Industrial development presupposes a well defined and broad financial institution without which resources may not be channelled efficiently to particular sectors of the economy. In developing economies in general and India in particular, the main economic objectives have been the achievement of economic growth with reasonable price stability and social justice. For the attainment of economic growth, what is needed is institutionalisation of savings and investment. Therefore, an efficient mechanism for the allocation of investible funds through the operation of financial intermediaries in various forms become imperative to cater to the needs of the increasing tempo of economic development – in the sphere of industry and agriculture. In this circumstances, these development banks came to be established in developing countries like India, Nigeria, the Latin American Countries, etc.

Governments throughout the world are turning their attention to small and medium enterprises more especially in developing nations. Attempts to promote economic progress by establishing large-scale industries have usually failed to improve the lot of the population, and small and medium industries are now viewed as an important element for even and equitable economic development. They contribute substantially to employment creation, regional balance development, reduction of economic concentration, bridges the gap between the rich and poor and generation of income particularly of low-income groups.
In India, as well as in other developing countries, the problems of sick units have been a subject of great concern. Broadly speaking, industrial sickness is more chronic among the small and medium scale industries (SMIs). At the same time, lack of financial and managerial assistance have proved to be the root cause of industrial sickness in India among others. Experience has shown that industrial bulldozing has been depriving the SMIs their legitimate right for survival. On the contrary, these units in most cases, do not meet up with the criteria for which loans could be made available to them.

However, some observers have challenged the doctrine of capital shortage in developing economies and therefore, the very basis of the case for development banking in such countries. But development banks do not provide simply capital, they do provide technical know-how as well as managerial assistance and conduct feasibility studies. This notwithstanding, the problems of SMIs continues unabated.

To curtail these injustice, efforts have been made to establish such institutions introducing a degree of decentralistion in the disbursement of funds. Though the efficiency of such state finance corporations in meeting the financial needs of the SMIs have been questioned one such institution is the Maharashtra State Financial Corporation.

In my opinion, it is too early to conclude that in Maharashtra, the problems of small and medium scale industries continues...
This study is therefore, intended to survey the overall performance of the All-India development/Financial Institutions such as the IDBI, IFCI, ICICI, IRBI, NIDC, LIC, UTC, EXIM Bank, etc. in promoting industries in general and the role played by Maharashtra State Financial Corporation (MSFC) in meeting the long term financial requirements of the small and medium scale industries in the state, pin-pointing lapses wherever possible and suggesting appropriate policy packages to remedy the situation.

Conclusively, this survey will not only benefit students pursuing their careers in Industrial finance alone, but also to those studying in other branches of commerce, economics and management. It will also be useful for decision makers and policy controllers of any development bank, particularly the development banking authorities in the developing countries. Moreover, the survey will be most useful for understanding the problems faced by large, medium and small scale industries and the role so far played by All-India Financial institutions at the national level and the Maharashtra State Financial Corporation (MSFC) at the state level towards tackling these problems.

PURPOSE OF THE STUDY

The present study limits its scope to the assessment of the overall performance of All-India Financial Institutions such as the IDBI, IFCI, ICICI, LIC, UTC, EXIM Bank and the IRBI in meeting the financial, managerial and technical requirements of
the large, medium and small scale industries in general, and the
role so far played by the Maharashtra State Financial Corpora-
tion (MSFC) in meeting similar obligation at the state level,
more especially with respect to the medium and small scale

In order to present this work in a more coherent and com­
prehensive manner, we have strived to embrace most of the major
contributions made by the commercial banks, co-operative banks
and the Reserve Bank of India (RBI) towards the promotion and
financing of industries in India. It should be noted that in a
project of this nature, the satisfaction desired in conducting
such a survey cannot be reached in isolation, hence we have
tried our utmost best to treat within the limited scope and with
the least available data, the impact created by development
banks world over towards industrial growth, along with the role
they played in improving the lots of the weaker sections of
various societies. Such an inclusion will not only help in enri­
ching our knowledge about the global operation of development
banks, but will also help in forming the base for inter-country
comparison with regards to the operational efficiency of develop­
ment banks in different countries. The same will equally be
helpful in clarifying our in-born curiosity to know the extent
to which geographical, sociological and psychological factors
have been influencing rapid industrialisation in various countries
of the world, whether developed or developing. Thus an appraisal
of this type cannot be justified without a deep theoretical and
empirical analysis which will enable us to reveal in detail the operational efficiency, promotional effectiveness and financial profitability of the concerned development banks, since their inception up to date. It should be clearly stated that the success of any development bank/corporation greatly depends on how well its funds are able to rotate from one enterprise to another. In this context, it is highly necessary for the corporation to finance its new proposals from its internal resources of which repayment of loans and payment of interest by the borrowers are some of the examples.

