CHAPTER SEVEN.

MAIN FINDINGS AND CONCLUSION

From the survey conducted on the above institutions, we have come to the conclusion that the Development Corporations in India, (such as the IDBI, IFCI, ICICI, IRBI, etc) along with the SFCs have faired well in meeting the long-term financial requirements of industries as a whole and the small scale sector in particular. To be candid, their performance in this regard has been commendable. It was equally observed that they have tried in the promotion of industries in the back-ward areas/districts. The above study also revealed that the above institutions have contributed greatly towards "Human Resource Development" which was seriously lacking in the earlier years. This study though basically conducted on Indian experience, will no doubt has a more reaching effect on other developing countries as well. The suggestions made in this regard, is purely of empirical and theoretical evaluation and as a result will be beneficial to all.

Coming to the International bodies such as the IMF, the world Bank and its affiliates IDA, IFC and MIGA, we equally conclude that the activities of these Corporations have been essential in order to accelerate economic growth. They have done well in promoting investment and economic Co-operation among nations. They have jointly/individually provided funds for the development, expansion and improvement of agriculture,
Industry and technology. Apart from these, they have equally financed both infrastructural and human resources development in many countries. Their performance in these fields are global and as a result are unmatchable to any. In the recent years, they have also undertaken structural programmes in order to foster economic growth in many developing countries. One of the areas needed to be addressed seriously as per this survey is the question of equitable distribution of assistance. Information available has revealed that some countries are favoured (adequately financed) despite their richness in contrast to their weaker counterparts.

We therefore call for a more equitable allocation of funds, giving special attention to poorer nations so as to enhance their healthy and competitive growth.

At the regional level, all the regional development banks namely Asian Development Bank (AsDB), African Development Bank (AfDB), Inter-American Development Bank (IADB) and European Investment Bank (EIB) contributed greatly towards agricultural, industrial and the overall cooperation among the countries in the region. Their existence has been essential for both developmental and economic reasons. They have equally been useful in effective better co-ordination and distribution of assistance from international bodies.

As regard the activities of the Maharashtra State Financial Corporation, we have equally concluded that the Corporation has done well in meeting the Long-Term obligations of the medium and Small-Scale Industries in the State. Its performance in this
regard was satisfactory, though more improvement is still needed in some areas and these particular areas will be our main point of discussion in this remaining section.

In continuation, we also observed that a number of policies have been initiated and embarked on by both the government and the financial corporations including MSFC in order to effect their operations and improve the well being of industries in general and the small scale sector in particular. The only set-back noticed in this regard, was that most of these policies were only seen in paper rather than in practice, hence we strongly suggest for a more practical implementation of these policies as this is the only way we can effect industrial efficiency and subsequent economic development. Now coming to the operations of the MSFC, it could be recalled that during its formative period, the corporation experienced a number of set-back due to lack of qualified personnel in the field of development banking. But as it enters its growth and consolidation period, many of these problems were redressed through various training and development programmes embarked by it. The corporation has undergone a number of changes with regards to its organisational set-up, managerial pattern and operational activities, and at present is maintaining one of the most balanced organisational structure among SFCs in the country.

The MSFC's management set-up as at 31st March 1989 was headed by the Managing Director on whose shoulder the general supervision of the entire organisation lies. He is being deputised by one of the executives known as the "Chief Administrative Officer" with other aids such as the secretary, the economist and six senior officers in the rank of general managers with four other deputies. Each of the six General Managers is heading a particular department/section, namely Appraisal, Co-ordination,
Develdpment, Finance, legal and technical. The four deputies were in charge of Accounts, Recovery, Technical, Refinance & Statistics.

In pursuance of its policy of decentralization in administration and services to the backward areas of the state, the corporation operates: nine regional offices at Amrawati, Aurangabad, Bombay, Konkan, Kolhapur, Nagpur, Panaji(Goa), Pune, Thane, Daman & Diu and 30 branch offices in each districts of Maharashtra. To avoid unnecessary delay involved in directing sanctions and disbursements from the Head Office to the backward areas, both the regional and branch Managers have been authorised by the corporation to sanction and disburse loans upto certain limit. With the enforcement of the above, the corporation is able to fulfil its sanctions and disbursements obligations to the small scale units. The same also facilitated the even spread of industries in the state especially to the 17 most industrially backward districts.

It could be seen that out of the total sanctions of Rs.816.41 crores made since inceptions, Rs.280.94 crores has gone in favour of the backward areas. In the recent years, the percentage of assistance meant for these areas have increased tremendously. This was due to the urgency needed in developing these areas. The same was in consonance with the State Government Policy whose main objective has been
to achieve a balanced growth through industrial dispersal. Hence, major emphasis was laid on encouraging industries in the backward areas through a well organised package scheme of incentive. This package scheme with its recent modifications and beneficial provisions has offered a strong stimulus to industrial entrepreneurs to take their ventures to the backward areas.

An analysis of the industry-wise classification of financial assistance as at 31st March 1989 (table 6.1.2) clearly reflected the qualitative shift by the corporation in favour of the non-traditional industrial groups (such as metal products, chemical and chemical products, etc.) as against the traditional ones such as food manufacturing industry, textile industry, furniture & fixtures, etc. In this regard, the Corporation is able to raise fund to see that all worthwhile projects are accorded the necessary assistance. In other words, the corporation is able to find resources for every industry which was in need of funds and which was eligible for such funds. Another important aspect is that the corporation is able to cover a wide spectrum of industries ranging from mining and quarying to industrial estate, so long as the concerned project is viable and falls within the priority sectors. Coming to the size-wise coverage of assistance by MSFC, as shown in table 6.1.4, the small scale sector received sanctions amounting to Rs. 6247.68 lakhs for 106 projects as
against Rs. 1779.29 lakhs for 65 projects for industries other than the SSI, out of the total sanctions of Rs. 8026.97 lakhs for 1171 projects during the year. The above consists of sanctions made to SSI projects in Maharashtra, Goa, Daman, & Diu with each sharing in succession Rs. 5783.63 for 1017 projects, Rs. 260.05 lakhs for 81 projects and Rs. 204.00 lakhs for 8 projects respectively. Industries other than the SSI in Maharashtra and Goa received Rs. 1629.04 lakhs for 58 projects and Rs. 150.25 lakhs for 7 projects respectively. In Daman & Diu, no such sanctions were recorded at present. Hence, the MSFC should improve its stand in this direction. Out of the above sanctions made, the corporation has so far disbursed Rs. 5567.28 lakhs. Of this, Rs. 4453.16 lakhs benefited the small scale industries while the balance amount of Rs. 1114.12 lakhs were shared by the medium scale sector and others. Under regional/district-wise classification of loan applications sanctioned and amount disbursed, the corporation fared well having accommodated all districts seeking its assistance whether from the most developed, developing or backward. As already stated, the region of Thane, Daman & Diu continue to top the chart with regards to the allocations made during the year, as well as since inception upto date. A detail findings on the above has already been discussed on page 574 of this work. In a nutshell, the operations of the corporation has been commendable especially when we take a look at the overall achievements made
so far regarding the industry-wise classification of financial assistance sanctioned and disbursed, purpose-wise assistance sanctioned and disbursed size-wise assistance, Regional/distri-
ccts-wise assistance, constitution-wise and so on. Regarding its administration and services, it is clear that the present management set-up of the corporation as earlier mentioned is excellent and in fact, remain one of the best among the major SFC's in the country. The Corporation has equally done very well in formulating various schemes as a means to channelise its operations to the needy entreprenuer sectors, districts/ regions, etc. Though the corporation has fared well in many areas of its operation, there are still some areas which needs improvement to facilitate their effective contribution towards nation building.

