	8.29	52.25	25.72	36.69
Kerala	1.73	3.12	3.2	7.04	9.21	14.65	34.24	19.85	26.7	30.41	24.30	125.85	517.90	2.28	3.60	3.29	51.90	20.03	37.51
Madhya Pradesh	6.3	9.26	6.34	3.9	4.63	8.19	12.08	14.81	21.94	44.41	30.43	101.43	333.32	2.85	2.90	2.89	-7.41	52.60	24.23
Maharashtra	41.95	47.88	46.8	51.4	75.16	79.19	89.62	120.29	126.45	221.28	263.19	636.83	241.97	24.67	18.20	19.71	15.69	29.29	20.29
Manipur					0.01		0.02	0.25	0.03	0.17	0.01	0.47	4700.00	0.00	0.01	0.01	0.00	0.00	0.00
Meghalaya				0.04	0.18	0.34	2.7	2.62	1.74	1.06	0.22	8.46	3845.45	0.02	0.24	0.19	0.00	32.88	0.00
Mizoram											0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Nagaland				0.45	0.54	0.09	0.2	0.11	0.02	0.37	0.99	0.79	79.80	0.09	0.02	0.04	0.00	42.39	0.00
Orissa	2.46	3.89	2.86	3.88	6.56	5.1	6.94	9.31	12.13	23.54	19.65	57.02	290.18	1.84	1.63	1.68	27.79	46.57	28.52
Punjab	0.64	1.84	2.59	5.52	6.64	6.74	13.59	17.43	20.67	34.99	17.23	93.42	542.19	1.62	2.67	2.42	79.47	50.95	55.99
Rajasthan	2.59	3.27	3.52	5.43	5.99	14.77	18.49	22.32	29.22	58.95	20.80	143.75	691.11	1.95	4.11	3.60	23.32	41.34	41.51
Sikkim										0.20	0.00	0.20	0.00	0.00	0.01	0.00	0.00	0.00	0.00
Tamil Nadu	13.86	16.38	16.19	34.07	46.24	39.89	64.61	55.55	67.29	91.58	126.74	318.92	251.63	11.88	9.11	9.76	35.15	23.09	23.34
Tripura			0.1		0.01		0.19	0.73	1.18	0.51	0.11	2.61	2372.73	0.01	0.07	0.06	0.00	0.00	0.00
Uttar Pradesh	6.51	11.18	13.02	17.77	27.23	15.97	35.46	58.59	77.72	89.89	75.71	277.63	366.70	7.10	7.93	7.74	43.01	54.03	33.87
West Bengal	7.33	10.26	10.97	15.14	32.17	30.73	44.21	43.95	63.51	78.65	75.87	261.05	344.08	7.11	7.46	7.38	44.74	26.48	30.17
Union Territories	8.31	6.8	5.53	7.54	16.79	21.03	23.54	12.83	18.38	36.99	44.97	112.77	250.77	4.22	3.22	3.45	19.22	15.16	18.05
Grand Total	131.23	157.36	177.12	249.46	351.53	363.89	529.62	624.67	847.81	1133.24	1066.70	3499.23	328.04	100.00	100.00	100.00	27.93	32.84	27.07

Notes: Institutions Covered are IDBI, IFCI, ICICI, IRCI, LIC and UTI.

Source: (i) IDBI Annual Report, 1974-75

(ii) IDBI Operational Statistics 1964-75 and 1975-76 to 1979-80

TABLE - III.20

(A) TOTAL ASSISTANCE SANCTIONED BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rs. Crores)

State	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990	1980-85	1985-90	(15)/(16) %	Percentage Shares 1980-85	Percentage Shares 1985-90	Percentage Shares 1980-90	Rate of Growth(%) 1980-85	Rate of Growth(%) 1985-90	Rate of Growth(%) 1980-90
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Andhra Pradesh	153.84	255.04	190.66	392.42	491.88	315.75	772.88	820.44	1288.39	1007.98	6041.50	1483.84	4205.44	283.42	9.51	8.79	8.97	33.72	33.67	23.23
2. Arunachal Pradesh				2.07	2.28	2.71	1.65	1.48	0.76	1.04	15.33	4.35	7.64	175.63	0.03	0.02	0.02	0.00	-21.29	0.00
3. Assam	6.93	8.93	30.64	28.96	38.35	39.28	49.36	46.54	61.57	216.43	591.93	113.81	413.18	363.04	0.73	0.86	0.83	53.38	53.21	46.58
4. Bihar	62.90	60.01	62.68	118.87	92.41	108.17	156.73	275.73	217.17	388.14	1850.88	396.87	1145.94	288.74	2.54	2.40	2.43	10.09	37.63	22.41
5. Goa				19.90	23.88	31.59	47.82	60.26	96.98	120.49	618.40	43.78	357.14	815.76	0.28	0.75	0.63	0.00	39.75	0.00
6. Gujarat	206.81	295.49	422.94	538.90	365.59	685.34	874.96	991.26	1786.62	1635.07	8727.43	1829.73	5973.25	326.46	11.72	12.49	12.30	15.31	24.28	25.83
7. Haryana	59.62	51.24	95.72	120.57	143.04	124.03	159.07	223.53	241.18	541.80	1950.53	470.19	1289.61	274.27	3.01	2.70	2.77	24.46	44.57	27.79
8. Himachal Pradesh	24.55	31.94	36.55	24.67	58.34	65.76	54.20	85.93	130.24	154.36	689.45	176.05	490.49	278.61	1.13	1.03	1.05	24.16	23.78	22.66
9. Jammu & Kashmir	23.42	12.85	20.74	21.04	50.97	40.10	64.32	49.32	74.24	59.65	447.44	129.02	287.63	222.93	0.83	0.60	0.66	21.46	10.44	10.95
10. Karnataka	192.75	142.64	193.35	251.34	347.34	419.97	355.23	457.85	561.20	551.80	3970.33	1127.42	2346.05	208.09	7.22	4.91	5.48	15.86	7.06	12.40
11. Kerala	52.97	43.02	70.39	74.08	139.46	105.24	145.40	154.07	206.14	231.72	1450.46	379.92	842.57	221.78	2.43	1.76	1.93	27.38	21.81	17.82
12. Madhya Pradesh	59.50	59.87	163.37	165.47	289.86	306.95	430.17	508.00	860.64	625.64	3665.22	738.07	2731.40	370.07	4.73	5.71	5.47	48.57	19.49	29.88
13. Maharashtra	424.65	427.51	463.30	543.80	696.59	1058.88	1094.53	1440.49	1968.17	3983.74	14023.40	2555.85	9545.81	373.49	16.38	19.96	19.08	13.17	39.27	28.24
14. Manipur	0.43	0.54	0.61	0.21	0.05	3.13	6.67	4.83	13.19	12.19	41.98	1.84	40.01	2174.46	0.01	0.08	0.07	-41.61	40.48	45.01
15. Meghalaya	1.24	1.70	1.93	3.04	3.15	7.37	15.24	8.77	15.05	10.12	78.31	11.06	56.55	511.30	0.07	0.12	0.11	26.25	8.25	26.27
16. Mizoram				0.65	1.93	2.70	3.19	4.22	7.44	3.96	27.15	2.58	21.51	833.72	0.02	0.04	0.04	0.00	10.05	0.00
17. Nagaland	0.68	1.75	1.40	2.17	1.33	6.34	0.90	3.10	9.53	3.02	33.66	7.33	22.89	312.28	0.05	0.05	0.05	18.26	-16.92	18.02
18. Orissa	45.72	94.45	99.07	123.35	251.33	114.42	147.90	168.71	405.18	418.20	2073.73	613.92	1254.41	204.33	3.93	2.62	2.95	53.12	38.27	27.88
19. Punjab	138.59	59.47	86.33	119.17	122.00	163.48	279.18	238.83	478.66	366.72	2219.90	525.56	1526.87	290.52	3.37	3.19	3.24	-3.14	22.38	11.42
20. Rajasthan	159.87	121.63	153.28	173.53	154.83	249.52	282.09	313.54	793.08	590.17	3117.66	763.14	2228.40	292.00	4.89	4.66	4.72	-0.80	24.01	15.62
21. Sikkim	0.18	0.20	0.36	4.77	1.16	3.85	2.95	3.66	3.53	7.96	29.31	6.67	21.95	329.09	0.04	0.05	0.05	59.33	19.91	52.35
22. Tamil Nadu	182.18	335.85	275.77	325.75	406.77	689.88	440.37	848.65	1156.50	1220.08	6563.04	1526.32	4355.48	285.36	9.78	9.11	9.27	22.24	15.32	23.53
23. Tripura	1.02	3.55	1.99	0.42	0.48	1.52	3.96	2.10	5.63	11.43	35.23	7.46	24.64	330.29	0.05	0.05	0.05	-17.18	65.60	30.80
24. Uttar Pradesh	125.43	172.76	200.88	251.21	746.38	701.05	893.41	899.49	1589.74	1101.18	7229.90	1496.66	5184.87	346.43	9.59	10.84	10.53	56.19	11.95	27.30
25. West Bengal	85.38	127.11	157.59	167.44	259.30	464.14	319.80	286.37	436.30	615.54	3477.11	796.82	2122.15	266.33	5.11	4.44	4.60	32.01	7.31	24.54
26. Union Territories	50.61	91.49	96.77	68.41	90.73	189.04	211.16	199.85	422.24	309.99	1760.41	398.01	1332.28	334.74	2.55	2.79	2.73	15.71	13.16	22.31
Total	2059.52	2399.04	2826.32	3542.33	4779.43	5900.21	6813.14	8097.02	12829.37	14188.42	70730.06	15606.64	47828.16	306.46	100.00	100.00	100.00	23.42	24.53	23.92

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TABLE - III.20

(B) TOTAL ASSISTANCE DISBURSED BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rs. Cro

State	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990	1980-85	1985-90	(15)/(16) %	Percentage Shares 1980-85	Percentage Shares 1985-90	Percentage Shares 1980-90	Rate of Growth(%) 1980-85	Rate of Growth(%) 1985-90	Rate of Growth(%) 1980-90
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. Andhra Pradesh	83.44	113.24	193.80	213.76	276.87	337.44	362.94	485.37	823.18	660.16	3931.89	881.11	2669.09	302.92	7.99	8.51	8.37	34.97	18.27	25.84
2. Arunachal Pradesh				0.64	1.96	1.86	1.04	0.99	0.40	0.87	12.67	2.60	5.16	198.46	0.02	0.02	0.02	0.00	-17.30	0.00
3. Assam	4.87	6.28	10.58	10.81	25.16	43.10	44.55	35.71	45.89	58.93	356.37	57.70	228.18	395.46	0.52	0.73	0.67	50.76	8.13	31.92
4. Bihar	28.33	45.57	57.22	75.68	58.89	60.70	106.32	171.38	151.70	198.64	1217.13	265.69	688.74	259.23	2.41	2.20	2.25	20.07	34.50	24.16
5. Goa				23.42	21.72	23.94	25.58	32.58	44.54	76.66	427.39	45.14	203.30	450.38	0.41	0.65	0.59	0.00	33.77	0.00
6. Gujarat	169.43	236.63	258.40	264.58	291.39	532.18	695.96	746.87	1088.38	923.38	6188.77	1220.43	3986.77	326.67	11.07	12.71	12.28	14.52	14.77	20.73
7. Haryana	31.26	47.98	54.25	72.94	125.91	93.97	130.39	113.59	182.98	273.70	1312.41	332.34	794.63	239.10	3.01	2.53	2.66	41.67	30.64	27.26
8. Himachal Pradesh	9.77	22.07	23.96	27.92	33.24	57.70	52.78	42.81	75.13	90.27	463.27	116.96	318.69	272.48	1.06	1.02	1.03	35.81	11.84	28.02
9. Jammu & Kashmir	13.17	12.21	18.41	20.39	25.13	26.36	37.50	48.43	50.57	44.79	335.15	89.31	207.65	232.50	0.81	0.66	0.70	17.53	14.17	14.57
10. Karnataka	127.17	147.46	150.70	216.40	292.28	368.39	299.71	281.21	402.01	406.33	3184.62	934.01	1757.65	188.18	8.47	5.60	6.35	23.13	2.48	13.78
11. Kerala	45.00	63.91	57.35	62.62	86.62	86.95	106.42	115.89	151.59	172.22	1137.21	315.50	633.07	200.66	2.86	2.02	2.24	17.79	18.63	16.08
12. Madhya Pradesh	44.10	59.55	84.26	137.31	175.41	284.95	245.09	341.61	505.52	432.40	2493.56	500.63	1809.57	361.46	4.54	5.77	5.45	41.22	10.99	28.87
13. Maharashtra	317.77	352.60	386.53	430.06	516.69	723.87	810.20	1115.93	1408.94	2077.67	9693.65	2003.65	6136.61	306.27	18.17	19.56	19.20	12.92	30.16	23.20
14. Manipur	0.44	0.79	1.53	0.80	0.29	2.61	3.13	4.86	3.46	8.74	25.47	3.85	22.80	592.21	0.03	0.07	0.06	-9.90	35.28	39.39
15. Meghalaya	0.84	1.20	2.22	3.23	3.25	6.60	8.83	6.60	11.71	11.20	64.50	10.74	44.94	418.44	0.10	0.14	0.13	40.25	14.13	33.35
16. Mizoram				0.86	1.06	2.34	2.28	4.15	5.71	3.99	23.10	1.92	18.47	961.98	0.02	0.06	0.05	0.00	14.27	0.00
17. Nagaland	0.50	0.88	1.83	1.03	2.28	4.29	3.04	3.05	5.30	4.27	28.70	6.52	19.95	305.98	0.06	0.06	0.06	46.13	-0.12	26.91
18. Orissa	31.56	46.12	75.11	81.45	84.05	141.58	148.32	127.39	214.54	174.43	1353.13	318.29	806.26	253.31	2.89	2.57	2.65	27.75	5.35	20.92
19. Punjab	49.31	69.62	82.03	101.48	93.25	96.66	145.97	235.52	268.29	359.82	1656.45	395.69	1106.26	279.58	3.59	3.53	3.54	17.27	38.90	24.71
20. Rajasthan	76.33	79.99	118.43	150.33	126.93	162.39	225.50	224.23	218.66	302.72	1921.96	552.01	1133.50	205.34	5.01	3.61	3.97	13.56	16.85	16.54
21. Sikkim	0.25	0.07	0.27	0.18	1.37	2.52	4.54	5.39	1.74	2.52	20.79	2.14	16.71	780.84	0.02	0.05	0.04	53.00	0.00	29.27
22. Tamil Nadu	153.23	173.26	206.67	322.46	346.90	425.08	445.68	572.80	697.18	833.72	4858.97	1202.52	2974.46	247.35	10.91	9.48	9.85	22.66	18.34	20.71
23. Tripura	1.61	1.49	3.19	1.14	0.48	1.12	1.44	2.87	2.97	3.73	22.82	7.91	12.13	153.35	0.07	0.04	0.05	-26.11	35.09	9.78
24. Uttar Pradesh	108.43	142.11	135.97	184.24	261.16	418.57	570.46	814.17	858.63	705.92	4746.20	831.91	3367.75	404.82	7.54	10.73	9.90	24.58	13.96	23.14
25. West Bengal	89.26	122.90	98.20	129.26	159.24	194.95	268.73	248.43	424.50	396.73	2582.30	598.86	1533.34	256.04	5.43	4.89	5.03	15.57	19.44	18.03
26. Union Territories	43.11	55.95	87.66	67.98	74.68	139.08	133.53	153.53	221.97	232.09	1237.74	329.38	880.20	267.23	2.99	2.81	2.85	14.72	13.66	20.57
Total	1429.37	1801.88	2108.57	2601.06	3086.21	4239.20	4879.93	5935.36	7865.49	8455.90	49296.51	11027.09	31375.88	284.53	100.00	100.00	100.00	21.22	18.84	21.84

Note: Institutions Covered are IDBI, IFCI, ICICI, IRCI, LIC, GIC and UTI.

Source: IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

share and in the '80s ranks 5th in the country. Other states like Himachal Pradesh and Madhya Pradesh have also increased their share, but they are still not very significant in the total. The rates of growth in assistance sanctioned to some underdeveloped states is quite high compared to the overall rate of growth. However, this does not reflect the hard reality that the institutional finance to these states is still very small.

State as a unit of backwardness is not a good measure. The differences in population and size do not get reflected if state is taken as a unit. It has been argued that the five states to which half of the total financial accommodation has been made have a combined population of around 50 per cent of the total. Thus the real picture is not presented if one goes by state as the unit. Taking the 1981 Census figures, we find that the combined population of Maharashtra, Gujarat, Tamilnadu, Uttar Pradesh and Andhra Pradesh is nearly 45 percent of the national population. The disparity seems to be lesser now as 45 percent population getting 60 percent of funds does not seem as bad. But if we exclude Uttar Pradesh from the calculations, we find that the inequality increases, as the remaining four states, having a combined share of 29 percent in total population, get 50 per cent of the assistance. Tables III.21 and III.22 give the per capita state-wise sanctions for

TABLE - III.21 ✓

(A) PER CAPITA ASSISTANCE SANCTIONED BY AIFIs - STATE-WISE (1970-71 TO 1979-80)

(Rupees)

STATE	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	0.98	1.61	1.52	2.16	2.89	4.89	15.10	9.64	15.24	12.80
Arunachal Pradesh								2.85	0.95	0.00
Assam	0.03	8.16	0.63	5.62	1.82	3.41	4.30	1.87	2.73	3.05
Bihar	3.17	2.10	1.73	2.11	1.30	2.43	4.80	5.99	6.50	5.62
Goa								193.00	129.47	0.00
Gujarat	7.85	16.30	5.58	12.34	12.97	16.21	26.14	70.78	53.85	84.47
Haryana	4.97	5.78	5.18	7.20	7.99	7.84	18.84	25.25	18.11	33.56
Himachal Pradesh	0.40	1.31	0.79	2.80	3.69	7.94	15.93	18.48	10.63	15.23
Jammu & Kashmir	0.08	0.27	0.38	0.45	2.51	3.88	22.28	12.13	13.73	17.15
Karnataka	0.99	7.14	5.97	7.42	12.56	12.37	14.33	22.60	19.92	39.91
Kerala	1.33	1.88	4.62	1.79	6.32	10.04	8.62	13.97	11.98	38.28
Madhya Pradesh	2.04	1.21	0.77	1.20	3.01	2.00	5.30	4.85	6.24	13.38
Maharashtra	8.74	8.11	11.30	11.06	16.27	14.39	22.78	22.16	41.73	62.44
Manipur					0.07		1.27	0.70	4.23	5.56
Meghalaya				0.97	1.05	35.73	20.45	3.15	5.39	4.49
Mizoram									0.81	
Nagaland			12.92	0.00	0.13	3.75	0.78	1.16	1.94	16.67
Orissa	2.16	0.70	2.50	0.77	2.37	6.23	6.49	5.83	10.91	17.62
Punjab	0.30	2.25	2.03	5.10	6.09	6.95	14.03	11.37	26.58	28.24
Rajasthan	0.83	1.79	1.15	1.59	6.29	3.53	10.13	13.18	14.35	20.43
Sikkim									1.27	7.59
Tamil Nadu	2.77	8.55	4.27	7.86	10.25	15.42	16.21	17.36	25.61	30.32
Tripura			0.49		0.05		1.17	13.83	2.48	4.53
Uttar Pradesh	1.46	1.02	2.38	1.90	2.62	5.42	9.09	9.08	6.83	13.20
West Bengal	2.60	2.61	3.93	8.76	4.73	7.75	13.18	15.44	25.00	18.39
Grand Total	2.75	3.99	3.55	4.74	6.04	7.61	12.28	15.40	18.09	25.54

Contd...

TABLE - III.21

(B) PER CAPITA ASSISTANCE DISBURSED BY AIFIs - STATE-WISE (1970-71 TO 1979-80)

(Rupees)

STATE	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5	6	7	8	9	10	11
Andhra Pradesh	1.05	1.23	1.28	1.79	2.13	2.15	5.65	8.75	12.64	14.59
Arunachal Pradesh								2.22	8.40	
Assam	0.36	0.13	1.66	4.24	5.30	3.93	4.81	2.29	2.12	3.12
Bihar	0.81	0.78	2.52	2.64	1.41	1.96	3.31	3.32	2.64	3.45
Goa								127.72	131.49	
Gujarat	4.82	4.82	6.36	9.46	12.94	11.10	16.80	26.29	50.35	44.46
Haryana	3.34	5.87	5.29	3.60	5.30	6.00	12.91	13.79	20.77	25.32
Himachal Pradesh	0.47	0.70	0.70	1.40	1.87	5.58	4.91	6.47	11.85	14.88
Jammu & Kashmir		0.33	0.33	0.37	1.94	3.72	4.89	15.38	14.03	18.81
Karnataka	1.78	1.80	2.47	6.22	9.55	11.85	11.27	10.24	17.17	29.61
Kerala	0.68	1.23	1.26	2.77	3.62	5.76	13.45	7.80	10.49	11.95
Madhya Pradesh	1.21	1.77	1.22	0.75	0.89	1.57	2.32	2.84	4.20	8.51
Maharashtra	6.68	7.63	7.45	8.19	11.97	12.61	14.27	19.16	20.14	35.24
Manipur					0.07		0.14	1.76	0.21	1.20
Meghalaya				0.30	1.35	2.55	20.22	19.63	13.03	7.94
Mizoram										
Nagaland				5.81	6.98	1.16	2.58	1.42	0.26	4.78
Orissa	0.93	1.48	1.08	1.47	2.49	1.93	2.63	3.53	4.60	8.93
Punjab	0.38	1.10	1.54	3.29	3.96	4.01	8.10	10.38	12.31	20.84
Rajasthan	0.76	0.95	1.03	1.58	1.75	4.31	5.40	6.51	8.53	17.21
Sikkim										6.33
Tamil Nadu	2.86	3.38	3.34	7.04	9.55	8.24	13.35	11.48	13.90	18.92
Tripura			0.49		0.05		0.93	3.56	5.75	2.48
Uttar Pradesh	0.59	1.01	1.17	1.60	2.46	1.44	3.20	5.28	7.01	8.11
West Bengal	1.34	1.88	2.01	2.77	5.89	5.63	8.10	8.05	11.64	14.41
Grand Total	1.81	2.22	2.53	3.57	4.94	5.06	7.47	9.03	12.24	16.18

Notes: Per capita assistance has been calculated on the basis of population figures of 1981 census.

Source: Table III.19

TABLE - III.22

(A) PERCAPITA ASSISTANCE SANCTIONED BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rupees)

STATE	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990
1	2	3	4	5	6	7	8	9	10	11	12
Andhra Pradesh	28.73	47.63	35.60	73.28	91.86	58.96	144.33	153.21	240.60	188.24	1128.22
Arunachal Pradesh				32.81	36.13	42.95	26.15	23.45	12.04	16.48	242.95
Assam	3.48	4.49	15.40	14.56	19.28	19.74	24.81	23.39	30.95	108.78	297.51
Bihar	9.00	8.58	8.97	17.00	13.22	15.47	22.42	39.44	31.06	55.52	264.74
Goa				183.24	219.89	290.88	440.33	554.88	893.00	1109.48	5694.29
Gujarat	60.67	86.69	124.08	158.10	107.26	201.07	256.70	290.82	524.17	479.70	2560.49
Haryana	46.14	39.65	74.08	93.31	110.69	95.98	123.10	172.98	186.64	419.28	1509.46
Himachal Pradesh	57.36	74.63	85.40	57.64	136.31	153.64	126.64	200.77	304.30	360.65	1610.86
Jammu & Kashmir	39.12	21.46	34.64	35.14	85.13	66.98	107.43	82.38	124.00	99.63	747.35
Karnataka	51.91	38.41	52.07	67.68	93.53	113.09	95.66	123.29	151.12	148.59	1069.16
Kerala	20.81	16.90	27.65	29.10	54.79	41.35	57.12	60.53	80.99	91.04	569.86
Madhya Pradesh	11.40	11.47	31.31	31.71	55.55	58.83	82.44	97.36	164.94	119.90	702.45
Maharashtra	67.64	68.09	73.79	86.61	110.95	168.65	174.33	229.44	313.48	634.52	2233.59
Manipur	3.03	3.80	4.30	1.48	0.35	22.04	46.97	34.01	92.89	85.85	295.63
Meghalaya	9.29	12.73	14.46	22.77	23.60	55.21	114.16	65.69	112.73	75.81	586.59
Mizoram				13.18	39.15	54.77	64.71	85.60	150.91	80.32	550.71
Nagaland	8.79	22.61	18.09	28.04	17.18	81.91	11.63	40.05	123.13	39.02	434.88
Orissa	17.34	35.82	37.57	46.78	95.31	43.39	56.09	63.98	153.65	158.59	786.40
Punjab	82.55	35.42	51.42	70.99	72.67	97.38	166.30	142.26	285.12	218.44	1322.31
Rajasthan	46.66	35.50	44.74	50.65	45.19	72.83	82.34	91.52	231.48	172.26	909.97
Sikkim	5.70	6.33	11.39	150.95	36.71	121.84	93.35	115.82	111.71	251.90	927.53
Tamil Nadu	37.63	69.38	56.97	67.29	84.03	142.51	90.97	175.31	238.91	252.04	1355.78
Tripura	4.97	17.29	9.69	2.05	2.34	7.40	19.29	10.23	27.42	55.67	171.60
Uttar Pradesh	11.31	15.58	18.12	22.66	67.33	63.24	80.59	81.14	143.40	99.33	652.15
West Bengal	15.64	23.29	28.87	30.68	47.51	85.04	58.59	52.47	79.94	112.78	637.07
Total	30.40	35.41	41.71	52.28	70.54	87.08	100.55	119.50	189.35	209.40	1043.89

Contd...

TABLE - III.22

(B) PERCAPITA ASSISTANCE DISBURSED BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rupees)

STATE	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990
1	2	3	4	5	6	7	8	9	10	11	12
Andhra Pradesh	15.58	21.15	36.19	39.92	51.70	63.02	67.78	90.64	153.72	123.28	734.26
Arunachal Pradesh	0.00	0.00	0.00	10.14	31.06	29.48	16.48	15.69	6.34	13.79	200.79
Assam	2.45	3.16	5.32	5.43	12.65	21.66	22.39	17.95	23.06	29.62	179.12
Bihar	4.05	6.52	8.18	10.82	8.42	8.68	15.21	24.51	21.70	28.41	174.09
Goa	0.00	0.00	0.00	215.65	200.00	220.44	235.54	300.00	410.13	705.89	3935.45
Gujarat	49.71	69.42	75.81	77.62	85.49	156.13	204.18	219.12	319.31	270.91	1815.69
Haryana	24.19	37.13	41.98	56.45	97.44	72.72	100.91	87.90	141.60	211.81	1015.64
Himachal Pradesh	22.83	51.57	55.98	65.23	77.66	134.81	123.32	100.02	175.54	210.91	1082.41
Jammu & Kashmir	22.00	20.39	30.75	34.06	41.97	44.03	62.64	80.89	84.47	74.81	559.80
Karnataka	34.25	39.71	40.58	58.27	78.71	99.20	80.71	75.73	108.26	109.42	857.58
Kerala	17.68	25.11	22.53	24.60	34.03	34.16	41.81	45.53	59.56	67.66	446.79
Madhya Pradesh	8.45	11.41	16.15	26.32	33.62	54.61	46.97	65.47	96.88	82.87	477.89
Maharashtra	50.61	56.16	61.57	68.50	82.30	115.30	129.05	177.74	224.41	330.92	1543.97
Manipur	3.10	5.56	10.77	5.63	2.04	18.38	22.04	34.23	24.37	61.55	179.37
Meghalaya	6.29	8.99	16.63	24.19	24.34	49.44	66.14	49.44	87.72	83.90	483.15
Mizoram	0.00	0.00	0.00	17.44	21.50	47.46	46.25	84.18	115.82	80.93	468.56
Nagaland	6.46	11.37	23.64	13.31	29.46	55.43	39.28	39.41	68.48	55.17	370.80
Orissa	11.97	17.49	28.48	30.89	31.87	53.69	56.25	48.31	81.36	66.15	513.13
Punjab	29.37	41.47	48.86	60.45	55.55	57.58	86.95	140.29	159.81	214.33	986.69
Rajasthan	22.28	23.35	34.57	43.88	37.05	47.40	65.82	65.45	63.82	88.36	560.98
Sikkim	7.91	2.22	8.54	5.70	43.35	79.75	143.67	170.57	55.06	79.75	657.91
Tamil Nadu	31.65	35.79	42.69	66.61	71.66	87.81	92.07	118.33	144.02	172.23	1003.75
Tripura	7.84	7.26	15.54	5.55	2.34	5.46	7.01	13.98	14.47	18.17	111.15
Uttar Pradesh	9.78	12.82	12.26	16.62	23.56	37.76	51.46	73.44	77.45	63.68	428.12
West Bengal	16.35	22.52	17.99	23.68	29.18	35.72	49.24	45.52	77.78	72.69	473.12
Total	21.10	26.59	31.12	38.39	45.55	62.57	72.02	87.60	116.09	124.80	727.56

Note: Percapita assistance has been calculated on the basis of population figures of 1981 census.

Source: Table III.20

the last 20 years. A quick glance reveals that the relatively more developed states like Maharashtra and Gujarat have per capita sanctions twice that of the national average. Leaving out a case like Goa, almost all the North-Eastern states and relatively backward states like Bihar, Orissa, Rajasthan and Madhya Pradesh have per capita institutional finance of less than the national average. One can use various other measures of inequality; the results are likely to be the same.

III.2.(3.2) Financial Allocations to Backward Areas

To get an even clearer picture, one needs to look at the financial allocations by AIFIs to backward areas, as defined by the Planning Commission (Tables III.23 and III.24). The share of the five states, namely, Maharashtra, Gujarat, Uttar Pradesh and Tamil Nadu comes to nearly 52 of the aggregate financial sanctions during the decade of the '80s.[33] Uttar Pradesh has the highest share in sanctions to backward areas. Most hilly states show a low share in total assistance to the backward areas. Bihar, Orissa, Rajasthan, Madhya Pradesh and Assam still account for a low share. Even though Orissa, Madhya Pradesh, Assam, Sikkim and Tripura show a high rate of growth of sanctions to them, this is not reflected in any

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33. Due to non-availability of data for the period 1970-80 we are limiting our attention to the periods 1980-85 and 1985-90.

