CHAPTER - 4

INSTITUTIONAL SUPPORT FOR INDUSTRIAL DEVELOPMENT OF MAHARASHTRA
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4.1 INTRODUCTION

In this chapter an attempt is made to review the efforts made by the different agencies like SICOM, MSFC, MSSIDC etc. including the central level institutions like IDBI, IFCI, ICICI etc. In order to provide backdrops for the study. Further, this analysis will help in identifying the contributions made by these institutions in isolation and in combination for industrial dispersal and development in the State of Maharashtra.

Development of industrial sector is a main concern for the government due to which economic development is possible. To develop this sector in the country, an institutional network has been built up by the government with specific objectives. Majority of these institutions are for the purpose of mobilising public savings and channelising the same towards the profitable investments in manufacturing sector.

In the State of Maharashtra, the institutional support has been through co-ordinated contribution of various agencies like SICOM, MSFC, MSSIDC etc.. Similarly, there are some institutions functioning all over the country and their contribution has been significant in industrial development of Maharashtra by providing integrated help to the industrial units.
4.2 INSTITUTIONS FUNCTIONING AT
NATIONAL LEVEL

Government of India has adopted a developmental approach rather than the conventional approach for providing institutional support system to the industrial development in our country. Most of these institutions provide financial assistance to the industries. Some institutions like IDBI are popular in capital market with participation through underwriting and direct subscriptions to shares and debentures issued by the industrial units. The industrial development in Maharashtra has been possible with the efforts of such institutions and some of them are narrated in this chapter.

Industrial Development Bank of India (IDBI) was set up in July 1964 under the Act of Parliament known as 'Industrial Development Bank of India Act 1964'. It is a wholly owned subsidiary of the Reserve Bank of India, which co-ordinates the activities of other financial institutions including commercial banks. IDBI also plans and promotes the industries by key significance to the industrial structure and adopts as well as encourages a system of priorities in promoting future industrial growth.1

The activities of IDBI are summarised as under:

- Promoting and developing the backward areas by encouraging small and medium scale industries
- Providing guarantee for the loans
- Underwriting of shares and debentures
- Promoting export trade
- Providing seed capital assistance.

The operations of IDBI in terms of its statutory provisions fall into two groups: (i) Assistance to other financial institutions, and (ii) Direct assistance to industrial concerns either on its own or in participation with other institutions. It operates Soft Loan Scheme along with other participants like IFCI, ICICI etc. Under this scheme, the selected industries such as cotton textiles, jute, cement and engineering goods are eligible for concessional finance.

Financial assistance is provided by IDBI under direct finance, refinance and bills refinancing scheme to the industries. (Refer Table 4.1) The share of Maharashtra in both, total assistance sanctioned disbursed in the country during 1993-94 was 25.7 per cent and 24.7 per cent respectively. This indicates major share of

financing to the industries in Maharashtra State. Small Scale Industries Development Bank of India (SIDBI) was set up in April 1990, by transferring all the operations of IDBI in respect of small-scale sector. It has been a wholly owned subsidiary organization of IDBI. Its main objective is to provide financial assistance to the small-scale units in the country.

The network activities of SIDBI are fast increasing over the period of time. (Refer Table 4.1) Its major financing is in Maharashtra State because many small units are set up in and around the cities of Mumbai, Thane and Pune. SIDBI also provides financial assistance to the small units coming under unorganized sector. During 1993-94 SIDBI has sanctioned 16.6 per cent of the total loans and disbursed 16.5 per cent of the total loans in the State of Maharashtra.

The Industrial Finance Corporation of India (IFCI) was established in 1948 under the "IFCI Act 1948". However, it has been converted into a limited company with effect from the 1st of July 1993. IFCI indicated a new pattern of industrial financing in the country with a view to providing medium and long-term credit to industry, especially when accommodation for normal financial resources was inappropriate. The main objectives of IFCI are providing project finance
and financial services such as equipment leasing, equipment procurement, finance to leasing and hire purchase concerns etc. It also provides merchant banking services; however, the operations of IFCI are confined to public limited companies and co-operatives.