**APPRAISAL OF PROJECTS:**

Project appraisal is the most crucial aspect of a development banking operations. It is a techno-economic affair, specially complex in respect of industrial projects and involves an estimation of return on the total investment. In its widest interpretation, it is the assessment of the cost and profit analysis of a project as well as its impact on the society as a whole. It does not call for mere analisation of diagrams, processes and statement of fund flows, but requires an indepth study beyond the facade of figures and charts before
on accurate judgement can be drawn. While examining the
technical aspect of a project, it is equally essential to
c conducive financial and marketing appraisal as these
three areas link with one another. An effective project
appraisal requires a pragmatic approach which calls for a visit
to the proposed site (in the case of a new project) and metic-
ulous inspection of sources of water, power and other necessary
amenities in connection with the project. Another important
aspect of the above, is that the appraiser himself must not
only be technically qualified or otherwise, but must be an
experienced personnel and should have the necessary expertise
required to appraise a particular project. Other essential
areas to be studied carefully include the output capacity of
the project, the ability and integrity of the persons behind
the project, raw materials and their sources of supply, trans-
portation facilities, disposition of the bye-product accruing
from the project, Local demand and export potential of the
product. These and many others have a remarkable influence
on the profitability of the project and hence, should be deeply
verified. In deciding upon a project, there has to be a delicate
balancing of many considerations though the ultimate test
remain the financial viability. The project must give a
reasonable return on the equity investment after a gestation
period say 3-4 years and in respect of loan amount, the project
should be able to pay the interest as well as the principal
amount within the scheduled period. A development bank must be quite solvent and should finance only projects that showed a remarkable success. Although under special cases, projects which are not so good from the profitability point of view may be financed based on national interest. Under such situation, the government guarantee is highly required before such project can be financed by a development bank. In many occasions, obsolete equipments are passed on to a project with a lot of guarantees on paper regarding the good performance of the (secondhand) equipment, but later, all kinds of problems will develop. Hence, it is hereby stated that on no account should a development bank sanction its assistance to any new project with used/secondhand equipment. Another crucial area is the under estimation of working capital needs during project appraisal. Such is risky and has contributed to many units running in to difficulties/ sick. The corporation should try and redress its policies in this regard. An adequate working capital should be provided where necessary as this contributes to the effective running of an organisation. Delays on the part of promoters with regards to the provision of the necessary information required by the appraising authority, along with those caused by government/semi government agencies as not keeping to their schedules, with respect to the acquisition of land, power supply, issue of various licences, permits etc. are responsible for time lapses reported in many projects. Thus,
the development bank... should use its good office to bridge this very gap and save the projects from further deterioration due to unnecessary delay.

In order to accomplish the above objectives satisfactorily, a sound technical wing is compulsory for all SFCs. This wing should comprise of experienced engineers drawn from different branches say Civil, Mechanical, Electrical, Chemical, etc. The strength of this wing depends on the existing work-load and the likely expansion of the corporation activities, otherwise 15 to 20 engineers are enough provided they are well mixed to handle any problem arising in the course of operation.

In a situation where project coming up for appraisal is a large one and requires extra-ordinary expertise, outside help can be sought or alternatively, IDBI system can be adopted whereby an ad-hoc committee of experts is constituted. That is to say, the technical and financial wing of the corporation makes a brief study of the project and send it along with the relevant papers to a team of 3 to 4 outside experts for their assessment. After their completion, the document released by them if found satisfactory, should be preserved and used for future appraisal of similar projects. If desired, a forum to meet these experts should be organised as this will provide an excellent opportunity for detail discussion on the best techniques and procedures of appraising various projects.
The legal section is another area that needed attention. This section has an important role to play, especially in the matters of speeding up disbursal of assistance sanctioned and in taking action against defaulters. In the light of the growing number of defaulting units, the section need to be strengthened to enable it tackle the surging difficulties arising due to the inability of the assisted units in repaying back the principal amount including the accruing interest as per schedule. Now that the regional and branch managers have been authorised to sanction and disburse loans though to a limited amount, the issue of defaulting units are likely to be on the increase, but to prevent further escalation beyond tackling, both the regional and branch offices should be well equipped legally to enable them tackle problems arising out of such sanctions and disbursements. As a matter of fact, all regional and branch offices should have a legal section or department of its own comprising of full-time qualified and experienced legal officers, whose duties should include above other things, the verification of the title to the land and the property of the concerns which have been sanctioned assistance or in the process of being sanctioned. The section should also be responsible for all actions relating to the recovery of dues to the corporation. They should take all steps necessary including filling of suits in order to recover the dues. In many cases, while verification
of important documents relating to land, building, and other property relating to particular sanction is still going on, it often happens that the sanction department has already completed the sanction itself. Such a practice is too wrong and should hence be dispensed with. To be on the safe side, all process of verification should be completed and relevant documents submitted to the competent authorities before any sanction should be made.

