CHAPTER - 1

Introduction
Attainment of higher rate of economic growth is a major goal of national policy in all the countries of the world irrespective of their level of development and differences in their political and social structure. For developing countries, such as those included in the Third World category, particularly a country with massive population and resource problems like India, a high rate of economic development is more essential for breaking the vicious circle of poverty.

Economic development is a multi-dimensional process involving the complexity of interrelated and interdependent factors such as the amount, quality and availability of natural resources, the labour force, the accumulation of capital goods, the amount of innovation in management, investment opportunities plus a desire to invest, a satisfactory equilibrium in the balance of payments so that the needed raw materials and machines can be imported as also certain surplus goods which can be exported\(^1\). Since all these factors are interrelated it would be a herculean task to isolate them and to assess the contribution of each factor separately. But, of all the factors, the rate of new capital accumulation plays a role

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of paramount importance in the process of economic growth. The history of the advanced countries shows that their periods of expansion have always been characterised by the high rate of capital formation. But for a developing country having a high propensity to consume, it is not possible to generate sufficient resources internally to sustain the process of economic development. It is in this context, financial institutions which are acting as agents for both capital mobilisation and capital investment are gaining considerable significance in the process of economic growth. Thus, of many structural and institutional changes that are necessary in the developing countries not the least important is the adoption of financial institutions to serve the objectives of development and to bring about greater mobility of resources to meet the emerging needs of the economy.

1.1. Development Banks and Industrial Finance

1.1.1 IMPORTANCE OF INDUSTRIALISATION

Economic development has a direct relationship with industrialisation. The industrial development of a country helps not only in optimising the utilisation of it’s

natural resources but also in diversification of its economy. It is an economic process by which structural transformation of a subsistence economy is achieved. Industrialization brings social transformation, social equity, more equitable distribution of income and wealth and higher levels of employment. Industrialisation provides a wide range of consumer choice, increases productivity and standard of living, creates industrial skill, promotes innovations and technological development and diverts surplus farm power to modern industry. The need for industrialisation by Under Developed Countries (UDCs) goes much beyond its direct economic benefits. Hans Singer emphasises its effect on the general level of education, skill, way of life habits, store of technology, creation of new demand etc. In an underdeveloped country with a backward agriculture and vast population, there is little

choice but to give priority to the development of industry.\(^8\)

Industrialisation is regarded as the world’s first greatest revolution. World’s experiences have shown that there is a positive relationship between per capita income and industrial development which means that industrial growth has a promotive effect on economic growth.\(^9\) To realise the benefits and hasten up required socio-economic changes, industrialisation is assigned top priority in underdeveloped countries.\(^10\) Sinha argues that "in a tradition ridden country like India with a very low level of knowledge, the peasants are unwilling to make experiments. They accept everything with a spirit of resignation and a sense of fatalism. For them agriculture is the way of life rather than a commercial proposition".\(^11\) In such a situation the vicious circle cannot be broken by agricultural reform alone. It can be broken only by the dues ex machina of industrialisation.\(^12\) In order to achieve increased per capita income and stabilised economic growth,

industry in India should be dynamic.\(^\text{13}\)

In India, unfortunately the pace of industrial growth has not been commensurate with the size and demand of the country and remained lopsided during the pre-independence period. A very important reason for this slow growth, inter alia, is the paucity of adequate funds for financing industries. The gross inadequacy of industrial finance before independence is indicated by Narottam Shah who says that "till 1947-48, after a century of tradition of corporate form of business in India and even after Second World War (1939-45), the paid up capital of all the 22675 companies was no more than Rs.370 crores".\(^\text{14}\) In this connection Sharoff Committee rightly observed that "so far as equity capital and long-term finance are concerned, all classes of industries whether large scale, medium scale or small scale are experiencing difficulties except perhaps the leading companies which are able to raise moderate amounts of such finance.\(^\text{15}\)

### 1.1.2 NEED FOR INDUSTRIAL FINANCE

Soon after Independence, India’s economic plans

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envisaged the setting up of a wide spectrum of industries as a crucial development strategy to achieve self sustaining economic growth, which would require a massive capital. Industries in India and possibly in most of the developing countries could no longer offered to be just the one-man-show. They are now to be managed by a group called 'techno structure'. Several industrial units stand in urgent need of modern automatic machines to enable them to produce better quality at lower costs so as to sell them at competitive rates in the international markets. Industrial growth can be spearheaded by a much needed shift of attention from pre-requisites for location of industries, problem of dispersal, infrastructure, entrepreneurial motivation etc., to development of management skills, marketing know-how, market research, management consultancy, prompt decision-making and advisory services for industries in India.\textsuperscript{16} All this improvement requires tremendous credit for short, medium and long periods.