TABLE - III.23

(A) ASSISTANCE SANCTIONED TO BACKWARD AREAS BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rs. Crores)

STATE	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990	1980-85	1985-90	(15)/(14) %	Percentage Share 1980-85	Percentage Share 1985-90	Rate of Growth(%) 1980-85	Rate of Growth(%) 1985-90	Rate of Growth(%) 1980-90
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Andhra Pradesh	79.96	151.21	102.40	180.62	274.42	159.46	196.98	414.25	409.16	362.48	2527.80	788.61	1542.33	195.58	12.04	8.69	36.11	22.79	18.29
Arunachal Pradesh				2.07	2.28	2.71	1.65	1.48	0.76	1.04	15.33	4.35	7.64	175.63	0.07	0.04	0.00	-21.29	0.00
Assam	4.59	5.43	25.23	28.96	38.35	39.28	49.36	46.54	61.57	216.43	591.93	102.56	413.18	402.87	1.57	2.33	70.02	53.21	53.44
Bihar	19.28	16.63	18.29	31.22	33.11	28.53	54.91	39.00	68.64	45.64	417.78	118.53	236.72	199.71	1.81	1.33	14.48	12.46	10.05
Goa				19.90	23.88	31.59	47.82	60.26	96.98	120.49	618.40	43.78	357.14	815.76	0.67	2.01	0.00	39.75	0.00
Gujarat	59.73	78.71	76.27	327.30	129.09	257.86	320.19	302.76	428.09	555.43	2941.51	671.10	1864.33	277.80	10.24	10.51	21.25	21.15	28.12
Haryana	24.42	6.92	22.96	48.04	51.56	38.95	42.75	55.94	88.09	116.45	528.34	153.90	342.18	222.34	2.35	1.93	20.54	31.49	18.95
Himachal Pradesh	21.74	27.73	31.81	24.67	58.34	65.76	54.20	85.93	130.24	154.36	689.45	164.29	490.49	298.55	2.51	2.76	27.99	23.78	24.33
Jammu & Kashmir	23.42	12.85	20.74	21.04	50.97	40.10	64.32	49.32	74.24	59.65	447.44	129.02	287.63	222.93	1.97	1.62	21.46	10.44	10.95
Karnataka	113.60	74.24	100.15	97.71	115.74	127.26	137.96	244.38	234.62	189.41	1722.24	501.44	933.63	186.19	7.65	5.26	0.47	10.45	5.84
Kerala	12.95	12.76	25.91	29.26	75.39	45.37	74.85	94.40	84.28	95.80	587.01	156.27	394.70	252.58	2.39	2.22	55.33	20.54	24.90
Madhya Pradesh	24.46	37.08	101.60	67.53	200.33	193.47	237.47	248.83	399.20	363.88	1962.20	431.00	1442.85	334.77	6.58	8.13	69.17	17.11	34.98
Maharashtra	87.23	89.72	65.03	89.04	117.56	262.63	181.19	248.13	520.36	937.71	2970.65	448.58	2150.02	479.29	6.85	12.12	7.75	37.46	30.20
Manipur	0.43	0.54	0.61	0.21	0.05	3.13	6.67	4.83	13.19	12.19	41.98	1.84	40.01	2174.46	0.03	0.23	-41.61	40.48	45.01
Meghalaya	1.24	1.59	1.93	3.04	3.15	7.37	15.24	8.77	15.05	10.12	78.31	10.95	56.55	516.44	0.17	0.32	26.25	8.25	26.27
Mizoram				0.65	1.93	2.70	3.19	4.22	7.44	3.96	27.15	2.58	21.51	833.72	0.04	0.12	0.00	10.05	0.00
Nagaland	0.68	1.71	1.40	2.17	1.33	6.34	0.90	3.10	9.53	3.02	33.66	7.29	22.89	313.99	0.11	0.13	18.26	-16.92	18.02
Orissa	12.45	42.74	32.85	42.44	113.17	37.82	53.68	46.71	253.58	130.96	808.23	243.65	522.75	214.55	3.72	2.95	73.64	36.41	29.88
Punjab	55.51	29.48	29.73	46.31	63.00	64.37	94.87	76.61	220.09	147.87	906.66	224.03	603.81	269.52	3.42	3.40	3.21	23.11	11.50
Rajasthan	108.08	62.60	100.45	90.95	99.29	148.93	157.49	186.58	205.59	317.09	1481.22	461.37	1015.68	220.14	7.04	5.72	-2.10	20.80	12.70
Sikkim	0.18	0.20	0.36	4.77	1.16	3.85	2.95	3.66	3.53	7.96	29.31	6.67	21.95	329.09	0.10	0.12	59.33	19.91	52.35
Tamil Nadu	64.18	218.65	108.88	121.29	124.18	157.54	99.32	170.41	316.84	225.03	1809.44	637.18	969.14	152.10	9.73	5.46	17.94	9.32	14.96
Tripura	1.02	3.55	1.99	0.42	0.48	1.52	3.96	2.10	5.63	11.43	35.23	7.46	24.64	330.29	0.11	0.14	-17.18	65.60	30.80
Uttar Pradesh	50.25	70.21	85.26	125.39	528.51	387.34	539.48	409.73	944.92	438.46	3666.83	859.62	2719.93	316.41	13.12	15.33	80.09	3.15	27.21
West Bengal	37.02	36.52	52.04	48.18	52.99	221.20	155.66	74.75	170.95	319.72	1356.84	226.75	942.28	415.56	3.46	5.31	9.38	9.65	27.07
Union Territories	27.96	29.94	41.68	15.61	33.42	32.10	55.39	43.83	113.39	77.53	432.54	148.61	322.24	216.84	2.27	1.82	4.56	24.66	12.00
Total	830.38	1011.02	1047.57	1468.79	2193.68	2367.18	2652.45	2926.52	4875.96	4924.11	26727.48	6551.44	17746.22	270.88	100.00	100.00	27.49	20.09	21.87

Contd...

TABLE - III.23

(B) ASSISTANCE DISBURSED TO BACKWARD AREAS BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rs. Crores)

STATE	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990	1980-85	1985-90	(15)/(14) %	Percentage Share 1980-85	Percentage Share 1985-90	Rate of Growth(%) 1980-85	Rate of Growth(%) 1985-90	Rate of Growth(%) 1980-90
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Andhra Pradesh	54.86	66.15	107.51	117.17	153.16	189.58	168.26	226.86	263.12	261.08	1810.73	498.85	1108.90	222.29	11.07	9.45	29.26	8.33	18.93
Arunachal Pradesh				0.64	1.96	1.86	1.04	0.99	0.40	0.87	12.67	2.60	5.16	198.46	0.06	0.04	0.00	-17.30	0.00
Assam	2.81	4.29	7.77	10.81	25.16	43.10	44.55	35.71	45.89	58.93	356.37	50.84	228.18	448.82	1.13	1.95	72.98	8.13	40.23
Bihar	9.50	14.51	17.21	16.80	14.88	22.16	29.53	21.94	27.56	32.59	253.18	72.90	133.78	183.51	1.62	1.14	11.87	10.12	14.68
Goa				23.42	21.72	23.94	25.58	32.58	44.54	76.66	427.39	45.14	203.30	450.38	1.00	1.73	0.00	33.77	0.00
Gujarat	63.78	78.36	97.54	83.60	122.38	176.74	237.82	313.57	391.10	348.63	2274.28	445.66	1467.86	329.37	9.89	12.51	17.69	18.51	20.77
Haryana	14.16	15.81	12.74	16.69	47.50	29.90	36.39	22.71	55.99	86.61	382.42	106.90	231.60	216.65	2.37	1.97	35.33	30.46	22.29
Himachal Pradesh	7.89	18.81	19.98	27.92	33.24	57.70	52.78	42.81	75.13	90.27	463.27	107.84	318.69	295.52	2.39	2.72	43.27	11.84	31.10
Jammu & Kashmir	13.16	12.21	18.41	20.39	25.13	26.36	37.50	48.43	50.57	44.79	335.15	89.30	207.65	232.53	1.98	1.77	17.55	14.17	14.58
Karnataka	64.60	73.66	78.40	108.53	110.41	90.33	118.64	124.15	192.41	176.81	1368.93	435.60	702.34	161.24	9.66	5.99	14.34	18.28	11.84
Kerala	13.51	11.85	13.65	21.66	30.26	36.88	47.93	63.59	71.15	68.27	452.33	90.93	287.82	316.53	2.02	2.45	22.34	16.64	19.72
Madhya Pradesh	23.36	34.16	45.76	55.62	97.31	195.63	148.59	161.13	268.17	239.73	1378.83	256.21	1013.25	395.48	5.68	8.64	42.86	5.21	29.53
Maharashtra	56.41	86.56	100.63	77.22	80.37	154.53	148.80	196.05	288.74	323.77	1820.95	401.19	1111.89	277.15	8.90	9.48	9.25	20.31	21.43
Manipur	0.44	0.79	1.53	0.80	0.29	2.61	3.13	4.86	3.46	8.74	25.47	3.85	22.80	592.21	0.09	0.19	-9.90	35.28	39.39
Meghalaya	0.70	0.86	1.88	3.23	3.25	6.60	8.83	6.60	11.71	11.20	64.50	9.92	44.94	453.02	0.22	0.38	46.79	14.13	36.08
Mizoram				0.86	1.06	2.34	2.28	4.15	5.71	3.99	23.10	1.92	18.47	961.98	0.04	0.16	0.00	14.27	0.00
Nagaland	0.42	0.67	1.71	1.03	2.28	4.29	3.04	3.05	5.30	4.27	28.70	6.11	19.95	326.51	0.14	0.17	52.64	-0.12	29.39
Orissa	18.31	28.77	38.54	31.12	32.95	78.89	55.19	34.19	85.14	90.81	525.08	149.69	344.22	229.96	3.32	2.93	15.82	3.58	19.47
Punjab	31.41	43.92	29.21	31.77	47.29	37.57	42.28	101.14	90.59	160.12	676.33	183.60	431.70	235.13	4.07	3.68	10.77	43.68	19.84
Rajasthan	44.12	52.31	82.77	83.73	60.94	96.01	91.54	128.23	143.90	169.39	1071.24	323.87	629.07	194.24	7.19	5.36	8.41	15.25	16.12
Sikkim	0.25	0.07	0.27	0.18	1.37	2.52	4.54	5.39	1.74	2.52	20.79	2.14	16.71	780.84	0.05	0.14	53.00	0.00	29.27
Tamil Nadu	53.78	57.80	95.95	180.13	157.60	110.72	106.49	107.93	161.34	216.26	1476.56	545.26	702.74	128.88	12.10	5.99	30.84	18.22	16.72
Tripura	1.60	1.49	3.19	1.14	0.48	1.12	1.44	2.87	2.97	3.73	22.82	7.90	12.13	153.54	0.18	0.10	-25.99	35.09	9.86
Uttar Pradesh	37.55	61.79	71.22	92.08	99.45	223.17	324.74	432.63	414.64	333.18	2310.72	362.09	1728.36	477.33	8.03	14.73	27.57	10.54	27.45
West Bengal	21.61	35.24	38.42	44.71	48.24	42.39	88.38	79.23	185.92	143.08	901.25	188.22	539.00	286.37	4.18	4.59	22.23	35.54	23.37
Union Territories	23.42	22.88	34.50	14.16	23.68	18.66	36.42	41.25	61.77	42.29	274.41	118.64	200.39	168.91	2.63	1.71	0.28	22.70	6.79
Total	557.64	722.96	918.79	1065.41	1242.36	1675.60	1865.71	2242.04	2948.96	2998.59	18757.47	4507.16	11730.90	260.27	100.00	100.00	22.17	15.66	20.55

Source: Year-wise data obtained from IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90

TABLE - III.24

(A) PER CAPITA ASSISTANCE SANCTIONED TO BACKWARD AREAS BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rupees)

STATE	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990
1	2	3	4	5	6	7	8	9	10	11	12
Andhra Pradesh	14.93	28.24	19.12	33.73	51.25	29.78	36.79	77.36	76.41	67.69	472.05
Arunachal Pradesh				32.81	36.13	42.95	26.15	23.45	12.04	16.48	242.95
Assam	2.31	2.73	12.68	14.56	19.28	19.74	24.81	23.39	30.95	108.78	297.51
Bihar	2.76	2.38	2.62	4.47	4.74	4.08	7.85	5.58	9.82	6.53	59.76
Goa				183.24	219.89	290.88	440.33	554.88	893.00	1109.48	5694.29
Gujarat	17.52	23.09	22.38	96.02	37.87	75.65	93.94	88.82	125.59	162.95	862.99
Haryana	18.90	5.36	17.77	37.18	39.90	30.14	33.08	43.29	68.17	90.12	408.87
Himachal Pradesh	50.79	64.79	74.32	57.64	136.31	153.64	126.64	200.77	304.30	360.65	1610.86
Jammu & Kashmir	39.12	21.46	34.64	35.14	85.13	66.98	107.43	82.38	124.00	99.63	747.35
Karnataka	30.59	19.99	26.97	26.31	31.17	34.27	37.15	65.81	63.18	51.01	463.78
Kerala	5.09	5.01	10.18	11.50	29.62	17.83	29.41	37.09	33.11	37.64	230.63
Madhya Pradesh	4.69	7.11	19.47	12.94	38.39	37.08	45.51	47.69	76.51	69.74	376.06
Maharashtra	13.89	14.29	10.36	14.18	18.72	41.83	28.86	39.52	82.88	149.35	473.15
Manipur	3.03	3.80	4.30	1.48	0.35	22.04	46.97	34.01	92.89	85.85	295.63
Meghalaya	9.29	11.91	14.46	22.77	23.60	55.21	114.16	65.69	112.73	75.81	586.59
Mizoram				13.18	39.15	54.77	64.71	85.60	150.91	80.32	550.71
Nagaland	8.79	22.09	18.09	28.04	17.18	81.91	11.63	40.05	123.13	39.02	434.88
Orissa	4.72	16.21	12.46	16.09	42.92	14.34	20.36	17.71	96.16	49.66	306.50
Punjab	33.07	17.56	17.71	27.59	37.53	38.34	56.51	45.63	131.10	88.08	540.06
Rajasthan	31.55	18.27	29.32	26.55	28.98	43.47	45.97	54.46	60.01	92.55	432.33
Sikkim	5.70	6.33	11.39	150.95	36.71	121.84	93.35	115.82	111.71	251.90	927.53
Tamil Nadu	13.26	45.17	22.49	25.06	25.65	32.54	20.52	35.20	65.45	46.49	373.79
Tripura	4.97	17.29	9.69	2.05	2.34	7.40	19.29	10.23	27.42	55.67	171.60
Uttar Pradesh	4.53	6.33	7.69	11.31	47.67	34.94	48.66	36.96	85.23	39.55	330.76
West Bengal	6.78	6.69	9.53	8.83	9.71	40.53	28.52	13.70	31.32	58.58	248.60
Total	12.26	14.92	15.46	21.68	32.38	34.94	39.15	43.19	71.96	72.67	394.47

Contd....

TABLE - III.24

(B) PER CAPITA ASSISTANCE DISBURSED TO BACKWARD AREAS BY AIFIs - STATE-WISE (1980-81 TO 1989-90)

(Rupees)

STATE	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990
1	2	3	4	5	6	7	8	9	10	11	12
Andhra Pradesh	10.24	12.35	20.08	21.88	28.60	35.40	31.42	42.36	49.14	48.76	338.14
Arunachal Pradesh				10.14	31.06	29.48	16.48	15.69	6.34	13.79	200.79
Assam	1.41	2.16	3.91	5.43	12.65	21.66	22.39	17.95	23.06	29.62	179.12
Bihar	1.36	2.08	2.46	2.40	2.13	3.17	4.22	3.14	3.94	4.66	36.21
Goa				215.65	200.00	220.44	235.54	300.00	410.13	705.89	3935.45
Gujarat	18.71	22.99	28.62	24.53	35.90	51.85	69.77	92.00	114.74	102.28	667.24
Haryana	10.96	12.23	9.86	12.92	36.76	23.14	28.16	17.57	43.33	67.03	295.94
Himachal Pradesh	18.43	43.95	46.68	65.23	77.66	134.81	123.32	100.02	175.54	210.91	1082.41
Jammu & Kashmir	21.98	20.39	30.75	34.06	41.97	44.03	62.64	80.89	84.47	74.81	559.80
Karnataka	17.40	19.84	21.11	29.23	29.73	24.32	31.95	33.43	51.81	47.61	368.64
Kerala	5.31	4.66	5.36	8.51	11.89	14.49	18.83	24.98	27.95	26.82	177.71
Madhya Pradesh	4.48	6.55	8.77	10.66	18.65	37.49	28.48	30.88	51.40	45.94	264.26
Maharashtra	8.98	13.79	16.03	12.30	12.80	24.61	23.70	31.23	45.99	51.57	290.03
Manipur	3.10	5.56	10.77	5.63	2.04	18.38	22.04	34.23	24.37	61.55	179.37
Meghalaya	5.24	6.44	14.08	24.19	24.34	49.44	66.14	49.44	87.72	83.90	483.15
Mizoram				17.44	21.50	47.46	46.25	84.18	115.82	80.93	468.56
Nagaland	5.43	8.66	22.09	13.31	29.46	55.43	39.28	39.41	68.48	55.17	370.80
Orissa	6.94	10.91	14.62	11.80	12.50	29.92	20.93	12.97	32.29	34.44	199.12
Punjab	18.71	26.16	17.40	18.92	28.17	22.38	25.18	60.25	53.96	95.38	402.87
Rajasthan	12.88	15.27	24.16	24.44	17.79	28.02	26.72	37.43	42.00	49.44	312.67
Sikkim	7.91	2.22	8.54	5.70	43.35	79.75	143.67	170.57	55.06	79.75	657.91
Tamil Nadu	11.11	11.94	19.82	37.21	32.56	22.87	22.00	22.30	33.33	44.67	305.02
Tripura	7.79	7.26	15.54	5.55	2.34	5.46	7.01	13.98	14.47	18.17	111.15
Uttar Pradesh	3.39	5.57	6.42	8.31	8.97	20.13	29.29	39.02	37.40	30.05	208.43
West Bengal	3.96	6.46	7.04	8.19	8.84	7.77	16.19	14.52	34.06	26.21	165.12
Total	8.23	10.67	13.56	15.72	18.34	24.73	27.54	33.09	43.52	44.26	276.84

<u>Note:</u> Percapita assistance has been calculated on the basis of population figures of 1981 Census.

<u>Source:</u> Table III.23

significant increase in their share relative to the other states which had a large share in the initial period. Most of the relatively more developed states have had a moderate rate of growth in sanctions. Even a slightly higher than the national average for states like Maharashtra, Gujarat, Tamilnadu means sanction of large amount of finance to them as their base is very high.[34] A glance at the per capita figures reveals the disparity in sanctions to the relatively more developed and the less developed states. Table III.25 shows sanctions to backward areas as a percentage of total sanctions to the respective states. The share of backward areas in total sanctions to the state is higher for the relatively less developed and hilly states. This should be expected as most of the area in backward states is identified as backward. To understand why these trends have emerged and why the sanctions of the FIs have gone to the developed states we need to look at the issue of identification of backward areas more closely.

III.2.(3.3) Identification of Industrially Backward Areas

Until 1969, there was no clear distinction between backward and non-backward areas. The Pande

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34. For example a 21 times increase in sanctions for Manipur between the periods 1980-85 and 1985-90 means an increase of 0.2 percentage points between the two periods but just a 4.5 times increase for Maharashtra means a 5.27 percentage point increase in its share.

TABLE - III.25

(A) SHARE OF BACKWARD AREAS IN TOTAL ASSISTANCE SANCTIONED BY AIFIs - STATE-WISE (1979-80 TO 1989-90)

(Percentages)

State	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra Pradesh	51.73	51.98	59.29	53.71	46.03	55.79	50.50	25.49	50.49	31.76	35.96	41.84
Arunachal Pradesh					100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Assam	52.06	66.23	60.81	82.34	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Bihar	45.80	30.65	27.71	29.18	26.26	35.83	26.38	35.03	14.14	31.61	11.76	22.57
Goa					100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Gujarat	49.03	28.88	26.64	18.03	60.73	35.31	37.63	36.59	30.54	23.96	33.97	33.70
Haryana	45.54	40.96	13.51	23.99	39.84	36.05	31.40	26.87	25.03	36.52	21.49	27.09
Himachal Pradesh	81.90	88.55	86.82	87.03	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Jammu & Kashmir	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Karnataka	68.46	58.94	52.05	51.80	38.88	33.32	30.30	38.84	53.38	41.81	34.33	43.38
Kerala	21.38	24.45	29.66	36.81	39.50	54.06	43.11	51.48	61.27	40.88	41.34	40.47
Madhya Pradesh	53.99	41.11	61.93	62.19	40.81	69.11	63.03	55.20	48.98	46.38	58.16	53.54
Maharashtra	20.53	20.54	20.99	14.04	16.37	16.88	24.80	16.55	17.23	26.44	23.54	21.18
Manipur	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Meghalaya	86.67	100.00	93.53	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Mizoram					100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Nagaland	86.82	100.00	97.71	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Orissa	55.98	27.23	45.25	33.16	34.41	45.03	33.05	36.29	27.69	62.58	31.32	38.97
Punjab	53.66	40.05	49.57	34.44	38.86	51.64	39.37	33.98	32.08	45.98	40.32	40.84
Rajasthan	59.79	67.60	51.47	65.53	52.41	64.13	59.69	55.83	59.51	25.92	53.73	47.51
Sikkim	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tamil Nadu	32.33	35.23	65.10	39.48	37.23	30.53	22.84	22.55	20.08	27.40	18.44	27.57
Tripura	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Uttar Pradesh	34.03	40.06	40.64	42.44	49.91	70.81	55.25	60.38	45.55	59.44	39.82	50.72
West Bengal	48.87	43.36	28.73	33.02	28.77	20.44	47.66	48.67	26.10	39.18	51.94	39.02
Union Territories	54.20	55.25	32.72	43.07	22.82	36.83	16.98	26.23	21.93	26.85	25.01	24.57
Total	41.72	40.32	42.14	37.06	41.46	45.90	40.12	38.93	36.14	38.01	34.71	37.79

Contd...

TABLE - III.25

(B) SHARE OF BACKWARD AREAS IN TOTAL ASSISTANCE DISBURSED BY AIFIs - STATE-WISE (1979-80 TO 1989-90)

(Percentages)

State	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	UPTO 1990
1	2	3	4	5	6	7	8	9	10	11	12	13
Andhra Pradesh	59.20	65.75	58.42	55.47	54.81	55.32	56.18	46.36	46.74	31.96	39.55	46.05
Arunachal Pradesh					100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Assam	52.10	57.70	68.31	73.44	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Bihar	34.07	33.53	31.84	30.08	22.20	25.27	36.51	27.77	12.80	18.17	16.41	20.80
Goa					100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Gujarat	43.23	37.64	33.11	37.75	31.60	42.00	33.21	34.17	41.98	35.93	37.76	36.75
Haryana	25.73	45.30	32.95	23.48	22.88	37.73	31.82	27.91	19.99	30.60	31.64	29.14
Himachal Pradesh	83.99	80.76	85.23	83.39	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Jammu & Kashmir	98.49	99.92	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Karnataka	36.34	50.80	49.95	52.02	50.15	37.78	24.52	39.58	44.15	47.86	43.51	42.99
Kerala	43.70	30.02	18.54	23.80	34.59	34.93	42.42	45.04	54.87	46.94	39.64	39.78
Madhya Pradesh	59.85	52.97	57.36	54.31	40.51	55.48	68.65	60.63	47.17	53.05	55.44	55.30
Maharashtra	19.27	17.75	24.55	26.03	17.96	15.55	21.35	18.37	17.57	20.49	15.58	18.78
Manipur	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Meghalaya	77.36	83.33	71.67	84.68	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Mizoram					100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Nagaland	78.38	84.00	76.14	93.44	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Orissa	40.65	58.02	62.38	51.31	38.21	39.20	55.72	37.21	26.84	39.68	52.06	38.80
Punjab	59.19	63.70	63.09	35.61	31.31	50.71	38.87	28.96	42.94	33.77	44.50	40.83
Rajasthan	49.53	57.80	65.40	69.89	55.70	48.01	59.12	40.59	57.19	65.81	55.96	55.74
Sikkim	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tamil Nadu	34.59	35.10	33.36	46.43	55.86	45.43	26.05	23.89	18.84	23.14	25.94	30.39
Tripura	100.00	99.38	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Uttar Pradesh	24.29	34.63	43.48	52.38	49.98	38.08	53.32	56.93	53.14	48.29	47.20	48.69
West Bengal	24.60	24.21	28.67	39.12	34.59	30.29	21.74	32.89	31.89	43.80	36.06	34.90
Union Territories	32.41	54.33	40.89	39.36	20.83	31.71	13.42	27.27	26.87	27.83	18.22	22.17
Total	36.78	39.01	40.12	43.57	40.96	40.26	39.53	38.23	37.77	37.49	35.46	38.05

Source: Compiled from Tables III.20 and III.23

Working Group on the "Identification of Backward Areas" submitted its report in 1969. The Working Group recommended that a certain number of (20 to 30) districts should be identified as backward. While identifying these districts the potential for development should also be taken into consideration. The Group suggested a host of indicators to measure degree of backwardness. These included: distance from large city and projects, poverty level, per capita income, factory employment and availability of infrastructural facilities. No explicit weights were suggested for preparing a composite index. The Planning Commission modified the criteria at the behest of Committee of State Chief Ministers. Each State Government was required to identify backward areas in their respective state on the basis of the criteria suggested by the Planning Commission. The absence of agreed weights to be attached to a criterion and the looseness in their definition[35] left a large room for manipulation by the State Governments. Only a few states followed the Planning Commission criteria in toto.[36] "Well below" the state average indices ultimately meant only below! No

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35. For example: "... adequate availability of electric power..."; "...well below the state average..."; ".... minimum level of infrastructure facilities...".

36. In fact, West Bengal which got 13 out of its 16 districts declared as backward classified them solely on the basis of per capita district incomes.

wonder 245 out of 386 districts in the country were declared as backward i.e. about two-thirds of the country was declared as backward! A developed state like Maharashtra was able to declare 13 of its 27 districts as backward. Thus these States were able to attract most of the projects and avail of the concessional finance available to backward areas from the financial institutions at the all India as well as State levels.

How can one compare a backward district of Maharashtra or Punjab with that of Bihar or Madhya Pradesh? Soon the planners realised this problem. In line with the stated objective in the Sixth Plan that "a progressive reduction in regional inequalities in the pace of development..." [37] the Government of India, in 1983, identified 299 districts as Specified Backward Areas and classified them into A, B and C categories; 'A' being the most backward and 'C' having the least degree of backwardness (between all the backward areas).[38] Various concessions were given for setting up industrial units in category 'A' districts. Special concessions were given to MRTPA companies in

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37. INDIA, Planning Commission (1981), Sixth Five Year Plan: 1980-85, p. 34.

38. Industrial Development Bank of India (1984), Schemes of Concessional Assistance for Development of No-Industry Districts and Other Backward Areas.

setting up projects in 'A' and 'B' category districts.[39] How far this categorisation has succeeded in locating industrial units only a detailed study will show. But if one looks at Tables III.23 and III.25 one finds that even this classification has had an immediate impact in favour of the developed states. From Table III.23 we find an exceptional rise in sanctions to backward areas of Andhra Pradesh, Gujarat, Uttar Pradesh, Punjab and Haryana (also see Graph III.D). Except for Bihar and Sikkim, none of the other less developed states show an exceptional rise in sanctions in 1983-84 compared to 1982-83.[40] In fact, most of the North-Eastern and hilly regions show a decline in the financial sanctions to them, inspite of the fact that though the entire area under them has been declared backward of category 'A'! The point, that the developed states seem to have been the immediate beneficiaries, comes out more clearly from Table III.25 which shows the share of backward area to the state in the total sanctions and disbursements to the state. Six out of the eight states show an increase in the share of sanctions to backward area to total between the periods 1982-83 and 1983-84. These

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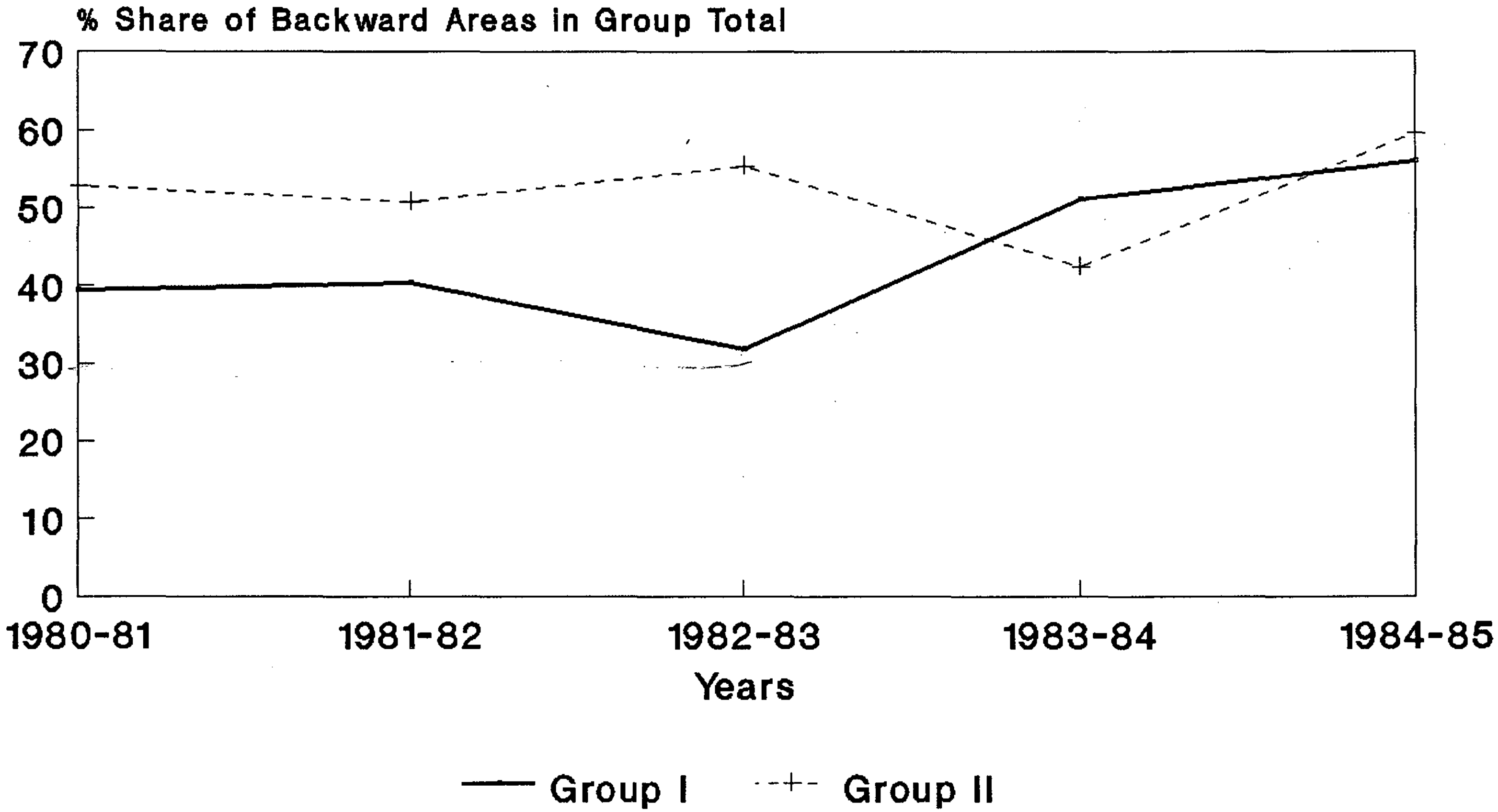
39. Amitabh Kundu and K.S. Chalapati Rao, (n.d.) "Industrialisation and Regional Development An Analysis of the Patterns, Policies and Future Perspectives with Special Reference to the Petrochemical Industry in India". (mimeo).

40. The 'A', 'B', 'C' categorization became effective from 1st April, 1983.

Graph III.D

Initial Impact of Backward Area Categorisation in 1983



Group I =AP,Gujarat,UP,Punjab,Haryana
Group II=Bihar,HP,Orissa,MP,Rajasthan
Source: Based on Tables III.20 & 21

States are Gujarat, Maharashtra, Punjab, Uttar Pradesh, Kerala and Haryana. Three of the seven states which show a decrease in the ratio of sanctions to backward area to total are the relatively backward states of Bihar, Madhya Pradesh and Rajasthan. Interestingly enough, West Bengal also falls in this category. Orissa does not show a significant change. As most of the hilly states have been declared wholly backward, all assistance to them would automatically go to backward areas.