**FOLLOW - UP - SECTION:**

The Follow-Up measures adopted by the corporation is not so adequate considering the rate at which many assisted units are running sick. More stringent strategies should be adopted to minimise this unhealthy development. A separate follow-up section is needed at this hour. Their work should be a total day to day monitoring of the assisted units, instead of the periodical inspection adopted since inception, which has not yielded much result. It is time for us to sit-up and close all roots/gaps leading to industrial sickness in most of our units. With this, it would be useful to indicate briefly the functions required of a Follow-up section (Fus). The Fus must come into the picture after the projects department has issued the sanction letter and the concern party conveyed its acceptance of the terms and conditions stipulated there on.
Until first disbursement is made, there should be close consultation between the Follow-up section, the project department and legal section. Thereafter, the Loanee concern's affair should be looked after mainly by the Follow-up section (Fus). The Fus should comprise of qualified and experienced persons drawn from different fields say Financial, Managerial, and Technical areas. Such a mixture is necessary considering the nature of work they are likely to face. For effective result, the Fus should endeavor to monitor all sections of the assisted units right from the top management, to Financial Section, to Marketing, to production department including technical etc. Why this is necessary is because sometimes, problems leading to industrial sickness have emanated from any of the above sections, if not due to poor management, it might be due to technical defect or wrong marketing strategies and so on. If the Fus is not well equipped technically, they can seek the help of the technical wing of the Corporation. This particular duty of the Fus should be exercised with great caution. There should be no let-down of any sort. Any lapses dictated on the part of the assisted units should be reported to the joint committee set up for the purpose for immediate and appropriate action. With this and the contributions from other departments/sections of the corporation, based on the policy of implementation and accountability rather than mere policy formulation, we will be able to reduce to the minimum, the incidence of sickness that has be-fallen most of the assisted units.
The coverage of the Annual Report published by the MSFC is in fact, below the required standard. A deep insight into this (various Annual Reports) revealed that most of the information needed are either lacking or provided in a half-hearted manner, thus making conclusive judgement of its previous operations especially on a cumulative basis, absolutely difficult. Even the analytical approach of problems presented in the report as to what should be done or otherwise at one stage of a project or the other, are equally not satisfactory. Hence the Corporation should improve its stand in this regard, so as to make its Annual Report more usable and beneficial to all parties including researchers, policy makers and entrepreneurs.

**Political Aspect: 7.5**

This study equally observed that political considerations are very much in play, with regards to the appointment of directors and other top executive officers of many corporations and the same is deeply hampering their smooth operation. It was discovered that most of the appointments made, were not based on individual merit (say creativity, efficiency, dedication etc.), but on political strength which undoubtedly paves the way for mediocrity, corruption and inefficiency.
It was observed that many unqualified elements with strong political background have made their way to the top positions, leaving their superiors with less political base to deputies or if care is not taken, totally out of scene. In fact, such is disastrous and may ruin the entire nation. It could be recalled that this particular problem has been going on for years and has thus, affected not only the MSFC, but also others SFCs and even the centrally run agencies. This problem is becoming very common these days, with far reaching solutions to tackle them. Even the Government Machinery created to monitor and report such cases to the appropriate authorities, are unable to make the required impact necessary to restore normalcy in this regard. Thus it is time for our elites, whether poor or rich, to loud out in condemnation of this very practice. It should be understood that the advancement of any nation whether poor or rich, developed or developing though depends on the entire productive forces, (Human and Non-Human) but more precisely on the ability of its decision makers. They are regarded as the pioneers of the economy and as a result can drive it towards prosperity or depression depending on their sense of judgement and creativity. Thus, decision making positions, irrespective of the cadre, should be based on individual merit rather than political considerations, if we want to achieve economic progress, equality and better tomorrow for all.
TOTAL EVALUATION AND RECOMMENDATIONS

All the above mentioned problems as per our findings, are regarded as minor in the sense that their solutions are already in place pending their implementation. Hence all concern departments of various corporations have been authorised to follow the guideline stipulated by various policies of both the central and state governments and see that all are strictly implemented. The only problem as per this study, specifically termed as "Major", is that patternning to "Industrial Sickness". This problem is regarded as a "Major One" because from all indications, no pronounced/workable solution has been found at present, either to hult further units from growing sick or to rehabilitate adequately the already sick ones. This lack of perfect solution to tackle the above mentioned problem, infact, makes it a major one and as a result, gives concern to all right thinking persons. The total eradication of the above deserves the highest attention of both central and state governments. It equally requires special attention by all development banks especially the IDBI and BIFR. These two bodies in co-operation with other development agencies should pioneer a down-to-earth crussade to fight this evil before it engulfs the entire industrial sector. It should be noted that our deep empirical investigation into this problem further revealed that the magnitude of this problem is more than what has been reported earlier, and most disheartening is that the
figure in respect of the above continues to increase year after year. As per the latest data available, the total number of sick industrial units in the SSI sector alone has gone up to 2,17,436 (as at June 30th 1988) with an outstanding bank credit of Rs. 1979.85 crores. Sharing this figure state-wisely, we found Tamil Nadu ranking first among the highly affected states with 31,245 units on record, with an outstanding bank credit of Rs.201.92 crores. This was followed by West Bengal with 22,738 units and outstanding bank credit of Rs.186.73 crores and Uttar Pradesh with 22,499 units and an outstanding bank credit of Rs. 171.94 crores. Other highly affected states include; Kerala with 18,554 units (Rs.126.66 crores), Andhra Pradesh with 18,277 units (Rs.149.53 crores),Maharashtra with 15,959 (Rs.371.89 crores), Bihar with 14,567 units (Rs.78.54 crores),Madhya Pradesh with 12,407 units (Rs.61.77 crores),Assam with 11,438 units (Rs. 24.27 crores), and Rajasthan with 10,362 units (Rs.49.78 crores). Regarding the medium and large scale sector (or Industrial units other than the SSI as usually referred in many reports) the number of units affected are equally high. As per the latest data available, they number stood at 1,172 units with and outstanding bank credit of Rs.3,025.88 crores. Those units termed as weak under this sector and whose entry into the sick category are likely if adequate rehabilitation measures are not embarked, numbered 743 units with outstanding bank credit of Rs.1921.52 crores. Industries highly affected
include Engineering, Textiles, Chemicals, Papers and Iron & Steel. With the above, one can see that the problem is dimensional and needed to be tackled with great Zeal and determination, irrespective of the cost, until a concrete workable solution is discovered. The above has shown that this problem is no longer that of the small scale industries alone (though we acknowledge that the magnitude is higher in the SSI sector) but also of the medium and large scale sectors. The problem is now a national one as our survey reveals "Sickness" in many industries whether small, medium or large, in all states and union territories of the country. The above equally affected the funds of all financial Institutions including commercial banks in the country, whether central, state or regional corporations, so long as it involves itself in industrial finance. The enclosed table below will help our readers to assess accurately the extent of damage done by the above problem. The same will equally enable them to understand in depth the reason why this problem is regarded as a major one in this dissertation.
TABLE 7.1 PRESENTS

(Amount in Rs. Crores)