Finance is to industry what blood is to the human body and the lending institutions act as blood banks to the large and medium scale sectors. The transfusion of blood enriches the recipient but does not impoverish the donar.

Financial support in adequate measure from institutional

source is not only essential for the growth of the industry but is perhaps even necessary for it's very survival.17

1.1.3 EMERGENCE OF DEVELOPMENT BANKS

In industrially developed countries, the commercial banks have contributed a great deal in financing development projects. But in underdeveloped countries, because of various risk factors, absence of large number of borrowers with viable propositions and lack of loanable funds, commercial banks have been unhelpful in providing long-term finance. In India, before nationalisation of commercial banks in 1969, each one of them was under the control of one or the other of a few big industrial houses. Even after nationalisation, every bank more or less continued with the past trend of patronisation of business houses who were erstwhile controllers. This resulted in new entrepreneurs finding it difficult to establish contact and obtaining long-term credit from commercial banks.

Sharoff Committee on finance for private sector after considering various issues involved in commercial banks' financing industrial enterprises observed -"In general, banks appear to be of the opinion that with their present resources they cannot make advances to industries on

long term basis. Further the largest share of bank credit in India went to borrowers engaged in commerce and financial activities. Another disturbing feature of Indian capital market has been a reluctance on the part of financiers to invest in debentures - an important source of capital in western countries - to meet the need for capital expenditure for extensions and replacements or even for normal working capital.

Gupta sums up the state of industrial finance in India as "In the pre-independence days industrial entrepreneurship in India was a close preserve of a few already established business houses. The principal features of the industrial financial organisation in India were the closed circle character of industrial entrepreneurship, a semi-organised and narrow industrial securities market of issuing institutions in the long-term financing of industry."

Thus, from the very beginning, Indian industries have been experiencing difficulties in obtaining long-term capital for undertaking new industrial projects. Consequently it was felt necessary to set up financial

20. Ibid., p.20.
institutions for ensuring adequate long-term financial assistance. Further, it was realised that not only the capital but also other ingredients of development like flow of information on investment opportunities and local enterprise with the requisite managerial and technical skills were inadequate. These gaps inhibited private initiative in new areas of economic activity that appeared risky. It is in this context, most of the developing countries including India initiated and established 'development banks' as a remedy to most of the problems associated with investment.

The development banks are intended to provide the necessary capital, enterprise, managerial and technical know-how and also assist in building the financial and socio-economic infrastructure favourable to quicken economic development. They have to adopt their lending strategy and activities towards realisation of the socio-economic objectives of the country. They should attempt to foster the capital market, take initiative in the choice of viable projects, develop underdeveloped areas and enlarge the entrepreneurial base by attracting new entrepreneurial talent.  

growth of small entrepreneurs.\textsuperscript{23}

The development banks are not only financial agencies that are merely engaged in providing medium and long term assistance to business undertakings in the form of loans and investments but they are also catalytic agents in promoting a balanced and a viable process of development by assuming promotional role of discovering investment projects, undertaking the managerial services and finally on some occasions, establishing and managing of industrial units. Thus, providing financial assistance and rendering promotional services are the minimal functions of development banks. Besides, development banks can help capital market through some or all activities as sale of their own obligations in the capital market, placement of their industrial security holdings, underwriting the issue of new securities and including investors to participate in their financial operations.\textsuperscript{24}

The establishment of the Industrial Finance Corporation of India (IFCI) in 1948 was the first step in the direction of development banking system in India. Later Industrial Credit and Investment Corporation of India (ICICI) was established under the aegis of World Bank in