As mentioned earlier, the industrial development policy for the backward areas was announced, 13 of the 27 districts of Maharashtra were declared backward. This number had gone up to 17 by end 1985.[41] Even after the new classification, it is difficult to treat backward districts of different states on an equal footing. The policy of concessional finance and the Central Investment Subsidy is likely to keep benefiting the developed states.[42] ✓

The Industrial Policy Resolution of 1956 had stated that concentration of industries had mostly

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41. Economic Times, November 15, 1985.

42. In this context, it may be noted that a Planning Commission study observed that "general term lendings, concessional finance and concessional refinance were taken proportionately more advantage by the backward districts in industrially advanced States compared to those in industrially backward States". See: INDIA, Planning Commission (1981), Evaluation Report on Concessional Finance and Other Incentives in Industrially Backward Areas, p. 48.

been in areas which were better served with water, power and transport facilities. Even today, availability of power and transport facilities is the major consideration for an industrialist - big or small. As the funds available for investment in a developing economy like India are limited, we can concentrate on only a few growth centres.[43] A growth-centre theory is, however, criticized on the grounds that it leads to spatial concentration of demand and migration of skilled labour. At times only "islands of prosperity" are created from where there is hardly any "percolation effect" to other surrounding areas.[44] For a growth-centre theory to work and the imbalance created to reduce over time the 'linkage effect' is of considerable importance. Different industries have different "backward" and "forward" linkages.[45] Thus the nature of the industry acquires great importance. Availability of power and water and the availability

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43. The Growth Centre approach was recommended by the Sivaraman Committee. INDIA, Planning Commission (1980), <u>Report on Industrial Dispersal</u>, National Committee on the Development of Backward Areas. Also see: Jyotsna Paranjape (1988), "Inducing Industrial Location in Backward Regions: A Study of Maharashtra and Gujarat", <u>Economic and Political Weekly</u>, Vol. 23, Issue No. 7, pp. 321-330.

44. Large public sector investments in Orissa and Bihar are cases in point.

45. O.A. Hirshman (1958), "The Strategy of Economic Development", Yale University Press, New Haven -- reprinted in Gerald M. Meir (1984), <u>Leading Issues in Economic Development</u>, Oxford University Press, New York, Fourth Edition.

of raw materials and a market are the essentials for the success of any industrial activity.

A study of small scale industries shows that the critical mortality rate, i.e., mortality rate of units closing down within five years of inception, was 12.3 percent for Vadodara and 5.2 percent for Kheda.[46] Vadodara had a heavy concentration of large scale industry while Kheda was less urbanised but agriculturally well developed. The study concludes that as most of the industries in Kheda were agro-based, they were able to acquire the raw materials easily and did not have to go to distant markets for selling their produce. The industrial units in Vadodara had to bear the uncertainty and cost of marketing their produce in far off markets. Also as the industrial units in Vadodara district were highly concentrated around Vadodara city and not spread over the district, unlike in the case of Kheda, the relatively new and existing industrial units had to compete among themselves for the infrastructural facilities of power, transport, water etc. Though "dispersal of concentration" may seem to be the right step but for development planning a much broader approach is necessary. In this regard encouragement to small scale industries is quite relevant. Unfortunately, state level development banks and

46. S.R. Hashim, et al. (1985), "Small Scale Industries: Their Role in Development" (mimeo).

corporations which cater more to the small scale sector account for less than 20 percent of the total sanctions by FIs and this share has been declining particularly in the past few years.

Section Three

Promotional Role of Development Banks

Even when infrastructural facilities are available, concessional finance need not flow to the backward regions. Statistics on the applications for industrial licenses coming to different states during 1981 shows that not only backward states have a low share in total applications made than their corresponding share in population, the percentage of approvals also works out to be lower than the national average.[47] The main reason why this happens is the absence of entrepreneurial skills and lack of identification of potential projects. That entrepreneurial motivation has an important role to play in economic growth, particularly for small industry, was realised by the development finance institutions by the early '70s itself. This problem was to be tackled by IDBI, the apex institution for coordinating the activities of all financial institutions in the country.

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47. Kundu and Rao, op. cit.

The strategy adopted by IDBI in collaboration with ICICI, IFCI and the State Development Banks was three fold. Firstly, interrelated functions for the promotional role are to be identified. Secondly, inter-institutional groups (IIGs numbering 22 i.e. one for each state) were set up as decision making groups. And finally, Technical Consultancy Organisations (TCOs) and Entrepreneurial Development Programme (EDPs) were established: (i) to identify promising project ideas; (ii) to identify and train potential entrepreneurs; and (iii) to identify projects requiring technical assistance and provide the same.[48]

The strategy was not actively followed up in the '70s. But in the '80s TCOs and EDPs show a rise in scale of operations (Table III.26). The number of feasibility studies, EDPs conducted and the people trained, all show a substantial rise especially since the mid-'80s. The total number of surveys and studies conducted by TCOs have increased from 1,553 in 1983-84 to 4,128 in 1989-90. The EDPs conducted and persons trained in 1989-90 were 191 and 4,815 respectively. The corresponding figures for 1983-84 were 67 and 1,851.

However, the mushroom growth in EDPs has not incorporated some of the problems effectively which

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48. V.V. Bhatt (1981), "Financial Institutions and Technical Consultancy Services: Experiment in Small Enterprise Promotion", Economic and Political Weekly, Vol. XVI, No. 48, p. M147.

TABLE - III.26

SUMMARY OF OPERATIONS OF TECHNICAL CONSULTANCY ORGANISATIONS (1983-84 TO 1989-90)

(Numbers)

Type of Service	Upto 83 (March)	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
1	2	3	4	5	6	7	8	9
Feasibility studies/project reports/ profiles	7482	991	1019	1537	2158	2426	3147	3431
Project appraisals	733	338	356	867	113	26	44	37
Surveys/studies (industrial potential surveys,market surveys,area development surveys and others)	333	107	261	225	125	198	144	228
Functional industrial complexes/ turnkey assignments	-	-	7	31	12	9	9	12
Modernisation/rehabilitation/ diagnostic studies	461	91	115	121	150	271	209	247
Other assignments/specific studies	200	26	-	288	188	152	151	173
TOTAL	9209	1553	1758	3069	2746	3082	3704	4128
Enterpreneurship Development Programmes (EDPs)								
(a) Programmes conducted	119	67	80	116	100	156	216	191
(b) Persons trained	3698	1851	1851	3080	2625	4030	4267	4815
Enterpreneurship Awareness Camps/ Gramodaya EDPs/Skill Upgradation Programmes	-	-	-	-	-	6	45	15
SEEUY Training Programmes	-	-	-	-	-	-	12	-

<u>Source</u>: IDBI, <u>Report on Development Banking in India</u>, for years 1982-83 to 1989-90

Indian industry is faced with today. EDPs as instruments of 'self employment' generation among the rural and urban poor and women have low receptivity and hence, effectiveness. Substantial conceptual and operational modifications are required.[49] Secondly, EDPs have not been modelled to train 'turn around' entrepreneurs to control the rising incidence of industrial sickness. Existing EDPs should incorporate a set of 'diagnostic skills and remedial measures' so that new units being set up by EDP trained entrepreneurs may be prevented from becoming sick. Lastly, there is an absence of any mechanism for regular monitoring and evaluation of the results of the EDPs. Such mechanisms need to be evolved so as to "assess the effectiveness of EDPs in establishment of 'healthy' small enterprises and accordingly improve the EDP inputs and methods of their delivery."[50]

Summing Up

Financial Institutions occupy an important place in the Indian Economy. Even after being present in the economy for a long time their dependence on the Government and its related agencies for funds has not decreased significantly. Their operations in the capital market have definitely created an atmosphere

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49. A.N. Oza, "Integrated Entrepreneurship Development Programmes", Economic and Political Weekly, Vol. XXIII, No. 22, pp. M73-79.

50. ibid. p. M79.

of stability, but whether they have strengthened the development of the capital market or not is not certain. We have argued that the dependence of the capital market on the financial institutions has increased and their intervention in the operations are taken for granted. The main beneficiaries of their operations have been the medium and large industries. MRTPA companies too have received a favorable treatment from them. The share of public sector in total sanctions has been rising but Private Sector still accounts for over two-thirds of the total sanctions. Cooperative sector's share has been declining steadily - especially in the late '80s. The industry-wise allocations show that a few industries account for most of the sanctions. We also find that there is no definite relation between the plan priorities and the financing of industries.

Rupee loan is the major mode of providing assistance. Reliance on loan capital has led to a high debt-equity structure of the assisted companies. This could be augmenting the rising incidence of industrial sickness.

Regional distribution of the assistance by FIs reveals that the regional disparities have not been reduced, if not perpetuated by their operations. Changing government policy and an unplanned and half hearted efforts at implementation have been major causes for failure of the policy of developing backward areas for reduction in regional imbalances. Planning Commission noted with regard to the policy on backward area development that "the package of incentives and concessions offered by State Governments have often been found to defeat the purpose of the central schemes of incentives."[51]

As a public policy, investments in backward areas need to be supported, but it should not result in a case of 'socialization of costs and privatization of benefits'. The promotional role of the development banks has been very much under discussion since the early '80s. A more coordinated and field oriented activity could make the programmes substantially more meaningful.

The term lending institutions have built a large base. These institutions have gathered a variety of area information. These institutions have a great deal of accumulated knowledge and experience in developmental financing. Today, however, many of the earlier assumptions do not hold.[52] Financing by these

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51. The note was reproduced in Business Standard on 5th, 6th and 7th June 1986.

52. The 'eighties have also seen the emergence of new forms of industrial finance of which leasing occupies an important place. Venture Capital Funds, Mutual Funds, Commercial Paper and floating of new finance companies by large private sector groups (e.g. Tatas, Ashok Leyland, ITC and Escorts) are the other major developments. It is yet to be seen how these developments have affected the functioning of the development banks. Moreover, there is external pressure, more particularly from the USA, to throw open the Indian services sector to foreign investment. Irrespective of these developments, the financial institutions can, however, be expected (continued...)

institutions has a variety of implications and limitations. If these public financial institutions have to play an important role in the planned development of the country they need to re-orient their policies and programmes to assert much more than what has been their past.

52.(...continued)
to play a greater role in the capital market after they become members of various stock exchanges.

CHAPTER IV

Project Financing by the IDBI

The IDBI operations can be grouped under schemes of direct and indirect financial assistance to the industrial sector. The direct assistance schemes include Project Loans, Underwriting and Direct Subscription, Guarantee for Loans and Deferred Payments, and Technical Development Fund Scheme. Chart IV.A gives an overall view of the direct finance schemes of IDBI. Indirect assistance would include refinance, discounting, and investment in other financial institutions. Table IV.1 shows the trends and pattern in assistance sanctioned by the IDBI during 1964-89. Direct Finance accounts for nearly one-third of the overall financial sanctions made by IDBI. The Project Finance account explains over 95 per cent of the direct assistance sanctioned as also disbursed by the IDBI. In view of the overwhelming importance of the project finance in IDBI's direct finance operations, this chapter examines critically the nature of the industrial projects supported and the extent of their conformity with nationally accepted objectives.[1]

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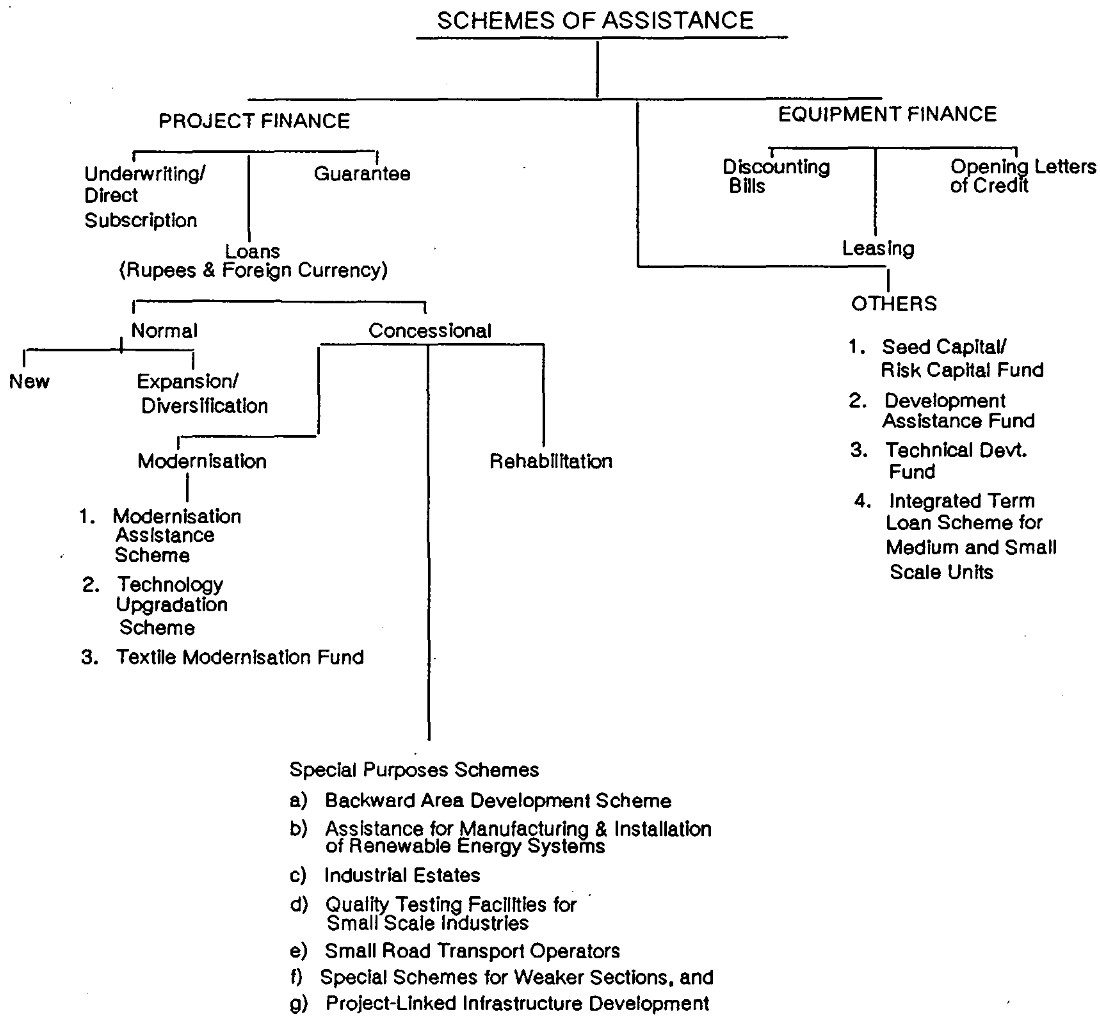
1. Though the Project Finance Scheme is operated by all the national level development banks - singly or on a consortium basis - we shall restrict our study to the Project Finance Scheme of the IDBI as this is the single most important agency providing institutional finance to industry.

Chart IV.A

TYPES OF ASSISTANCE EXTENDED BY THE FI SYSTEM



Source: R.M. Honovar, et al., (1989), National Development Banks and Technological Development in India.

TABLE - IV.1

(A) SCHEME-WISE TREND IN ASSISTANCE SANCTIONED - (FIVE YEARLY AGGREGATES)

(Rs. Lakhs)

S.NO. SCHEME	1964-70	1970-75	1975-80	1980-85	1985-89	Jul.64-Mar.89
1	2	3	4	5	6	7
1 Direct Finance	14165	.25918	135426	362866	574270	1232648
(a) Project Loans	9466	21743	123163	296436	625965	1076793
(b) Underwriting and Direct Subscriptions	2275	3927	10020	32847	44887	93956
(c) Guarantees for Loans and Deferred payments	2424		4	25562	11441	39679
(d) Technical Development Fund			2239	8001	11980	39679
2 Refinance of Industrial Loans	9546	19904	142459	426535	711786	1310230
3 Bills Rediscounting	6143	31430	71936	247653	393162	750344
4 Direct Discounting of Bills					874	874
5 Loans to and Investments in Shares and Bonds of Other Financial Institutions	2442	3087	13933	35519	70218	125199
6 Seed Capital			371	4008	3964	8343
7 Loans to Leasing Companies					10000	10000
Total (1 to 7)	32296	80339	364125	1076581	1884297	3437638
8 Other Guarantees					2400	2400
Total (1 to 8)	32296	80339	364125	1076581	1886697	3440038
9 Export Finance	2744	10634	51755	47421		112555
Total (1 to 9)	35040	90972	415880	1124002	1886697	3552593

(B) SCHEME-WISE TREND IN ASSISTANCE SANCTIONED - FIVE YEARLY AGGREGATES (SHARES)

(Percentage Shares)

SCHEME	1964-70	1970-75	1975-80	1980-85	1985-89	Jul.64-Mar.89
1 Direct Finance	40.43	28.49	32.56	32.28	30.44	34.70
(a) Project Loans	27.01	23.90	29.62	26.37	33.18	30.31
(b) Underwriting and Direct Subscriptions	6.49	4.32	2.41	2.92	2.38	2.64
(c) Guarantees for Loans and Deferred payments	6.92	0.00	0.00	2.27	0.61	1.12
(d) Technical Development Fund	0.00	0.00	0.54	0.71	0.63	1.12
	0.00	0.00	0.00	0.00	0.00	0.00
2 Refinance of Industrial Loans	27.24	21.88	34.25	37.95	37.73	36.88
3 Bills Rediscounting	17.53	34.55	17.30	22.03	20.84	21.12
4 Direct Discounting of Bills	0.00	0.00	0.00	0.00	0.05	0.02
5 Loans to and Investments in Shares and Bonds of	0.00	0.00	0.00	0.00	0.00	0.00
Other Financial Institutions	6.97	3.39	3.35	3.16	3.72	3.52
6 Seed Capital	0.00	0.00	0.09	0.36	0.21	0.23
7 Loans to Leasing Companies	0.00	0.00	0.00	0.00	0.53	0.28
Total (1 to 7)	92.17	88.31	87.56	95.78	99.87	96.76
8 Other Guarantees	0.00	0.00	0.00	0.00	0.13	0.07
Total (1 to 8)	92.17	88.31	87.56	95.78	100.00	96.83
9 Export Finance	7.83	11.69	12.44	4.22	0.00	3.17
Total (1 to 9)	100.00	100.00	100.00	100.00	100.00	100.00

Notes: (i) Export finance operations have since been taken over by Export Import Bank of India with effect from March 1982.

(ii) Period: July-June

Source: IDBI *Operational Statistics*, 1964-89.

Assistance under Project Finance Scheme is provided for new projects, projects going in for expansion, diversification, modernisation and rehabilitation. The main forms of assistance include: (i) rupee and foreign currency loans; (ii) underwriting and direct subscription to shares and debentures; and (iii) financial guarantees. As a policy the IDBI restricts its programmes of direct assistance to projects with outlays of more than Rs. 5 crores. The IDBI pays special attention to "projects involving large capital outlays or sophisticated technology, promoted by technician entrepreneurs, located in less developed regions and/or exploring new technology which might not find ready support from other institutions".[2]

Project financing is one major activity of the IDBI. Each individual case is supposed to be examined critically before the IDBI makes any commitment. The project finance activity, therefore, should reflect IDBI concerns and the extent to which IDBI operations have been in conformity with national priorities. An analysis of project finance data provides micro level information and would permit a variety of compilations beyond what becomes available through administrative reports and aggregates. The data for this study was obtained from unpublished sources of the IDBI. We

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2. Industrial Development Bank of India (1980), Schemes of Assistance, p. 4.

could obtain details of 3281 individual projects assisted by the Bank during July 1964 - March 1989. The project level details include: location, industry, sector, product-mix, project cost, and types of financial assistance provided. The data structure is given in Appendix I to this chapter.

Operational Statistics, 1964-1989, published by the IDBI, presents aggregated data on operations of the IDBI for the period July 1964 - March 1989. Basic tables given in this publication have been used in combination with the project level data. A discrepancy of less than three per cent of total Project Finance assistance, which exists between the two compilations, is due to the exclusion of a few erroneous and incomplete records from the project-wise data. It appears necessary to mention at the outset that the project level data gives the amount sanctioned at the time of approval and does not give actual disbursals. There is, no doubt, significant amounts of cost overruns due to various reasons; however, we could not examine this aspect due to non-availability of data from the institution. The analysis is restricted to initial approvals only.

In Section One we analyse some broad trends in the Project Finance Scheme of IDBI. The project level data is used to study the pattern of regional distribution of assistance at the state and district levels in Section Two. Section Three provides an analysis from the view point of assistance sanctioned to monopoly houses and concentration of economic power in private hands.

Section One

Project Financing: Overall Trends

Project financing by the IDBI through loans account for over 88 per cent of all sanctions. During the '60s and the '70s the loan assistance was only by way of rupee currency (Table IV.2). Starting in 1982 Foreign Currency loans acquired a significant place and accounted for nearly 15 per cent of the loan component during 1985-89. The cumulative total of Foreign Currency loans provided stood at Rs. 1084.09 crores on March 31, 1989. It is but natural to ask if there was a turning point in the nature of assistance provided by the IDBI with the beginning of the 80's.

IV.1.1 Foreign Currency Loans

Since 1982, IDBI has been providing Foreign Currency Loans for the import of capital equipment. The foreign currency loans sanctioned by IDBI have increased in value from Rs. 21.97 crores in 1982-83 to Rs. 540 crores in 1989-90. From Table IV.3 we see that the share of foreign exchange going to the private sector is almost 80 per cent, followed by Joint Sector (11.65 per cent) and Public Sector(8.68 per cent). Even though the public sector has a share

TABLE - IV.2

COMPONENT-WISE DISTRIBUTION OF SANCTIONS (1964-89)

(Rs. Lakhs)

Period	No. of Projects	Rupee Loan		Foreign Currency Loan		Underwritting & Direct Subscription to Shares		Guarantees		Total
		Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount
1	2	3	4	5	6	7	8	9	10	11
1964-70	116	11293.52	72.84	0.00	0.00	2306.80	14.88	1904.23	12.28	15504.55
1970-75	171	28754.60	86.69	94.49	0.28	4103.52	12.37	217.01	0.65	33169.62
1975-80	670	132792.39	92.77	197.77	0.14	10152.43	7.09	0.00	0.00	143142.59
1980-85	971	298443.40	77.07	21286.28	5.50	34386.64	8.88	33121.10	8.55	387237.42
1985-89	1343	494644.40	78.74	86830.81	13.82	42713.13	6.80	4011.00	0.64	628199.34

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.3

PROJECT FINANCE SCHEME: SECTOR-WISE TREND IN FOREIGN CURRENCY LOANS SANCTIONED

(Rs. Lakhs)

Sr.No.	Sectors	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	July 1988-March 1989	Jan 1982-March 1989
	1	2	3	4	5	6	7	8	9	10
1.	Private	279	1403	3331	11226	10926	11976	9351	38520	87012
2.	Public		58	2222	253	933	2648	2625	736	9475
3.	Joint	195	736	1322	338	1858	1279	4069	2930	12727
4.	Co-operative									
	Total	474	2197	6875	11817	13717	15903	16045	42186	109214
PERCENTAGE SHARES										
1.	Private	58.86	63.86	48.45	95.00	79.65	75.31	58.28	91.31	79.67
2.	Public		2.64	32.32	2.14	6.80	16.65	16.36	1.74	8.68
3.	Joint	41.14	33.50	19.23	2.86	13.55	8.04	25.36	6.95	11.65
4.	Co-operative									
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Period: July - June
Source: IDBI *Operational Statistics*, 1964-89.

of around 15 per cent in all sanctions, the percentage of foreign currency loans sanctioned to it is less than 9 per cent. Table IV.4 gives the foreign currency loans sanctioned to industries in different sectors for the period of April 1982 to March 1989. Fertilizers, artificial fibers, miscellaneous chemicals and electrical machinery account for over 64 per cent of the foreign currency loans sanctioned.

Why do projects in the private sector require foreign currency loans when in the same industry public and the cooperative sector projects can do without them? (e.g. - cotton textiles, fertilizers, paper and paper products etc.). This is possibly due to imported technology which comes in a package. Another relevant question to ask is if the Foreign Currency loans have to be paid back in Foreign Currency by the borrowers or the liability of the borrower is limited to rupee value at the time of taking Foreign Currency loan? On an examination of a few prospectuses issued by companies availing foreign currency loans from financial institutions we did not find any condition covering exchange rate changes.

IV.1.2 Underwriting and Direct Subscription

Financing through underwriting is an important form of project assistance. Due to underdeveloped capital market structures, scarcity of capital and the difficulties of raising adequate resources for large

TABLE - IV.4

INDUSTRY-WISE DISTRIBUTION OF FOREIGN CURRENCY LOANS SANCTIONED

(Rs. Lakhs)

Industry	Joint			Private			Public			Total	
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount
1	2	3	4	5	6	7	8	9	10	11	12
Artificial Fibres	13	2298.00	14.59	86	12519.80	79.50	5	930.00	5.91	107	15747.80
Basic Industrial Chemicals	9	1048.00	32.46	43	1213.28	37.58	16	967.56	29.97	68	3228.84
Basic Metals (Iron & Steel)	11	41.20	0.46	151	8620.27	96.47	9	274.32	3.07	171	8935.79
Basic Metals (Non-ferrous)	2	139.00	58.16	12	100.00	41.84	1	0.00	0.00	15	239.00
Cement	14	594.00	9.62	146	5508.07	89.24	11	70.00	1.13	171	6172.07
Cotten Textiles	3	165.08	10.20	282	1452.61	89.80	80	0.00	0.00	444	1617.69
Electrical Machinary	22	1767.00	13.76	133	7022.78	54.67	29	4055.35	31.57	185	12845.13
Electricity Generation	1	0.00	0.00	11	0.00	0.00	1	0.00	0.00	13	0.00
Fertilisers	19	772.20	3.20	44	23333.50	96.80	4	0.00	0.00	69	24105.70
Food (Others)	7	117.00	19.85	44	472.46	80.15	1	0.00	0.00	67	589.46
Food (Sugar)	0	0.00	0.00	25	0.00	0.00	17	0.00	0.00	126	0.00
Glass & Glass Products	3	2520.00	82.51	42	534.34	17.49	0	0.00	0.00	45	3054.34
Jute	0	0.00	0.00	0	0.00	0.00	2	0.00	0.00	2	0.00
Leather & Leather Products	1	100.00	54.05	6	85.00	45.95	0	0.00	0.00	7	185.00
Machinary	2	0.00	0.00	60	1892.75	100.00	3	0.00	0.00	65	1892.75
Metal Products	6	140.49	10.10	25	1250.34	89.90	0	0.00	0.00	31	1390.83
Miscellaneous Chemicals	34	1133.00	8.63	139	10263.68	78.18	13	1732.00	13.19	187	13128.68
Oil Expl. & Gas Gen.	1	0.00	0.00	7	1547.00	100.00	4	0.00	0.00	12	1547.00
Others	1	74.20	3.72	45	1450.20	72.73	12	469.44	23.54	58	1993.84
Paper & Paper Products	9	55.00	9.69	48	512.48	90.31	1	0.00	0.00	62	567.48
Petroleum & coal	0	0.00	0.00	1	0.00	0.00	0	0.00	0.00	1	0.00
Rubber & Rubber Products	5	21.75	1.31	17	1394.00	83.69	1	250.00	15.01	23	1665.75
Services (Hospitals)	1	770.00	28.55	20	1927.00	71.45	1	0.00	0.00	22	2697.00
Services (Hotels)	3	0.00	0.00	28	0.00	0.00	5	0.00	0.00	36	0.00
Services (Industrial Estates)	0	0.00	0.00	2	0.00	0.00	54	0.00	0.00	56	0.00
Services (Others)	0	0.00	0.00	4	329.00	100.00	3	0.00	0.00	7	329.00
Services (Shipping)	0	0.00	0.00	2	423.00	100.00	0	0.00	0.00	2	423.00
Total	167	11755.92	11.49	1423	81851.56	79.97	273	8748.67	8.55	2052	102356.15

Period: April to March.

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

and priority projects financial institutions were assigned the role of providing project finance so that the process of industrialisation does not suffer because of capital scarcity. This was particularly so for the private sector and new entrepreneurs. The underwriting form of assistance accounted for over 15 per cent of all sanctions in the early '70s; the share came down to 6-8 per cent by end of the '80s (Table IV.2). Table IV.5 shows the participation of IDBI in equity capital, preference shares and debentures. To help raise equity capital the IDBI gave support through underwriting of issues worth Rs. 855.12 crores (sanctions) over the period 1964-89. The IDBI support by way of underwriting to preference shares and debentures has been small: Rs. 20.56 crores for preference shares and Rs. 63.88 crores for debentures. Since the late '70s, equity shares have accounted for over 85 per cent of the underwriting and direct subscription. The equity underwriting increased in a substantial manner during the late '80s.

A little earlier to the reported boom in the capital market, following the announcement of the budget for 1985-86, underwriting activity of the Financial Institutions (FIs) grew in absolute and relative terms. It reached its peak in 1984-85. Table IV.6 gives the trends in financing pattern of assisted projects under Project Finance Scheme for the period July 1980 - March 1989. We observe that though

TABLE - IV.5

PROJECT FINANCE SCHEME: TREND IN UNDERWRITING* ASSISTANCE SANCTIONED AND DISBURSED

(July - June) (Rs. Crore)

	Sanctions				% to Total Sanctions				Disbursements				% to Total Disbursements			
Year	Equity	Preference	Debentures	Total	Equity	Preference	Debentures	Total	Equity	Preference	Debentures	Total	Equity	Preference	Debentures	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1964-65	4.65	1.6		6.25	74.40	25.60	0.00	100.00	0.33	0.1	0	0.43	76.74	23.26	0.00	100.00
1965-66	4.18	0.53	1.3	6.01	69.55	8.82	21.63	100.00	3.35	0.69	1.3	5.34	62.73	12.92	24.34	100.00
1966-67	0.53	0.36		0.89	59.55	40.45	0.00	100.00	4.04	1.15	0	5.19	77.84	22.16	0.00	100.00
1967-68	0.94	0.24		1.18	79.66	20.34	0.00	100.00	0.68	0.43	0	1.11	61.26	38.74	0.00	100.00
1968-69	0.67	0.11	1.5	2.28	29.39	4.82	65.79	100.00	0.47	0.16	0.94	1.57	29.94	10.19	59.87	100.00
1969-70	2.73	3.41		6.14	44.46	55.54	0.00	100.00	1.31	0.84	0	2.15	60.93	39.07	0.00	100.00
1970-71	1.74	0.9	0.69	3.33	52.25	27.03	20.72	100.00	1.41	2.38	0	3.79	37.20	62.80	0.00	100.00
1971-72	12.69	0.44	1	14.13	89.81	3.11	7.08	100.00	0.88	0.57	0.43	1.88	46.81	30.32	22.87	100.00
1972-73	5.01	0.61	1.05	6.67	75.11	9.15	15.74	100.00	3.49	0.63	0.77	4.89	71.37	12.88	15.75	100.00
1973-74	5.94	0.11		6.05	98.18	1.82	0.00	100.00	3.54	0.2	1	4.74	74.68	4.22	21.10	100.00
1974-75	5.84	0.25	3	9.09	64.25	2.75	33.00	100.00	1.83	0.25	0.24	2.32	78.88	10.78	10.34	100.00
1975-76	7.16	0.27	3.98	11.41	62.75	2.37	34.88	100.00	5.52	0.32	1	6.84	80.70	4.68	14.62	100.00
1976-77	12.16	0.36		12.52	97.12	2.88	0.00	100.00	3.52	0.06	4.5	8.08	43.56	0.74	55.69	100.00
1977-78	12.35	0.2	1.5	14.05	87.90	1.42	10.68	100.00	9.19	0.78	1.21	11.18	82.20	6.98	10.82	100.00
1978-79	23.67	0.25	1.29	25.21	93.89	0.99	5.12	100.00	5.31	0.32	0.71	6.34	83.75	5.05	11.20	100.00
1979-80	32.5	0.25	4.26	37.01	87.81	0.68	11.51	100.00	4.02	0	3.67	7.69	52.28	0.00	47.72	100.00
1980-81	61.05	0.08	5.64	66.77	91.43	0.12	8.45	100.00	3.54	0.08	0.46	4.08	86.76	1.96	11.27	100.00
1981-82	29.36	0.5	2.61	32.47	90.42	1.54	8.04	100.00	23.36	0.19	0.93	24.48	95.42	0.78	3.80	100.00
1982-83	36.18	0.15	1.22	37.55	96.35	0.40	3.25	100.00	22.97	0.18	1.21	24.36	94.29	0.74	4.97	100.00
1983-84	85.15			85.15	100.00	0.00	0.00	100.00	10.26	0.25	0.04	10.55	97.25	2.37	0.38	100.00
1984-85	105.89	0.1	0.54	106.53	99.40	0.09	0.51	100.00	9.56	0	1.07	10.63	89.93	0.00	10.07	100.00
1985-86	65.27	1	8	74.27	87.88	1.35	10.77	100.00	8.99	0	0	8.99	100.00	0.00	0.00	100.00
1986-87	125.69	0.29	5.82	131.8	95.36	0.22	4.42	100.00	29.43	0	1.96	31.39	93.76	0.00	6.24	100.00
1987-88	119.93	2.34	1.19	123.46	97.14	1.90	0.96	100.00	42.85	0	1.47	44.32	96.68	0.00	3.32	100.00
1988-1989 (March)	93.84	6.21	19.29	119.34	78.63	5.20	16.16	100.00	15.37	0	12.27	27.64	55.61	0.00	44.39	100.00
Total	855.12	20.56	63.88	939.56	91.01	2.19	6.80	100.00	215.22	9.58	35.18	259.98	82.78	3.68	13.53	100.00

Source: Yearwise figures have been obtained from IDBI Operational Statistics, 1964-89.