<table>
<thead>
<tr>
<th>SR. NO.</th>
<th>STATE/UNION TERRITORY</th>
<th>NO. OF UNITS</th>
<th>AMOUNT OUTSTANDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Assam</td>
<td>11438</td>
<td>24.27</td>
</tr>
<tr>
<td>2)</td>
<td>Meghalaya</td>
<td>657</td>
<td>1.02</td>
</tr>
<tr>
<td>3)</td>
<td>Mizoram</td>
<td>151</td>
<td>0.32</td>
</tr>
<tr>
<td>4)</td>
<td>Bihar</td>
<td>14567</td>
<td>78.54</td>
</tr>
<tr>
<td>5)</td>
<td>Arunachal Pradesh</td>
<td>13</td>
<td>0.03</td>
</tr>
<tr>
<td>6)</td>
<td>West Bengal</td>
<td>22738</td>
<td>186.73</td>
</tr>
<tr>
<td>7)</td>
<td>Nagaland</td>
<td>511</td>
<td>0.83</td>
</tr>
<tr>
<td>8)</td>
<td>Manipur</td>
<td>1249</td>
<td>1.72</td>
</tr>
<tr>
<td>9)</td>
<td>Orissa</td>
<td>9125</td>
<td>33.41</td>
</tr>
<tr>
<td>10)</td>
<td>Sikim</td>
<td>71</td>
<td>0.36</td>
</tr>
<tr>
<td>11)</td>
<td>Tripura</td>
<td>792</td>
<td>1.55</td>
</tr>
<tr>
<td>12)</td>
<td>Andaman &amp; Nicobar</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13)</td>
<td>Uttar Pradesh</td>
<td>22499</td>
<td>171.94</td>
</tr>
<tr>
<td>14)</td>
<td>Delhi</td>
<td>3288</td>
<td>115.02</td>
</tr>
<tr>
<td>15)</td>
<td>Punjab</td>
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<tr>
<td>16)</td>
<td>Haryana</td>
<td>2212</td>
<td>46.26</td>
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<tr>
<td>17)</td>
<td>Chandigarh</td>
<td>238</td>
<td>6.60</td>
</tr>
<tr>
<td>18)</td>
<td>Jammu &amp; Kashmir</td>
<td>2671</td>
<td>12.05</td>
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<tr>
<td></td>
<td></td>
<td>3</td>
<td>4</td>
</tr>
<tr>
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<td>------------</td>
<td>---------</td>
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<tr>
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<td>Himachal Pradesh</td>
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<td>7.12</td>
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<td>20</td>
<td>Rajasthan</td>
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<td>21</td>
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<td>23</td>
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<td>Goa</td>
<td>779</td>
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<tr>
<td>25</td>
<td>Dadra &amp; Nagar Haveli</td>
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<td>26</td>
<td>Madhya Pradesh</td>
<td>12407</td>
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<td>27</td>
<td>Andhra Pradesh</td>
<td>18277</td>
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<td>Karnataka</td>
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<tr>
<td>29</td>
<td>Lakshadweep</td>
<td>-</td>
<td>-</td>
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<tr>
<td>30</td>
<td>Tamil Nadu</td>
<td>31245</td>
<td>201.92</td>
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<td>31</td>
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<td>18554</td>
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<td>32</td>
<td>Pondicherry</td>
<td>281</td>
<td>2.07</td>
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<tr>
<td></td>
<td>TOTAL</td>
<td>217436</td>
<td>1979.85</td>
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NOTE:

A SSI unit should be considered 'sick' if it has (a) incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50 per cent or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly instalments of interest or two half-yearly instalments of principal on term loans and there are persistent irregularities in the operations of its credit limits with the bank. While both the conditions (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in case of tiny and decentralised sector units.

Now from the enclosed table, it is clear that the damage has been done already and more are likely to occur if corrective steps are not taken right-away. Thus, we call on the Central/State Governments including development banks to strive and find a way out before it is too late. The major causes of this problem including their remedies will be taken up at the latter part of this chapter. For the main time, let us take a look at the over-all participation of the Small Scale Sector, their problems and deficiencies including the impact of government policies on their overall growth.
OVER the years, the small scale industry has been registering a significant increase in terms of investment, employment potential, production capacities and exports. Despite various handicaps, the sector has managed to register an economic presence to be reckoned with and proceeded to generate a credible performance in all fields. However, it continues to face various impediments to its growth and the issues continue to be the same as before.

Despite Government intervention and organisational attempts to remove some of the obstacles facing this sector, it continues to flounder and be bogged down by innumerable laws and regulations, Government and public apathy, official inefficiency and corruption as also the cumulative effect of poor financing, non-acceptable marketing levels and a qualitatively inferior product range.

The problems facing the small sector are as numerous, perhaps, as the number of units themselves. But, some major issues which continue to plague this sector include: Financial constraints, administrative and infrastructural bottlenecks and marketing insufficiency.

These three issues continue to act as a break on the developmental prospects inherent in the sector and drag it down from achieving its full potential. Despite the fact that the sector has been assigned an important role in the economic development of the country, its efficiency as an
effective tool in sub-serving the national objectives of growth with social justice continues to prove elusive. While the sector helps in producing industrial goods within a short gestation period, generates employment opportunities at a relatively low capital cost and helps in dispersal of industrial activity and in the expansion of indigenous entrepreneurship, it still does not operate at optimum levels.

The Government attempted to lay a foundation for its accelerated growth through actual policy support and the creation of an institutional framework. A package of incentives and concessions, comprising concessional finance, cost benefits, marketing support, reservation of items for purchase, machinery on hire purchase, technical consultancy services, testing facilities, common facility services, provision of industrial accommodation and other infrastructural facilities was hence, devised. As a result, the small sector registered a significant performance during the Seventh Plan period with a production increase from Rs. 50,520 crores to Rs. 80,400 crores, a similar increase in exports from Rs. 2,350 crores to Rs. 4,140 crores, and employment from 90 lakh persons to 119 lakh persons in 1989-90.

For any industry to prosper and grow, finance becomes a vital input. The financial institutions have played a rather meagre role till now in financing small industries in the decentralised sector comprising mainly of cottage industrial activities, for the development of which special boards and/or
agencies were set up by the Government. These bodies were mainly promotional and depended primarily on the Government's budgetary allocation for their activities.

Credit to the small sector is treated as credit to a priority sector. As such, commercial banks are required to lend 40 percent of their net bank credit to it. Simultaneously, a series of policy initiatives were taken by the Government to provide credit to SSI units on liberalised terms while strengthening and co-ordinating the activity of financial and other institutions providing assistance to this sector. One must, therefore, admit that the intention is there on the part of the Government, but actual implementation of credit availability continues to leave much to be desired. Despite the establishment of a Standing Advisory Committee by the RBI to review the flow of institutional credit to the SSIs, and to suggest measures for improving the performance of the credit delivery system, things continue as before.