With this in mind, we have reviewed each of the above corporations based on the following issues:

1) The total financial assistance sanctioned and disbursed since inception, including outstanding by each of the development banks/Financial Institutions engaged in Industrial Financing.

2) The number of projects benefited by these sanctions.

3) The purpose for which these sanctions were made.

4) The extent of diversification or sectorwise classification of these sanctions.

5) The district, regional and state-wise distribution of these sanctions.

6) The industry-wise classification of sanctions, and the extent to which these have benefited those areas declared as "Industrially backward districts".

...
We have equally deliberated on some of the major problems confronting most of these development banks in the cause of discharging their obligations, as well as those facing the assisted units themselves. These and much more have been treated in detail, pin-pointing lapses where possible and recommending appropriate measures for immediate action. We have equally called for the adoption of a more pragmatic approach towards handling of issues by the concerned authorities, rather than a mere theoretical observations which has been in practice for years without achieving any tangible result. It should be understood that what is needed to attain greatness industrially, is not mere formulation of policies, but a total stringent implementation of such policies, followed by the assessment of the result and accountability on the part of those responsible, irrespective of rank, race, creed or caste. Until such is strictly observed in its practical terms, our zeal of improving the standard of living of our weaker section, through a well structured industrial base, capable of sustaining a steady economic growth with price stability, will still remain a distant dream.

HYPOTHESIS TESTED 11.3

Before outlining the hypothesis tested in this study, it will be wise to explain in detail what the word hypothesis is all about at least for the benefit of our readers. To start with, hypothesis is nothing, but a supposition or guess work which a researcher or a scientist as the case may be conceived within himself which enables him to direct his investigation over a particular problem

....
or project. Such supposition might happen to be a fact and in
certain cases might fall short of the required facts. To be on the
safe side, what is required is to test the hypothesis so as to
verify whether the same corresponds with the earlier assumption or
not.

According to Webster's New International English Dictionary,
hypothesis is defined as "Proposition, condition or principle
which is assumed, perhaps without belief, in order to draw out
its logical consequences and by this method to test its accord
with facts which are known or may be determined". In the word of
Chaddock, hypothesis is summarised in a scientific sense as
follows: "An explanation held after careful canvass of known
facts, in full knowledge of other explanations that have been
offered and with a mind open to change of views if the facts
disclosed by the inquiry warrant a different explanation. It
is therefore, held with the definite purpose including the investi-
gation of all available and pertinent data either to prove or
disprove the hypothesis. Thus, hypothesis gives point to the
inquiry and if founded on sufficient previous knowledge, guides
the line of investigation. In this context, once a researcher
knows what his questions is all about, he can make a guess or a
number of guesses as to the possible answer. The guesses which
he makes are the hypothesis which either solve the problem or
guide him in further investigation.
Having explained the above term in detail, we can now outline some of the hypotheses tested in this study.

It is well understood that a survey of development banking activities is naturally wide and divergence. This necessitated the testing of a number of hypothesis based on the general criticisms levelled against development banks by eminent experts as well as the personal observations made during field work. Some of these criticisms/allegations have been proved right, while some others are yet to be proved. In the process of proving these allegations right or wrong, we arrived at a more related arguments or questions as the case may be, which invariably formed the bases for testing our hypothesis.

Some of these arguments are outlined as follows:

Our recent survey has revealed that most of the funds disbursed by both the central and state level financial institutions to many entrepreneurs for the acquisition of land, plant and machinery, expansion, modernisation and rehabilitation purposes have been deliberately diverted to other private uses, neglecting the purposes for which they were sanctioned and disbursed. On this ground, we intend to inquire

1) How far the development banks in general and the Maharashtra State Financial Corporation (MSFC) in particular have gone in tracing and tackling this ugly development.
2) The Maharashtra State Financial Corporation was established for the purpose of catering for the long-term financial requirements of the small and medium scale industries in the state, how far has it gone in fulfilling this obligation.