1955 to supply risk capital and to underwrite issues of joint stock companies. In 1964 Industrial Development Bank of India (IDBI) was set up as an apex institution to coordinate the activities of other industrial finance institutions and banks, to supplement their resources and to provide direct financial assistance to industrial projects involving large outlays and long gestation periods. Later it promoted the establishment of Industrial Reconstruction Corporation of India (IRCI) in 1971, which was later converted into statutory corporation called Industrial Rehabilitation Bank of India (IRBI) with a view to overcome the inherent difficulties faced by IRCI as a joint stock company. Later, the Shipping Credit and Investment Company of India Limited (SCICI) was incorporated as a public limited company in December 1986. This is a specialised financial institution for encouraging and assisting development and investment in shipping and fishing in related industries. During 1992-93 SCICI embarked upon a major diversification programme to extend financial assistance to all the sectors of the economy. However, shipping and fishing industries continue to be SCICI's priorities. Another development bank namely Small Industries Development Bank of India (SIDBI) was set up in 1990 as a principal financial institution for promotion, financing, and development of industries in the small, tiny and cottage sectors and co-ordinating the functions of other institutions engaged in similar activities. Thus, there are six national development banks at present viz., IFCI, ICICI, IDBI IRBI, SCICI, and SIDBI.
In addition to the national level development banks, state level development banks viz., State Finance Corporations (SFCs) and State Industrial Development Corporations (SIDCs) were set up with the objective of achieving balanced regional development and ultimately enriching the entire society through highest standard of living. While financing is the primary function and promotion is the secondary function in case of SFCs, promotion is the primary and financing is the secondary function of the SIDCs. Further while the SFCs have been playing increasing role in financing the small scale sector, the SIDCs are to take care of the medium scale sector. Thus SFCs and the SIDCs complement each other in ensuring the development of small and medium scale sectors of the state. Since 1960, many of the states have taken steps to establish SIDCs in order to accelerate the pace of industrial development in their respective areas. Andhra Pradesh and Bihar were the first to set up such corporations in 1960 followed by Uttar Pradesh and Kerala (1961) Maharashtra, Gujarat and Orissa (1962), Mysore (1964), Madras and Madhya Pradesh (1965) and Punjab (1966). Over the years, all the states have realised the importance of SIDCs as catalysts in the industrialisation process.

The establishment of APIDC in the year 1960 ushered in a new era in economic development of Andhra
Pradesh. It was started with an authorised capital of Rs. one crore which has gone up to Rs.100 crores as on February 1992. The main objectives of APIDC are: 1. to create a self-sustained entrepreneurial base, 2. to encourage first generation technical entrepreneurs and other entrepreneurs, 3. to reduce regional imbalances through planned industrial development, 4. to ensure implementation of viable projects, 5. to act as an extended arm of central financial institutions, 6. to project an image of dynamic corporate leadership in professional, managerial competence and 7. to achieve overall industrial development through optimum utilisation of natural resources endowment of the state.

The APIDC aims to achieve the set objectives by (1) providing equity and seed capital assistance to entrepreneurs and first generation of professional entrepreneurs, (2) extending term loan assistance under the IDBI refinance scheme and (3) implementing schemes for equipment refinance, modernisation, setting up nursing homes and rehabilititating sick units.

Ever since its inception, APIDC played catalytic role in promoting large number of large and medium industries in almost all the districts of the state. APIDC occupies first position in the country in respect of promoting joint sector projects as well as first generation technocrat entrepreneurs. APIDC promoted a total of 632
production units by providing Rs. 97.86 crores of equity, Rs. 231.85 crores of term loan and Rs. 10.62 crores of seed capital assistance as on February 1995. The employment generated was 1,18,043 persons by the end of 1995.

Thus, APIDC has been playing a vital role in catering to the needs of industrial finance in Andhra Pradesh for the last 34 years. At this stage, it is worthwhile to critically examine the performance of APIDC in achieving the set objectives so that the constraints, if any, could be identified and the policies and the procedures could be improved in the light of the experience.

1.2 Review of Literature

A comprehensive review of literature has become an essential part of any investigation as it not only gives an idea about the work done in the past and assists in delineation of problem area but also provides a basis for interpretation of findings. The available relevant literature is reviewed under two heads viz., (1) studies on National Development Banks and (2) Studies on APIDC.