It is an inescapable fact that the small sector needs finance on easy terms as much as any other sector. For its growth and development this is essential. However, to reiterate major obstacles in the flow of adequate and timely credit to this sector continue to act as a major hinderance and by their very complex and time-consuming nature, act as a brake on development, some of these can be identified as follows:
Credit proposals should have an automatic in-built escalation procedure of 25 per cent for working capital requirements. It must be appreciated that such escalations need to be inherent without the party needing to put up fresh application and/or security. Meeting the requirements of working capital in the long run could ensure the healthy survival of the unit concerned.

The limit of the composite loan given by State Financial Corporations is presently inadequate.

A major handicap for any financial interaction between small industries and financial institutions remains the over-complicated paper-work involved.

While it is a fact that the RBI continues to issue guidelines on the proper functioning of financial institutions vis-a-vis small units from time to time, it is also a fact that such instructions are usually ignored or followed in default.

Another major handicap in the financial dealings of the small scale sector is the failure of commercial banks to recognise incipient sickness and, thereby, the delayed-time evaluation, to implement recovery programmes.

From its inception, the small sector has existed in an atmosphere of obstacles. Treated from the beginning as a step-child despite the various concessions offered on paper, it
Theoretical! the concessions to the sector come in many forms, including: Reservation of products for exclusive production, purchase support through Government procurement and price preference for a range of products, concessional credit and facility for easy purchase of machinery, preferential access to raw materials (both domestic and imported), infrastructural support from the creation of industrial estates, training institutions and district industry sectors and through provision of managerial and technical guidance, marketing assistance for various products, preferential excise and Sales tax rates and exemption from corporate tax, exemption from numerous labour regulations and exemption from licensing norms.

However, in practice, most of these benefits work to the disadvantage of the sector rather than add to its growth potential. In certain areas such as engineering goods, the asset limit itself prevents small manufacturers from installing modern high-quality equipment and machinery. As such, the very basis on which the small sector rests, i.e. low levels of turnover, prevents the generation of resources to support R & D, which is critically needed to implement product improvement and cost reductions. As a consequence, a majority of the products produced by the SSI, suffer from poor quality and lack of standardisation and are, consequently, technically obsolescent.
An often-repeated complaint by most small entrepreneurs is that the very complex nature of rules and regulations governing the small sector prevents it from receiving the full benefits of various laws. (The complex procedural setups and plethora of forms that need to be filled up while setting up a small unit act as a major deterrent and inhibit, rather than encourage, a potential entrepreneur from entering the field).

The 'Licence Raj' has been for long been the bane of Indian industry. The same holds true in a large measure, for the small sector. Interacting with so many officials necessarily gives rise to corruption and the seeking of shortcuts.

Another major problem faced by the SSIs is the large number of agencies in the field handling a large number of schemes. The absence of a single window or Central body to interact with the sector denies it its due share of official assistance and encouragement and involves the small entrepreneur in a complex path, resulting in running from pillar to post to receive what is his due.

Despite the specific focus on this sector by the Government in recent years, it continues to function in a sort of vacuum. In the absence of any clear policy guidelines and identification of any trust areas for official recognition and encouragement, immeasurable small units are set up to
produce innumerable items, and in turn innumerable unit close
down as a visible sign of failure.

In addition, the parameters for recognition as small,
ancillary or tiny unit by the Government necessarily invokes
the dictum of 'stay small rather than grow big.' As most
of the benefits and exemptions offered by the Government are
liable for elimination on attainment of certain size, most
small firms prefer to enjoy the intrinsic value of staying
small rather than growing through modernisation and speciali-
sation. It is an unfortunate fact that at a time when econ-
omies of scale assume paramount importance, Government policy
has instituted a limit on the scales of production to sub-op-
timum levels. By preventing growth beyond pre-set assets and
turnover levels, and by eliminating potential competition,
the official policy has lowered the pressure on a SSI unit to
improve technology, update its production techniques and
introduce modern product design, while reducing costs. Simul-
taneously, the limitation on linkages with large firms has
retarded its technological upgradation level and forced it to
maintain its smallness at any cost.

One cannot, however, claim that Government policies
alone are to blame for the current state of affairs. A
serious lacuna in the development of the small sector has
always been the lack of information available to the Govern-
ment and official agencies regarding the size and number
of small units in the country, their diversity of operation,
problems facing such units and solutions thereto. While, the growth dynamism in the small sector cannot be denied, the very fact that a large proportion of the sector is not in a position to put forward its viewpoint for official review necessarily implies a gap in planning for the sector as a whole which, in turn, results in misconducted and poor planning which is not reflective of the true needs of the sector. As such, an information base on the SSIs needs to go beyond the necessity of collecting mere statistics and assumes importance in the light of the information collected. This can be used as an analytical criterion for developing an aid and rehabilitation package for the industry as a whole.

The small sector has also proved to be one which depends more on the end results rather than the means. With an employment base of about 120 lakh persons at present, the sector witnesses one of the most rapid turnovers in human personnel than any sector of Indian industry. Due largely to the fact that most of its operations are small one-man show existing at very low levels of profitability, the potential of attracting and holding on to qualified and technical personnel in comparison to its larger brethren is very low. With the majority of SSI units functioning under the Minimum Wage Act, the small sector will continue to operate under straitened conditions where stop-gap arrangements in workforce requirements is the rule rather than the exception.
infrastructurally as well, the small sector has been proving that it is a victim of adverse circumstances. With almost no facilities to call its own, the SSIs functions under a lopsided, decentralised development plan which gives theoretical emphasis to the development of small sector in urban areas rather than in areas where the placing of such units could do the maximum good. (In rural non-agricultural areas) The very package evolved by the Government shows its preponderance for the development of urban areas through allocation of land, power and other inputs, which are noticeably absent for the cottage and tiny rural-based small-scale industries, the ones which need such inputs the most. Along with the unregulated supply of basic inputs, the high prices quoted for the raw materials and the non-allocation of vital inputs like power and land on a priority basis have all hindered the growth of this sector as nothing else. The lack of complementarily between the large and the small units and dover-dependence by the latter on the large units has created a situation where the value of a few intrinsic advantages is overruled by market forces.

By its very concept, the small sector covers a range of operations comprising the cottage hearth to the tool room. The objective is to produce in a set pattern, while taking advantage of official assistance. Under such a scenario, evolution of a marketing concept is non-existent and most of the production is sold at local levels. To overcome this problem,
the Government has evolved the common Brand Marketing Scheme, under which small units are encouraged to produce common articles to be marketed by co-operative marketing federations. The failure of this rests directly upon the inability of the sector to initiate quality norms. The lack of marketing concept has, over the years proved to be a great deterrent to the growth of this sector, and of great benefit to the large units, which have managed to fill the vacuum so created with their own high-priced produce.