It has generally been accepted that the success of any business organisation greatly depends upon its financial and managerial proficiency. To prove the truth of the above assertion, we have tested the following arguments (A & B).

3) A. What strong financial base does the development banks including the MSFC have to enable them facilitate their long term lending operations or in other words, B. How far have they gone in improving their organisational effectiveness, financial profitability and operational efficiency.

Other leading questions emanating from the above hypothesis or other relevant publications which form the basis of the present study include.

4) Which mode of financing is more prominent in their operations and how far has it gone in speeding up the process of industrialisation.

5) Does the evaluation of projects by them turn out to be incisive, objective, constructive and qualitative.

6) What steps has the MSFC taken to encourage entrepreneurs in
the rural areas to come forward and table their proposal for financial assistance.

7) All development banks have long time embarked on a number of programmes, introduced a number of schemes, initiated a number of attractive incentives etc. for the benefit of projects in the backward areas.

Now the question remains, how far have they gone in devising a workable strategy to ensure that the information regarding the available facilities and incentives with the bank are brought to the knowledge of the general masses to enable them come forward and utilise such facilities.

8) Could the MSFC in particular and other developments banks in general claim to have promoted enterprises that would help in effecting equitable distribution of income and wealth with a view to reducing poverty and unemployment among the masses.

9) What other new measures have they adopted in the recent years in monitoring the assisted units apart from the traditional system adopted long time ago.

10) In the recent years, there have been a rising trend among the defaulting firms with respect to the payment of interest and the repayment of the principal amount, what stringent steps have the above banks adopted in recovering these dues.
11) What evidence shows that due attention has been given to the removal of inter-regional disparities and the development of backward areas.

12) What practical steps have the above mentioned institutions adopted in order to prevent the incidence of sickness among the assisted industrial units instead of rehabilitation and lastly,

13) What extent have they gone in encouraging non-traditional industries as well as industrial diversification.

1.4 METHODOLOGY AND SOURCES OF DATA

In our methodology, we adopted both structural and trend analysis. Structural analysis involves the computation of the percentage of an amount sanctioned to a particular project/sector to the total sanctions made during the year or cumulatively as the case may be. This enabled us to know the percentage share of any project/sector out of total sanctions and disbursements made. The trend analysis include the profitability assessment of various projects seeking financial assistance from various financial corporations. This system is vital for the accurate evaluation of the concerned project so as to know whether it will be in a position to return the principal amount as well as paying the interest on schedule.

Comparison as a system is widely used to ascertain the difference between the sanctions and disbursements made in different
years to different industries, states, regions, districts etc. The
techniques of credit rating, statistical representations including
maps, tables etc. were extensively used.

On the whole, the above study envisaged both theoretical and
empirical findings and as a result, its materials/data were some
how difficult to assemble. In the light of these difficulties, we
have endeavoured to cast our net as wide as possible so as to
enable us match all facing task with great success. Having known
this, we strived our utmost best to reach all corners where the
required materials are available whether locally or abroad.

From the local sources, we have surveyed and obtained neces­s-
sary information from the annual reports and operational statis-
tics of All-India development financial Institutions such as the
Industrial Development Bank of India (IDBI), the Industrial Fina-
ance Corporation of India (IFCI), Industrial Credit and Investment
Corporation of India (ICICI), National Industries Development
Corporation (NIDC), Industrial Reconstruction Corporation of
India (IRCI), Life Insurance Corporation (LIC), Unit Trust of
India (UTI), and National Small Industries Corporation (NSIC).
Data were compiled and extracts made from the above corporations.
References were also made to the Reserve Bank of India (RBI)
Annual Reports/Bulletins, Economic Review on Currency and Finance,
Publications of Central Statistical Organisations, Economic
Survey issued by the Ministry of Finance-Government of India,
Inquiries and Recommendations of various committees set up by
the RBI, publications of the Planning Commission-Government of India, Centre for Monitoring Indian Economy Bombay and the Economic Intelligence Service.