1.2.1 STUDIES ON NATIONAL DEVELOPMENT BANKS

Bhatta\(^{25}\) reviewed the performance of IDBI for a

period of one decade (1964-74). He appreciated IDBI for introducing a variety of mechanisms for promoting it's (IDBI) role as an apex development bank. Though refinancing is the major objective, wherever technological compulsions are big and require substantial capital investment, IDBI came to the rescue of such units by financing the units directly. He opined that IDBI is instrumental in strengthening the financial structure of SFCs, SIDCs and the other term lending institutions through its subscription to their bonds and shares. IDBI is also instrumental to establish the IRCI in 1971 to meet the special assistance requirements of 'sick' enterprises. IDBI also identified backward areas through industrial survey and prepared a list of available technical consultancy services in the country. IDBI also made many projects viable with it's experience and efficient management personnel. In order to overcome the problem of availability of entrepreneurs for the new projects in backward areas, IDBI with the assistance of other financial institutions, had established a management consultancy service centre both at the all India and State levels. Bhatt also opined that the performance of IDBI during the first decade was of consideration and exploration.

Menon in his pioneering work analysed the role

of IDBI, IFCI, SFCs and SIDCs in the industrial development of backward areas in India. While reviewing the impact of incentives offered by development banks, Menon opined that various incentives have been disproportionately distributed and most important beneficiaries were found to be the developed states. His study found that higher proportion (70 per cent) of the total amount of assistance was sanctioned to industrially developed states by All India Financial Institutions during the period 1970-71.

Nadakarni presented a paper in the United Nations symposium on the role of development banks in the project promotion activity. He analysed the necessity and importance of development banks to involve in all the activities of entrepreneur including project management. He opined that there have been times when development banks managed projects on their own either because there was a complete lack of entrepreneurship or because of special social objectives required to be realised. He concluded that the development banks must adjust their policies and actions to meet the new challenges.

Menon's study on 'Concessional Finance from All

India Development Banks' aimed to examine the role of concessional finance in industrial development. The study covered 313 industrial units which were granted direct financial assistance on concessional terms by All India Development Financing Institutions namely IDBI, IFCI and ICICI during 1970-79.

The study revealed that concessional finance accounted for 44 per cent of the total assistance and 15 per cent of the project cost. The share of backward areas in project cost, total assistance and concessional finance accounted for 44 per cent, 39 per cent and 45 per cent respectively. The inter state variations in the amount sanctioned under concessional terms were apparently wide. Andhra Pradesh and Uttar Pradesh accounted for a little over 44 per cent of the total cost of the project set up in notified backward districts/areas of backward states under concessional terms. The least developed of backward areas viz., Assam, Bihar, Manipur, Meghalaya, Nagaland, Orissa, and Jammu and Kashmir continue to lag behind. The same trend was observed in case of developed states also. Industry-wise analysis revealed that agro based industries accounted for 47 per cent of the project cost, 51 per cent of the assistance under concessional terms followed by chemical based industries and metal based industries. Sector-wise analysis showed that private sector accounted
for 29 per cent and public and co-operative sectors for nine per cent. The study further revealed that the percentage share of medium sized units in concessional finance is more than the large sized units.

Shenoy and Gupta\textsuperscript{29} in their study examined the regional pattern of IDBI's assistance to industrial projects during 1970-79. The study revealed that backward districts enjoyed 52.6 per cent of total assistance disbursed by IDBI and out of 247 backward districts, 245 districts have been covered by IDBI either by direct assistance or refinance or both. State-wise analysis revealed that Gujarat claimed 30.1 per cent of total direct assistance to backward areas. Industry-wise analysis showed that, of the total assistance sanctioned to backward areas, fertilizer accounted for as much as 32.2 per cent which forms around 91 per cent of the total assistance to this industry and 18.9 per cent of the total assistance of all the industries. Purpose-wise analysis showed that IDBI paid much attention to new units.

Bhattacharya\textsuperscript{30} in his study analysed the nature and problems of industrially backward areas in the country


and the role of IDBI with regard to financing of industries in the backward areas.

Tandon\textsuperscript{31} evaluated the role of IDBI, IFCI and ICICI in bringing about industrial development of backward regions. He observed that financial concessions of term lending institutions to backward areas have increased manifold. Though all industrially backward districts have been covered by the development banks, yet wide disparity in the flow of assistance to these areas is seen which in turn resulted in perpetuation of regional disparities.