The Government has been providing certain facilities to small units registered with the National Small Industries Corporation, under the single point registration scheme or with the public enterprises through the provision of the following:
- Issue of tender sets free of cost;
- Exemption from payment of earnest money;
- Security deposits up to the mandatory limit for which the unit is registered.
- Price preference up to 15 per cent over the quotation of large units.

Besides, it has evoked a scheme to give national awards to small units in recognition of quality production of goods from out of selected industry group products. Under the scheme, awards are given to outstanding small units which have contributed to improving the quality of their products with a bias towards consumer satisfaction.
Simultaneously, the Government encouraged small units involved in exports to avail of marketing development assistance for stepping up overseas sales. The failure of the concept basically rested upon the fact that SSI units were not in a position to take advantage of the scheme and continue to remain a producer of sub-standard products. The role of the market development fund towards rendering actual market assistance also, hence, merits serious consideration. Under this, some of the facilities which could be considered include:

- Publicity through different media:
- Participation in trade/village fairs:
- Market research:
- Sales and service centres:
- Buyers and sellers meet:
- Setting up of regional/zonal networks:
- Development of product designs, packaging and forwarding:
- Publication of Sales literature, catalogues, price list etc.

Another area which could be considered for its involvement is in the tourism area. With the recognition of this sector as an industry, the Government can consider whether the SSI sector could contribute to the development of the economy by establish and running budget hotels and restaurants to cater to the growing segment of economic travellers, both internal and international.

Under the marketing head, an area which merits serious consideration for Government encouragement is exports. It is
necessary to consider whether such official assistance could have the end objective of encouraging exports from the sector through practical and implementable programmes. Presently, the Small Industries Developments Organisation attempts to promote exports from the sector by way of the following steps:

- Identification of Small units having export potential;
- Organising training programme of export marketing and seminars on exports;
- Organising training programmes on packing in collaboration with the Indian Institute of Packaging, Bombay, with the objective of generating packing consciousness in the small Scale Industries;
- Consultancy on export procedures for claiming replenishment, drawbacks and other incentives;
- Dissemination of export marketing information;
- Liaison and co-ordination with concerned export development agencies and EPCs;
- Sponsoring of sales-cum-study terms under MDA schemes;
- Participation in trade fairs and exhibitions.

Government and SSI interaction is therefore, a fact. The latter depends on the former for its very existence, while the former looks to the SSI to fill its coffers. In such a scenario, it becomes difficult to separate the two and the level of interaction which is necessary or even desirable. But despite all this, the small sector continues to face a situation where the problems hampering its growth remains the same and most regre-
tting of all, is the rate at which this sector (SSI) is running sick. It should be noted that out of 18.27 lakh units belonging to the SSI sector, 17,436 units are declared sick, not withstanding those categorised as weak. Now with such a large number already declared sick including the total amount of funds locked-up in them, the question no longer remain how to rehabilitate these units, but how to stop further units joining the already escalated number. To achieve this very aim, we have to trace the root causes of sickness among units before outlining their remedies, for it is said, we cannot tackle the future without knowing the past.

The strength of the industrial sector, by and large, determines the soundness of the economy. The Indian economy cited as an example, could achieve a satisfactory annual growth rate of 5.5 per cent in the eighties mainly because of the relatively better performance of both the agricultural and industrial sectors. The index of industrial production rose from 107 in 1981 to 128.4 in 1989. The eighties witnessed an industrial growth rate of 7.7 per cent (compound). But, how to sustain this growth rate and make improvements during the current decade is the real challenge facing the planners. One hydra-headed problem currently worrying all is the growing sickness in the industrial sector, which results in a colossal wastage of physical, financial and human resources.
The Reserve Bank of India has defined a sick unit as one "which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1:1 and there is a worsening trend in debt-equity ratio".

The State Bank of India has defined a sick unit as one "which fails to generate an internal surplus on a continuous basis and depends for its survival upon frequent infusion of funds".

According to the office of the Development Commissioner (SSI), a unit becomes sick if its:
- Capacity utilisation is less than 50 per cent of the highest achieved during the preceding five years (incipient sickness);
- Net worth has been eroded by more than 50 per cent, and
- the unit has remained closed for a period of more than six months.

So alarming is the situation of sickness in the industrial sector that the number of sick units has grown at a rate of 27.5% per annum over the last few years and the amount of outstanding bank credit by about 13 per cent per year. In 1980, there were only 20,000 sick units. The figure shot up to 1,56,226 by June 1987 and further to 2,17,436 by June 1988. The bank credit
locked up in sick units increased from ₹1,500 crores in 1980 to ₹7,000 crores in 1990. This does not include funds raised from institutions other than banks. The sick units have become a drain on the economy.

What is worse, only about 10 percent of the sick units can be termed viable, and the viability of another 10 percent of the units is yet to be established. Of course, the percentage of non-viable units is much higher in the case of small scale units than in the case of large ones. The small units would like to declare themselves sick in order to take advantage of various concessions offered to them. It is better to avoid confusion and ambiguity in the definition of 'sickness'.

The seriousness of sickness in the small sector can be attributed to a number of factors. Lack of management competence is one. The new entrants generally lack the requisite qualifications, training and experience in the field of manufacturing organisation and running the business. They are, therefore, unable to tackle problems arising from fast changing environment. Particular attention should be paid to the training needs of small entrepreneurs.

The small units, suffering from paucity of owned funds, start with a distorted capital structure. Inadequate equity has been found to be a major cause of sickness. A small unit becomes vulnerable to environmental pressures because of its poor equity base. A sound equity base reduces the interest burden
and provides sufficient borrowing capacity and additional cushion to withstand stresses and strains.

The small units continue to depend on obsolete technology and machines. They, therefore, cannot escape the problems of poor quality and high production costs. The small units should make use of various incentives offered by the state and improve their capacity to compete with big units through technological excellence and competitive prices. To minimise risk, they may depend on leased out or rented out machines.

The small units are unable to market their products in a systematic manner. Professional marketing in conspicuous by its absence in the small sector. These units do not have access to market information nor are they in a position to invest in advertising or go in for a nationwide marketing set up. Their withstanding capacity is low, and therefore, depend heavily on the Government and the large units.

The small units lack expertise in many fields and also lack resources to hire the requisite skills. The banks have to, therefore, offer specific assistance or advice in various functional area of management. They have to conduct programmes meant for disseminating information; management concepts and techniques and mutual sharing of experience.