The activities of IFCI include subscription to shares and debentures of the industrial undertakings in the country. Till the end of 1993, IFCI sanctioned Rs. 15,427.5 crores out of which in Maharashtra State it has sanctioned Rs. 2,437.9 crores. 4 (i.e., 15.8 per cent) The financial assistance of IFCI has been increasing progressively in Maharashtra. (Refer Table 4.1)

The Industrial Credit and Investment Corporation of India (ICICI) was incorporated in 1955 as a public limited company. It was set up to promote investments in the private sector for building up financial infrastructure required for industrial development. It has another objective to provide rupee loans and foreign currency loans along with other financial services such as asset credit, deferred equipment leasing, instalment sale etc.

The activities of ICICI included financial assistance to non-traditional industries such as engineer-

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and chemical products. ICICI sanctioned a sum total of Rs. 29,328 crores up to the end of 1993 out of which Rs. 8,244 crores were sanctioned in Maharashtra State.\(^5\)

(i.e., 28.11 per cent) The activities of ICICI also include providing advice in planning and execution of investment proposals. Thus, the financial assistance is provided to private sector for the establishment, expansion or modernization of industrial unit. Among all the States in India, its major financing is in Maharashtra. (Refer Table 4.1)

**TABLE 4.1**

**FINANCIAL ASSISTANCE BY FINANCIAL INSTITUTIONS**

*(in Maharashtra only) (Rs. in crores)*

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sanct-ioned</td>
<td>Disbursed</td>
<td>Sanct-ioned</td>
</tr>
<tr>
<td>1</td>
<td>IDBI</td>
<td>1,273.12</td>
<td>678.73</td>
<td>1,881.60</td>
</tr>
<tr>
<td>2</td>
<td>SIDBI</td>
<td>296.00</td>
<td>216.00</td>
<td>506.60</td>
</tr>
<tr>
<td>3</td>
<td>IFCIL</td>
<td>405.79</td>
<td>251.93</td>
<td>343.89</td>
</tr>
<tr>
<td>4</td>
<td>ICICI</td>
<td>734.07</td>
<td>379.30</td>
<td>1,794.00</td>
</tr>
</tbody>
</table>


Table 4.1 shows that IDBI is a leading institution in financing industries in Maharashtra and SIDBI

has financed very less amount because it is a newly established financial institution. The ICICI has major financing in Maharashtra only because of its non-concentration in other areas of the country. The growth rate of IDBI is the highest and IFCIL is the lowest in financing to industries in Maharashtra.

4.3 INSTITUTIONS FUNCTIONING ON STATE LEVEL

Maharashtra is the leading industrial State in India and there are many institutions in the State providing institutional support for industrial development. The State Government is trying to fulfil its objectives of industrial dispersal by taking help from these organizations. Each organization has its own schemes for contribution to the industrial development of the state. Though these organizations are independent bodies, they have co-ordinated management in the form of Board of Directors and they are complementary and supplementary to each other. These institutions are: MSSIDC, MSFC, SICOM and MIDC. The contributions made by the various institutions for industrial development of Maharashtra can be summarized as under.

4.3.1 Maharashtra State Financial Corporation (MSFC)

Introduction

Maharashtra State Financial Corporation (MSFC) was constituted on 14 August 1962 out of the erstwhile
'Bombay State Financial Corporation'.

Activities

MSFC caters to the needs of term loan requirements of small and medium-scale industries for acquisition of fixed assets like land, building, plant and machinery etc. It extends financial assistance to the industrial units by granting loans upto Rs. 90 lakhs to limited companies and registered co-operative societies, and upto Rs. 30 lakhs to the proprietary and partnership concerns. In its lending operations, special emphasis has been laid on the promotion of small-scale industrial units.