Punja's\textsuperscript{32} survey revealed the fact that the IDBI provided nearly three fifth of the operations of all financial institutions up to the end of June 1983. He also highlighted the sizeable underwriting and direct subscription support to new issues by all financial institutions. The investment institutions have introduced a scheme for infusing a measure of liquidity to public issue of non-convertible debentures. He also analysed the role of IDBI and ICICI in raising loans from foreign currency markets to finance the ever growing requirements of imported capital goods of industrial units.

Punja's study examined the performance of development financial institutions in general and IDBI in particular. He discussed the different schemes and projects introduced by development banks. IDBI succeeded in establishing an appropriate working relationship among institutions and co-ordinating their activities besides undertaking promotional activities during the first decade (1964-74). In the second decade (ending 1983-84) IDBI placed greater stress on promotion of small scale industries, development of industrially backward areas, modernisation and upgradation of technology in industry. Establishment of IRCI (1971), refinance operation of SIDCs (1976) and introduction of special refinance schemes for rehabilitation and modernisation of small scale industries (1983-84) have increased term lending facilities to the small and medium sectors. Further, IDBI constituted Entrepreneurship Development Institute of India (EDII) in 1983, designed soft loan scheme and extended modernisation assistance to all industries.

Sadak focussed his attention on the efficiency of incentives and subsidies for the promotion of industrial

development in backward regions of the country. He classified disparities under two categories viz., inter-state and intra-state. He opined that the concentration of industries in a few industrially advanced states like Maharashtra, Gujarat, West Bengal and Tamil Nadu is responsible for inter-state disparities. Other states in India are lagging behind in the industrial development. But more concern is that even in the advanced states, industries are not spacially distributed but concentrated in a few centres only. This has resulted in intra-state disparities. However, he noticed that concessional finance by All India Financial Institutions (AFIs) though instrumental in the dispersal of the industry, yet it has only marginal impact.

Sarma\(^{35}\) evaluated the role of financial institutions such as IDBI, IFCI, ICICI, SIDCs and SFCs in the reduction of regional disparities in the country. He highlighted the problem of regional disparities (inequalities) in India and the various schemes and measures taken up by AFIs with an emphasis on apex institution viz., IDBI. He has shown empirically as to how the institutional assistance has flown to a few developed states and to a few backward areas of developed states. He also examined the flow of IDBI assistance to different districts of Andhra Pradesh.

Raj emphasised the institutional relationships between Government and Development Banks. According to Raj, Governments in some developing countries decided to assume detailed responsibility for controlling the economy. In the process, the autonomy of development agencies was curtailed. Consequently, development banks in some countries pursued restrictive economic policies and generally experienced greater erosion of their autonomy than their counterparts in other countries. But the rapid growth of development banks (activity) is facilitated by an ideal relationship between the managers of development banks and government agencies based on mutual trust and respect for autonomy. Raj highlighted that the international agencies were instrumental in setting up private sector development financial institutions. They now provide assistance for the development of main areas of economy which are worthy of their support. The activities like agriculture, small industry, housing, public water supply and other public utility services are provided assistance for development. The Governments of several developing countries have set up development banks, wholly owned by them with a view to regulating the flow of capital to these industries. As a result, international institutions like World Bank have begun to channel funds through these government owned

development banks. Such changes in the policy of donor agencies have considerably influenced the developmental relationships between Government and development banks.

Nadakarni\textsuperscript{37} analysed the role of IDBI in the dispersal of industry in India. According to him the trend in the flow of IDBIs cumulative disbursements indicates a picture in favour of the less developed states. For instance, the four industrially developed states viz., Maharashtra, Gujarat, Tamil Nadu and West Bengal accounted for 70 per cent up to the end of June 1970. This is 24.6 per cent for medium developed states and 5.4 per cent for the bottom five states. But by June 1980, the share of the four developed states declined to 51.3 per cent (from 70 per cent) while that of the five bottom states increased to more than double (12 per cent) and the share of middle level group of states increased to 36.7 per cent (against 24.6 per cent in June, 1970). There was a further increase in the share of less developed states in cumulative assistance up to the end of June 1988. The share is computed at 42.3 per cent, 43.3 per cent and 14.4 per cent for industrially developed, middle level and bottom level states respectively.