The factors leading to sickness may be internal or external. The internal factors include: Selection of wrong location; under-estimation of capital cost; over-estimation of demand; delay in the implementation of schemes leading to cost escalation; absence
of proper financial control devices and cost control methods; 
managerial deficiency and absence of proper maintenance and 
replacements.

Among the external factors causing sickness, mention must 
be made of governmental policy in respect of production, pricing, 
distribution and control; shortage of inputs like power and raw 
materials; recession in demand, shortage of finances and working 
capital; strained industrial relations and absence of manpower 
planning.

Other causes (Internal/External) include defective technol-
yogy, poor monitoring strategies, inappropriate product mix, low 
corrective approach, Lack of pronounced punishment for will-ful 
defaulters. In-balance in both technical and production level; 
lack of proper forecast on the part of entrepreneurs, lack of 
 provision for initial cash losses.

All the factors responsible for sickness are not equally 
important. Studies reveal that around 52 per cent of sickness 
can be attributed to managerial deficiencies. Next in importance 
are the market recession and environmental factors, which account 
for nearly 23 per cent of sickness. The technical factors like 
wrong location, wrong choice of products and miscalculation about 
costs account for about 14 per cent of the sickness. It needs to 
be noted that sickness in a unit is not entirely due to a single 
factor, but due to a small number of factors.
Studies also reveal low capacity utilisation ultimately leading to losses and sickness. One important reason for business failures is that most entrepreneurs do little homework before they venture to start their own enterprises. They do not undertake any market study, and even when this is done, it is carried out in a perfunctory manner. The estimates about the product often turn out to be wrong. There is no assessment of either the competitiveness of the product or an awareness of the existence of substitutes. No wonder such units run into rough weather.

Sometimes, a case is advanced in favour of merger of weak units with healthy ones. Various benefits are offered to healthy units if they merge with sick ones. However, it is argued that such mergers are no solution to the problem of growing sickness in the corporate sector, particularly in the absence of a diagnostic study to find out the causes for sickness. It is also not wise to subject healthier units to pressure while the weak ones continue to be subsidised.

It may be noted that mergers take place for reasons other than sickness. Small units have taken over large ones and vice versa. The intention is to derive economies of scale on particular lines. Competing units are sometimes merged mainly to achieve economic viability. But when sick units are merged with healthy ones, not only the former are uncertain about their future, but the latter too may have to face new problems. Probable
bly, other measures like improving the level of paid up capital are more useful for restoring the health of sick units. Priority should be given to diagnosing the ailment of sick units and arranging for correctives in an organised manner.

We think of initiating measures only when the unit becomes totally sick. By this time, the damage has already been done. On the other hand, what is required is close and continual monitoring of each industrial unit so that the danger signals can be seen immediately and corrective action initiated at the earliest.

The Reserve Bank had listed the following warning signals for the banks to monitor: non-submission or incorrect submission of stock statements and other control statements, inability to maintain stipulated margins on a continuous basis; widening differences between the outstanding balance and drawing power/sanctioned limit; Periodical interest debited remaining unrealised, rendering the account irregularly attempts to divert sales proceeds through accounts with other banks and frequent return of cheques or bills.

The RBI has issued guidelines to banks for strengthening the monitoring systems and for arresting industrial sickness at the incipient stage so that corrective measures are taken on time. It has also asked banks to formulate rehabilitation packages for the revival of potentially viable units. Regarding small units the RBI has issued suitable guidelines to the banks in order to see that the potentially viable sick units and the small sector
receive due attention and timely support from banks.

The financial institutions and banks are offering a series of incentives like interest concessions/waivers, rehabilitation assistance and conversion of arrears into term loans on concessional terms. While these by themselves are not bad, they also encourage loss-making units to call themselves sick rather than strive hard to improve their viability.

But, monitoring continues to be the weakest link in the chain of bank finance to sick industrial units. There is no doubt that occasional visits and monitoring keep the borrowers alert in managing their units. Also, banks take decisions to nurse the units after considerable delay and after the damage has already been done. The banks have to move at the first sign of sickness.

There have been certain welcome developments in recent years in dealing with industrial sickness. The RBI rightly feels that only those units should be revived which can become viable on strictly commercial considerations. There should be some uniformity in the matter of concessions extended to sick units within a broad frame work. The RBI insists on a co-ordinated approach between the bank and term lending institutions in assessing the viability of a unit once it is identified sick.

The earlier ad hoc approach of nursing sick units has given place to a pragmatic package approach to tackle the problem
of sickness. The new approach lays stress on the various reliefs and concessions to be given not only by banks and term lending institutions, but also by promoters, the Government, and labour. There is also a change in emphasis on prevention of sickness rather than resorting to remedial measures after the unit becomes sick.

The Government has enacted the Sick Industrial Companies (Special Provisions) Act, 1985. The board of Industrial and Financial Reconstruction (BIFR), which came into being under this Act, started functioning from May 15, 1987. The BIFR has to suggest measures necessary for reviving sick units. But, the BIFR's role has been marginalised because it is only an advisory body, and under the Act, rehabilitation measures are initiated only at a very late stage i.e. at 50 per cent and 100 percent erosion per worth.

The BIFR is unable to eliminate sickness when it is still in the initial stage. This is so because companies which have completed seven years of existence alone are required to report to the BIFR about their sickness. Also, it is not desirable to exempt small and ancillary units from the scope of the legislation. The union Government is contemplating amending the Act with a view to granting wider powers to the authorities dealing with industrial sickness. The stress is on overhauling the procedures for pruning the time taken to implement the rehabilitation package.
Much of the industrial sickness is due to mismanagement; the financial institutions should have the right to nominate the directors to the boards of companies assisted by them. They should enjoy the right to appoint senior executives at or below the board level. If necessary, the provision which enables financial institutions to convert loans into equity may be liberally used.

Units which are genuinely sick deserve liberal assistance from the banks. If units face problems like shortage of power, shortage of raw materials and strained industrial relations, they should be granted incentives like interest-free loans. Needless to say, if banks go on financing sick units without caring to remove the causes of sickness, they themselves may become sick.

Due attention should be paid to modernisation and technological upgradation. A viable policy for dealing with sick units must provide for orderly closure of the units which have no chance of survival. Care should be taken in weeding out the perpetually sick units as the interests of the workers should be safeguarded. As things stands now, it would be highly necessary to stop further establishment of new units until a workable solution is devised towards perfect rehabilitation of already sick ones. Again all measures should be employed to halt further escalation of this sickness among the healthy
running units. This two last points are of paramount importance and should be adhered to, if we are determined to solve this problem. There is no merit in setting up one thousand units in a year and in the next six months, nearly all the units are declared weak/sick and the few that escaped being weak/sick, if assessed accurately, are running at break-even if not below. It will be better for us to finance few healthy units and make the normal profit expected of them than to run hundreds of units with little or no prospect of survival.