TABLE IV.6

PROJECT FINANCE SCHEME: TREND IN FINANCING PATTERN OF ASSISTED PROJECTS
(July 1980 - March 1989)

(Rs. Lakhs)

Sr. No.	Year	No. of projects	Means of financing the projects: Project cost	Equity	Loans	Others*	Promoters contri-bution#	Support from all-India institutions: IDBI: Loans	Under-writing	Guarantees	Total	Others+: Loans	Under-writing	Guarantees	Total	Other@ sources
1		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.	1980-81	210	187950	36026	128311	23614	44352	48830	6677	306	55813	42529	4500		47028	40757
				(19.2)	(68.2)	(12.6)	(23.6)	(26)	(3.5)	(0.2)	(29.7)	(22.6)	(2.4)		(25)	(21.7)
2.	1981-82	266	275789	84957	163623	27209	97316	39746	3247	2877	45870	51267	3488	141	54895	77708
				(30.8)	(59.3)	(9.9)	(35.3)	(14.4)	(1.2)	(1)	(16.6)	(18.6)	(1.3)		(19.9)	(28.2)
3.	1982-83	270	161227	38622	103440	19166	46301	41686	3755	520	45961	54343	4336	587	59265	9700
				(23.9)	(64.2)	(11.9)	(28.7)	(25.9)	(2.3)	(0.3)	(28.5)	(33.7)	(2.7)	(0.4)	(36.8)	(6)
4.	1983-84	296	280660	58477	182170	40013	72512	64154	8515	1800	74469	81352	8797	810	90959	42720
				(20.8)	(64.9)	(14.3)	(25.8)	(22.8)	(3)	(0.6)	(26.5)	(29)	(3.1)	(0.3)	(32.4)	(15.2)
5.	1984-85	292	414979	64554	280090	70336	95855	102040	10653	20059	132752	92031	8622	6193	106848	79524
				(15.6)	(67.5)	(16.9)	(23.1)	(24.6)	(2.6)	(4.8)	(32)	(22.2)	(2.1)	(1.5)	(25.7)	(19.2)
6.	1985-86	361	533924	122160	310396	101368	186365	116737	7427	5736	129900	119517	9497	4481	133495	84164
				(22.9)	(58.1)	(19)	(34.9)	(21.9)	(1.4)	(1.1)	(24.3)	(22.4)	(1.8)	(0.8)	(25)	(15.8)
7.	1986-87	437	552394	101406	377383	73605	131360	149708	13180	2078	164966	143443	10964	783	155189	100879
				(18.4)	(68.3)	(13.3)	(23.8)	(27.1)	(2.4)	(0.4)	(29.9)	(26)	(2)	(0.1)	(28.1)	(18.3)
8.	1987-88	552	694435	120844	482848	90742	162537	192569	12346	3041	207956	221047	15083	4803	240934	83008
				(17.4)	(69.5)	(13.1)	(23.4)	(27.7)	(1.8)	(0.4)	(29.9)	(31.8)	(2.2)	(0.7)	(34.7)	(12)
9.	July 1988 - March 1989	427	734558	105405	542885	86268	147432	166950	11934	586	179471	217525	14631	-673	231483	176172
				(14.3)	(73.9)	(11.8)	(20.1)	(22.7)	(1.6)	(0.1)	(24.4)	(29.6)	(2)	(-0.1)	(31.5)	(24)

* Include internal generation, unsecured loans brought in by promoters, central/state subsidy etc.
# Include equity, internal generation, unsecured loans brought in by promoters.
+ Include IFCI, ICICI, LIC, UTI, GIC and IRBI.
@ Include assistance sanctioned by banks, convertible and non-convertible debentures issued to public, central/state subsidy etc. after adjusting for interest amount on guarantees (which do not form part of project cost) and interest amounts on loans funded by institutions (as institution-wise break-up is not available).

Note: Figures in brackets indicate percentage to project cost.
Source: IDBI Operational Statistics, 1964-89.

equity participation by all FIs as means of finance increased from Rs. 645.54 crores in 1984-85 to Rs. 1221.6 crores in 1985-86 the underwriting by IDBI fell from Rs. 106.53 crores to Rs. 74.27 crores over the same period. Though there was increase in absolute amount underwritten by FIs during 1984-85 and 1985-86, the underwriting support to project costs in relative terms shows a slight decline. One may say that IDBI's underwriting operations declined during the boom period, whereas the other FIs showed a slight increase in underwriting activity as means of financing projects.

Sanctions for underwriting of new issues do not give a correct picture regarding dependence of the public limited companies on the financial institutions. One needs to examine the amount and extent of devolvement to arrive at any meaningful conclusions. Tables IV.7 and IV.8 give details on public issues underwritten by and devolved on IDBI for the period 1981-82 to 1987-88. The number of issues under-subscribed on the average were over 40 per cent of the value of public issues underwritten. The percentage amount devolved on underwriters is one of the lowest for the boom period i.e., April 85 - March 86 -- so are the number of issues under-subscribed. Amount devolved on the underwriting institutions on the average comes to 30 per cent of the amount of all the public issues. But if one considers only the

TABLE - IV.7

TREND IN PUBLIC ISSUES UNDERWRITTEN AND DEVOLVED 1981-82 to 1987-88

(Rs. lakhs)

Year of Public issue	No. of Public issue	Public issue amount	No. of issues under-subscribed	Amount devolved on under-writers*	Percentage of (5)to(3)	Amount underwritten by IDBI	Amount devolved on IDBI	Percentage of (8)to(7)
1	2	3	4	5	6	7	8	9
1981-82	35	7323	11	794	10.8	4571	385	8.4
1982-83	39	5257	29	2355	44.8	1954	971	49.7
1983-84	40	6259	18	1893	30.2	2784	917	32.9
1984-85	48	7591	24	2223	29.3	2887	935	32.4
1985-86	71	16997	15	2516	14.8	6816	1173	17.2
1986-87	59	22395	28	4409	19.7	9269	2052	22.1
1987-88	35	18529	24	10670	57.6	7320	4434	60.6
Total	327	84351	149	24860	29.5	35601	10867	30.5

* Include IDBI, IFCI, ICICI, LIC, UTI, GIC, Banks and Brokers.

Period: April - March

Source: IDBI Operational Statistics, 1964-89.

TABLE - IV.8

TRENDS IN EXTENT OF DEVOLVEMENT OF PUBLIC ISSUES UNDERWRITTEN

(Rs. lakhs)

Year of Public issue	No. of Public issues	No. of issues under-subscribed	Extent of Devolvement - Frequency Distribution				
			upto 20%	20% to 40%	40% to 60%	60% to 80%	Above 80%
1	2	3	4	5	6	7	8
1981-82	35	11	2	1	4	1	3
1982-83	39	29	1	1	4	6	17
1983-84	40	18			4	4	10
1984-85	48	24	1	2	5	3	13
1985-86	71	15	3	2		4	6
1986-87	59	28		4	8	3	13
1987-88	35	24	2	2	6	4	10
Total	327	149	9	12	31	25	72

Period: April - March

Source: IDBI Operational Statistics, 1964-89.

cases of issues under-subscribed, the extent of devolvement comes to about 80 per cent for almost half of the cases (Table IV.8). The percentage amount devolved on underwriters is higher for public issues of under Rs. 3 crores and those above Rs. 10 crores. The devolvement on IDBI was twice that on all underwriters and was higher for the public issues up to Rs. 5 crores (Table IV.9). Another interesting point which emerges is that the amount underwritten during the period April 81 to March 88 by FIs in IDBI assisted companies in backward areas was nearly three times that of the ones in non-backward areas. The percentage devolved on the underwriters was higher for the projects in the non-backward areas in comparison to those in the backward areas (Table IV.10).

We have noted earlier that the relative importance of underwriting by IDBI has been decreasing over time. The data also seem to suggest that during a boom period the share of IDBI in underwriting declined. As over 90 per cent of underwriting done by IDBI is for equity shares, we may say that dependence on IDBI for risk capital declined during the boom period. Devolvement of the amounts has been over 40 per cent of the public issues underwritten by IDBI during 1981-88. The extent of devolvement was 80 per cent for nearly half of the projects underwritten.

What does all this suggest? Significantly higher devolvement on IDBI (which underwrites essentially

TABLE - IV.9

SIZE-WISE PUBLIC ISSUES UNDERWRITTEN AND DEVOLVED 1981-82 to 1987-88

(Rs. Lakhs)

Range of Public Issue	No. of Public Issues	Public Issue Amount	Amount Devolved on Under-writers*	% of (4) to (3)	Public Issues Undersubscribed			
					No. of Public Issues	Amount Underwritten by IDBI	Amount Devolved on IDBI	% of (8) to (7)
1	2	3	4	5	6	7	8	9
Upto Rs. 100 lakhs	124	8722	2877	33.0	59	1682	1163	69.1
Rs. 100 lakhs - Rs. 300 lakhs	149	23858	8070	33.8	70	4605	3465	75.2
Rs. 300 lakhs - Rs. 500 lakhs	29	11582	1943	16.8	9	1482	896	60.5
Rs. 500 lakhs - Rs. 1000 lakhs	9	6155	652	10.6	3	845	298	35.3
Above Rs. 1000 lakhs	16	34034	11318	33.2	8	10361	5045	48.7
Total	327	84351	24860	29.50	149	18975	10867	57.30

* Include IDBI, IFCI, ICICI, LIC, UTI, GIC, Banks and Brokers.
Period: April 1981 - March 1988
Source: IDBI Operational Statistics, 1964-89.

TABLE - IV.10

LOCATION-WISE PUBLIC ISSUES UNDERWRITTEN AND DEVOLVED
(Period: April 1981 - March 1988)

(RsCrores)

Sr.No.	Location	No. of Public Issues	Amount Under-written	Issues Under-subscribed	Amount Devolved	Percentage of (5) to (3)
	(1)	(2)	(3)	(4)	(5)	(6)
1.	Backward	256	280.4	118	81.14	28.9
2.	Non-Backward	071	75.61	031	27.53	36.4
	Total	327	356.01	149	108.67	30.5

Source: IDBI Operational Statistics, 1964-89.

equity shares of larger issues) compared to other institutions could be one indicator that the capital markets in India are still not willing to support large risk capital in new projects. Viewed from another angle it may be argued that the IDBI did take bold initiatives and did not always play a conservative role by holding back its support to large new projects. One would, however, need to study each individual issue supported by the IDBI to come to any conclusion as to whether there was justification for the IDBI to support large capital issues. This is important since support by the IDBI has been suspected to be susceptible to influence and favour.[3]

IV.1.3 Share of Private Sector

It is at times argued that the Joint Sector is able to get preferential treatment due to the participation of the State Governments (generally through SIDCs) in the projects. We have already seen that with regard to foreign currency loans this was not so, as only 10 per cent of these loan were

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3. One is not aware of the extent of accountability of senior management of FIs. Who among the executives of development is held responsible if a project supported by a DB fails? On the contrary, the happenings in the L&T takeover affair clearly demonstrate the susceptibility of top DB managements to external pressure and influence. Even the Chairman of ICICI conceded that "... in the light of developments in the recent past, (L&T and Ambanis) there is a strong case for agreeing on a set of guidelines so that take-overs are dealt with in a transparent manner rather than being clouded in secrecy."

sanctioned to the Joint Sector. Tables (IV.11 and IV.12) give the sector-wise distribution of underwriting by IDBI. The sanctions by way of underwriting in terms of aggregate amounts are highest to the private sector. But if one calculates the share of underwriting in aggregate sanctions to different sectors, one finds that Joint Sector's share is the highest. For example, in the period 1980-85, sanctions by way of underwriting was 14.09 per cent of the total assistance sanctioned to the sector. For the same period, the share for the Private Sector was 8.71 per cent. The share of underwriting in the total sanctions for the period 1964-89 works out to 13 per cent for the Joint Sector and 8 per cent for Private Sector. The presence of State Governments in the Joint Sector projects does seem to be one of the reasons for a greater degree of sanctions by way of underwriting to the Joint Sector vis-a-vis the Private Sector.

IV.1.4 Nature of Projects Assisted

IDBI assisted over 3,000 industrial projects during July 1964 to March 1989. The total amount of project assistance sanctioned stood at Rs. 12,104.30 crores (cumulative). Out of these, new projects accounted for nearly two-thirds of the total project finance (Table IV.13). Expansion and diversification claimed nearly 18 per cent and modernisation nearly 17

TABLE - IV.11

UNDERWRITING: SECTOR-WISE DISTRIBUTION

(Rs. Lakhs)

SECTOR	1964-70	1970-75	1975-80	1980-85	1985-89	Total
1	2	3	4	5	6	7
Co-operative	0.00	0.00	0.00	0.00	60.00	60.00
Joint	173.81	1595.70	4092.81	7726.56	9095.03	22683.91
Private	1864.99	2123.42	5190.44	21247.08	31280.11	61706.04
Public	268.00	384.40	869.18	5413.00	2277.99	9212.57
Total	2306.80	4103.52	10152.43	34386.64	42713.13	93662.52

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.12

PERCENTAGE OF UNDERWRITING IN TOTAL SANCTIONS TO EACH SECTOR

SECTORS	1964-70	1970-75	1975-80	1980-85	1985-89
1	2	3	4	5	6
Co-operative	0.00	0.00	0.00	0.00	0.24
Joint	19.44	14.23	11.97	14.09	11.52
Private	16.44	16.71	7.43	8.71	7.18
Public	8.21	5.97	2.86	8.48	2.56

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.13

PROJECT FINANCE SCHEME : PURPOSE-WISE TREND IN TOTAL ASSISTANCE SANCTIONED

(Rs. Crores)

Sr.No.	Purpose	1964-75		1975-80		1980-85		1985-March 89		July 64-March 89	
		No. of projects	Total	No. of projects	Total	No. of projects	Total	No. of projects	Total	No. of projects	Total
	1	2	3	4	5	6	7	8	9	10	11
1.	New	255	260.78	416	829.19	692	2476.43	843	4120	1477	7686.39
2.	Expansion/Diversification	94	104.18	134	216.28	228	551.4	270	1278.69	575	2150.56
3.	Modernisation	4	3.86	258	273.85	355	469.79	570	1307.19	1026	2054.69
4.	Rehabilitation	11	32.01	18	12.55	59	51.03	94	117.05	161	212.64
	Total	364	400.83	826	1331.87	1334	3548.65	1777	6822.93	3239	12104.28
PERCENTAGE SHARES											
1.	New	70.05	65.06	50.36	62.26	51.87	69.79	47.44	60.38	45.60	63.50
2.	Expansion/Diversification	25.82	25.99	16.22	16.24	17.09	15.54	15.19	18.74	17.75	17.77
3.	Modernisation	1.10	0.96	31.23	20.56	26.61	13.24	32.08	19.16	31.68	16.97
4.	Rehabilitation	3.02	7.99	2.18	0.94	4.42	1.44	5.29	1.72	4.97	1.76
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: IDBI Operational Statistics, 1964-89.

per cent and Rehabilitation programmes were sanctioned Rs. 212.64 crores which account for less than 2.0 per cent of the overall project finance provided by the IDBI. While the number of modernisation projects assisted accounted for nearly one-third, the amount sanctioned for them was less than 17 per cent. Similarly, the number of projects assisted under rehabilitation support were higher in proportion to total number of projects than what was reflected in their share of 1.76 per cent in the total sanctions to all projects.

If we disaggregate the total period into a number of sub-periods, the period 1964-75 saw over 65 per cent of the sanctions for the purpose of new projects and another 26 per cent for expansion and diversification of old ones. During 1975-80, however, the number of projects and the amount sanctioned for the purpose of modernisation increased in a substantial manner. From merely four projects assisted for modernisation during 1975-80, the number rose to 258. A similar boost came in 1985-89 due to the greater emphasis on modernisation and technical upgradation under the Seventh Plan. Expansion of priority industries was one of the objectives in the Fifth Plan. But not much increase in either the number of projects or amount sanctioned for diversification and expansion relative to the other schemes is observed.

Sanctions for the purpose of rehabilitation have remained small but have been increasing relatively to the other schemes since the mid-'sixties in number of projects covered. This is probably an indication of growing sickness in Indian industry. The amount sanctioned has, however, declined from 7.99 per cent to 1.72 per cent.

Examining a different aspect of sanctions we find that the share of backward areas in total sanctions under different schemes is the highest for the period 1980-85 (Table IV.14). The likely reason for this is the adoption of the objective of dispersal of industries to backward areas in the Sixth Plan period. The share of backward areas in the project finance sanctions for new, expansion and diversification purposes has remained higher than the share of backward areas in the total sanctions by IDBI under Project Finance Scheme. More than half of the sanctions for rehabilitation go to non-backward areas. The ratio of sanctions for rehabilitation over total sanctions also turns out to be higher for the non-backward areas for all periods except 1985-89 when they are roughly equal.

<u>IV.1.5 Nature of Industries Supported</u>

The general pattern of financial assistance provided by IDBI and the FIs cannot be very different in terms of the nature of industrial projects. There

TABLE - IV.14

SHARE OF BACKWARD AREAS IN PURPOSE-WISE DISTRIBUTION OF SANCTIONS

(Percentages)

PURPOSE	1964-70	1970-75	1975-80	1980-85	1985-89
1	2	3	4	5	6
DIVERSIFICATION	13.66	8.10	26.44	81.38	54.04
EFEC	0.00	0.00	0.00	0.00	9.82
EFS	0.00	0.00	0.00	70.27	50.14
EXPANSION	29.09	14.36	28.06	65.83	54.26
MODERNISATION	0.00	41.63	27.05	35.80	31.88
NEW	19.28	49.82	78.33	74.23	50.37
REHABILITATION	0.00	36.91	47.33	29.82	49.36
RIGHTS ISSUE	0.00	26.24	34.20	14.70	27.55
TMF	0.00	0.00	0.00	0.00	28.31
TU	0.00	0.00	0.00	0.00	0.00
VCF	0.00	0.00	0.00	0.00	26.86
TOTAL	21.31	42.04	58.03	68.04	47.07

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

are two reasons for this. Firstly, IDBI being the apex body ensures that large projects are supported under the consortia approach. Secondly, all FIs are constituents of the public sector and have a high degree of commonality in their activities. Similar government directives are issued and national priorities and policies to be pursued are the same. Any major differences, if present, would be in the form of assistance. For instance, the UTI & LIC may go in for debentures and preference shares, the ICICI for providing Foreign Currency loans and IDBI for direct equity participation. When viewed in terms of the composition of projects in terms of industrial classification there would not be much difference. And therefore, the differences from the aggregate pattern, as witnessed for FIs, would not be very different since IDBI itself plays the most important role in providing institutional finance.

Given these facts, we have not seen much of a difference between the pattern of assistance in the FI aggregates and the IDBI. If the main industries supported at the aggregate level (AIFIs) are fertilizers, chemicals, basic metals and textiles, it is nearly the same for the IDBI when examined separately. However, some distinctive feature are noticeable. For instance, electricity generation was sanctioned large amounts by the IDBI during 1975-80 and 1985-89 (Table IV.15). During 1985-89 the amount

TABLE - IV.15

(A) PROJECT FINANCE SCHEME*: INDUSTRY-WISE TREND IN ASSISTANCE SANCTIONED

(Rs. Crores)

SR.	INDUSTRY	1964-70	1970-75	1975-80	1980-85	1985-March 89	July 1964-March 1989
	1	2	3	4	5	6	7
1.	Food Manufacturing	0.05	10.7	101.63	185.81	282.96	581.15
	(a) Sugar		8.01	91.94	149.93	172.36	422.24
	(b) Others	0.05	2.69	9.69	35.88	110.6	158.91
2.	Textiles	7.59	14.06	255.89	631.92	847.99	1757.45
3.	Jute	2.14		15.87	10.17	13.64	41.82
4.	Paper and paper products	7.67	24.97	108.95	321.86	90.43	553.88
5.	Rubber and rubber products	0.05	17.95	16.98	47.76	99.07	181.81
6.	Basic industrial chemicals	27.59	17.31	51.06	185.85	253.11	534.92
7.	Miscellaneous chemicals	9.41	4.26	76.29	144.36	634.74	869.06
8.	Fertilisers	49.16	45.35	259.91	597.28	1185.82	2137.52
9.	Cement	14	26.8	150.63	464.6	628.43	1284.46
10.	Basic metals	10.89	53.27	75.09	299.52	772.89	1211.66
	(a) Iron & steel	6.41	50.32	64.74	278.74	740.61	1140.82
	(b) Non-ferrous	4.48	2.95	10.35	20.78	32.28	70.84
11.	Metal products		0.08	5.76	47.31	54.04	107.19
12.	Machinery	5	8.64	32.97	63.07	88.86	198.54
13.	Electrical Machinery	2.65	8.85	21.93	112.12	479.36	624.91
14.	Transport equipment	1.61	12.48	32.01	111.98	210.55	368.63
15.	Electricity generation		4.45	89.43	120.31	433.93	648.12
16.	Services	0.06	3.92	3.89	62.8	329.45	400.12
	(a) Hotel	0.06	3.6	3.65	57.29	90.41	155.01
	(b) Hospital					91.15	91.15
	(c) Road transport						
	(d) Others		0.32	0.24	5.51	147.89	153.96
17.	Others	3.78	6.09	33.58	141.93	417.66	603.04
	Total	141.65	259.18	1331.87	3548.65	6822.93	12104.28

Contd...

TABLE - IV.15

(B) PROJECT FINANCE SCHEME*: INDUSTRY-WISE TREND IN ASSISTANCE SANCTIONED

(Percantage Shares)

SR.	INDUSTRY	1964-70	1970-75	1975-80	1980-85	1985-March 89	July 1964-March 1989
	1	2	3	4	5	6	7
1.	Food Manufacturing	0.04	4.13	7.63	5.24	4.15	4.80
	(a) Sugar		3.09	6.90	4.22	2.53	3.49
	(b) Others	0.04	1.04	0.73	1.01	1.62	1.31
2.	Textiles	5.36	5.42	19.21	17.81	12.43	14.52
3.	Jute	1.51		1.19	0.29	0.20	0.35
4.	Paper and paper products	5.41	9.63	8.18	9.07	1.33	4.58
5.	Rubber and rubber products	0.04	6.93	1.27	1.35	1.45	1.50
6.	Basic industrial chemicals	19.48	6.68	3.83	5.24	3.71	4.42
7.	Miscellaneous chemicals	6.64	1.64	5.73	4.07	9.30	7.18
8.	Fertilisers	34.71	17.50	19.51	16.83	17.38	17.66
9.	Cement	9.88	10.34	11.31	13.09	9.21	10.61
10.	Basic metals	7.69	20.55	5.64	8.44	11.33	10.01
	(a) Iron & steel	4.53	19.42	4.86	7.85	10.85	9.42
	(b) Non-ferrous	3.16	1.14	0.78	0.59	0.47	0.59
11.	Metal products		0.03	0.43	1.33	0.79	0.89
12.	Machinery	3.53	3.33	2.48	1.78	1.30	1.64
13.	Electrical Machinery	1.87	3.41	1.65	3.16	7.03	5.16
14.	Transport equipment	1.14	4.82	2.40	3.16	3.09	3.05
15.	Electricity generation		1.72	6.71	3.39	6.36	5.35
16.	Services	0.04	1.51	0.29	1.77	4.83	3.31
	(a) Hotel	0.04	1.39	0.27	1.61	1.33	1.28
	(b) Hospital					1.34	0.75
	(c) Road transport						
	(d) Others		0.12	0.02	0.16	2.17	1.27
17.	Others	2.67	2.35	2.52	4.00	6.12	4.98
	Total	100.00	100.00	100.00	100.00	100.00	100.00

* Comprising Project Loans, Underwriting, and Guarantees for loans and deferred payments.

<u>Source</u>: IDBI <u>Operational Statistics</u>, 1964-89.

of sanctions to services increased two folds while sanctions to paper and paper products declined sharply. Sugar and textiles show large increases in sanctions during 1975-80 in comparison to the earlier periods. This is probably explained by the fact of introduction of a soft loan scheme for modernization for five select industries - cotton textiles, jute, sugar, cement and engineering. Jute, cement and engineering, however, show a decline in their share in the total sanctions.

Analysis of sanctions going to backward areas in each industry reveals that for cement, fertilizers, paper, metal products, rubber and food (others) industries the share of sanctions going to backward areas are the highest (Table IV.16). Services, as one would expect, have the lowest share in assistance provided to backward areas. Other industries which also seem to prefer non-backward areas are jute miscellaneous chemicals, transport equipment and non-electrical machinery.

Backward areas were identified in 1970. In 1983 the A,B,C categorization was introduced[4]. We tried to check if there was any shift in the pattern of industries being sanctioned assistance in backward areas of these categorizations. In the period 1964-70 when there was no clear identification of backward

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4. Category 'A' includes Special Regions and/or no industry Districts. The extent of backwardness is in the order - A > B > C.

TABLE - IV.16

PROJECT FINANCE SCHEME*: INDUSTRY-WISE SHARES OF BACKWARD AREAS IN ASSISTANCE SANCTIONED

Sr. No.	INDUSTRY	1970-75	1975-80	1980-85	1985-March 89
	1	2	3	4	5
1.	Food Manufacturing	54.39	62.42	54.98	60.49
	(a) Sugar	56.55	59.25	48.90	60.29
	(b) Others	47.96	92.57	80.41	60.80
2.	Textiles	25.96	41.30	65.77	47.84
3.	Jute		32.07	34.41	45.67
4.	Paper and paper products	76.21	73.75	69.57	66.98
5.	Rubber and rubber products	73.70	86.34	73.16	87.13
6.	Basic industrial chemicals	48.64	55.41	66.51	57.76
7.	Miscellaneous chemicals	11.03	34.00	58.15	47.64
8.	Fertilisers	56.65	96.11	82.92	28.78
9.	Cement	14.18	77.39	77.52	73.86
10.	Basic metals	50.31	53.34	29.65	45.93
	(a) Iron & steel	53.26	52.10	28.06	45.21
	(b) Non-ferrous		61.06	50.96	62.42
11.	Metal products		96.18	68.48	93.71
12.	Non-Electrical Machinery	0.81	51.99	51.85	23.43
13.	Electrical Machinery	50.85	33.70	66.44	48.39
14.	Transport equipment	18.43	28.08	81.24	22.83
15.	Electricity generation	32.58	0.45		52.50
16.	Services		16.97	11.86	38.14
	(a) Hotel		18.08	10.32	16.64
	(b) Hospital				
	(c) Road transport				
	(d) Others			27.95	74.79
17.	Others	20.20	70.70	82.61	67.00
	Total	44.93	59.60	64.45	48.71

* Comprising project loans, underwriting and guarantees for loans and deferred payments.

Source: IDBI Operational Statistics, 1964-89.

areas, the number of projects and the sanctions going to backward areas were only around 20 per cent of total sanctions (Table IV.17). The projects assisted were mostly in the 'C' category areas -- the least backward among the backward.

Following the identification of backward areas both the number of projects as well as the amounts sanctioned to these areas increased sharply. During 1970-83 the share of projects sanctioned assistance in backward areas was nearly half of the total number of projects. The amount sanctioned for these projects was around 57 per cent of the total sanctions during the period (Table IV.18). The main industries supported included artificial fibers, cotton textiles, basic industrial chemicals, cement, food (others) paper and rubber. The sanctions in 'A' category areas were for cement, basic industrial chemicals and cotton textiles. Electricity generation and services were essentially confined to non-backward areas.