Jhaveri\textsuperscript{38} analysed that the most important factor

responsible for investment buoyancy in the private corporate sector is the creditable growth performance during eighties which witnessed over five per cent annual rate of growth in national income as compared to the conventional growth rate of 3.5 per cent. The Exchange Risk Administration Scheme (ERAS) initiated by IDBI, ICICI and IFCI is responsible for faster utilisation of multilateral credits contracted by institutions and thereby incremental flow of foreign exchange. This is handy when institutional lenders and borrowers were both inclined to look forward to avenues which can permit flexibility. In this regard the financial institutions have performed their creditable role in supporting the industrial effort. The process of financial disintermediation has also offered alternative funding options to establish companies.

Malhotra\(^{39}\) focussed his attention on regional development policies and analysed the performance of various development banks in the industrial promotion of the backward areas in Haryana State. He reviewed the role of AFIs including IDBI, IFCI, ICICI besides state level development banks like Haryana State Industrial Development Corporation and Haryana State Financial Corporation in the development of industrially backward and relatively

developed districts of the state. Malhotra also evaluated the impact of various central incentive schemes (i.e. subsidies, concessions etc) on the industrialisation of backward areas. He concluded that there is a decline in the inter district industrial disparities during the period under review (1966-84).

Odedokun\textsuperscript{40} made cross sectional study relating to development finance institutions of 50 UDCs. The development finance institutions have been the most common means of directing credit. The other four categories of lending institutions through which government intervention has taken place in credit allocation includes banks, refinance schemes, loans at preferential interest rates and credit guarantees. Many of the investments made by lending institutions at the behest of government are likely to have a supportive effect on economic development either directly or indirectly. He analysed empirically that, of the 50 LDCs reviewed none of the Development Financial Institutions (DFIs) has credit flow of even 1/5th of domestic capital formation, while half of the UDCs constitute negligible fraction of GDP. Credit flows from all monetary institutions constitute up to one quarter of gross domestic

investment in our country up to 1/8th in eight countries, upto 1/10th in 10 countries, up to 1/20th in 22 countries and upto one per cent in 42 countries. While they are positive in 44 countries, they are negative in the remaining six countries implying that the stock of credit decreased over the decade (i.e. between 1964-74). Though the DFIs are established for enhancement of domestic capital formation, in practice its impact is negligible. Odedokun identified two reasons. First, in some countries the programme had little impact because DFIs supported lending through any source, second, there exists substitution or flexibility between the credit facilities provided by DFIs and other source.

Srivastava⁴¹ discussed industrial finance in a new dimension of venture capital. Under this scheme, special assistance is provided particularly to technologists, professionals for the promotion of risky but profitable projects. It provides seed capital to new ventures. They take care of technical, commercial, managerial and financial problems of assisted firms. Investments of venture capitals are not of permanent nature. He reviewed the performance of venture capital scheme under different development banks like IDBI, ICICI, UTI, SIDCs and SPCs.

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1.2.2. STUDIES ON ANDHRA PRADESH INDUSTRIAL DEVELOPMENT CORPORATION (APIDC).

Bhagawan Rao\(^{42}\) has analysed the role of APIDC in industrial growth in Andhra Pradesh. The study found that APIDC has helped the entrepreneurs to start new units of medium size and successful in achieving the objective of employment generation. The study further concluded that with regard to assisted units, Telengana region occupied the first place in terms of number of units, investment and employment. Forest based units ranked first in employment generation among joint ventures and assisted units.

Ramakrishna Sarma\(^{43}\) has analysed the role of different state level promotional agencies including APIDC. The study reviewed the growth of industries i.e. large scale and small scale industries in public sector. The study also analysed the financial assistance rendered by the promotional/financial institutions for different industries in the State of Andhra Pradesh.

Misra et al\(^{44}\) in their report on "systems and

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43. Ramakrishna Sarma, K., "Industrial Development of Andhra Pradesh - A Regional Analysis" (Bombay : Himalaya Publishing House, 1982).
44. Mishra et.al, "Systems and Organisation of APIDC" (Hyderabad : Institute of Public Enterprises, 1985)
organisation of APIDC" made an indepth analysis of APIDC and felt the need for overhauling the organisational structure of APIDC. In their study, upgradation of disinvestment section is mooted and the aspect of fund generation through disinvestment is projected.