Along with the term loans, the corporation also issues deferred payment guarantees for acquisition of fixed assets. Also the industrial units in notified backward areas are covered by the corporation under the Soft Loan Scheme. The Corporation assists technocrats in setting up industries in the State. It also operates as an agency for the Government of India's Scheme of Central Investment Subsidy. It also renders the services like identification of projects, selection of location, help in implementation of projects including liaison on behalf of the applicant with other agencies of the State Government.

Contribution

During the year 1992-93, MSFC sanctioned term loans of Rs. 247 crores to 3,855 units. The contribution of MSFC during 1992-93 was found highest (that is, 42 per cent) in terms of loans sanctioned and (29 per cent) in terms of units covered as compared to the previous year.

The amount of loans actually disbursed to the units in the State was Rs. 155 crores in 1992-93.

Out of the total amount sanctioned in 1992-93 by MSFC, the share of developing areas was 77 per cent and also the share of small-scale units in the total loans sanctioned was 90 per cent during the same year.

The cumulative sanctions and disbursements by MSFC have gone beyond Rs. 1,569 crores and Rs. 1,000 crores respectively by the end of 1993. The financial assistance extended by the Corporation has catalyzed an investment of Rs. 3,000 crores and generated employment for over 13 lakh persons.

The Corporation has been always laying emphasis on promotion of small scale units and assisting to

8. Ibid., p. 5.
the units coming under backward and developing areas. In order to provide the door-step services the Corporation has opened nine Regional Offices and twenty-one Branch Offices which furnish information and render all possible help required by the entrepreneurs.9

Besides financing the traditional activities, the Corporation also extends financial assistance to tourism and related activities such as setting up hotels and restaurants, to doctors for setting up hospitals or nursing homes and qualified professionals for their practices. The contributions in respect of loans sanctioned and disbursement with number of units has been covered in Table 4.2.

TABLE 4.2

CONTRIBUTIONS OF MSFC

1. Loans sanctioned till 1992-93 to 41,607 Units amounted to 1,475.18 crores.
2. Loans disbursed till 1992-93 amounted to Rs. 964.56 crores.
3. Loans sanctioned in backward areas till 1992-93 to 14,927 units (35.87 per cent) amounted to Rs. 488.50 crores (33.11 per cent).
4. Applications rejected:
   In 1991-92 14 out of 3,286
   In 1992-93 24 out of 3,800
5. Total funds allotted as per the size of industry:

<table>
<thead>
<tr>
<th></th>
<th>Units</th>
<th>Rupees (Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.S.I</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>3,132</td>
<td>196.06</td>
</tr>
<tr>
<td>1992-93</td>
<td>3,677</td>
<td>215.04</td>
</tr>
<tr>
<td>Other than SSI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>154</td>
<td>30.42</td>
</tr>
<tr>
<td>1992-93</td>
<td>123</td>
<td>22.94</td>
</tr>
</tbody>
</table>

It can be seen from Table 4.2 that MSFC has sanctioned loans to about 42,000 units which is commendable. The relationship between the loans sanctioned and loans disbursed was found to be appropriate while analysing the cases of individual disbursements. Further it appears that M.S.F.C. has given priorities for sanctioning the loans in rural areas. Rejection of applications was found insignificant. Similarly, it has given priority to small-scale industries while sanctioning loans. This is a good sign of balanced development.

4.3.2 Maharashtra Small-scale Industries Development Corporation Limited (MSSIDC)

Introduction

Maharashtra Small-scale Industries Development Corporation Limited (MSSIDC) was incorporated in 1962 with the objective of assisting the development of small-scale industries in the State. Its range of activities covers several operations like procurement and distribution of raw materials required by small-scale industries, assistance in marketing their products both inside and outside the country and to make available warehousing facility wherever required.