The categorization of backward areas into 'A', 'B' and 'C' in 1983 has not significantly affected the number of projects and the amount sanctioned to backward areas. Infact, the share going to backward areas has declined from 57 per cent in 1970-83 to 46 per cent in 1983-89 (Table IV.19). The number of projects as well as the amount sanctioned to 'A' category districts, certainly shows a marked increase. The type of projects assisted in backward areas

TABLE - IV.17

INDUSTRY-WISE SANCTIONS TO DIFFERENT CATEGORIES OF BACKWARD AREAS: 1964-70 (JULY-MARCH)

(Rs. Lakhs)

Industry	Non-backward			Category A			Category B			Category C		
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11	12	13
Artificial Fibres	1	200.00	1.68	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Basic Industrial Chemicals	7	2057.44	17.27	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Basic Metals (Iron & Steel)	11	474.85	3.99	1	125.00	9.07	0	0.00	0.00	2	98.15	9.51
Basic Metals (Non-ferrous)	3	298.00	2.50	0	0.00	0.00	0	0.00	0.00	1	400.00	38.78
Cement	7	1266.57	10.63	0	0.00	0.00	2	145.00	19.50	2	155.00	15.03
Cotten Textiles	8	159.58	1.34	1	75.00	5.44	4	248.45	33.42	0	0.00	0.00
Electrical Machinary	7	411.05	3.45	0	0.00	0.00	0	0.00	0.00	1	23.41	2.27
Fertilisers	7	4639.72	38.95	1	1177.61	85.48	0	0.00	0.00	0	0.00	0.00
Food (Others)	1	5.00	0.04	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Glass & Glass Products	1	171.00	1.44	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Jute	2	214.00	1.80	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Leather & Leather Products	1	43.50	0.37	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Machinary	8	274.67	2.31	0	0.00	0.00	0	0.00	0.00	3	316.00	30.63
Miscellaneous Chemicals	9	1100.46	9.24	0	0.00	0.00	0	0.00	0.00	2	35.00	3.39
Others	2	38.45	0.32	0	0.00	0.00	1	5.00	0.67	1	4.00	0.39
Paper & Paper Products	7	461.37	3.87	0	0.00	0.00	1	345.00	46.41	0	0.00	0.00
Petroleum & Coal	1	84.50	0.71	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Rubber & Rubber Products	1	5.00	0.04	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Services (Hotels)	1	6.00	0.05	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Total	85	11911.16	100.00	3	1377.61	100.00	8	743.45	100.00	12	1031.56	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.18

INDUSTRY-WISE SANCTIONS TO DIFFERENT CATAGORIES OF BACKWARD AREAS : 1970-83 (JULY - MARCH)

(Rs. Lakhs)

Industry	Non-backward			Catagory A			Catagory B			Catagory C		
	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11	12	13
Artificial Fibres	16	2924.21	2.28	4	959.00	8.53	26	6556.99	7.06	11	3923.50	5.67
Basic Industrial Chemicals	19	8838.20	6.89	4	1358.50	12.08	13	4077.69	4.39	5	929.33	1.34
Basic Metals (Iron & steel)	61	8788.72	6.85	4	618.63	5.50	36	6446.99	6.95	14	2010.64	2.91
Basic Metals (Non-ferrous)	9	872.10	0.68	0	0.00	0.00	5	721.54	0.78	1	100.00	0.14
Cement	28	12225.01	9.53	9	2956.60	26.29	30	11214.23	12.08	16	14109.80	20.39
Cotton Textiles	231	25416.41	19.82	12	1730.48	15.39	66	11058.41	11.91	66	6602.56	9.54
Electrical Machinery	44	4124.40	3.22	1	5.00	0.04	12	1801.26	1.94	9	1210.32	1.75
Electricity Generation	6	10888.00	8.49	0	0.00	0.00	0	0.00	0.00	3	2631.00	3.80
Fertilisers	6	7675.65	5.99	1	17.00	0.15	5	22460.00	24.20	4	6147.97	8.88
Food (Others)	10	972.10	0.76	3	466.00	4.14	12	1019.03	1.10	11	1297.41	1.87
Food (Sugar)	61	7686.02	5.99	6	884.50	7.87	14	2197.04	2.37	38	5965.55	8.62
Glass & Glass Products	9	536.35	0.42	0	0.00	0.00	2	501.15	0.54	1	323.60	0.47
Jute	11	1289.83	1.01	2	187.43	1.67	0	0.00	0.00	6	632.50	0.91
Leather & Leather Products	1	51.75	0.04	0	0.00	0.00	5	442.32	0.48	2	172.00	0.25
Non-Electrical Machinery	35	4564.69	3.56	0	0.00	0.00	14	3104.39	3.34	2	698.95	1.01
Metal Products	11	1216.98	0.95	0	0.00	0.00	9	1159.17	1.25	2	612.49	0.88
Miscellaneous Chemicals	36	9154.97	7.14	2	97.00	0.86	14	2787.52	3.00	22	2328.06	3.36
Oil Expl. & Gas Gen.	0	0.00	0.00	2	600.00	5.34	0	0.00	0.00	0	0.00	0.00
Others	9	575.23	0.45	1	4.00	0.04	6	792.20	0.85	2	400.00	0.58
Paper & Paper Products	22	13377.06	10.43	2	703.25	6.25	36	11077.77	11.94	13	17344.47	25.06
Petroleum & Coal	1	86.50	0.07	0	0.00	0.00	0	0.00	0.00	1	1100.00	1.59
Rubber & Rubber Products	5	805.48	0.63	0	0.00	0.00	11	5394.85	5.81	2	671.00	0.97
Services (Hotels)	26	6115.15	4.77	4	657.50	5.85	0	0.00	0.00	0	0.00	0.00
Services (Others)	1	15.00	0.01	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Services (Shipping)	2	40.64	0.03	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Total	660	128240.45	100.00	57	11244.89	100.00	316	92812.55	100.00	231	69211.15	100.00 1

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.19

INDUSTRY-WISE SANCTIONS TO DIFFERENT CATAGORIES OF BACKWARD AREAS : 1983-89 (JULY-MARCH)

(Rs. Lakhs)

Industry	Non-backward			Catagory A			Catagory B			Catagory C		
	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11	12	13
Artificial Fibres	33	17237.59	4.47	11	2710.00	2.12	26	21498.71	11.74	20	14372.41	9.15
Basic Industrial Chemicals	31	11460.72	2.97	5	1712.00	1.34	15	5995.30	3.27	9	15978.00	10.18
Basic Metals (Iron & Steel)	63	57507.10	14.91	24	9779.91	7.65	36	12231.23	6.68	24	15866.75	10.10
Basic Metals (Non-ferrous)	3	1903.00	0.49	1	641.00	0.50	7	1970.00	1.08	1	22.82	0.01
Cement	37	28120.28	7.29	14	5928.92	4.64	57	42437.86	23.18	43	30570.70	19.47
Cotten Textiles	205	35158.99	9.11	21	4265.28	3.34	65	10390.19	5.67	64	10053.89	6.40
Electrical Machinery	83	25855.08	6.70	26	8279.76	6.48	43	13179.29	7.20	18	6165.80	3.93
Electricity Generation	7	21497.08	5.57	1	156.00	0.12	2	22625.00	12.36	1	7015.00	4.47
Fertilisers	22	90235.15	23.39	5	46993.29	36.77	19	7285.82	3.98	17	27520.73	17.53
Food (Others)	21	5493.51	1.42	15	3482.23	2.72	10	3336.00	1.82	13	2818.44	1.79
Food (Sugar)	45	10000.00	2.59	3	613.00	0.48	15	3745.00	2.05	36	7676.70	4.89
Glass & Glass Products	8	1198.02	0.31	3	8701.00	6.81	5	2801.00	1.53	1	200.00	0.13
Jute	13	1197.60	0.31	0	0.00	0.00	0	0.00	0.00	8	660.85	0.42
Leather & Leather Products	1	304.02	0.08	2	723.00	0.57	2	218.50	0.12	1	227.00	0.14
Non-Electrical Machinery	43	7932.59	2.06	3	421.00	0.33	7	1328.00	0.73	6	1191.00	0.76
Metal Products	6	580.70	0.15	3	700.20	0.55	14	6230.34	3.40	1	80.00	0.05
Miscellaneous Chemicals	69	35338.32	9.16	22	12373.20	9.68	46	14653.20	8.00	34	9032.08	5.75
Oil Expl. & gas Gen.	6	2973.00	0.77	2	100.00	0.08	2	1190.00	0.65	1	150.00	0.10
Others	27	4384.26	1.14	8	1391.00	1.09	11	4162.44	2.27	7	5065.15	3.23
Paper & Paper Products	22	4640.02	1.20	3	1714.60	1.34	18	4610.67	2.52	6	1114.00	0.71
Petroleum & coal	1	37.00	0.01	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Rubber & Rubber Products	9	2457.00	0.64	1	5370.00	4.20	8	3002.50	1.64	1	475.00	0.30
Services (Hospitals)	17	7274.50	1.89	1	60.00	0.05	1	215.00	0.12	3	609.00	0.39
Services (Hotels)	19	7219.00	1.87	6	1504.00	1.18	0	0.00	0.00	0	0.00	0.00
Services (Industrial Estates)	8	2650.00	0.69	47	9915.75	7.76	0	0.00	0.00	1	154.00	0.10
Services (Others)	5	1143.00	0.30	2	261.00	0.20	0	0.00	0.00	0	0.00	0.00
Services (Shipping)	2	2023.00	0.52	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00
Total	806	385820.53	100.00	229	127796.14	100.00	409	183106.05	100.00	316	157019.32	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

broadly remains the same. Services (Industrial Estates) and metals products show a higher share going to backward areas. The main industries going to 'A' category areas are fertilizers, miscellaneous chemicals and services (Industrial Estates).

During 1964-89, there was no significant change in the nature of industries which received assistance in the backward areas. The question worth asking is whether the main industries which are located in backward areas are there because of the policy adopted by these financial institutions and the government, or due to the close proximity of raw materials. We now move to regional dispersal of assistance.

Section Two

IDBI and Regional Dispersal of Assistance

Regional imbalances have persisted in the Indian economy in spite of efforts of both the Central and the State Governments to reduce them. Financial Institutions are considered an important means of channeling resources to the relatively less developed areas. Preference to projects in less developed regions has been a major objective in the lending policy of most of the financial institutions. Various schemes of concessions have been introduced from time to time to encourage projects in backward areas. IDBI, the apex Development Bank, has also been following this policy. We now analyse the region-wise distribution of assistance. First we look at the State-wise distribution and then we analyse the distribution of sanctions at the district level.

IV.2.1 State-wise Distribution

We have seen in the previous chapter that a few developed states have been able to corner most of the assistance provided by financial institutions. The reality is not any different in the case of the Project Finance Scheme of the IDBI. Since the establishment of IDBI in 1964, Gujarat, Maharashtra, Uttar Pradesh, Tamil Nadu and Andhra Pradesh have accounted for over 60 per cent of the project assistance (Tables IV.20 and IV.21). The concentration of IDBI support is clearly brought out in Figures IV.1 to IV.3. Large but relatively less developed states of Bihar, Orissa, Madhya Pradesh and Rajasthan and West Bengal which has been experiencing a decline account for just over 20 per cent of the total sanctions in the '80s. Their share was even lower in the earlier periods. A fresh emphasis on reduction of regional disparities in the Sixth Plan is a possible reason for the increase in financial sanctions to underdeveloped states like Rajasthan, Madhya Pradesh, Orissa and Himachal Pradesh.

In per capita terms if we exclude Goa and Union Territories, the States which come at the top are

TABLE - IV.20

PROJECT FINANCE SCHEME: STATE-WISE TREND IN ASSISTANCE SANCTIONED

(Rs. Lakh)

Sr. No.	State	1964-70	1970-75	1975-80	1980-85	1985-March 89	July 1964-March 1989
1		2	3	4	5	6	7
1.	Andhra Pradesh	11.98	9.94	98.57	428.75	924.84	1474.08
2.	Arunachal Pradesh				0.8		0.8
3.	Assam		21.98	4.88	27.04	33.75	87.65
4.	Bihar	5.31	15.63	27.16	25.28	104.81	178.19
5.	Goa	4.17	1	10.98	9.42	28.19	53.79
6.	Gujarat	27.47	21.24	331.55	420.02	1039.03	1839.31
7.	Haryana	0.77	2.96	22.15	53.21	115.86	194.95
8.	Himachal Pradesh		0.42	1.83	28.5	46.03	76.78
9.	Jammu & Kashmir			9.67	10.37	11.76	31.8
10.	Karnataka	5.01	33.52	131.07	214.08	278.47	662.15
11.	Kerala	1.51	14.35	59.41	78.5	71.32	225.09
12.	Madhya Pradesh	1.87	4.31	25.92	160.99	368.46	561.55
13.	Maharashtra	44.54	25.62	150.7	369.37	817.54	1407.77
14.	Manipur			0.49		4.14	4.63
15.	Meghalaya		0.04	2.81		8.14	10.99
16.	Mizoram						
17.	Nagaland		0.48			2.1	2.58
18.	Orissa	4.24	2.28	21.2	249.28	240.39	497.39
19.	Punjab	0	3.22	39.24	120.37	261.14	423.97
20.	Rajasthan	4.58	8.12	41	154.93	493.82	702.45
21.	Sikkim				2.19	3.02	5.21
22.	Tamil Nadu	14.11	35.11	125.66	303.39	519.2	1112.08
23.	Tripura			1.28	0.6	3.12	5
24.	Uttar Pradesh	8.77	37.48	116.31	664.43	850	1676.98
25.	West Bengal	6.57	20.12	98.78	176.05	396.16	697.68
26.	Union Territories	0.75	1.36	11.21	51.06	107.03	171.41
	Total	141.65	259.18	1331.87	3548.65	6822.93	12104.28

Source: IDBI Operational Statistics, 1964-89.

TABLE - IV.21

PROJECT FINANCE SCHEME: SHARE OF DIFFERENT STATES IN ASSISTANCE SANCTIONED

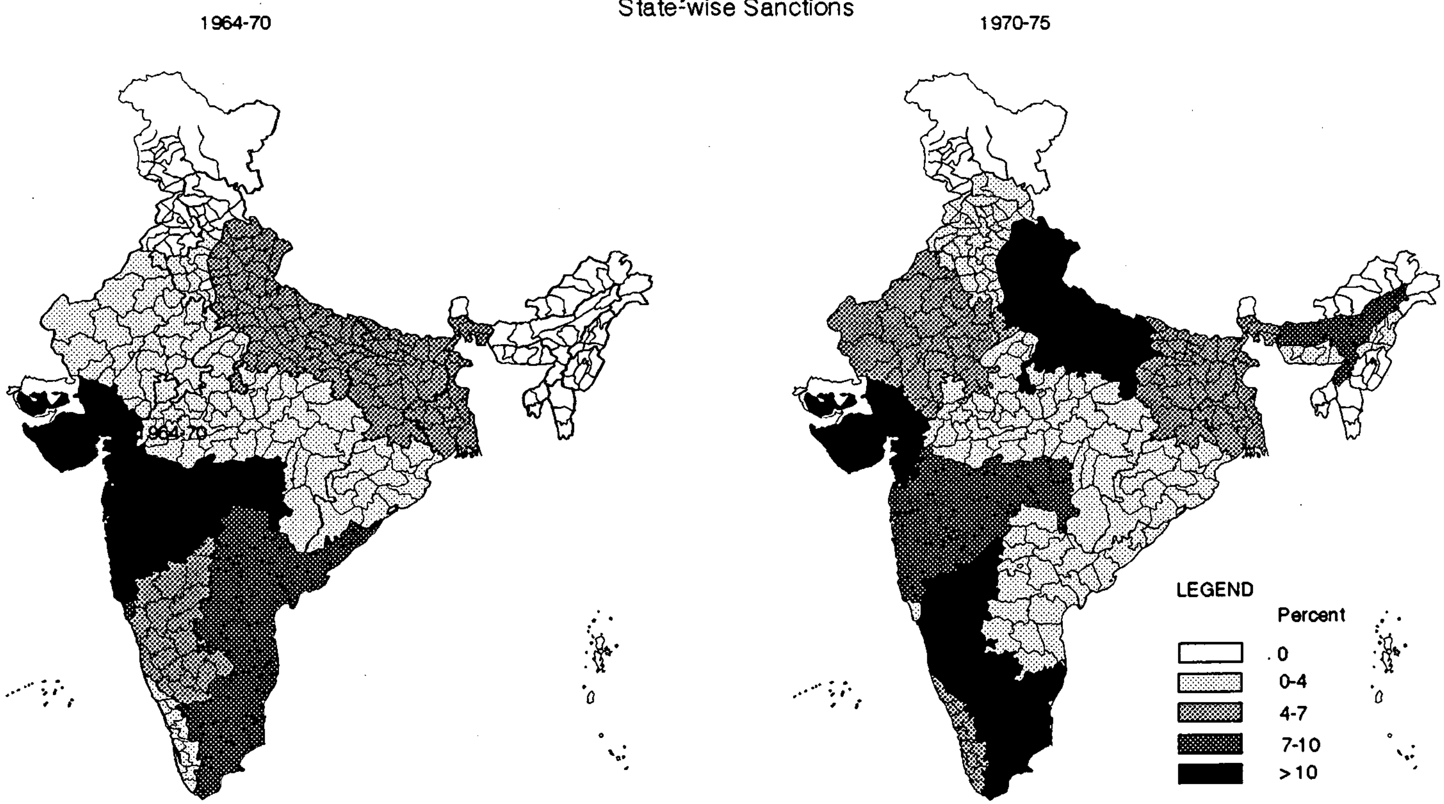
(Percentage Shares)

Sr. No.	State	1964-70	1970-75	1975-80	1980-85	1985-March 89	July 1964-March 1989
	1	2	3	4	5	6	7
1.	Andhra Pradesh	8.46	3.84	7.40	12.08	13.55	12.18
2.	Arunachal Pradesh	0.00	0.00	0.00	0.02	0.00	0.01
3.	Assam	0.00	8.48	0.37	0.76	0.49	0.72
4.	Bihar	3.75	6.03	2.04	0.71	1.54	1.47
5.	Goa	2.94	0.39	0.82	0.27	0.41	0.44
6.	Gujarat	19.39	8.20	24.89	11.84	15.23	15.20
7.	Haryana	0.54	1.14	1.66	1.50	1.70	1.61
8.	Himachal Pradesh	0.00	0.16	0.14	0.80	0.67	0.63
9.	Jammu & Kashmir	0.00	0.00	0.73	0.29	0.17	0.26
10.	Karnataka	3.54	12.93	9.84	6.03	4.08	5.47
11.	Kerala	1.07	5.54	4.46	2.21	1.05	1.86
12.	Madhya Pradesh	1.32	1.66	1.95	4.54	5.40	4.64
13.	Maharashtra	31.44	9.89	11.31	10.41	11.98	11.63
14.	Manipur	0.00	0.00	0.04	0.00	0.06	0.04
15.	Meghalaya	0.00	0.02	0.21	0.00	0.12	0.09
16.	Mizoram	0.00	0.00	0.00	0.00	0.00	0.00
17.	Nagaland	0.00	0.19	0.00	0.00	0.03	0.02
18.	Orissa	2.99	0.88	1.59	7.02	3.52	4.11
19.	Punjab	0.00	1.24	2.95	3.39	3.83	3.50
20.	Rajasthan	3.23	3.13	3.08	4.37	7.24	5.80
21.	Sikkim	0.00	0.00	0.00	0.06	0.04	0.04
22.	Tamil Nadu	9.96	13.55	9.43	8.55	7.61	9.19
23.	Tripura	0.00	0.00	0.10	0.02	0.05	0.04
24.	Uttar Pradesh	6.19	14.46	8.73	18.72	12.46	13.85
25.	West Bengal	4.64	7.76	7.42	4.96	5.81	5.76
26.	Union Territories	0.53	0.52	0.84	1.44	1.57	1.42
	Total	100.00	100.00	100.00	100.00	100.00	100.00

Source: Table IV.20.

Figure IV.1

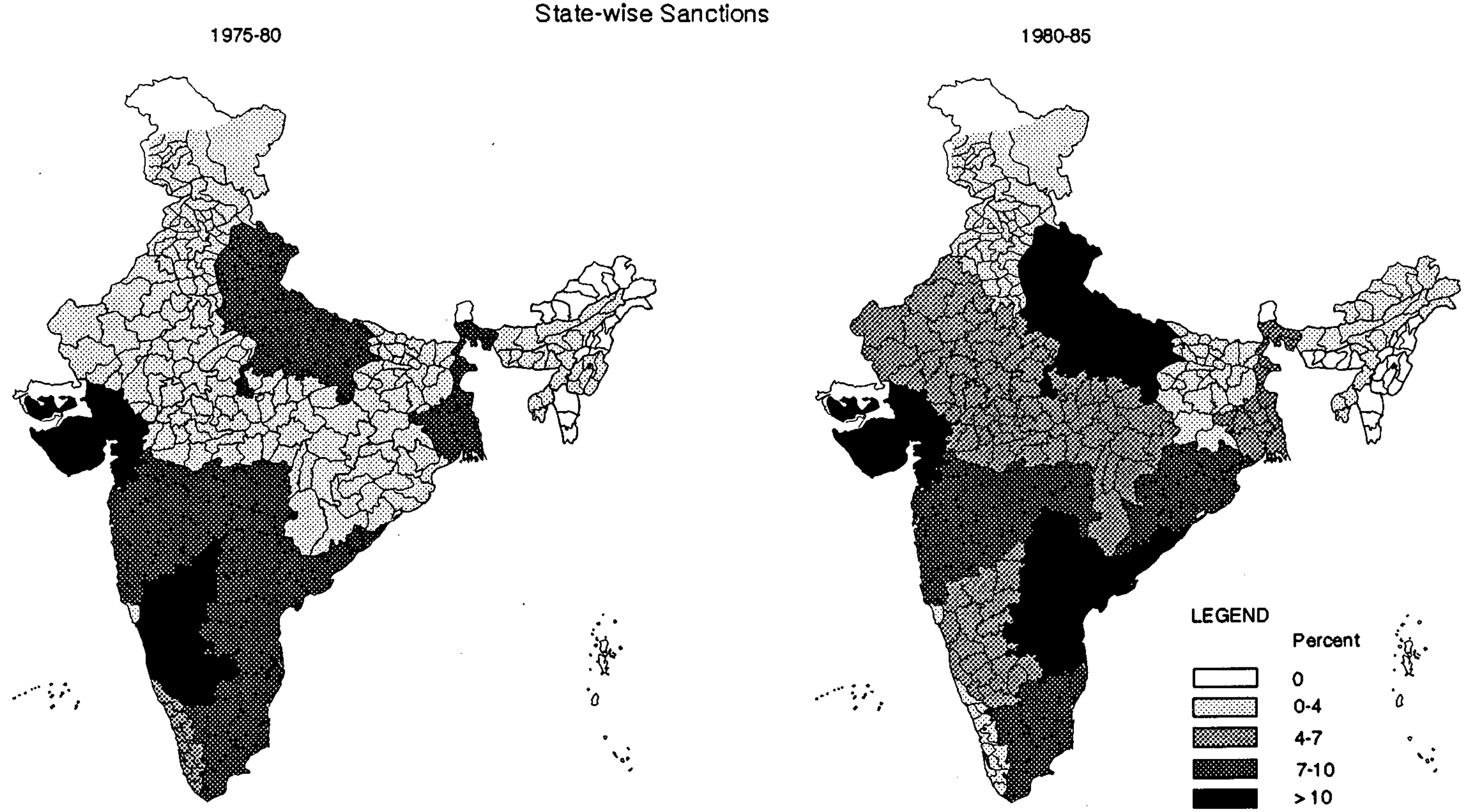
IDBI Project Finance Scheme:
State-wise Sanctions



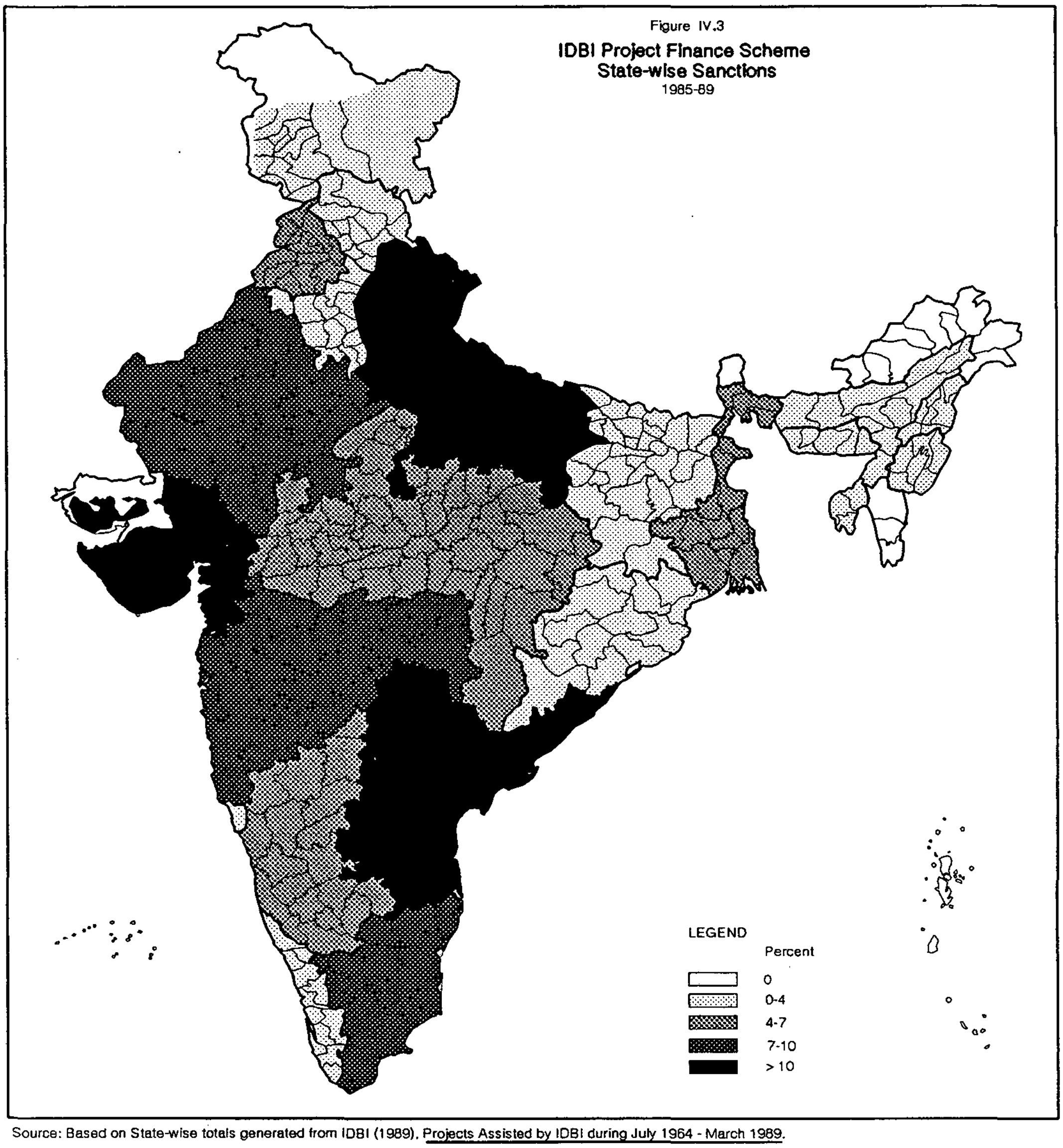
Source: Based on State-wise totals generated from IDBI (1989), Projects Assisted by IDBI during July 1964 - March 1989.

Figure IV.2

IDBI Project Finance Scheme:
State-wise Sanctions



Source: Based on State-wise totals generated from: IDBI (1989), Projects Assisted by IDBI during July 1964 - March 1989.



Source: Based on State-wise totals generated from IDBI (1989). Projects Assisted by IDBI during July 1964 - March 1989.

Gujarat, Andhra Pradesh, Tamil Nadu and Maharashtra. Even though sanctions to Uttar Pradesh have been large, due to the large size of population, the per capita sanctions to this state are lower than the national average for all the periods under consideration. Of the relatively backward but large states per capita sanctions to Rajasthan and Orissa have come above the national average in '80s. During 1980-85 the disparities seem to be lower than the other periods as for 11 of the 22 states sanctioned assistance were above the national average of per capita assistance. But the share of five states getting the most sanctions remained high i.e. 61.6 per cent (Table IV.22).

The state-wise distribution of project assistance to backward areas is almost same as the state-wise distribution of total financial sanctions by AIFIs or the IDBI. The states of Uttar Pradesh, Gujarat, Andhra Pradesh, Tamil Nadu and Maharashtra account for about half of the total sanctions to backward areas (Tables IV.23 and Table 24). It is only in the '80s that relatively higher sanctions have been going to Madhya Pradesh, Rajasthan and West Bengal than in the past. One reason for the higher share of sanctions going to the backward regions of the relatively less developed states is that most of the area in these states has been declared backward. To take an extreme example, all the sanctions to Himachal Pradesh or

TABLE - IV.22

PROJECT FINANCE SCHEME: STATE-WISE TRENDS IN PER CAPITA ASSISTANCE SANCTIONED

(in Rupees)

SR. No.	STATE	1964-70	1970-75	1975-80	1980-85	1985-March 89	July 1964-March 1989
	1	2	3	4	5	6	7
1.	Andhra Pradesh	2.24	1.86	18.41	80.07	172.71	275.27
2.	Arunachal Pradesh				12.66		12.66
3.	Assam		11.05	2.45	13.59	16.96	44.05
4.	Bihar	0.76	2.24	3.88	3.62	14.99	25.49
5.	Goa	38.37	9.20	101.04	86.68	259.40	494.97
6.	Gujarat	8.06	6.23	97.27	123.22	304.83	539.61
7.	Haryana	0.60	2.29	17.14	41.18	89.66	150.86
8.	Himachal Pradesh		0.98	4.27	66.58	107.53	179.36
9.	Jammu & Kashmir			16.15	17.32	19.64	53.11
10.	Karnataka	1.35	9.03	35.29	57.65	74.99	178.31
11.	Kerala	0.59	5.64	23.34	30.84	28.02	88.43
12.	Madhya Pradesh	0.36	0.83	4.97	30.85	70.61	107.62
13.	Maharashtra	7.09	4.08	24.00	58.83	130.21	224.22
14.	Manipur			3.45		29.14	32.58
15.	Meghalaya		0.30	21.04		60.94	82.27
16.	Mizoram						
17.	Nagaland		6.19			27.10	33.29
18.	Orissa	1.61	0.87	8.06	94.77	91.39	189.10
19.	Punjab	0.00	1.92	23.37	71.70	155.54	252.53
20.	Rajasthan	1.34	2.37	11.97	45.22	144.13	205.02
21.	Sikkim				69.22	95.45	164.67
22.	Tamil Nadu	2.91	7.25	25.96	62.67	107.25	229.73
23.	Tripura			6.23	2.92	15.20	24.35
24.	Uttar Pradesh	0.79	3.38	10.49	59.93	76.67	151.27
25.	West Bengal	1.20	3.69	18.10	32.26	72.58	127.83
26	Union Territories	0.99	1.79	14.73	67.10	140.66	225.27
	Total	2.07	3.78	19.44	51.79	99.58	176.66

Note: Percapita assistance has been calculated on the basis of population figures of 1981 census.

Source: Table IV.20

TABLE - IV.23

PROJECT FINANCE SCHEME: STATE-WISE TRENDS IN ASSISTANCE SANCTIONED TO BACKWARD AREAS

(Rs. Lakhs)

Sr. No.	State	1970-75	1975-80	1980-85	1985-March 89	July 1970-March 1989
	1	2	3	4	5	6
1.	Andhra Pradesh	5.33	80.04	272.06	358.04	715.47
2.	Arunachal Pradesh			0.8		0.8
3.	Assam	21.98	4.88	27.04	33.75	87.65
4.	Bihar	0.5	11.71	11.82	17.55	41.58
5.	Goa	1	10.98	9.45	28.19	49.62
6.	Gujarat	12.35	264.6	270.39	396.08	943.42
7.	Haryana	0.75	16.25	37.63	57.82	112.45
8.	Himachal Pradesh	0.42	1.83	28.5	46.03	76.78
9.	Jammu & Kashmir		9.67	10.37	11.76	31.8
10.	Karnataka	24.61	93.94	119.98	193.89	432.42
11.	Kerala	7.14	12.99	33.9	47.45	101.48
12.	Madhya Pradesh	3.72	16.68	139.13	287.23	446.76
13.	Maharashtra	6.2	49.6	166.6	315.32	537.72
14.	Manipur		0.49		4.14	4.63
15.	Meghalaya	0.04	2.81		8.14	10.99
16.	Mizoram					
17.	Nagaland	0.48			2.1	2.58
18.	Orissa	0.75	14.37	82.42	128.11	225.65
19.	Punjab	1.05	30.06	59.59	132.44	223.14
20.	Rajasthan	7.64	28.14	122.07	170.71	328.56
21.	Sikkim			2.19	3.02	5.21
22.	Tamil Nadu	5.88	51.27	208.19	168.64	433.98
23.	Tripura		1.27	0.6	3.12	4.99
24.	Uttar Pradesh	2.86	51.5	606.04	544.27	1204.67
25.	West Bengal	13.76	38.02	62.88	317.33	431.99
26.	Union Territories		2.63	15.49	48.59	66.71
	Total	116.46	793.73	2287.14	3323.72	6521.05

Source: IDBI Operational Statistics, 1964-89.