An empirical study made by Abou Lateef45 on joint venture units concentrated on utilisation of units, influence of funds on long term solvency and effects of financial structure on the profitability of the business enterprise. The researcher used structural ratios to establish relationship between the owner’s funds and creditor’s funds. As per the study, a greater degree of reliance on the debt by the joint venture units would certainly affect their financial solvency. The study also noted that it is difficult to establish a direct relationship between the capital structure and profitability. Having analysed the debt equity ratio, it is found that the required ratio of 2:1 is not followed by APIDC. The study concluded that the financial structure of the selected joint venture units which are supposed to achieve certain socio-economic objectives could become a 'social parasite' without showing any reigns of profitability.

Prasad\textsuperscript{46} in his study entitled 'Role of working of APIDC with special reference to the promotion of joint venture units' analysed the performance of joint venture units during the period 1979-84. The focus of the study was on analysing the reasons for success or otherwise of joint venture units. The study concluded that the professional, dynamic and committed management was responsible for success while the wrong planning, unwarranted expansions and lack of professionalisation in management were major causes for failure of the units concerned.

1.3 Problem and Purpose

1.3.1 NEED FOR THE STUDY

It is observed from earlier discussion that the studies on the performance of APIDC were penurious. The available studies have mainly concentrated either on progress of APIDC in terms of assistance given to industrial units or on the role of APIDC with special reference to joint venture units. No study has made serious attempt to make an indepth analysis of APIDC's performance. Major parameters such as the role of APIDC in the development of backward areas, inter district investments in industrial projects, inter-sectoral investment pattern,

\textsuperscript{46} Prasad, A.G., "Role of Working of Andhra Pradesh Industrial Development Corporation - with special reference to the Promotion of Joint Venture Units", M.Phil Dissertation (unpublished) submitted to the Osmania University, 1989.
size-wise and purpose-wise distribution of APIDC assistance etc were not examined. An attempt is made in this study to analyse the performance of APIDC in all the major parameters and variables in broad theoretical and conceptual framework of regional economic analysis. It is hoped that this would help to formulate appropriate strategies and adopt suitable mix of schemes and programmes for correcting widening and glaring regional imbalances.

1.3.2. FOCUS OF THE STUDY

The present investigation is ideated with the prime purpose of examining the performance of development banks and APIDC in the industrialisation of the country and Andhra Pradesh respectively. The study is intended:

1. to review scheme-wise, sector-wise, industry-wise and region-wise performance of development banks,
2. to evaluate specific role of development banks in the development of backward areas in the country,
3. to analyse scheme-wise, industry-wise, and region-wise performance of APIDC,
4. to examine the role of APIDC in the development of backward areas in the state of Andhra Pradesh,
5. to assess the role of APIDC in generating employment opportunities,
6. to analyse the financial structure of APIDC,
7. to evaluate the financial performance of the assisted units and joint ventures of APIDC and
8. to make suitable suggestions, if any, in the light of the findings for improving the performance of APIDC.

1.4 Methodology

1.4.1 DATA BASE

To examine the objectives of the study, relevant data were collected from primary and secondary sources. To study the various aspects of the working of the industrial units assisted by APIDC, annual reports of the selected industrial units are used as the primary source of information. Personal interviews were also conducted to ascertain the views of entrepreneurs and top executives of selected companies in Chittoor district on various aspects of the working of the industrial units, problems involved in getting loans sanctioned by APIDC, adequacy of loans, repayment of loans etc.

In addition, to assess the performance of development banks and APIDC, the secondary data were collected from annual reports of IDBI, IFCI, Report on Development Banking in India, Annual Reports of APIDC, Unpublished records from APIDC, Andhra Pradesh State Industrial Directory and A.P. Industrial Handbook.
1.4.2. SAMPLE FRAME

The study was intended to cover the assisted units and joint ventures of APIDC in Chittoor district. The sample industrial units were drawn on the basis of stratified random sampling method. For the purpose of the study the industrial units assisted by APIDC were classified into nine categories based on the line of manufacturing such as food, electrical and electronics, mineral based, mechanical, chemical, leather, hotels, textiles and others. For selecting the sample units, sick units and seized units were excluded from the sample and only the working units are considered. Out of the total working units in each category, one third of them were selected for the study. In case of joint ventures, since the number of working industrial units were very few, all the units were considered for the study. The sample details are furnished in the Table 1.1.