MSSIDC was started with a share capital of Rs. 10 lakhs and its turnover in 1963-64 was Rs. 86 lakhs which increased to Rs. 199 crores in 1992-93.
Operational Network

MSSIDC has a strong field of network comprising:

(a) Eight Regional Offices
(b) Local offices in each district
(c) Liaison offices in Delhi and Calcutta
(d) A chain of Trimurti Emporia at Delhi, Pune, Bombay and Nagpur as sales outlets for various products
(e) Raw material depots located at twelve different places throughout the State
(f) Production centre at Paithan for Paithani Sarees
(g) Production centre at Kolhapur for umbrellas.

Activities Undertaken:

Raw Material Activity

MSSIDC is the nominee of the State Government for procurement and distribution of items like iron and paraffin wax, industrial alcohol etc. It has godowns and depots at 12 different places in the State from where iron and steel and other raw materials are distributed to the SSI units and other consumers located in different parts of the State.

Commercial Housing

Under the commercial housing activity of the Corporation, items like copper, zink, stainless steel, plastic raw materials etc. are handled on a consignment
basis where the corporation gets revenue by way of warehousing and handling charges.

Presently, the Corporation is providing warehousing facility and handling items on a consignment agency basis for Hindustan Copper Ltd., Steel Authority of India Ltd., Indian Oil Corporation and Indian Petro-Chemicals Ltd.

Marketing Assistance

MSSIDC assists small-scale units in marketing their products to Government (both Central and State), semi-government organizations like Zilla Parishad, Municipalities, Public Sector undertakings etc. The Corporation collects orders from the above bodies and small-scale industries goods are supplied to them as per their requirements. This also provides decentralization of marketing activities of small-scale industries.

The marketing turnover of MSSIDC increased from Rs. 66.50 crores in 1988-89 to Rs. 123.05 crores in 1992-93.10

Exports

MSSIDC assists units in exports by extending packing credit, making available export quota, exploring foreign buyers and assisting in documentation and shipment.

The Corporation receives service charges ranging from 3 per cent to 5 per cent for the services rendered to Indian exporters. With this the export business of MSSIDC increased from Rs. 3.05 crores in 1988-89 to around Rs. 10 crores in 1993-94.\(^\text{11}\)

Over the past few years, the Corporation's exports comprised mainly garments and some export of engineering and handicrafts products. It has now decided to promote exports of engineering products, leather products, textiles, chemicals, food and food products, rubber products, stones, gems, jewellery, plastic and linoleum.

**Handicrafts**

The Corporation also looks after the commercial aspects of the handicrafts sector in the State. With this in view, the corporation runs a chain of Trimurti Emporia located at Mumbai, Pune, Nagpur and Delhi. The average turnover through these emporia is to the tune of Rs. 2 crores. The Corporation has also organised some handicraft exhibitions-cum-sales outside the State and the response to this activity has been encouraging.

TABLE 4.3

ACTIVITYWISE TURNOVER OF MSSIDC (Last 5 years)

(Rs. in crores)

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<tbody>
<tr>
<td>1</td>
<td>Raw material</td>
<td>62.65</td>
<td>77.35</td>
<td>92.73</td>
<td>96.34</td>
<td>67.10</td>
</tr>
<tr>
<td>2</td>
<td>Marketing</td>
<td>66.57</td>
<td>85.60</td>
<td>86.39</td>
<td>88.26</td>
<td>123.05</td>
</tr>
<tr>
<td>3</td>
<td>Export</td>
<td>3.22</td>
<td>2.70</td>
<td>2.51</td>
<td>5.05</td>
<td>6.63</td>
</tr>
<tr>
<td>4</td>
<td>Emporia &amp; Handicraft</td>
<td>16.89</td>
<td>2.00</td>
<td>2.10</td>
<td>2.14</td>
<td>2.53</td>
</tr>
<tr>
<td></td>
<td><strong>Total:</strong></td>
<td><strong>149.33</strong></td>
<td><strong>167.65</strong></td>
<td><strong>183.73</strong></td>
<td><strong>191.79</strong></td>
<td><strong>199.31</strong></td>
</tr>
</tbody>
</table>

5 Commercial Warehousing 101.01 121.85 268.46 356.75 317.18

Source: Office Records of MSSIDC, 1993

Table 4.3 shows increasing trend in each activity of MSSIDC for all the years except a minor setback in the case of raw material and commercial warehousing in 1992-93. Total sales have shown steady increase during all the years.