TABLE - IV.24

PROJECT FINANCE SCHEME: STATE-WISE TRENDS IN ASSISTANCE SANCTIONED TO BACKWARD AREAS

(Percentage Shares)

Sr. No.	State	1970-75	1975-80	1980-85	1985-March 89	July 1970-March 1989
	1	2	3	4	5	6
1.	Andhra Pradesh	4.58	10.08	11.90	10.77	10.97
2.	Arunachal Pradesh	0.00	0.00	0.03	0.00	0.01
3.	Assam	18.87	0.61	1.18	1.02	1.34
4.	Bihar	0.43	1.48	0.52	0.53	0.64
5.	Goa	0.86	1.38	0.41	0.85	0.76
6.	Gujarat	10.60	33.34	11.82	11.92	14.47
7.	Haryana	0.64	2.05	1.65	1.74	1.72
8.	Himachal Pradesh	0.36	0.23	1.25	1.38	1.18
9.	Jammu & Kashmir	0.00	1.22	0.45	0.35	0.49
10.	Karnataka	21.13	11.84	5.25	5.83	6.63
11.	Kerala	6.13	1.64	1.48	1.43	1.56
12.	Madhya Pradesh	3.19	2.10	6.08	8.64	6.85
13.	Maharashtra	5.32	6.25	7.28	9.49	8.25
14.	Manipur	0.00	0.06	0.00	0.12	0.07
15.	Meghalaya	0.03	0.35	0.00	0.24	0.17
16.	Mizoram	0.00	0.00	0.00	0.00	0.00
17.	Nagaland	0.41	0.00	0.00	0.06	0.04
18.	Orissa	0.64	1.81	3.60	3.85	3.46
19.	Punjab	0.90	3.79	2.61	3.98	3.42
20.	Rajasthan	6.56	3.55	5.34	5.14	5.04
21.	Sikkim	0.00	0.00	0.10	0.09	0.08
22.	Tamil Nadu	5.05	6.46	9.10	5.07	6.66
23.	Tripura	0.00	0.16	0.03	0.09	0.08
24.	Uttar Pradesh	2.46	6.49	26.50	16.38	18.47
25.	West Bengal	11.82	4.79	2.75	9.55	6.62
26.	Union Territories	0.00	0.33	0.68	1.46	1.02
	Total	100.00	100.00	100.00	100.00	100.00

Source: Table IV.23

Assam go to backward areas as the whole state is declared backward (Table IV.25).

The share of total sanctions going to backward areas is the highest during the period 1980-85. One possible reason for this has already been given above. Another and related could be the categorization of backward areas into 'A', 'B' and 'C' with respect to the degree of backwardness of the district. In the previous chapter we have already discussed the weaknesses present in the way categorizations were done. In the case of sanctions to backward areas by AIFIs the immediate beneficiaries of this categorization seem to have been the relatively more developed states. The picture is not that clear in the case of the sanctions under the Project Finance Scheme (Table IV.26).

Of the relatively developed states, Gujarat, Punjab, Tamil Nadu and Uttar Pradesh show a high share of backward areas in total sanctions in the immediate years following the categorisation. But some of the backward states like Bihar, Madhya Pradesh, Rajasthan and Orissa experience a significant rise in the share of backward areas in total sanctions to the state. However, the amount of sanctions are still quite low.

IV.2.2 District-wise Distribution of Assistance

With the expansion of the operations of the IDBI the number of districts covered under its Project

TABLE - IV.25

PROJECT FINANCE SCHEME: SHARE OF BACKWARD AREA IN ASSISTANCE SANCTIONED TO STATES

(Percentage Shares)

Sr. No.	State	1970-75	1975-80	1980-85	1985-March 89
	1	2	3	4	5
1.	Andhra Pradesh	53.62	81.20	63.45	38.71
2.	Arunachal Pradesh			100.00	
3.	Assam	100.00	100.00	100.00	100.00
4.	Bihar	3.20	43.11	46.76	16.74
5.	Goa	100.00	100.00	100.32	100.00
6.	Gujarat	58.15	79.81	64.38	38.12
7.	Haryana	25.34	73.36	70.72	49.91
8.	Himachal Pradesh	100.00	100.00	100.00	100.00
9.	Jammu & Kashmir		100.00	100.00	100.00
10.	Karnataka	73.42	71.67	56.04	69.63
11.	Kerala	49.76	21.87	43.18	66.53
12.	Madhya Pradesh	86.31	64.35	86.42	77.95
13.	Maharashtra	24.20	32.91	45.10	38.57
14.	Manipur		100.00		100.00
15.	Meghalaya	100.00	100.00		100.00
16.	Mizoram				
17.	Nagaland	100.00			100.00
18.	Orissa	32.89	67.78	33.06	53.29
19.	Punjab	32.61	76.61	49.51	50.72
20.	Rajasthan	94.09	68.63	78.79	34.57
21.	Sikkim			100.00	100.00
22.	Tamil Nadu	16.75	40.80	68.62	32.48
23.	Tripura		99.22	100.00	100.00
24.	Uttar Pradesh	7.63	44.28	91.21	64.03
25.	West Bengal	68.39	38.49	35.72	80.10
26.	Union Territories		23.46	30.34	45.40
	Total	44.93	59.60	64.45	48.71

Source: Table IV.20 and IV.23.

TABLE - IV.26

PROJECT FINANCE SCHEME: STATE-WISE TREND IN SHARE OF BACKWARD AREAS IN TOTAL ASSISTANCE SANCTIONED

(Percentages)

S.No.	State	1970-75	1975-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	July 1988-March 1989	July 1964-March 1989
	1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Andhra Pradesh	53.62	81.20	64.73	65.78	81.49	55.04	69.21	57.23	24.15	60.46	46.32	48.54
2.	Arunachal Pradesh					100.00							100.00
3.	Assam	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
4.	Bihar	3.20	43.11	14.14		100.00	77.34	61.87	30.86		14.13	2.32	23.33
5.	Goa	100.00	100.00	100.00	100.00		100.00	100.00		100.00	100.00	100.00	92.25
6.	Gujarat	58.15	79.81	56.53	18.02	91.22	80.43	77.40	48.16	55.60	37.44	22.02	51.29
7.	Haryana	25.34	73.36	92.03	7.88	52.62	90.68	56.25	49.19	33.08	50.28	75.11	57.68
8.	Himachal Pradesh	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
9.	Jammu & Kashmir		100.00	100.00		100.00		100.00	100.00	100.00	100.00	100.00	100.00
10.	Karnataka	73.42	71.67	58.29	55.42	71.25	38.78	80.54	59.76	63.31	84.96	37.05	65.31
11.	Kerala	49.76	21.87	8.05	71.84	35.23	51.42	54.24	67.02	76.45	73.43	50.95	45.08
12.	Madhya Pradesh	86.31	64.35	37.51	84.80	60.71	77.78	95.08	98.17	38.47	90.93	91.82	79.56
13.	Maharashtra	24.20	32.91	56.00	50.11	29.56	29.57	50.70	48.03	12.63	37.39	49.64	38.20
14.	Manipur		100.00							100.00	100.00		100.00
15.	Meghalaya	100.00	100.00						100.00	100.00	100.00	100.00	100.00
16.	Mizoram												
17.	Nagaland	100.00							100.00			100.00	100.00
18.	Orissa	32.89	67.78	88.79	66.98	87.52	82.69	6.23	45.32	30.10	80.30	42.76	45.37
19.	Punjab	32.61	76.61	33.86	52.63	60.74	92.40	57.21	81.13	19.33	67.79	28.93	52.63
20.	Rajasthan	94.09	68.63	88.47	58.21	61.41	90.68	99.66	76.10	96.23	79.22	5.78	46.77
21.	Sikkim						100.00		100.00		100.00		100.00
22.	Tamil Nadu	16.75	40.80	87.13	34.72	39.32	73.71	40.58	204.71	42.23	17.05	38.16	39.02
23.	Tripura		99.22		100.00					100.00		100.00	99.80
24.	Uttar Pradesh	7.63	44.28	61.58	68.37	66.16	76.12	97.87	53.64	43.44	80.08	78.31	71.84
25.	West Bengal	68.39	38.49	40.01	58.21	57.27	45.42	17.66	94.08	84.40	33.34	93.00	61.92
26.	Union Territories		23.46	30.91		68.99	100.00	60.07	66.84	45.30	50.76	29.19	38.92
	Total	44.93	59.60	64.43	47.90	64.29	65.75	69.51	59.71	40.88	54.38	41.39	53.87

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

Finance Scheme has also increased. During 1964-70, i.e. before the identification of backward areas, 40 of the 58 districts covered were non-backward and they accounted for over 78 per cent of the financial sanctions (Table IV.27). Category 'A' districts covered were only two -- Pondicherry and Goa[5]. The identification of backward areas did really help in channeling sanctions to these backward regions. During 1970-83 the share of backward areas in sanctions and that of the number of backward districts covered increased to 56.6 and 60 per cent respectively from 21.5 and 31 per cent during 1964-70. Most of the project funding was concentrated in 'B' and 'C' type districts; the categorization of districts in 1983 on the basis of the extent of backwardness, did help in channelising financial resources to 'A' type districts which include Special Regions (SR), No Industry Districts (NID), and Special Region and No-industry Districts (SRN). The number of 'A' type districts covered increased from 26 during 1970-83 to 67 in the post categorization period. Except for an increase of 2 districts in the non-backward category the entire increase in the total districts covered during 1983-89 was due to the increase in 'A' type districts. The

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5. The categorization has been carried back to the period before it became applicable on the assumption that those districts which are backward of a particular category on April 1, 1983, could not have been any less backward before the categorization.

TABLE - IV.27

CATAGORY-WISE DISTRIBUTION OF SANCTIONS

(Rs. Lakhs)

Catagory	1964-70			1970-83			1983-89		
	No. of Districts	Amount	% of Total	No. of Districts	Amount	% of Total	No. of Districts	Amount	% of Total
1	2	3	4	5	6	7	8	9	10
Catagory A	2	1377.61	8.96	26	11523.04	3.73	67	133739.36	15.15
Catagory B	8	743.45	4.84	58	92747.67	29.99	58	191060.68	21.65
Catagory C	8	1183.65	7.70	63	70641.03	22.84	63	156243.84	17.70
Non-Backward	40	12063.09	78.50	98	134401.45	43.45	100	401528.65	45.50
Total	58	15367.80	100.00	245	309313.19	100.00	288	882572.53	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.28

DISTRICT-WISE DISTRIBUTION OF SANCTIONS*

(Rs. Lakhs)

Districts@	1964-70		1970-83		1983-89	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
1	2	3	4	5	6	7
25	13961.32	90.85	152169.87	49.20	463907.57	52.56
25-50	1369.98	8.91	56145.33	18.15	159239.27	18.04
50-100	36.50	0.24	57756.02	18.67	147417.19	16.70
100-200	0.00	0.00	39371.90	12.73	96406.59	10.92
200 & above	0.00	0.00	3870.07	1.25	15601.91	1.77
Total	15367.80	100.00	309313.19	100.00	882572.53	100.00

* Group have been made after ranking the Districts in decending order of sanctions in each period.

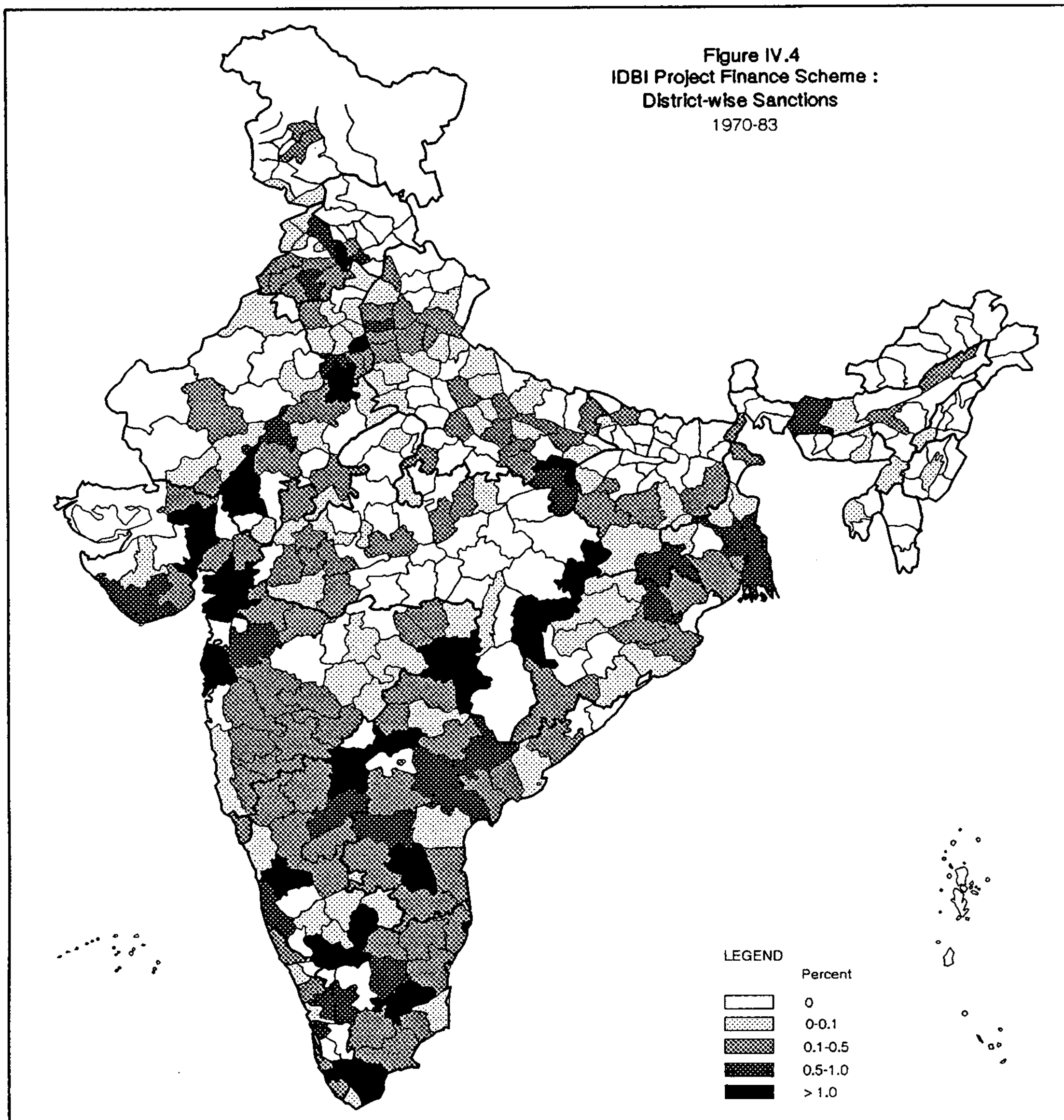
@ The number of districts covered in the three periods are: 58 during 1964-70; 245 during 1970-83; and 288 during 1983-89.

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

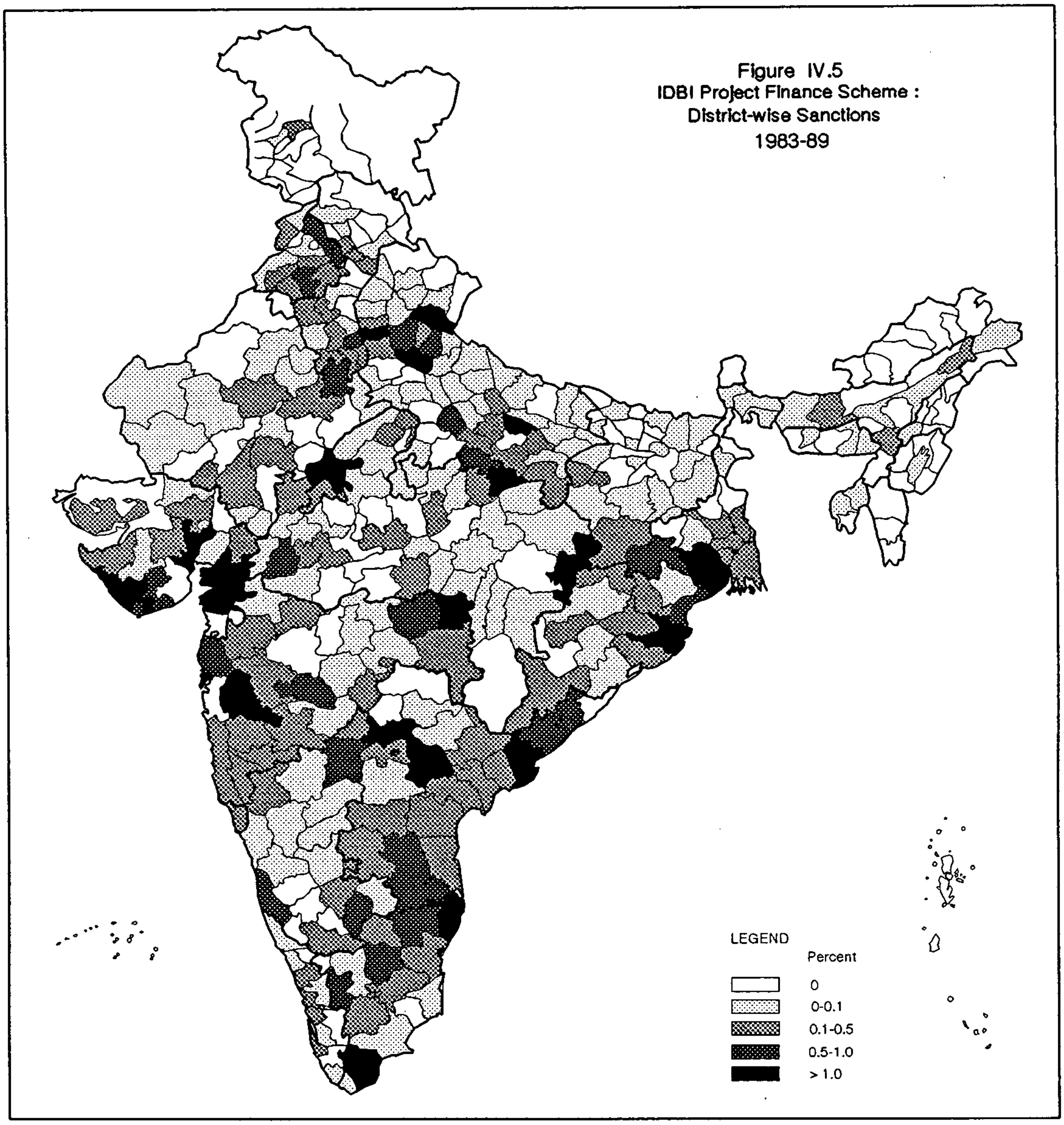
share in the amounts sanctioned to 'A' category districts increased from 3.73 per cent to 15.15 per cent.

The above facts seem to suggest that the economic disparities between districts would reduce as the category wise distribution of assistance helps the least developed area to obtain more resources. In reality the opposite seems to be happening. Table IV.28 shows that even though the number of districts in the backward area classification has increased over each successive period, the share of the top few districts, ranked in order of aggregate assistance sanctioned, has increased. During 1970-83 the first twenty five districts, accounting for 10.2 per cent of total districts covered, were sanctioned 49.2 per cent of the total assistance. During 1983-89 the first twenty five districts, which now were 8.7 per cent of all districts covered, were sanctioned 52.56 per cent of the total assistance sanctioned. The concentration of sanctions in a few districts is clearly visible in Figures IV.4 and IV.5.

The immediate question which comes to ones mind is how many of these districts are in backward areas. Table IV.29 gives the category-wise distribution of top 25 and bottom 25 districts ranked by the total sanctions to them during the two periods 1970-83 and 1983-89. In the period 1970-83 eleven of the top 25 districts were backward. This figure declined to 9



Source: Based on State-wise totals generated from: IDBI (1989), Projects Assisted by IDBI during July 1964 - March 1989.



Based on State-wise totals generated from IDBI (1989), Projects Assisted by IDBI during July 1964 - March 1989.

TABLE -IV.29

BACKWARD AREA CATAGORY OF DISTRICTS RANGKED BY AMOUNT OF SANCTIONS

	1970-83		1983-89	
	NB	B	NB	B
TOP 25	14	11	16	9
BOTTOM 25	9	16	11	14

Note: NB = Non-Backward
B = Backward

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.30

TOP AND BOTTOM 25 DISTRICTS BELONGING TO TWO GROUPS OF STATES

State	Top 25		Bottom 25	
	1970-83	1983-89	1970-83	1983-89
1	2	3	4	5
Maharashtra } Gujarat } Andhra Pradesh } Tamil Nadu }	12	15	3	1
Bihar } Madhya Pradesh } Orissa } Rajasthan }	3	3	13	11

Note: Districts have been ranked by aggregate sanctions under PFS.

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

during 1983-89. With regard to the bottom 25 districts, 16 were backward during 1970-83 and 14 during 1983-89.

To which States -- developed or under-developed -- do the top 25 and bottom 25 districts belong? Table IV.30 gives the distribution of these districts in some of the developed and under-developed states. We find that 12 out of top 25 districts in the period 1970-83 were in relatively more developed states of Gujarat, Maharashtra, Tamil Nadu and Andhra Pradesh. This number increased to 15 out of 25 in the period 1983-89. The number of districts in the top 25 was 3 for the backward states of Bihar, Madhya Pradesh, Orissa and Rajasthan in both the periods. In the bottom 25 districts 13 in 1970-83 and 11 districts in 1983-89 belonged to these 4 less developed states. Only 3 districts in 1970-83 and one in 1983-89 belonged to the relatively developed states in the bottom 25 districts. Of the 11 and 9 backward districts in the top 25 in the periods 1970-83 and 1983-89 respectively, 5 belonged to these four developed states in each period. Seven of the 14 and 10 of the 16 non-backward districts, in the periods 1970-83 and 1983-89 respectively, belonged to the four states of Gujarat, Maharashtra, Andhra Pradesh and Tamil Nadu.

Another proposition examined by us was with regard to concentration of backward or non-backward districts within developed and relatively less developed states. For this purpose we selected Gujarat, a relatively developed State, and Bihar, a relatively less developed one (Tables IV.31 and IV.32). Bihar with nearly the same area has twice the population of Gujarat.

Within Bihar there was a striking concentration of sanctions (Figure IV.6). During 1970-83 the districts of Singhbhum and Hazaribagh, two of the eight non-backward districts, accounted for 85.33 per cent of total assistance sanctioned to non-backward districts and 14 of the 41 projects assisted in the state. The period 1983-89 saw non-backward districts of Singhbhum and Ranchi receiving nearly two-thirds of the total project related assistance to non-backward districts in the state. The share of Aurangabad, a backward district, in the total sanction to the 14 backward districts of Bihar works out to 53.6 per cent in 1970-83 and 60.9 per cent for the period 1983-89. Thus we find that within backward and non-backward districts there is concentration of projects and sanctions in one or two districts. Another point worth noting is that though only one No-Industry District was covered before 1970-83, after categorization all 6 No-Industry Districts attracted project funds.[6]

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6. Another fact worth noting is that eighteen districts of in Bihar did not receive any funds (continued...)

TABLE - IV.31

BIHAR: DISTRICT-WISE DISTRIBUTION OF SANCTIONS

(Rs. Lakhs)

District	Catagory	1964-70			1970-83			1983-89		
		No.of Projects	Amount	% of Total	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11
Aurangabad	B	1	233.00	28.54	12	1464.79	21.38	21	3911.52	25.07
Begusarai	NID			0.00	1	5.00	0.07	1	200.00	1.28
Bhagalpur	B			0.00			0.00	1	225.00	1.44
Bhojpur	NID			0.00			0.00	2	232.00	1.49
Deogarh	B			0.00			0.00	1	89.00	0.57
Dhanbad	NB			0.00	1	50.00	0.73	1	90.00	0.58
Giridih	NB			0.00	1	45.00	0.66	2	221.90	1.42
Gopalganj	NB			0.00	1	92.00	1.34	1	32.41	0.21
Hazaribagh	NB	2	149.50	18.31	3	852.60	12.45	1	324.49	2.08
Madhubani	B			0.00			0.00	1	220.00	1.41
Nalanda	NID			0.00			0.00	1	165.00	1.06
Palamau	B			0.00	1	550.20	8.03	1	500.00	3.20
Paschim Champaran	B			0.00	3	386.90	5.65	1	136.00	0.87
Patna	NB			0.00			0.00	1	5.00	0.03
Purnea	NID			0.00			0.00	1	200.00	1.28
Ranchi	NB			0.00	3	257.51	3.76	6	1426.00	9.14
Rohtas	NB			0.00	1	165.00	2.41	1	2260.00	14.49
Saharsa	NID			0.00			0.00	1	162.00	1.04
Santhal Parganas	B			0.00	3	327.00	4.77	0	0.00	0.00
Singhbhum	NB	2	434.00	53.15	11	2654.10	38.75	9	4817.50	30.88
Siwan	B			0.00			0.00	1	224.00	1.44
Vaishali	C			0.00			0.00	1	160.00	1.03
Total		5	816.50	100.00	41	6850.10	100.00	56	15601.82	100.00

Note: Area = 1,73,877 Sq. Km.; Population = 6,99,14,734 (1981 Census)

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.32

GUJARAT : DISTRICT-WISE DISTRIBUTION OF SANCTIONS

(Rs. Lakhs)

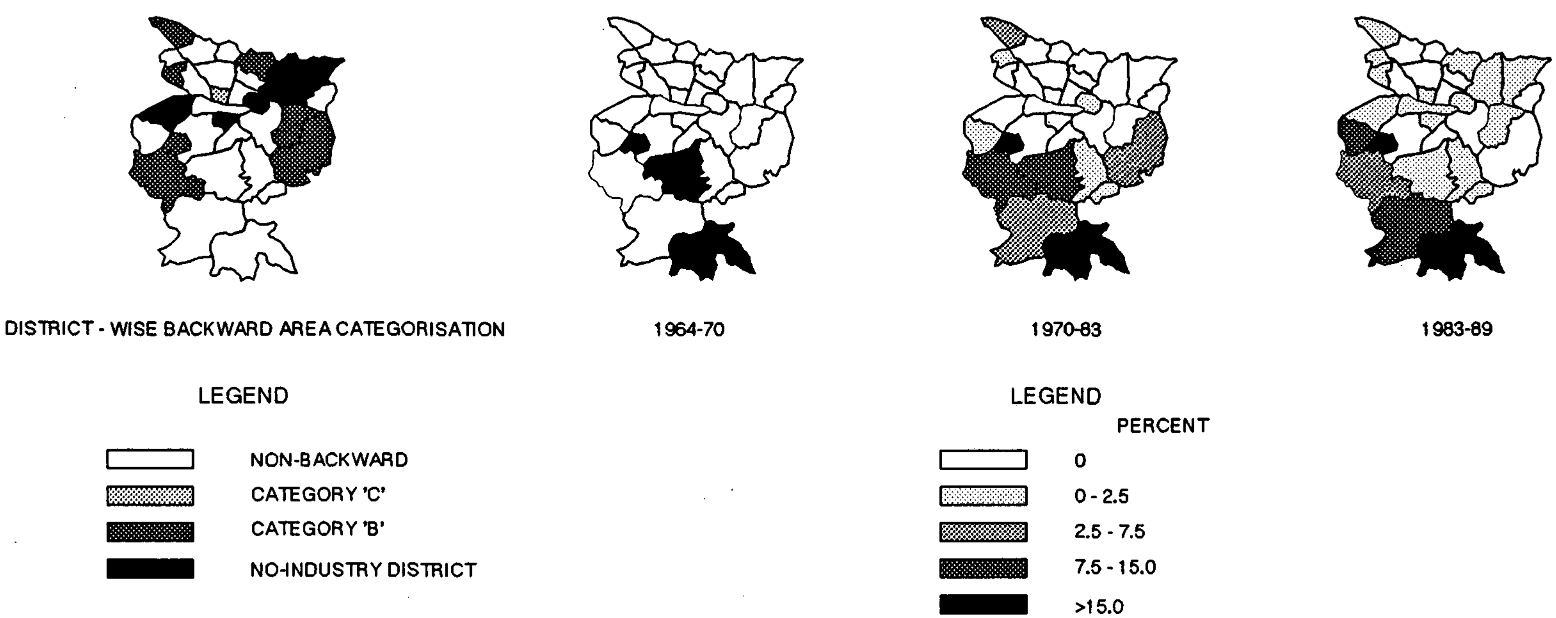
District	Catagory	1964-70			1970-83			1983-89		
		No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total	No. of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11
Ahmedabad	NB	2	100.00	3.64	49	8047.89	15.95	43	16397.42	12.79
Amreli	C			0.00	1	2063.40	4.09	4	5062.00	3.95
Banaskantha	C			0.00	2	852.71	1.69	3	706.00	0.55
Baroda	NB	1	2579.87	93.93	18	4034.19	8.00	36	25624.09	19.99
Bharuch	B			0.00	8	23017.82	45.63	27	23249.26	18.14
Bhavnagar	C			0.00	3	522.95	1.04	0	0.00	0.00
Gandhinagar	NB			0.00			0.00	4	769.50	0.60
Jamnagar	NB			0.00			0.00	5	3910.00	3.05
Junagarh	C			0.00	4	1622.00	3.22	6	20982.00	16.37
Kaira	NB	2	17.37	0.63	6	608.00	1.21	4	326.00	0.25
Kutch	C			0.00			0.00	3	3474.00	2.71
Mehsana	C			0.00	11	3417.99	6.78	22	4013.30	3.13
Panchmahal	B			0.00	4	893.00	1.77	11	3347.96	2.61
Rajkot	NB			0.00	2	225.50	0.45	2	274.00	0.21
Surat	NB	2	49.37	1.80	10	5141.32	10.19	21	18689.47	14.58
Surendranagar	B			0.00			0.00	2	1252.00	0.98
Total		7	2746.61	100.00	118	50446.77	100.00	194	128191.00	100.00

Note: Area = 1,96,024 Sq. Km.; Population = 3,40,85,799 (1981 Census).

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

Figure IV.6

DISTRICT - WISE PATTERN OF ASSISTANCE SHARING : BIHAR



Source: Table IV.31

The situation in Gujarat is no different from that of Bihar (Figure IV.7). Ahmedabad, Baroda and Rajkot, 3 of the 7 non-backward districts covered account for nearly 95 per cent of the Project assistance sanctioned to backward districts during 1970-83 and 92 per cent during 1983-89 (Table IV.32). On the other hand, Bharuch, Mehsana and Junagarh, 3 of the 9 backward districts, accounted for nearly eighty per cent of aggregate assistance sanctioned to backward districts. These districts were also places of location for majority of the projects given assistance in backward districts.

Thus, we find that not only is there a concentration of assistance sanctioned in a few states, but that within states a few backward and non-backward districts account for most of the sanctions -- be it a developed state or a less developed one. If one plots the project sanctions to districts on a map, the concentration becomes clearly visible. A comparison between Figures IV.4, IV.5 and IV.8 reveals that the concentration of sanctions has been generally in backward areas bordering non-backward districts. This is more clearly brought out in the district-wise maps of Bihar and Gujarat (Figures IV.6 and IV.7).