Table 1.1 reveals that of the 38 industrial units assisted by APIDC, eight units are closed/seized and thirty are working units. Of which 10 units - one from food industry, one from electrical and electronics, two mineral based, two chemical, one from leather industry, one from hotel industry, and two from textiles were selected for the study. Of the total six joint ventures, three were closed/seized and all the remaining three units were considered for the study.
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<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Mineral Based</td>
<td>5</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>4.</td>
<td>Mechanical</td>
<td>6</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>5.</td>
<td>Chemical</td>
<td>7</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>6.</td>
<td>Leather</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>7.</td>
<td>Hotels</td>
<td>3</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>8.</td>
<td>Textiles</td>
<td>7</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>9.</td>
<td>Others</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>38</td>
<td>8</td>
<td>30</td>
</tr>
</tbody>
</table>
1.4.3. TOOLS OF ANALYSIS

The collected data were analysed with the help of appropriate econometric techniques. For analysing the performance of development banks and APIDC, growth rates, Theil's entropy, co-efficient of specialisation have been employed in the study. For analysing the financial performance of the selected industrial units, ratio technique has been adopted in the study. In addition, basic statistical techniques such as averages, percentages and co-efficients have been used to support the discussions at various places in the body of the thesis.

1.4.4 LIMITATIONS

Circumstantial limitations may act as barriers and prove detrimental in case of many efforts aimed at achieving something. Similarly, this endeavour also could not be relieved from the clutches of such limitations.

1. The study covers industrial units located in Chittoor district only due to time and intermittent pecuniary constraints.

2. In view of the limitation of the small sample of industrial units for the study, the industry-wise analysis of the working of the firms is not comprehensive. Further, the study is limited to six years i.e 1987-88 - 1992-93.
3. The conclusions arrived at on the basis of the ratio technique, which has been used in the present study for the purpose of financial analysis, suffer from the inherent weakness of the technique of financial analysis.

4. It was intended to make a comparative study of the performance of the industrial units assisted by APIDC and the industrial units which have not availed financial assistance from any development bank. Unfortunately, there are no firms without availing financial assistance from any development bank, of comparable size and product.

1.4.5 CONCEPTS USED

(A) Current Assets: Current assets include inventories, receivables, advances, and cash and bank balances.

(B) Current Liabilities: Current liabilities include creditors, bank borrowings for working capital, deposits and other current liabilities such as unpaid dividends and provision for taxation.

(C) Net Worth: Net worth includes paid-up capital and free reserves and surplus.

(D) Paid-up Capital: Paid-up capital comprises only equity and preference capital.

(E) Sales: Sales are net of excise.
(F) Gross Profits : Gross profits are total income minus total expenditure. In other words, gross profits are profits before depreciation, interest and tax.

(G) Profit Before Tax : Gross profit minus interest and depreciation.

(H) Profits After Tax/Net Profits : Profits after tax are profits before tax minus provision for taxation and includes non-operating surplus or deficit.

(I) Assets : Assets are items owned by firms.

(J) Fixed Assets : The term fixed assets include machinery, fixtures, and other assets such as office equipment, vehicles etc.,

1.4.6 ORGANISATION OF THE STUDY

The rest of the thesis is presented in seven chapters. The second chapter reviews evolution and theoretical dimensions of development banking in India. The third chapter presents scheme-wise, sector-wise, industry-wise and region-wise performance of Development Banks. The scope, functions and resources of AFIDC are analysed in the fourth chapter. The role of AFIDC in catering to the needs of industrial finance are analysed in the fifth chapter. This chapter also includes the performance of AFIDC in backward area development and generation of employment
opportunities. The sixth chapter encompasses financial structure of APIDC. The financial performance of the selected industrial units are critically examined in the penultimate chapter. The last chapter presents the summary, conclusions and the policy implications of the study.