At the State level, we have also gone through various Annual Reports belonging to major State Financial Corporations (SFCs) including Maharashtra State Financial Corporation (MSFC), Tamil Nadu Industrial Investment Corporation Limited (TIIC), Gujarat State Financial Corporation (GSFC), West Bengal Financial Corporation and Andhra Pradesh State Financial Corporation. Extracts were equally made from the State Industrial and Investment Corporations (SIDCs/SIICs), the Technical Consultancy Organizations (TCOs) and other regional Development Corporation in the State (Maharashtra) notably Marathwada Development Corporation (MDC), Development Corporation of Konkan Limited (DCKL), Western Maharashtra Development Corporation (WMDC) and a number of others.

On the Empirical aspects, visits were made to the Head Offices of the above Corporations namely the IDBI at Dombay, IFCI at New Delhi, ICICI at Bombay, NIDC at New Delhi, IRBI at Calcutta, MSFC at Bombay and its regional office at Pune. Discussions were held with senior officials on vital issues inhibiting rapid Industrialisation such as Financial, Managerial and technical factors. Other areas touched during discussions include (1) the appraisal of projects, (2) defaults and recovery of dues, (3) follow-up measures adopted in monitoring the assisted units, (4) Human Resource Development, (5) the improvement of the technical wings...
of various corporations, (6) further enhancement of sanctions and disbursements to the industrially backward areas, (7) Planning and Research Programme for future development, (8) Promotional role of SFCs, Co-ordination among State level institutions and a host of others.

Visits were also made to a large number of the assisted units and discussions held with the proprietors/entrepreneurs regarding their problems. With such deliberations, we were able to note down some of the areas requiring special/urgent attention. It should be noted that most of the units visited were located in Maharashtra and mostly do receive their major assistance from the Maharashtra State Financial Corporation (MSFC). Although some of these industrial units have also received directly or indirectly assistance from other central/state level development agencies such as the IDAI, IFCI, ICICI, MIDC, MSSIDC and SICOM.

From the international sources, we adopted the questionnaire procedure as this will enable us cover a wide spectrum of International Agencies whose materials are needed for the completion of this work. Apart from the above, we made references and also extracted figures and other information where necessary from various publications of international organizations such as the international Bank for Reconstruction and development (IBRD) otherwise known as World Bank, the international Monetary Funds (IMF) the International Finance Corporation (IFC) and International Development Association IDA. Uses were also made of the OEDC,
Data were also collected from both regional and National development banks such as the Asian Development Bank, African Development Bank, Inter-American Development Bank, European Investment Bank (EIB), Federal Reserve Bank of America, Bank of England, Commonwealth Development Corporation, Industrial Development Bank of Ivory Coast, Industrial Development Bank of Mauritius, Industrial Bank of Japan, Commonwealth Bank of Australia, Nigerian Industrial Development Bank, Federal Office of Statistics of Nigeria, the Federal loans Board, Reconstruction loan Corporation of Germany etc. Further uses were made of the annual reports, journals and Bulletins of the Development banks in the following countries Canada, Burma, Cylon, Iran, Indonesia, Taiwan, Malaysia, Korea, Ghana, Thailand, Pakistan, Hongkong, Uganda, Ethiopia, Kenya, Zambia, Columbia, Brazil, Argentina, USSR, Sweden, Denmark, Israel, Philippines, Belgium, France, Italy, Netherlands, Sudan, Switzerland, Tanzania, Spain, Morocco, Tunisia and United Kingdom.

**PLAN OF WORK: 11.5**

The present work is divided into seven chapters beginning with **CHAPTER ONE** which introduced the overall framework of the proceeding survey. It further analysed in detail the purpose of the study, the hypothesis tested, the methodology followed, the sources through which the data/materials were obtained and finally the plan of work.

**CHAPTER TWO** initiates us into the broader aspect of development economics which primarily deals with the concept and important
detenninnts of economic growth, the necessities, definitions and other relative terms used in economic study. Finance as an important ingredient for both Industrialisation and economic growth has been discussed in detail. The Chapter further highlights the relative distinction and chief characteristics of developing countries as distinguished from the advanced economies.

CHAPTER THREE presents the global historical perspective of development banking in the context of economic history. It further discusses the origin, meaning, objective and scope, capital structure, ownership, functions and the role assigned to such banks in the programme of economic growth in their respective countries.