Another concrete suggestion might be the authorisation of different state governments to set up their own rehabilitation corporation: in the form of BIFR/IRBI to handle sick Industrial units in their respective states. Research has proved that sickness among industries from different regions/states were as a result of different causes ranging from lack of infrastructural facilities, to lack/poor financial, managerial and technical expertise. Other causes include absence of entrepreneurship, poor transport, marketing and geographical locations. With such diversity, it will be highly difficult for a single centrally based institution to tackle them adequately. Hence it becomes necessary to have a separate rehabilitation agency in each state of the country, just as we have the state Financial Corporation: in each state, to look after the medium and small scale sectors. The proposed corporation, if established will enable each state to analyse in depth the root causes of
industrial sickness in their respective states and tackle them accordingly. I hope with this, a break-through is eminent in the final eradication of sickness in our respective industries.

Coming to our country-wise analysis, we equally concluded that all countries of the world, whether centrally based, capitalist or mixed economy, have established one form of development bank or the other, notwithstanding other related financial institutions in order to foster industrial development in their respective economies, but irrespective of this, the efficiency of these institutions in effecting their operations so as to enhance rapid industrialisation and economic growth, still remain a question yet to be answered more especially in the developing countries. A thorough analysis of the above showed that many countries have benefited greatly from the establishment of development banks and its related financial institutions, while others continue to suffer irrespective of numerous number of development banks/financial corporations operating in their country. This brings us to the point that the establishment of these institutions alone does not ultimately solve all the problems associated with the topic in question, (rapid industrialisation) but is a means through which such problems can be tackled effectively, if we are determined to do so. Some countries have equally advanced economically without much emphasis on institutional frame-work. With this, we can now realise
that industrial development/economic progress of any nation does not mainly based on institutional framework or the number of institutions established/operating in a particular country, but exclusively depends on the creativity of its people, their dedication and willingness to achieve greatness through hardworking, sincerity and patriotism towards one's nation. Any society whose people are blessed with such qualities must surely succeed whether there are financial institutions or not. A glance at Japanese economy and other fast growing economies such as South Korea, Malaysia, Taiwan, etc, precisely illustrates the above. The Japanese economy and the level of its achievements today, represents an example of one of the fastest growing economies of the world. This is not because they were blessed with more natural resources than others nor have more development banks/financial corporations than others, but because they are more sincere, more dedicated at work, more patriotic to their nation and most of all, their willingness to work hard towards greater achievements for themselves and for the entire nation. The American were the first to set this trend and such hard-working and willingness to achieve greatness for themselves in particular and the nation as a whole, took them to the top and made them the giant of the universe economically, politically and strategically. Those who emulated their steps with great determination have been marching ahead successfully.
We the developing nations should therefore change our corrupt attitude and focus our attention towards, greater achievements and nation building, rather than waiting for manna to fall from heaven or alternatively hoping and laying emphasis on the theories of institutional finance which in its present stage, falls short of practical implementation due to our corrupt nature.

In my own opinion/view, I believe that industrialisation vis-a-vis. Economic growth, is in-built in the mind of the people. It is what the people of a particular society initiate by themselves, in their own way and with their own local resources, irrespective of how small it might be at least for a start. I do not believe nor accept that such activities as industrial growth, which undergoes gradual changes as it progresses, is something that should be borrowed or transferred, judging from the experience of many advanced nations today. These countries did not develop their economies overnight. They struggled for it for years out of their willingness to work hard both individually and collectively, bearing in mind that all their struggle is for their own betterment and those of their future generation. This wasn't a day's job, but rather a long-term struggle which can be traced as far back as the dawn of civilisation. This root of development is full of pits and falls which can be overcome by the will of achievement and patriotic aspiration for one's nation. Example of countries
which have made it despite difficulties faced at one time or the other as a result of world wars or natural calamities are West Germany, Japan, just to mention, but a few. These two countries, irrespective of being crushed during the second world War, were able to make it to the top again within a short period. Today both Germany (West) and Japan are among the highly industrialised economies of the world. They were able to achieve faster recovery due to the qualitative nature of their citizens. As per the economic review, it is well established that most of the developing countries have more outstanding natural resources than some of the advanced nations, still that did not make them to develop. Even among the so-called developing nations, some are progressing faster while some others remain dormant waiting for the IMF and World Bank to feed them, in fact, such is shameful indeed. It is time for these dormant nations to sit-up and emulate the Japanese, if not any other people and try to initiate their own development strategies, for it is said, where there is a will, there is a way. It should be realised that the institutional framework adopted so far are only meant to assist us mobilise the idle resources of our people, and get them channelled to more productive purposes. These institutions are only the channel and not the brain. The brain behind every development, is the people’s creativity and not the Institutions. The development banks/Financial Institutions cannot change the inner spirit of the people nor the social environment in which they were born and brought up, hence more emphasis should be
laid on the people rather than the institutions for it is the people that manage and control the institutions. One thing is for the development banks to mobilise the funds and another thing is for the people to utilise the funds effectively. With this, one question comes to mind. Are the people willing to utilise the funds sincerely for the purpose for which they were sanctioned and disbursed, or are they diverting it for their own selfish purposes? This is where the main problem lies. Unless this is properly checked, the funds being disbursed by development institutions can never realise their goals. Many experts have pointed out that despite the number of development banks/Financial Institutions being established in all the developing countries and the quantum of assistance made by them in order to eliminate poverty, unemployment and improve the standard of living of the weaker section, still little or nothing have been achieved in this regard at moment.

Some economists were of the opinion that the problem of underdeveloped economies is how to increase the rate of savings and how to make these savings available for investment. Arguing further, they concluded that the above can be tackled by the following -

(1) A rise in real income.
(2) Stable price level.
(3) The existence of financial institutions to mobilise the savings and
(4) The investment opportunities for individual small savers.
The above mentioned points can be justified to an extent, but I still believe and stress that the main issue lies on how patriotic and hard working the people of a particular nation are. Unless the people are sincere and willing to work hard, the above points cannot hold good. For instance No. (1) A rise in real income, A rise in real income cannot be achieved without hard work. The people must be willing and ready to work effectively, if they wanted to increase their income or earnings. 
(2) Stable price level: Stable price level can be maintained only when there is surplus output which directly or indirectly is of input efficiency. (3) The existence of financial institutions to mobilise savings. Here, it should be realised that savings are made out of income and without hard working, income can never be raised. Development banks can only mobilise funds, but cannot create funds and funds cannot be mobilised where there are no income at all. Thus, this drives us to the conclusion that it is the human qualities that matters in nation building and not institutions.