To sum up, the identification of backward areas in 1970 did increase the flow of assistance to

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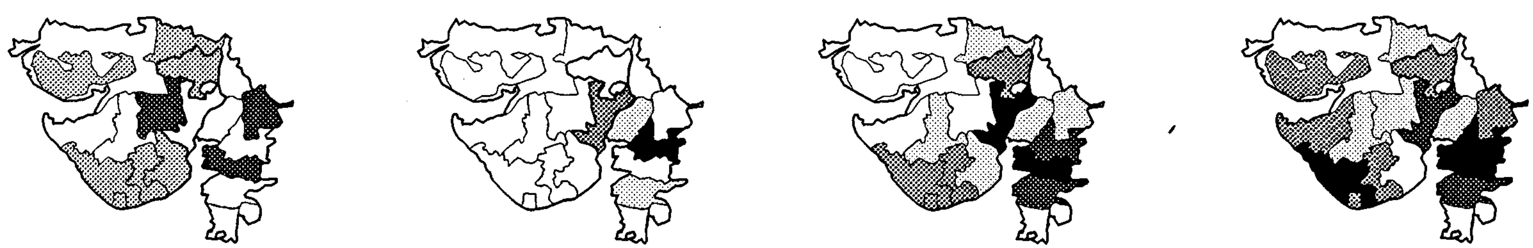
6.(...continued)
under the scheme in the period 1970-83. However, during 1983-89, the number decreased to ten.

Figure IV.7

DISTRICT - WISE PATTERN OF ASSISTANCE SHARING : GUJARAT



DISTRICT - WISE BACKWARD AREA CATEGORISATION | 1964-70 | 1970-83 | 1983-89

LEGEND

- NON-BACKWARD
- CATEGORY 'C'
- CATEGORY 'B'
- NO-INDUSTRY DISTRICT

LEGEND

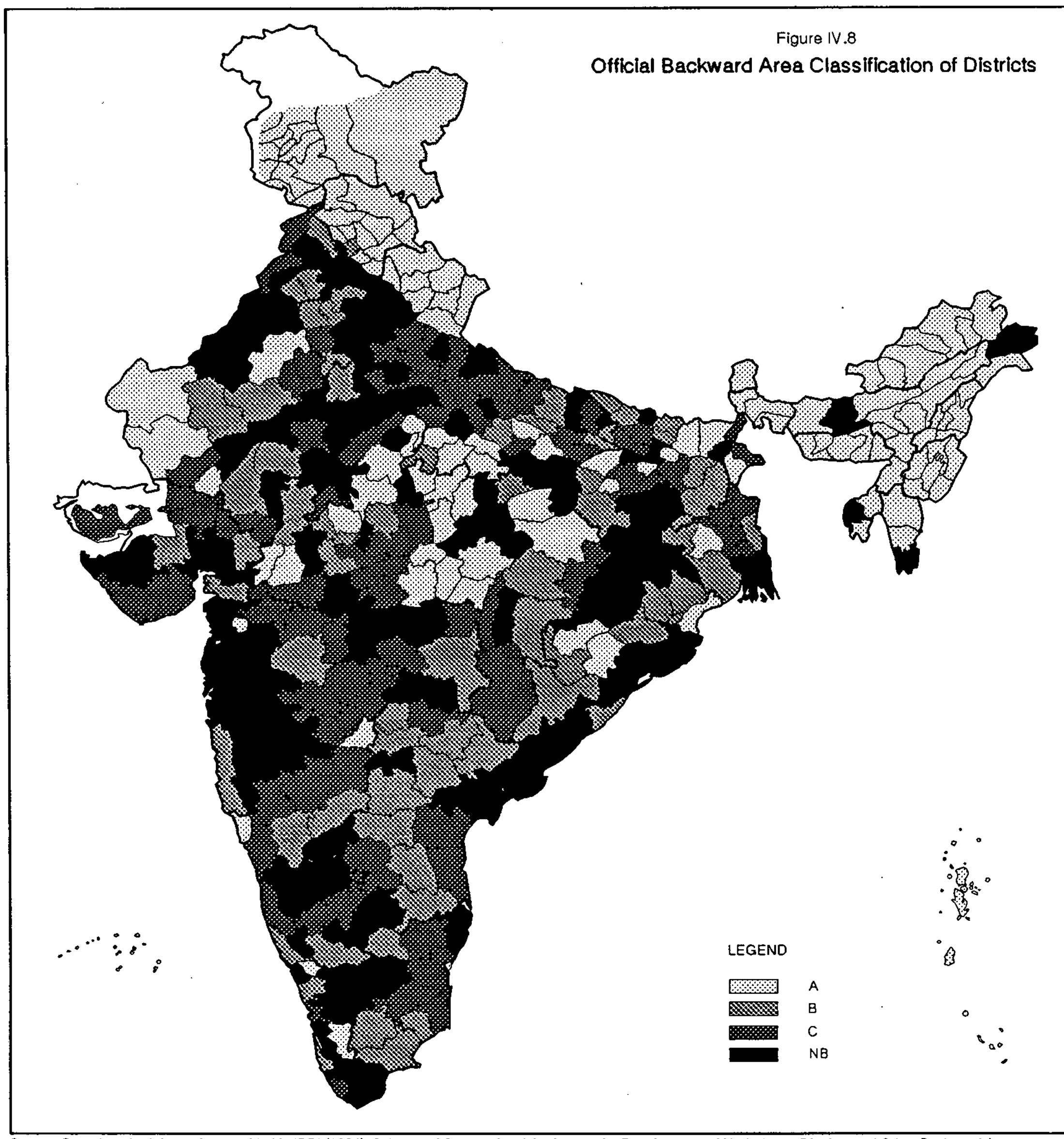
PERCENT

- 0
- 0 - 2.5
- 2.5 - 7.5
- 7.5 - 15.0
- >15.0

Source Table IV.32

Figure IV.8

Official Backward Area Classification of Districts



Source: Based on the information provided in IDBI (1984), <u>Scheme of Concessional Assistance for Development of No-Industry Districts and Other Backward Areas</u>.

backward areas but even this was concentrated in a few districts of a few developed states. The categorization of backward areas has also led to increase in districts covered especially in the special and no industry regions. The increase in the share of 'A' category districts has been at the expense of a decrease in the share of 'B' and 'C' category districts. The share of non-backward districts has remained around 60 per cent in total sanctions by IDBI under its Project Finance Scheme. Within states, there is a high degree of concentration of sanction of assistance and a few districts account for most of the sanctions.

Is it by way of a policy that only a few non-backward and backward districts are provided most of the sanctions? A policy decision was taken with regard to identification of districts for Intensive Area Development. Also, concentration on few growth points could be a policy. If this is so, then for how long a period should this be done? If not, then is it the infrastructural and other advantages which have been responsible for such a concentration? In the previous chapter we have already argued that (concessional) finance alone cannot channelise funds to less developed regions. If financial institutions have to play an important role in providing resources to less developed regions, the existence of basic infrastructural facilities, entrepreneurs, skilled workers and transport facilities are important prerequisites.

Section Three

Project Finance Scheme : Sanctions to MRTPA Companies

Within a year of India's independence, a committee of the Indian National Congress, under the chairmanship of Jawaharlal Nehru, visualised the establishment of an "economic structure which will yield maximum production without the operation of private monopolies and the concentration of wealth." [7] It was further visualised that in respect of existing undertakings which were in the nature of monopolies the "process of transfer from private to public ownership should commence after a period of five years".[8] India was not to have private monopolies and large private undertakings not only because concentration of economic power in private hands is inimical to the establishment of a socialist pattern of society but also "for safeguarding the viability of a democratic system of government."[9]

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7. Indian National Congress(1948), Economic Programmes Committee Report, Delhi quoted in S.K.Goyal (1979), Monopoly Capital and Public Policy, Allied, New Delhi, pp. 7-8.

8. Ibid., Section IV, para 6.

9. V.K.R.V. Rao in his foreword, ibid.

Introducing the Draft outline of the Third Five Year Plan in the Lok Sabha on 22nd August, 1959, the then Prime Minister Jawaharlal Nehru referred to the question about who had benefitted from the additional income that had been generated in the country as a result of the development efforts of the past few years. Following the debate in the Lok Sabha, the Planning Commission appointed a committee under the chairmanship of Prof. P.C. Mahalanobis in October 1960 "to ascertain the extent to which the operation of the economic system has resulted in the concentration of wealth and means of production".[10] One of the conclusions of the Report submitted by the Committee in February 1964 was that the "growth of the private sector in industry and especially of the big companies has been facilitated by the financial assistance rendered by the public institutions like the Industrial Finance Corporation (IFC), the National Industrial Development Corporation (NIDC) etc."[11]

For a more comprehensive and detailed study on the concentration of economic power in private hands, the Monopolies Inquiry Commission (MIC) was appointed in April, 1964. The MIC report[12], which was submitted

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10. INDIA, Planning Commission (1964), Report of the Committee on Distribution of Income and Levels of Living, Volume I.

11. *ibid*., p. 30.

12. INDIA (1965), Monopolies Inquiry Commission: Report, Volumes I & II.

the following year, as well as other studies conducted by Planning Commission came to the conclusion that the weaknesses inherent in the industrial licensing system were to a great deal responsible for the observed trends[13]. The Industrial Licensing Policy Inquiry Committee was appointed on July 22, 1967. It submitted its report in July 1969[14]. Besides inquiring into the functioning of the licensing system, it was also to inquire whether the policies followed by the specialised financial institutions had resulted in undue preference to the large industrial houses while advancing loans. One of the many findings of the Committee was that "the share of the Large Industrial Sector is predominant, that of the 20 large houses is very large and a few individual houses get a major share in the assistance distributed by the main All India Financial Institutions. The Houses which seemed to benefit most was Birla, followed by Mafatlal, Tata and ACC".[15]

In pursuance of the recommendations made by the MIC Report, the Monopolies and Restrictive Trade Practices (MRTP) Act was adopted by the Government in 1969 and the MRTP Commission was setup in 1970. The MRTP Act was "to provide that the operation of the

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13. Mention in this regard can be made of R.K. Hazari (1967), Industrial Planning and Licensing Policy, Planning Commission.

14. ILPIC Report, op. cit.

15. ibid., p 179.

economic system does not result in the concentration of economic power to the common detriment for the control of monopolies, for the prohibition of monopolistic and restrictive trade practices and matters connected therewith or incidental thereto".[16] The Act deals with the concentration of economic power of two types of undertakings: (a) undertakings, the value of whose own assets or the value of whose own assets together with the value of the assets of interconnected undertakings exceeds Rs. 20 crores; and (b) dominant undertakings; the value of whose assets exceeds Rs. 1 crore and who command along with inter-connected undertakings a market share of one-third. The limit for category (a) undertakings was raised from Rs. 20 crores to Rs. 100 crores in 1985-86.[17] The corresponding limit under (b) is now Rs. 3 crores instead of the earlier Rs. 1 crore. The criterion for dominance has also undergone change and the required market share has been brought down to one-fourth from one-third. The undertakings under either of these categories were required to register under the Act and are subjected to, along with the companies covered under the Foreign Exchange Regulation Act, 1973 (FERA) to special regulations. More importantly,

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16. See: N.K. Sengupta (1980), The Monopolies and Restrictive Trade Practices Act, 1969, Eastern Law House, Calcutta, p. 11.

17. Recently there were reports in the newspapers indicating the government's desire to further raise the limit to Rs. 1000 crores.

the area of their further expansion is restricted to a set of industries called Appendix-I industries. However, due to a variety of lacunae both in administrative provisions and in actual implementation the Act had only a limited impact on the growth of large industrial houses.[18] Inadequate registrations, gradual increase in the area open for MRTPA companies, appropriation by the government of the role perceived for the MRTP Commission, relaxations on account of exports and backward area location are some of the important reasons for the failure of the Act in realising its objectives. It appears that at no time the government was sure of its expectations from the Act. As a result, it turned out to be an additional tier in the licensing system, thereby ironically justifying its criticism by the large private sector.

In spite of its importance, however, not much attention has been paid in the literature, to the attitude of the development banks towards MRTP Act registered companies. This is more surprising in view of the clear verdict of the ILPIC. We now try to

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18. One may refer to the following in this regard: (a) INDIA, Ministry of Law, Justice and Company Affairs (1978), Report of the High Powered Expert Committee on Companies and MRTP Acts (also known as the Sachar Committee Report); (b) S.K. Goyal (1979), Monopoly Capital and Public Policy: Business and Economic Power, Allied New Delhi; (c) Rakesh Khurana (1981), Growth of Large Business: Impact of Monopoly Legislation, Wiley Eastern, New Delhi; and (d) H.K. Paranjape (1981), "Curbing Monopoly: Plans and Pitfalls", Mainstream, Vol. XX, Nos. 6 & 7, Oct. 10 & 17.

analyse the distribution of sanctions to the MRTPA groups by the IDBI under its Project Finance Scheme.

IV.3.1 Over all Sanctions

As one would have expected the share of MRTPA projects is high in sanctions by IDBI. The share was as high as 44.7 per cent of all sanctions by IDBI under all its schemes in the period 1964-70[19] (Table IV.33). In the period 1970-75 it dropped sharply to 23.6 per cent. This is possibly due to the introduction of the MRTP Act in 1970. In the subsequent periods it has declined gradually and in the period 1985-89 stood at 13.3 per cent. But in absolute terms aggregate sanctions to MRTPA companies by IDBI have increased from Rs. 144.4 crores in 1964-70 to Rs. 2507 crores in 1985-89. The Project Finance Scheme is the most popular scheme with the MRTPA companies. In 1964-70, 62.67 per cent of sanctions made to MRTPA companies were under this scheme. This percentage has been rising over the different periods and reached a figure of 87.84 in the period 1985-89 (Table IV.33). Thus, though the share of MRTPA companies has been declining in schemes other than Project Finance Scheme at a fast rate, the decline has been much slower in total sanctions under the Project

19. Though the Act came into being in 1969 and has been effective from June 1, 1970, the IDBI presented data even for the period 1964-70 for MRTP companies.

TABLE IV.33

MRTPA COMPANIES: SCHEME-WISE TREND IN ASSISTANCE SANCTIONED BY IDBI (1964-89)

(Rs. Crores)

Sr Scheme	1964-70	1970-75	1975-80	1980-85	1985-89	1964-89
1	2	3	4	5	6	7
1 Direct Finance:	90.50	107.30	486.40	1357.50	2202.10	4243.80
(a) Project Loans	58.80	82.50	443.30	1030.20	1973.00	3587.80
(b) Underwriting and Direct Subscriptions	12.70	22.70	30.80	97.30	86.30	249.80
(c) Guarantees for Loans & Deferred Payments	19.00	2.10		194.20	94.30	309.60
(d) Technical Development Fund			12.30	35.80	48.50	96.60
2 Refinance of Industrial Loans	29.30	3.20				32.50
3 Bills Rediscounting	24.60	79.20	181.70	418.10	304.90	1008.50
4 Total	144.40	189.70	668.10	1775.60	2507.00	5284.80
5 Sanctions to MRTPA Companies through PFS*	90.50	107.30	473.10	1321.70	2153.60	4147.20
6 Sanction to all Companies (MRTPA or non MRTPA) through PFS	141.70	259.20	1331.90	3548.70	6822.90	12104.30
7 Sanction to all Companies (MRTPA and non MRTPA) through all schemes of IDBI	202.50	454.70	2590.70	8010.30	16192.50	26929.90
8 (5) as per cent of (6)	63.90	41.40	35.60	37.20	31.60	34.80
9 (5) as per cent of (7)	44.70	23.60	18.30	16.50	13.30	15.40

* Comprises of 1(a), 1(b) and 1(c).

Source: IDBI, Operational Statistics, 1964-89.

Finance Scheme. Except for the period 1964-70 when the share of sanctions to MRTPA companies was 64 per cent, it has remained, on the average between 30-35 pèr cent in the following. Within the Private Corporate Sector,[20] whose share in the total sanctions has been over 80 per cent in recent years, the share of sanctions to MRTPA companies has been very high. In the period before the MRTP Act was adopted the share was as high as 80.8 per cent (Table IV.34). This has, however, decreased to 35.9 per cent in the period 1985-89.

The number of MRTPA projects sanctioned assistance has declined relative to the non-MRTPA projects. In absolute terms, however, they have been increasing. If one goes to the project level, one finds that though the share of sanctions to MRTPA projects has been declining, the ratio of the share of amount sanctioned to MRTPA companies to that of the share of MRTPA projects in total projects has remained about 1.8 - 2 per cent in all the periods. This means that the share of sanctions to MRTPA projects has declined in proportion to the decline in their share in the total projects assisted. This suggests that the concentration has not declined but also on the average MRTPA projects are larger ones getting over twice their share in sanctions with respect to their

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20. Private Corporate Sector is defined here to include Private Sector, Joint Sector and Cooperative Sector.

TABLE - IV.34

SANCTIONS TO MRTPA COMPANIES AND PRIVATE CORPORATE SECTOR

(Rs. Lakhs)

	1964-70	1970-75	1975-80	1980-85	1985-89
1	2	3	4	5	6
MRTPA Companies	9891.28 (80.8)	14658.65 (54.8)	48458.48 (43.0)	147967.68 (45.8)	193413.47 (35.9)
Private Corporate Sector	12238.68	26729.22	112741.63	323394.12	539239.79
TOTAL	15504.55	33169.62	143142.60	387237.40	628199.30

Note: Figures in brackets are percentage to sanctions to Private Corporate Sector.

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.35

MRTPA COMPANIES: SECTOR-WISE DISTRIBUTION

(Rs. Lakhs)

Sector	1964-70			1970-75			1975-80			1980-85			1985-89		
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Joint	2	509.00	5.15	5	6126.26	41.79	6	4176.92	8.62	11	9434.35	6.38	18	18348.23	9.49
Private	45	9382.28	94.85	36	8532.39	58.21	155	44281.56	91.38	163	138533.33	93.62	224	175065.24	90.51
Total	47	9891.28	100.00	41	14658.65	100.00	161	48458.48	100.00	174	147967.68	100.00	242	193413.47	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

proportion in the total number of projects. For example, even though during 1985-89 the share of the number of MRTPA group projects in total projects was only 18 per cent, the share of assistance sanctioned to these projects was 36 per cent.

The amount of sanctions going to MRTPA projects in the private sector has remained above 90 per cent for all the periods except 1970-75. In this period the share of sanctions to MRTPA group projects in the Joint Sector was 41.79 per cent (Table IV.35). This was because of sanctions to a few large projects in the Joint Sector and an actual decrease in the number of projects as well as amount sanctioned to the Private Sector in comparison to the earlier period.

As has been the case for all sanctions under the Project Finance Scheme, MRTPA companies receive maximum assistance for setting up New projects (Table IV.36). Though for the period 1970-75, total projects and the share of sanctions to MRTPA companies declined considerably, the actual sanctions more than doubled compared to the earlier period. The share of New projects was 75.9 per cent in this period. We could possibly say that the adoption of MRTP Act did not pose any restriction on the setting up of New projects. The other important schemes are the ones for modernisation and, diversification and expansion. The number of projects being sanctioned assistance for

TABLE - IV.36

MRTPA COMPANIES: PURPOSE-WISE DISTRIBUTION OF SANCTIONS (1964-89)

(Rs. Lakhs)

Purpose	1964-70			1970-75			1975-80			1980-85			1985-89		
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Diversification	4	1338.10	13.53	1	50.00	0.34	12	1841.00	3.80	14	11955.02	8.08	18	17721.40	9.16
EFEC			0.00			0.00			0.00			0.00	5	1195.00	0.62
EFS			0.00	1	52.00	0.35			0.00	2	32.84	0.02	8	1365.39	0.71
Expansion	19	3111.72	31.46	12	3063.50	20.90	28	9525.18	19.66	32	15131.47	10.23	27	27152.50	14.04
Modernisation			0.00	2	345.00	2.35	83	14820.65	30.58	86	31276.28	21.14	87	41258.96	21.33
New	20	5409.24	54.69	21	11129.67	75.93	29	21619.81	44.62	23	87960.73	59.45	39	87066.61	45.02
Rehabilitation	1	5.00	0.05			0.00	4	612.00	1.26	10	1457.00	0.98	15	3577.00	1.85
Rights Issue	3	27.22	0.28	4	18.48	0.13	5	39.84	0.08	7	154.34	0.10	11	641.11	0.33
TMF			0.00			0.00			0.00			0.00	28	12425.50	6.42
TU			0.00			0.00			0.00			0.00	2	624.00	0.32
VCF			0.00			0.00			0.00			0.00	2	386.00	0.20
Total	47	9891.28	100.00	41	14658.65	100.00	161	48458.48	100.00	174	147967.68	100.00	242	193413.47	100.00

Note: EFCE = Equipment Finance for Energy Conservation.
EFS = Equipment Finance Scheme.
TMF = Textile Modernisation Fund.
TU = Technology Upgradation.
VCF = Venture Capital Fund.

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

the purpose of rehabilitation has been increasing, but the amount sanctioned is very small.

IV.3.2 Component and House-wise Distribution of Sanctions

The component-wise distribution is broadly the same as that for all projects under the Project Finance Scheme. Rupee loans are the most important means of finance followed by foreign currency loans, financial guarantees and underwriting (Table IV.37). The share of assistance sanctioned by way of Foreign Currency loans and Financial Guarantees is substantially higher than that for non-MRTPA projects. Comparing the pre-'80s period with the '80s we observe that the relative share of Rupee loans and Underwriting has decreased in the '80s. Foreign Currency loans, have become an important means of finance for the MRTPA projects. In the '80s they account for 17 per cent of the total sanctions. Guarantees too have become relatively important in the '80s but they have been provided only to a few projects. Of the 20 cases out of 665 where sanctions by way of guarantees were provided 9 were in the period before 1971, 2 were in the 1972-73 and the remaining 9 in the '80s. These 9 sanctions of financial guarantees alone had a share of 8.4 per cent in total sanctions to MRTPA projects. Between the pre-80s and '80s another point to note is that while in the former period IDBI sanctions as a percentage of

TABLE - IV.37

MRTPA COMPANIES: COMPONENT-WISE DISTRIBUTION (1964-89)

(Rs. Lakhs)

Year	Project Cost	Rupee Loan	Foreign Currency Loan	Underwriting & Direct Subscription to Shares	Guarantees	Total Sanctions Amount	Total Sanctions % of Project Cost
1	2	3	4	5	6	7	8
1964-80	404582.80	64364.10	292.30	6782.40	1569.70	73008.40	18.05
1980-89	1425594.50	236097.70	58124.20	18315.20	28844.00	341381.20	23.95
1964-89	1830177.30	300461.80	58416.50	25097.60	30413.70	414389.60	22.64

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

aggregate project cost were 18 per cent, in the later period this percentage was 24 percent. One may say that reliance on IDBI as a means of finance in the MRTPA projects has increased in the '80s.

During the entire period under study, i.e. 1964-89, 80 distinct MRTPA Houses were sanctioned assistance under the Project Finance Scheme. Within these groups, we find a very high degree of concentration in the top few houses (Table IV.38). The top 20 Houses, ranked according to total sanctions, account for over 80 per cent of the sanctions (Table IV.39). Not only is this concentration high, the data further indicates that it has increased over time. Especially so in the '80s. The share of sanctions to the top 20 groups in the period 1964-80 was 82.99 per cent; in 1980-89 this rose to 86.7 per cent in spite of a rise in the number of groups sanctioned assistance from 66 to 75 (Tables IV.40 and IV.41). The top houses have generally remained the same.

If one looks at MRTPA groups whose position in the top few houses has not changed over time, the degree of concentration of sanctions is magnified. In the '80s Birlas' share has increased to over 31 per cent in total sanctions to MRTPA projects from just 4.98 per cent during 1964-80 (Tables IV.42 and IV.43). Though Reliance and Essar have been late entrants they are placed in the top few houses. The other important

TABLE - IV.38

MRTPA COMPANIES: COMPONENT-WISE DISTRIBUTION (1964-89)

(Rs. Lakhs)

MRTP Groups	Project Cost	Rupess Loan	Foreign Currency Loan	Underwriting & Direct Subscription to shares	Guarantees	Total		% of Aggregate Total
						Amount	% of Project Cost	
1	2	3	4	5	6	7	8	9
Birla	374182.12	83117.59	16316.39	7093.64	8091.00	114618.62	30.63	27.66
Single Large Undertaking	178118.42	36170.75	2073.19	1474.30	234.91	39953.15	22.43	9.64
Tata	229528.71	18595.00	10509.00	1086.65	4615.00	34805.65	15.16	8.40
IMFA	28117.00	5055.00	1300.00	1642.50	11791.00	19788.50	70.37	4.78
M A Chidambaram	50822.00	14684.48	997.49	1415.00	698.00	17794.97	35.01	4.29
Reliance	175015.00	1615.00	12727.02	1801.92	880.00	17023.94	9.72	4.11
S. D. Undertaking	46153.23	10679.82	377.80	489.59	994.00	12541.21	27.17	3.03
Singhania (JK)	70082.98	9053.29	3124.89	241.48	0.00	12419.66	17.72	3.00
ACC	56834.68	11890.00	162.77	0.00	248.52	12301.29	21.64	2.97
Essar	34950.00	7091.00	2103.00	0.00	0.00	9194.00	26.30	2.22
Modi	42241.24	7385.42	289.00	668.48	0.00	8342.90	19.75	2.01
Thapar	45119.32	5929.50	464.50	1652.50	0.00	8046.50	17.83	1.94
Ahmedabad Electricity	37650.00	6720.00	0.00	490.08	0.00	7210.08	19.15	1.74
Raasi	21764.00	5501.00	300.00	754.60	0.00	6555.60	30.12	1.58
Mafatlal	27622.02	5225.78	657.86	325.17	245.70	6454.51	23.36	1.56
Goenka (KP)	19103.00	3432.30	1213.00	935.00	490.00	6070.30	31.77	1.46
Bangur	21638.70	4311.25	295.00	350.85	0.00	4957.10	22.90	1.20
Shri Ram	22428.34	3304.27	547.81	412.42	278.10	4542.60	20.25	1.10
ICI	28070.19	2135.00	1180.41	376.22	295.00	3986.63	14.20	0.96
Parry	13782.52	3052.25	180.00	385.66	280.42	3898.33	28.28	0.94

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.39

MRTPA COMPANIES: COMPONENT-WISE DISTRIBUTION OF SANCTIONS (1964-89)

(Rs. Lakhs)

Houses	Project Cost	Rupee Loan	Foreign Currency Loan	Underwriting & Direct Subscription to Shares	Guarantees	Total Sanctions Amount	Total Sanctions % of Project Cost	% of Aggregate Total
1	2	3	4	5	6	7	8	9
Top 20	1523223.4	244948.70	54819.13	21596.06	29141.65	350505.54	23.011	84.59
21 to 40	199792.16	38039.45	2364.42	2776.97	1272.05	44452.89	22.250	10.73
41 to 60	78441.10	13676.83	918.45	387.31	0.00	14982.59	19.100	3.62
61 to 80	28720.62	3796.79	314.45	337.30	0.00	4448.54	15.489	1.07
All 80	1830177.3	300461.77	58416.45	25097.64	30413.70	414389.56	22.642	100.00

Note: Groups of 20 have been made after ranking the MRTPA houses by IDBI total sanctions.

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.40

MRTPA COMPANIES : COMPONENT-WISE DISTRIBUTION OF SANCTIONS (1964-80)

(Rs. Lakhs)

HOUSES	Project Cost	Rupee Loan	Foreign Currency Loan	Underwriting & Direct subscription to Shares	Guarantees	Total Sanctions		% of aggregate Total
						Amount	% of Project Cost	
1	2	3	4	5	6	7	8	9
TOP 20	340494.90	53401.62	292.26	5511.08	1397.65	60602.61	17.798	82.99
21 TO 40	45371.80	7718.54	0.00	1057.90	172.05	8948.49	19.723	12.24
41 TO 60	17252.01	3001.89	0.00	163.65	0.00	3165.54	18.349	4.35
61 TO 66	1464.11	242.00	0.00	49.77	0.00	291.77	19.928	0.40
ALL 66	404582.82	64364.05	292.26	6782.40	1569.70	73008.41	18.045	100.00

Note : Groups of 20 have been made after ranking the MRTPA houses by IDBI total sanctions.
Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.41

MRTPA COMPANIES: COMPONENT-WISE DISTRIBUTION OF SANCTIONS (1980-89)

(Rs. Lakhs)

House	Project Cost	Rupee Loan	Foreign Currency Loan	Underwriting & Direct subscription to Shares	Guarantees	Total Sanctions		% of Aggregate Total
						Amount	% of Project Cost	
1	2	3	4	5	6	7	8	9
Top 20	1202716.9	197277.11	53546.46	16431.23	28844.00	296098.80	24.619	86.73
21 to 40	165853.68	29181.16	3344.83	1553.97	0.00	34079.96	20.548	9.98
41 to 60	44306.01	8023.64	1159.90	306.04	0.00	9489.58	21.418	2.77
61 to 75	12717.95	1615.81	73.00	24.00	0.00	1712.81	13.468	0.50
All 75	1425594.6	236097.72	58124.19	18315.24	28844.00	341381.15	23.947	100.00

Note: Groups of 20 have been made after ranking the MRTPA houses by IDBI total sanctions.
Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.42

MRTPA COMPANIES: COMPONENT-WISE DISTRIBUTION (1964-80)

(Rs. Lakhs)

MRTP Groups	Project Cost	Rupess Loan	Foreign Currency Loan	Underwriting & Direct Subscription to shares	Guarantees	Total Amount	Total % of Project Cost	% of Aggregate Total
1	2	3	4	5	6	7	8	9
Single Large Undertaking	18518.00	3158.50	0.00	561.81	46.01	3766.32	20.339	25.69
M A Chidambaram	12069.00	2509.50	94.49	436.00	0.00	3039.99	25.188	20.74
TATA	28987.78	873.00	0.00	305.00	0.00	1178.00	4.064	8.04
Singhania (JK)	4660.00	846.66	0.00	153.61	0.00	1000.27	21.465	6.82
Raunaq Singh	3421.00	651.00	0.00	103.15	0.00	754.15	22.045	5.14
Birla	3612.55	650.00	0.00	80.00	0.00	730.00	20.207	4.98
Birds Heilger	2719.00	625.00	0.00	0.00	0.00	625.00	22.986	4.26
Modi	3118.18	485.00	0.00	57.48	0.00	542.48	17.397	3.70
Chowgule	6283.67	336.63	0.00	125.00	0.00	461.63	7.347	3.15
S. D. Undertaking	2275.00	405.00	0.00	28.06	0.00	433.06	19.036	2.95
Ahmedabad Electricity	3250.00	0.00	0.00	390.00	0.00	390.00	12.000	2.66
V Ramakrishna	1325.00	190.00	0.00	0.00	171.00	361.00	27.245	2.46
Kirloskar	1320.09	290.00	0.00	37.50	0.00	327.50	24.809	2.23
Kothari (Madras)	1600.03	200.00	0.00	0.00	0.00	200.00	12.500	1.36
Shri Ram	1011.00	111.75	0.00	50.00	0.00	161.75	15.999	1.10
Escorts	991.82	130.00	0.00	25.00	0.00	155.00	15.628	1.06
Central Pulp	410.00	121.00	0.00	25.00	0.00	146.00	35.610	1.00
Mahindra & Mahindra	1429.00	125.00	0.00	0.00	0.00	125.00	8.747	0.85
Bhilwara	195.00	70.00	0.00	0.00	0.00	70.00	35.897	0.48
TCI	167.14	46.00	0.00	6.00	0.00	52.00	31.112	0.35

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV.43

MRTPA COMPANIES: COMPONENT-WISE DISTRIBUTION FOR TOP 20 HOUSES (1980-89)

(Rs. Lakhs)

MRTP Groups	Project Cost	Rupess Loan	Foreign Currency Loan	Underwriting & Direct Subscription to shares	Guarantees	Total		% of Aggregate Total
						Amount	% of Project Cost	
1	2	3	4	5	6	7	8	9
Birla	336712.70	76011.85	16316.39	6436.07	8091.00	106855.31	31.73	31.30
Tata	154105.40	13294.00	10509.00	379.50	4615.00	28797.50	18.68	8.44
Single Large Undertaking	113380.00	24948.25	2038.19	712.49	185.00	27883.93	24.59	8.17
IMFA	26497.00	4705.00	1300.00	1490.00	11791.00	19286.00	72.78	5.65
Reliance	171915.00	1350.00	12727.02	1662.12	880.00	16619.14	9.66	4.87
M A Chidambaram	37814.00	11927.46	903.00	979.00	698.00	14507.46	38.36	4.25
Singhania (JK)	57755.00	7207.63	3124.89	4.23	0.00	10336.75	17.89	3.03
Essar	34950.00	7091.00	2103.00	0.00	0.00	9194.00	26.30	2.69
Modi	35468.60	6047.92	289.00	591.00	0.00	6927.92	19.53	2.03
Ahmedabad Electricity	34400.00	6720.00	0.00	100.08	0.00	6820.08	19.82	2.00
ACC	32334.00	6739.00	0.00	0.00	0.00	6739.00	20.84	1.97
S. D. Undertaking	25436.40	5155.90	377.80	65.00	994.00	6592.70	25.91	1.93
Thapar	35321.00	4131.50	464.50	1500.00	0.00	6096.00	17.25	1.79
Raasi	19411.00	4887.00	300.00	659.00	0.00	5846.00	30.11	1.71
Goenka (KP)	18091.00	3182.30	1213.00	935.00	490.00	5820.30	32.17	1.70
Mafatlal	18691.62	3881.78	657.86	0.00	0.00	4539.64	24.28	1.33
Bangur	15348.00	3524.00	295.00	187.66	0.00	4006.66	26.10	1.17
Jain Shudh	10042.00	1600.00	200.00	350.00	1100.00	3250.00	32.36	0.95
Parry	10722.00	2522.00	180.00	309.66	0.00	3011.66	28.08	0.88
Shri Ram	14322.17	2350.52	547.81	70.42	0.00	2968.75	20.72	0.87

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

houses are TATA, M.A. Chidambaram, IMFA and Singhania (JK). Two of the MRTPA group categories are Single Large Undertakings (SLUs) and Single Dominant Undertakings (SDUs). The former consists of undertakings which are individually large enough to come under purview of the MRTP Act. Single Dominant Undertakings are dominant in a particular industry/service and come under the MRTP Act under the dominant undertakings category. The share of sanctions to SLUs and SDUs is relatively high but has been declining. For most of the groups reliance on PFS sanctions was between the range of 20-50 per cent of the project cost and it has varied for different groups in different projects. In the '80s the average share of the Birla group was 31.7 per cent, for M.A. Chidambaram it was 38.4 per cent, for IMFA it was 72.8 per cent and for Tatas it was 18.7 per cent (Table IV.43). Reliance was the only major group in the top 40 houses whose dependence on IDBI's Project Finance Scheme for its projects was less than 10 per cent. As the MRTPA group projects are above Rs. 5 crores, the assistance to most of these projects is on a consortium basis. If one were to include the sanctions to these projects by the IFCI and the ICICI the combined share of these financial institutions in the project cost would turn out to be much higher.