CHAPTER FOUR attempts to review the historical background of the Indian development banks in a more comprehensive and orderly manner, to enable our readers to understand in depth the more evolutionary changes that have taken place right from the beginning up to the present date. It further deals with Industrial Finance, its problems and deficiencies as an important ingredient of industrialisation. Other financial procedures, policies and operations have been investigated so as to enable us verify how well these institutions have been mobilising as well as channelising their scarce resources. It equally elaborated in depth the various sanctions and disbursements made by all the development/financial institutions engaged in Industrial finance in India.
Among those covered include the IDBI, IOCL, ICICI, NICL, ICICI, LIC, UIC, EXIM bank, SIDCA/SIIC etc. The contributions made by the commercial banks, the cooperative banks and the Reserve Bank of India towards industrial growth were also enucleated. In addition, we examined the origin, objective and scope, functions, managerial pattern, capital structure and the overall operations of the above corporations including their promotional, developmental and coordinating activities. Lastly, suggestions and recommendations were made towards the improvement of their future operation.

Chapter Five was planned to embrace a global review of development banking operations in other countries. As a result, we covered a wide spectrum of development banks abroad, ranging from Regional, National and International agencies. Our coverage in this respect is continental, i.e., the sense that we selected countries from the six inhabited continents of the world namely Asia, Africa, Europe, North America, South America and Australia. Our main aim here is to review the various impact played by development banks towards industrialisation and economic growth in their respective countries. Our discussion here, centered mainly on their growth pattern and the operational strategies adopted by these banks in accomplishing their laid down objectives.

Here, care has been taken to see that our treatment/discussion include development banks from both the advanced and the developing countries.

On the international area, we covered the International Bank for Reconstruction and Development otherwise known as World Bank,
its sister organization the International Monetary Fund (IMF) and its three affiliates the International Finance Corporation (IFC), International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA).

On the regional aspect, we covered the African Development Bank, Inter-American Development Bank, European Investment Bank and the Asian Development Bank. In the country-wise analysis we treated development banks in the United Kingdom, United States Australia, Nigeria, India, Ivory Coast, Mauritius, Philippines, Malaysia, Germany, Japan and Canada.

CHAPTER SIX deals exclusively on the operations of the State Financial Corporations (SFCs) in general and the Maharashtra State Financial Corporation (MSFC) in particular. Here special attention is focused on the treatment of the MSFC with regards to its role in meeting the long-term financial requirements of the small and medium scale industries in the state. To obtain the necessary reports required for accurate evaluation, a comprehensive study was conducted covering the origin, of the MSFC, its objectives and functions, managerial pattern, capital structure and the overall operations. Under the operations, we analysed in depth:

- The industry-wise distribution of financial assistance,
- The purpose-wise classification of assistance,
- Financial assistance to the small scale sectors,
- The regional/district-wise classification of financial assistance.
(5) The constitution-wise and
(6) The special coverage to the industrially backward districts. Detailed deliberations were also made on the follow-up measures adopted by the corporation (MSFC) in monitoring the assisted units. Other sensitive areas discussed in depth include: the appraisal of projects, the default and recovery of dues, various schemes embarked by the corporation in pursuance of its objectives, the promotional as well as the co-ordinating role which the MSFC can play in association with other state level institutions, so as to bring about a harmonious and orderly distribution of financial assistance in the State. Lastly, is the total evaluation of the overall performance of the corporation, spelling out limitations and recommending suitable measures for future modification.

CHAPTER SEVEN titled "Findings and Conclusion" remains the last part of this work. It analyses the Contributions made by all the Development banks towards industrial development in India. It further analyses the contributions made by other regional, national and International development agencies towards industrialisation. It also provides observation on some of the common problems and lapses of these development banks and outlines strategies which can be adopted in order to remedy them. Another area where major concern has been expressed in this chapter is the rising trend of sickness among the assisted units, irrespective of the timely precautions designed to prevent them. As a result, the issue of industrial sickness dominated this chapter, given room for a comprehensive analysis of the root causes of sickness among industries more especially the small scale sector and at the same time, devising a suitable mechanism for their prevention rather than rehabilitation.