Thus, MSSIDC was initially conceived as an agency to supply controlled raw materials to small-scale industrial units. The Corporation which took this activity realising the need to extend marketing support, has
now grown into India's leading small-scale industries development corporation responding to the needs of small-scale industries with special emphasis on assisting backward areas by providing support services like marketing, warehousing and exports.

4.3.3 The State Industrial and Investment Corporation of Maharashtra - (SICOM)

Introduction

The State Industrial and Investment Corporation of Maharashtra Limited, popularly known as SICOM, is a Government of Maharashtra undertaking registered as a public limited company with its own Board of Directors. SICOM was established on 31 March 1966, with a prime objective of promoting industrial investment in the developing areas of Maharashtra.

SICOM provides finance to the entrepreneurs and in addition to this it provides support on several matters linked to the industrial projects properly known as package services. Some of these services are as under:

(i) Project identification
(ii) Plant location
(iii) Financial assistance of different types
(iv) Merchant banking
(v) Industrial escorts
(vi) Equipment leasing.

This package of services is available to the medium and large-scale units in the manufacturing sector. Only long term loans are restricted to the units with project cost not exceeding Rs. 5 crores; however, other services can be provided to all units.

Under Project Identification Service SICOM offers qualified engineers for consultancy services for identifying new project possibilities. These engineers interact with the entrepreneurs with a view to helping them to firm up their ideas. This division also offers specialised services for feasibility studies, techno-economic studies and market surveys.

Under plant location service, SICOM has an industrial promotion division which guides the entrepreneurs on the industrial potential of different developing areas. Alternative locations for any proposed plant are evaluated after taking into consideration the special needs of the project with regard to raw materials, water, power supply, market potential and nature and quantum of financial and other incentives available in different locations.

SICOM also provides financial services to the
entrepreneurs. Broadly, the following types of financial services are provided:

(a) Term lending
(b) Direct subscription to equity
(c) Merchant banking
(d) Equipment leasing
(e) Equipment finance.

With limited resources at its disposal, SICOM created its administrative machinery to tackle the problem of industrial development by identifying potential locations where maximum impact could be achieved quickly. It investigated possibilities of new pattern of industrial production, identified the prospective investors, their needs and performances as regards their infrastructural necessities and motivated them through modern techniques of business communication like advertising and public relations. The organization itself was projected more as a result-oriented service organization rather than financial agency extending commercial loans.

This pragmatic approach added a new dimension to the activities of SICOM. It has emerged as a premier institution which provides services to the entrepreneurs right from inception of the project idea to its marketing stage. It has contributed remarkably for developing growth centres in the State of Maharashtra with an
SICOM is a unique agency for the promotion of NRI and direct foreign investment in the State. It acts as single point contact for NRIs and foreign investors for guiding and help in setting up their ventures in the State. As on the 1st of April 1994, SICOM has promoted 903 NRI sponsored projects with a total cost of Rs. 4,180 crores.

**Activities Undertaken**

SICOM provides financial assistance to large-scale and medium-scale units upto Rs. 5 crores.

Since its inception it has assisted 7,665 units in the developing areas of Maharashtra catalysing an investment of over Rs. 31,470 crores. These units have in turn created direct employment for nearly 4,18 lakh persons and generated indirect employment in the secondary and tertiary sectors.

The Merchant Banking Division of the Corporation recorded an appreciable growth during the financial year 1993-94, in which it provided fund and non-fund-based assistance to various industries to tap the capital market.