Foreign Currency Loans

MRTPA projects have been sanctioned a major part of the foreign currency loans. Even though the share of MRTPA group projects in total sanctions under the Project Finance Scheme was around 33 per cent, their corresponding share in foreign currency loans was over 53 per cent in the period 1980-89. Within the MRTPA groups a few have been able to corner most of the sanctions. In the period 1980-85, 3 groups -- Reliance, Birla and IMFA -- accounted for around 70 per cent of the foreign currency loan sanctions to MRTPA groups. Reliance alone accounted for 49 per cent of the sanctions. The rest of the sanctions were thinly spread over the 18 remaining groups which were sanctioned foreign currency loans (Table IV.44). In the period 1985-89 foreign currency loans more than trebled in absolute terms compared to the previous period. The concentration, however, did not change significantly. Birla, Tata, Reliance, Singhania and Essar -- just 5 of the 32 groups -- accounted for 81.5 per cent of total foreign currency loans (see also Graph IV.A). Birla, Tata and Reliance together accounted for 70.5 per cent of foreign currency loans sanctioned to MRTPA groups in the period 1985-89. In the total foreign currency loans sanctioned by IDBI to MRTPA projects up to end March 1989, the projects of Birla, Tata and Reliance accounted for 67.7 per cent of sanctions (Table IV.44). In total sanctions of

TABLE - IV.44

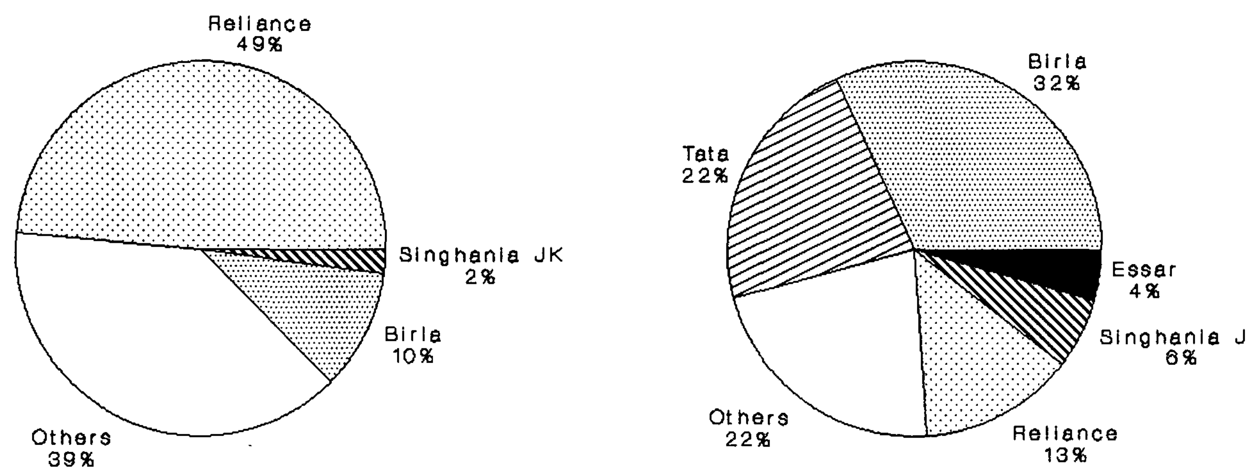
MRTPA COMPANIES: FOREIGN CURRENCY LOANS TO ALL HOUSES

(Rs. Lakhs)

MRTP Groups	1980-85		1985-89		Share in Total Sanctions	
	Amount	% of Total	Amount	% of Total	1980-85	1985-90
1	2	3	4	5	6	7
Birla	1373.79	10.49	14942.60	33.19	2.70	26.67
Tata	0.00	0.00	10509.00	23.34	0.00	53.79
Reliance	6427.02	49.06	6300.00	13.99	80.76	72.74
Singhania (JK)	286.89	2.19	2838.00	6.30	8.83	40.04
Essar		0.00	2103.00	4.67	0.00	22.87
ICI	25.00	0.19	1155.41	2.57	35.71	45.21
M A Chidambaram	0.00	0.00	903.00	2.01	0.00	6.44
Goenka (KP)	350.00	2.67	863.00	1.92	16.05	23.72
Single Large Undertaking	1360.69	10.39	677.50	1.50	8.16	6.05
Mafatlal	58.94	0.45	598.92	1.33	8.31	15.63
Ashok Leyland	0.00	0.00	458.00	1.02	0.00	20.58
Godrej		0.00	369.00	0.82	0.00	16.42
Thapar	100.00	0.76	364.50	0.81	7.30	7.71
Shri Ram	198.33	1.51	349.48	0.78	24.48	16.19
T V S Iyengar	98.00	0.75	347.60	0.77	16.25	29.44
Naidu G V		0.00	300.00	0.67	0.00	47.62
Lohia Machines	0.00	0.00	285.00	0.63	0.00	17.03
Jain Shudh		0.00	200.00	0.44	0.00	6.15
Bajaj	61.63	0.47	183.00	0.41	15.74	20.44
Parry	0.00	0.00	180.00	0.40	0.00	6.41
Kilachand	0.00	0.00	175.00	0.39	0.00	29.17
S. D. Undertaking	213.84	1.63	163.96	0.36	5.77	5.68
Modi	149.00	1.14	140.00	0.31	2.66	10.53
Walchand	0.00	0.00	127.00	0.28	0.00	51.99
Kamani	0.00	0.00	90.00	0.20	0.00	29.14
Kirloskar	148.20	1.13	78.25	0.17	100.00	23.77
Shreyan Prasad Jain	0.00	0.00	75.00	0.17	0.00	5.07
Simpson		0.00	73.00	0.16	0.00	100.00
G K W	0.00	0.00	70.00	0.16	0.00	50.00
Bangur	241.00	1.84	54.00	0.12	7.88	5.69
Shri Ambica	0.00	0.00	33.00	0.07	0.00	2.73
Graphite India		0.00	18.10	0.04	0.00	7.45
Khatau	153.35	1.17		0.00	60.53	0.00
ITC	113.67	0.87	0.00	0.00	11.58	0.00
Sahu Jain	55.00	0.42	0.00	0.00	2.48	0.00
Kothari (Madras)	85.52	0.65		0.00	9.22	0.00
Raasi	300.00	2.29		0.00	5.13	0.00
IMFA	1300.00	9.92		0.00	6.74	0.00
Total	13099.87	100.00	45024.32	100.00		

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

Graph IV.A
MRTPA Houses: Foreign Currency Loans



1980-85 1985-89

Source: Table IV.44

Foreign Currency loans by IDBI under the Project Finance Scheme, the share of these three groups is over 36 per cent.

The proportion of foreign currency loans in total sanctions to them under the Project Finance Scheme was as high as 74 per cent for Reliance in the period 1980-89. For Birlas this share was around 27 per cent. Tatas were sanctioned foreign currency loans only in the period 1985-89. The share of these in total sanctions to them was 54 per cent. For most of the other houses the share is less than 10 per cent. Relatively wider use of Foreign Currency loans as a means of sanctions in the later half of '80s is indicated by an increase in the number of groups, from 9 to 22 having a Foreign Currency loans share of over 10 per cent in total assistance sanctioned to each of them.

Given the high degree of concentration in the sanction of a scarce and valuable resource like foreign currency in the hands of just two or three industrial houses, many a question come to the mind. Is it by policy that these undertakings have been preferred? Do the MRTP Act and FERA have any relevance today? It seems that in spite of these regulations a few business groups have not only been able to increase their share in actual sanctions but have also increased it over the last few years.

Underwriting and Financial Guarantees

We have already mentioned that the amount of sanctions by way of underwriting have decreased relative to the total sanctions. In absolute terms, however, underwriting still forms an important source of funds for the MRTPA projects. Just as in the case of foreign currency loans, a high share of sanctions by way of underwriting have gone to a few houses. But the concentration is not as high (Tables IV.42 and IV.43). The share of Birlas, Tatas, Reliance, IMFA and M.A. Chidambaram houses has been between 40-50 per cent of the sanctions during the period under study.

Though Financial Guarantees have been of relatively insignificant amounts, lately they have become an important source of sanctions for a few projects. Just 9 out of 336 MRTPA projects were sanctioned assistance by way of financial guarantees in the period 1980-89. The projects were floated by the following groups: Birla, Tata, Reliance, Jain Shudh, Goenka (K.P.), IMFA and M.A. Chidambaram (Table IV.43). Out of the others to whom this assistance was sanctioned, one was a Single Large Undertaking and the other a Single Dominant Undertaking. The share of sanctions to these houses was 78 per cent of all sanctions of financial guarantees by the IDBI. Due to the non-availability of data it was not possible to calculate to what extent these guarantees were actually executed or disbursed. The figure for disbursals of all guarantees by IDBI in the period 1980-89 is 78 per cent of the sanctions. It is an interesting fact that this rate of disbursals is much higher than the rate of disbursals of all sanctions by IDBI which stood at 67 per cent. If one assumes that, on the average 78 per cent of sanctions by way of guarantees to MRTPA projects are actually executed, financial guarantees cannot be just considered contingent liability but more of a regular means of sanction. The ILPIC Report had found that most of guarantees were disbursed and that contingent liability to the extent of "90 per cent had to be disbursed, in the case of the Large Industrial Sector."[21] It appears that this trend has not changed and financial guarantees have also become a means for the MRTPA group projects for channeling resources.

IV.3.3 State-wise Allocations

The state-wise distribution of sanctions to MRTPA projects is the same as that for the over all trend in the Project Finance Scheme. Maharashtra, Gujarat, Uttar Pradesh, Tamil Nadu and Andhra Pradesh together got most of the sanctions (Table IV.45). The states of Rajasthan, Madhya Pradesh and Orissa have also been able to attract sanctions through the MRTPA projects in the '80s. Karnataka's share in sanctions was quite high till the early '80s, but in the period 1983-89 it

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21. ILPIC Report, op. cit., p. 166.

TABLE - IV.45

MRTPA COMPANIES: STATE-WISE DISTRIBUTION OF SANCTIONS

(Rs. Lakhs)

State	1964-70			1970-83			1983-89		
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	3	1015.00	10.41	21	10706.79	11.64	27	16800.60	5.37
Bihar	1	261.00	2.68	14	4132.73	4.49	14	3491.40	1.12
Delhi			0.00	3	587.50	0.64	3	1260.00	0.40
Goa, Daman & Diu	2	1302.61	13.35	1	461.63	0.50	3	579.29	0.19
Gujarat	3	139.37	1.43	25	7719.84	8.39	46	36656.89	11.73
Harayana			0.00	6	334.97	0.36	3	445.00	0.14
Himachal Pradesh			0.00	2	428.15	0.47	1	1244.00	0.40
J & K			0.00	1	50.00	0.05	1	288.00	0.09
Karnataka	4	823.30	8.44	21	9968.56	10.84	25	15704.59	5.02
Kerala	2	144.50	1.48	1	666.00	0.72	3	2298.00	0.74
Madhya Pradesh	2	132.15	1.35	15	5559.28	6.04	23	17000.01	5.44
Maharashtra	13	3120.54	31.99	54	12043.80	13.09	54	23348.28	7.47
Orissa	3	440.00	4.51	3	1895.60	2.06	9	30705.66	9.82
Punjab			0.00	8	1477.92	1.61	8	5857.00	1.87
Rajasthan	3	458.10	4.70	17	7767.84	8.44	16	37927.00	12.13
Tamil Nadu	7	1108.55	11.36	41	11624.97	12.64	49	28291.24	9.05
Uttar Pradesh	2	786.00	8.06	27	6447.67	7.01	32	82084.26	26.26
West Bengal	1	23.41	0.24	24	10125.56	11.01	18	8655.00	2.77
Total	46	9754.53	100.00	284	91998.81	100.00	335	312636.22	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

has come down to 5.02 per cent. The absence of sanctions to the North Eastern Region is quite conspicuous.

With regards to sanctions to backward areas the states of Karnataka, Madhya Pradesh and Orissa have been sanctioned higher amounts as compared to the Project Finance Scheme in general. Most of the projects and sanctions have been to the same 4 or 5 states. Though a number of projects have been located in backward areas of Rajasthan and Tamil Nadu not much sanctions have come their way (Table IV.46). The backward area category-wise distribution of assistance reveals that the share of backward areas was as low as 23.8 per cent in total sanctions in the period 1964-70. There were no projects situated in No Industry Districts (NID) and Special Region and No Industry Districts (SRN). There were two projects in Goa, which comes under the Special Region (SR) category. In the period 1970-83, when backward districts were formally identified, the share of backward areas came up to 50 per cent. But most of the sanctions and projects were concentrated in 'B' or 'C' category districts.

From April 1, 1983 the 'A', 'B' and 'C' categories were adopted. Various schemes of concessional assistance applicable to different categories were announced for MRTPA and FERA companies. The MRTPA companies were given permission

TABLE - IV.46

MRTPA COMPANIES: SANCTIONS TO BACKWARD AREAS OF DIFFERENT STATES

(Rs. Lakhs)

State	1964-70			1970-83			1983-89		
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	1	95.00	4.10	13	8975.15	19.17	14	8159.27	5.50
Bihar			0.00	6	926.73	1.98	5	691.00	0.47
Goa, Daman & Diu	2	1302.61	56.19	1	461.63	0.99	3	579.29	0.39
Gujarat			0.00	2	2163.40	4.62	9	5057.50	3.41
Harayana			0.00	1	71.00	0.15	2	375.00	0.25
Himachal Pradesh			0.00	2	428.15	0.91	1	1244.00	0.84
J & K			0.00	1	50.00	0.11	1	288.00	0.19
Karnataka	2	405.00	17.47	17	9671.56	20.65	20	14784.07	9.96
Kerala			0.00	1	666.00	1.42	1	475.00	0.32
Madhya Pradesh	1	92.15	3.98	9	4926.98	10.52	15	10145.41	6.84
Maharashtra			0.00	6	4697.00	10.03	11	10097.69	6.81
Orissa	1	345.00	14.88	2	1730.60	3.70	6	10242.00	6.90
Punjab			0.00	6	1332.92	2.85	4	2673.00	1.80
Rajasthan	2	55.00	2.37	14	5441.84	11.62	9	7482.00	5.04
Tamil Nadu			0.00	15	2712.02	5.79	14	3702.24	2.50
Uttar Pradesh			0.00	5	1013.60	2.16	12	71258.50	48.03
West Bengal	1	23.41	1.01	10	1561.86	3.34	5	1118.00	0.75
Total	10	2318.17	100.00	111	46830.44	100.00	132	148371.97	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

"to set up non-core sector projects (not reserved for SSI units) with reduced export obligation: 30% in 'A' category districts and 50% in categories 'B' and 'C' districts"[22]. From Table IV.47 we observe that though the number of projects in 'A' category (which comprises NID, SR and SRN districts) have hardly increased, the share of sanctions to projects in NID has gone up in the period 1983-89. This is due to one very large project. The Indo-Gulf Fertilizer Chemical Corporation was set up in Sultanpur by Birlas and was sanctioned Rs. 459.6 crores on March 28, 1985. If we calculate the share of sanctions going to backward areas after removing this project, we find that the share drops from 47.5 per cent to 32.8 per cent. The share of the backward areas has actually declined significantly after the 1983 categorisation, if this abnormally large project is not considered. This can also be seen from Table IV.48 which gives the share of backward areas in total sanctions to different states. Comparing periods 1970-83 and 1983-89, out of the 14 states, which have both backward and non-backward districts/areas, 11 show a decline in the share of sanctions to backward districts. The three states which show an increase are Maharashtra, Haryana and

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22. Industrial Development Bank of India (1983), Schemes of Concessional Assistance for Development of No Industry Districts and other Backward Areas, p. 7.

TABLE - IV.47

MRTPA COMPANIES: CATEGORY-WISE DISTRIBUTION OF SANCTIONS

(Rs. Lakhs)

Category	1964-70			1970-83			1983-89		
	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total	No.of Projects	Amount	% of Total
1	2	3	4	5	6	7	8	9	10
NID			0.00	3	625.00	0.68	5	53610.00	17.15
SR	2	1302.61	13.35	2	526.78	0.57	7	2476.79	0.79
B	4	495.00	5.07	63	24116.19	26.21	61	34678.64	11.09
C	4	520.56	5.34	43	21562.47	23.44	59	57606.54	18.43
NB	36	7436.36	76.23	173	45168.37	49.10	203	164264.25	52.54
Total	46	9754.53	100.00	284	91998.81	100.00	335	312636.22	100.00

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

TABLE - IV. 48

MRTPA COMPANIES: SHARE OF BACKWARD AREA IN SANCTIONS TO DIFFERENT STATES

(Percentages)

S.No.	State	1964-70	1970-83	1983-89
	1	2	3	4
1.	Jammu & Kashmir	0.00	100.00	100.00
2.	Goa, Daman & Diu	100.00	100.00	100.00
3.	Himachal Pradesh	0.00	100.00	100.00
4.	Karnataka	49.19	97.02	94.14
5.	Uttar Pradesh	0.00	15.72	86.81
6.	Haryana	0.00	21.20	84.27
7.	Madhya Pradesh	69.73	88.63	59.68
8.	Andhra Pradesh	9.36	83.83	48.57
9.	Punjab	0.00	90.19	45.64
10.	Maharashtra	0.00	39.00	43.25
11.	Orissa	78.41	91.30	33.36
12.	Kerala	0.00	100.00	20.67
13.	Bihar	0.00	22.42	19.79
14.	Rajasthan	12.01	70.06	19.73
15.	Gujarat	0.00	28.02	13.80
16.	Tamil Nadu	0.00	23.33	13.09
17.	West Bengal	100.00	15.42	12.92
	Total	23.77	50.90	47.46

Source: Compiled from project-wise data given in IDBI (1989), Projects Assisted by IDBI during July 1964-March 1989.

Uttar Pradesh. Thus, the sanctions to the MRTPA companies do not reveal any substantial preference to backward areas in general.

Summing UP

The operation of the Project Finance Scheme by the IDBI is on the whole similar to those of the All India Financial Institutions. The disaggregated data has enabled us to bring out some of the points more sharply.

In the component-wise analysis, a high degree of equity support to projects and the growing importance of foreign currency loans as a means of assistance was observed. We found that there is a high degree of concentration of sanctions in a few districts of a State. This was so, irrespective of the level of development of the state. Concentration was also observed with respect to the backward and non-backward districts of a state.

With regards to sanctions to MRTPA projects, it seems that though the relative number of such projects has declined, a few houses have been able to take advantage of most of the schemes of assistance. It is interesting to note that similar to the findings of the ILPIC Birlas as a group was the main beneficiaries of sanctions by the IDBI. Their dominance in sanctions still continues. It may be noted that the house ranks first according to the total assets under their command. It is worth pursuing to what extent this status of the house has been due to the continued support it received from the development banks.

The analysis of the disaggregate data has shown that the picture displayed by the aggregate data does not reveal the extent of disparities, between regions and the extent of concentration of sanctions in a few groups. Our results suggest that if the IDBI has to play a positive role in the planned process of development of the Indian economy, it needs to reformulate its lending policy in line with the national priorities and follow them more strictly.

CHAPTER V

Summary and Conclusions

Specialised Financial Institutions have become an important and a familiar feature of the financial system of almost every country. In a developing country, development banks not only perform the role of providing risk and/or loan capital, but also engage in developmental and promotional activities.

The establishment of IFCI in 1948, was followed by the setting up of many other development banks in India. These banks have come to play a major role in the financial system of the country. The aggregate value of sanctions and disbursals by all financial institutions (AFIs) stood at Rs. 15,972.2 crores and Rs. 10,001.7 crores respectively in the year 1989-90. The rising importance of the AFIs in the economy is also evident from the increase in their share in Net Fixed Capital Formation from 7.8 per cent in 1970-71 to 34.5 per cent in 1988-89.[1] Among the different financial institutions, the IDBI has come to occupy a dominant position accounting for almost half of total sanctions by AFIs.

As was visualised, over 70 per cent of the sanctions by AIFIs have gone to the private sector. Rupee loans were the most common form of assistance followed by underwriting and direct subscription to

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1. Disbursals in respective years by AFIs have been used for the calculation of these percentages.

shares and debentures, foreign currency loans and guarantees. Maximum assistance was provided to new projects by AIFIs. The IDBI, under its project finance scheme, sanctioned two-thirds of its assistance to new projects.

In the capital market over thirty per cent of capital raised was through the operations of AFIs in the 'eighties. While the development banks, especially the IDBI, concentrated on underwriting equity issues, the LIC, UTI and GIC were the dominant players in the debenture issues. The financial institutions occupied an important place in the capital structure of a number of public limited companies. Their importance was more evident for MRTPA companies.

With regard to distribution of assistance to different industries we found that the pattern has been in line with plan priorities only in a few respects. The IDBI, appears to have adhered to Plan priorities more rigorously. A few industries accounted for a major share of the sanctions and disbursals by AIFIs.

The regional distribution of assistance was marked by high degree of skewness. The financial institutions do not seem to have fulfilled their role with respect to the governmental policy regarding backward area development. A few developed states accounted for most of the assistance sanctioned and disbursed by AIFIs. While the share of backward areas in total sanctions was about 50 per cent in the eighties, it was noted that the backward areas of a few developed states were able to attract most of this assistance. The IDBI project finance data revealed that there was a high degree of concentration of assistance in a few districts. In the period 1983-89, a mere 8.7 per cent of the districts (25 out of 288) accounted for 52.5 per cent of total assistance sanctioned by IDBI under the Project Finance Scheme. Further, most of these districts belonged to the more developed states. Concentration in a few backward and non-backward districts within a state was also observed.

Though the number of MRTPA projects assisted by IDBI under its PFS had increased, their share in total projects assisted and amount sanctioned had declined over the period 1964-89. However, as most of the MRTPA projects were large, their share in total sanctioned assistance was twice that of their share in the total number of projects. Most of the sanctions were by way of rupee loans. Foreign currency loans became an important source of assistance for MRTPA projects in the late '80s.

Within the MRTPA houses, there was a high degree of concentration in projects belonging to a few houses. Out of the 80 houses which were sanctioned assistance under the Project Finance Scheme, a mere one-fourth of the houses accounted for over four-fifths of the sanctions in the period 1964-89. The concentration of assistance was particularly high in the case of foreign currency loans as just three houses -- Birla, Tata and Reliance -- accounted for 67.7 per cent of all foreign loans sanctioned by IDBI under its Project Finance Scheme upto March 1989. The share of backward areas in total sanctions to MRTPA projects had declined from 50 per cent in the period 1970-83 to 32.8 per cent in 1983-89[2].

Specialised Financial Institutions in India have come a long way since independence. Their support to the capital market has been a significant factor in the growth of industries in India. But even after forty years of planned development, the capital markets are not able to support most of the new issues without assistance from the financial institutions. Frequent interventions by the financial institutions have been required to keep the market afloat. Broad-based share holding pattern, a characteristic of a developed capital market, is still not a reality in the Indian financial system. Inspite of the increase in capital market activity in recent years, there is a tilt towards loan capital. Last year, even a company like Reliance Petrochemicals, whose promoter, Reliance Industries Ltd. showed the Indian corporate

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2. These shares have been calculated after excluding a single large project in Sultanpur, which is a no-industry district.

sector the route to cheap capital by creating a cycle of high dividend payouts, high share prices and issue of shares at a high premium took loans worth Rs. 750 crore from the financial institutions.[3]

With the changing political and economic scenario, major restructuring of the Indian economy seems a likely proposition. With the Government opting for increased borrowings from the World Bank, 'Reform' of the Indian financial system on the pattern suggested in the World Bank Staff Report is likely to guide the policy makers in India.[4] While the Staff Report has commended the performance of the Indian financial institutions in the past, at least with respect to their stable profitability and product innovations, it has suggested a meticulously phased reform programme touching almost all aspects of the Indian financial system. The long term perspective of the financial reforms are: (i) to allow completely market determined interest rates; and (ii) privatising commercial banks, development banks, money and capital markets. In the short term, it has suggested reduction in 'directed' lending, greater financial autonomy to financial institutions, limited privatisation of the ICICI, etc. The privatisation is

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3. Debashis Basu, "Stock Boom Creates Debt Cult", Times of India, May 14, 1991.

4. "Reforms of Financial System", Economic and Political Weekly, Vol. XXVI, No. 18, pp. 1145-6 (author not specified).

to be extended to the IDBI and the IFCI in the medium term along with a total elimination of priority sector lending.

In a developing country like India, operation of the stock exchanges on a free market mechanism is likely to leave little scope for new and unknown entrepreneurs to enter. In such a situation, a few established industrial houses and companies would be able to corner most of the resources. The financial institutions are an important part of the support mechanism to new entrepreneurs. As certain projects in priority industries are not able to mobilize resources from the market, financial institutions especially the development banks, need to ensure that the growth of these industries does not slow down for want of resources. However, the operations of financial institutions can surely be made more effective by ensuring that only those entrepreneurs and industries which cannot rely on the capital market are assisted.

The rising reliance of private investment on loan capital is a phenomenon common to most underdeveloped countries.[5] Increasing the interest rates in line with the market demand is likely to reduce the tilt

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5. G.P. Pfeffermenn and Andrea Madarassy (1991), Trends in Private Investment in Developing Countries, Discussion Paper 11, International Finance Corporation, Washington, 1990-91 edition.

towards loan capital but is also likely to slow down overall industrial investment.

Concessional finance is a necessity for encouraging investment in priority industries and backward areas. Purely financial incentives, however, are not enough for encouraging investment in less developed regions. The concentration of assistance in a few developed districts and, in and around metropolitan cities is more of a natural phenomenon than a planned one. The availability of infrastructural facilities like power and transport, access to skilled and unskilled labour, availability of raw materials, nearness to the market and most importantly the presence of dynamic entrepreneurs are the main factors influencing location of a project. Given the large size of the country and absence of some or all of these factors in many areas, only a broad-based regional development programme can successfully help in reducing regional disparities. The recent trends towards liberalisation of the financial system and the tilt away from planning to the market mechanism is likely to undermine the role of development banks in regional development.

In the new environment that is sought to be created, it seems doubtful if the originally stated objectives could easily be pursued by the development banks. The Indian industrial regulatory system was a well knit one with considerable interdependence of administrative provisions. The development banks have so far functioned within the system with their assigned objectives also following from the system. The financial institutions by themselves cannot independently influence industrialisation. A weakened industrial licensing system would obviously not be able to influence location. If the MRTP Act is restricted to trade practices and if no steps are taken to ensure that the post-liberalisation market/financial structure is competitive, it would seem that prevention of concentration of economic power acquires a far lessened significance in terms of objectives of the state. There would be no strict priorities to be followed if it is going to be 'indicative planning'.

With the fast increasing variety and range of financial instruments, the development banks would have to meet new challenges. Many more avenues would emerge with freer movement of resources across national boundaries.

Appendix I

Structure of the Data Base on IDBI Project Finance Scheme

Structure of the database: PFS6489.DBF
Number of data records: 3271

No.	Field Name	Type	Width	Description
1	STATE	Numeric	2	State Code
2	DTE	Date	8	Date of Sanction
3	CODE	Character	5	Company Code
4	CNAME	Character	40	Company Name
5	DCODE	Character	5	District Code
6	DIST	Character	20	District Name
7	BAREA	Character	4	Backward Area Code
8	BCAT	Character	4	Backward Category
9	INDUSTRY	Character	30	Industry Classification
10	PRODUCT	Character	50	Product(s)
11	MRTPGROUP	Character	25	MRTPA Group
12	SECTOR	Character	7	Sectoral Classification
13	PURPOSE	Character	15	New/Expansion/etc.
14	PRJCOST	Numeric	9	Project Cost
15	IDBIRL	Numeric	9	IDBI Rupee Loan
16	IDBIFCL	Numeric	9	IDBI Foreign Currency Loan
17	IDBIUW	Numeric	9	IDBI Underwriting
18	IDBIGR	Numeric	9	IDBI Guarantees
19	IDBITOT	Numeric	9	IDBI Total PF Sanctions

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