Mumbai.
Table 4.4 shows that SICOM has provided financial assistance to a maximum number of industrial units through long-term and short-term loans. Besides this, the term loans sanctioned and disturbed have increased in numerical terms as well as in terms of volume; whereas the share of leasing financial assistance is insignificant. There has been a consistency in direct subscriptions and underwriting assistance which indicates fast expansion of merchant banking services of SICOM. The Table also indicates long-term loans as main activity of SICOM.
4.3.4 Maharashtra State Electricity Board

Introduction

The Maharashtra State Electricity Board (MSEB) was set up in 1960 with reorganization of erstwhile Bombay State into Gujarat and Maharashtra States. It was set up with the main objectives of power generation, transmission and distribution.

Activities

The major activities of MSEB are highlighted as under:

- Growth of electricity generation
- Regulated transmission of electricity
- Well-planned distribution of electrical energy.

During 1960's, the efforts of MSEB were concentrated on exploitation of hydroelectric resources of the State. However, with the growing needs of the State, MSEB has now concentrated on development of thermal power stations at various places in the State.

Contribution

During 1960, the annual consumption of electricity by industries served by MSEB was just 19.1 crore units, which increased to 1,038.2 crore units in 1992. The significant part of this development has been that, the number of industrial consumers has gone up to 1.05
lakhs out of which more than 50 per cent are away from Mumbai and Thane. The M.S.E.B. efforts for developing the power supply network have been in favour of promoting and dispersing the industrial growth in the rural areas.

In the liberalized economy, there is scope to explore the possibility of generating bulk supply of electricity from M.S.E.B. at one point and organizing further distribution of electricity by setting up utility companies as a part of privatization programme. This would provide effective generation and distribution of electricity. In order to study the various angles of privatization and various issues involved, M.I.D.C. has entrusted this job to Messrs Kirloskar Consultants Limited and efforts would be made for such privatization in the near future.

4.4 MIDC AND SUPPORTING INSTITUTIONS

On the basis of the foregoing discussion, it can be revealed that the majority of these supporting institutions provide finance, marketing etc. services to the industrial units. The only organization which creates the required infrastructural facilities to industrial units for its growth and development is the Maharashtra Industrial Development Corporation (MIDC).
Those industrial units which are established in MIDC developed areas, get financial and other assistance easily and quickly from other financial institutions because, for this purpose MIDC keeps co-ordination with these financial institutions such as MSFC, SICOM etc.. In the Board of Directors of MIDC, there are representatives of these financial institutions who help to maintain such co-ordination.

Besides this, for any industrial unit established in MIDC area, a minimal paper work is asked as a procedural matter to sanction funds. Their applications are processed fast due to their title of land and other records of MIDC.

The role of MIDC is totally different from other Corporations while developing industries in the State. The ultimate goal of MSSIDC, MSFC, SICOM, MSEB and MIDC is the same, that is, industrial dispersal and development; however, their approach and functioning is different. MSEB provides electricity to the industrial units.

MIDC is engaged in providing infrastructural facilities to the small, medium and large industrial units. Thus, MIDC plays an exclusive role for providing industrial plots with all amenities and other infrastructural facilities needed by the industries.
By the end of March 1992 industrial plots allotted by MIDC are 22,387 and other plots allotted are 5,938. There are 14,312 units in production and 4,399 units under construction.

To sum up, it can be concluded from the cited analysis that, by and large all institutions with their performance have contributed significantly to the industrial development in the State. Though it is difficult to measure and quantify the contributions of individual organizations, the analysis indicates relatively more contributions of IDBI and SICOM compared to the rest of them except MIDC, due to its unique features of support service system to industrial units. Thus, the hypothesis considered in this study, "There are many organizations providing institutional support for industrial development in Maharashtra; amongst these organizations MIDC has made significant contributions" is qualitatively and quantitatively proved.