CHAPTER - VII

SUMMARY OF FINDINGS AND SUGGESTIONS
The thesis attempted to find out the interface between development finance and industrial development. This has been accomplished by determining the impact of development financing on industrial development; a review of industrial development of India as well as Orissa since independence; finding out the impact of regional financing institutions; evaluation of the role played by the OSFC in the industrial development programme of the state; survey of selected sample industrial units in Orissa assisted by OSFC; to develop and estimate mathematical models to ascertain the determinants of industrial development in India as well as Orissa.

India is in the process of change. And one of the main directions of the change, and itself a vehicle for many related changes is the increasing and deliberate industrial development of the country. Before 1939, industrialisation, which started in about 1850 in the cities of Bombay, Ahmedabad and Calcutta had spread slowly to only a few other areas of India, such as Jamshedpur in Bihar. However since World War II, and specially since the start of the planned industrial development of 1951, a whole series of new industries has been spreading to new areas of the country. The industrial development of India
has been intensively regulated since the beginning of the planning period. Investments in public sector enterprises have naturally been subject to direct planning in both choice and implementation and have taken a very substantial part of the planned and estimated part of the planned and estimated industrial investment in the organised manufacturing sector. The notion that the country's economic growth must be planned systematically, by an enlightened government had been initiated by India from the time of Independence movement. Planning in India, therefore, needs to be strengthened in a strategic sense and determined effort is needed to break the development logjam in the backward areas of the country. There will have to be closer integration at the regional and sectoral levels. It is in this context that there should be emphasis on district level planning, democratic decentralisation and revival of Panchayati Raj institutions assume special significance. The protection of interests of backward and oppressed groups like scheduled castes, scheduled tribes and women is an important aspect in the constitution of various Panchayati Raj bodies. Bold initiatives are needed for tackling problems of backward and laggard regions of the country. In part, this would mean a plan for industrial revival and rejuvenation. Modernisation of industries particularly in small are traditional sectors, where specialisation already exists, will not have serious technological implications and will "help in the revival of small and medium towns."
Since Independence, India's Industrial Policy has undergone several policy shifts. Although the overall objective has always been to prevent the big fish from eating the small ones, the government policy as well as the lending policy of the term-lending institutions have led to a further concentration of ownership in the hands of fewer houses. The industrial policies of 1970, 1973 and 1975 show a pronounced bias towards large industrial houses and the ideas of core and heavy investment sectors and the national sector propounded in the policies encourage the private sector to make inroads into the crucial sectors and exercise control over the entire economy. The logical corollary to the policies encouraging private sector industries has been the growth of monopolies which have prevented capitalism developing from below and held back the transformation of the economy. So the public sector has to expand not only to cover the basic industries but also the essential consumer goods industries. Attention has to be paid to the improvement of its management and industrial relations. The performance of these enterprises has to be judged by the profit criterion. The spirit of competitiveness has to be infused into the public enterprises. The idea of joint sector should be given a due trial along with workmen's participation in the management. The pattern of industrial development has to undergo
a change in favour of production to meet the felt needs of the common people. For greater employment and better decentralisation, an intermediate technology may be involved by upgrading traditional methods, redesigning high cost technology and designing special new products. Regulation of wages on the basis of productivity and regulation of profit by promoting else and cordial relations between the Government and private industries may be undertaken.

III

Since India's tryst with destiny 42 years ago, there had been innumerable predictions that the country's economy was ready for take-off. But it had been strangely reluctant to soar. Then suddenly in the 1980s, the brakes which had placed crippling restrictions on the economy disappeared. Almost, overnight, the dreaded license control raj was cremated. It was the age of liberalisation. A tryst with a new destiny. Factories were built furiously. Big became beautiful. Companies started looking beyond protected home markets. Profit became less of a dirty word. Foreign capital and technology were welcomed. And there was greater stress on productivity and quality. The incomes of the middle classes moved up, with an overbearing taxation structure becoming a thing of the past. The transaction was not entirely painless. The country is today
more steeped in debt than over. The gap between government revenue and expenditure has grown up by leaps and bounds. The yawning deficit has stocked inflationary fires. And while the economy has grown, jobs are as scare as ever. Despite the daunting problems that face it, the Indian Economy continues to display remarkable resilience. The Indian Economic experience - even if it continues to be somewhat mixed and sometimes mixed-up - establish its uniqueness on the map of the world. And develop better than before, certainly quicker than most countries of the world.

The State of Orissa comes off poorly in any meaningful comparison with many of the other states of India. The promise held out by the state so far as sustainable industrial development is concerned is yet to be realised. The vagaries of nature continue to wield absolute power over the state's fortunes. Three out of every four workers in the state depend on agriculture for their livelihood. Irrigation potential created remains underutilised. A comprehensive water management strategy is the need of the hour. Investment in Orissa have been on the rise over the last few years. What is amazing is that this is happening not withstanding poor infrastructure and chronic power shortages. The alumina complex of the central sector National Aluminium Company, spread over more than one district of the state; the proposed chrome ore benefication plant of Tata Iron and Steel Co. and the recently sanctioned diversification plans of the Orissa Synthetic Ltd. are sufficient pointers of the hypothesis.
Private sector initiatives in the development of tourism is a recent development. The State Government's recent decision to bestow industry status on hotelering is believed to have had a positive fallout. The yawning gap between supply and demand in Orissa's power generating sector has prompted some of the larger industrial units to look after themselves by setting up their own captive power generating plants. It is estimated that these plants account for 1074 MW of the total installed capacity of 2579 MW in the soil. Over dependence on hydel power is not desirable in a state which is frequently affected by severe droughts. There is the expectation that recent announcement of changes by the Union Government of its policy on power could trigger setting up of more captive power generating units by industries. Industry should be encouraged to adopt energy conservation methods so that the burden on power demand in the state may be eased. The State Industrial Policy of 1985 has proved a damp squib. There has reportedly been widespread discontent over the failure to ensure actual availability to industries of several concessions forming part of the policy relating to sales tax, industrial tariff for power and electricity duty. Moreover the government is yet to make good on its promise to revise several provisions in the policy, especially those regarding eligibility for incentives.
As a matter of government policy, the development banks have been designed to boost the industrial development of India by meeting the needs of various types of industries. The beneficiaries are a mixed bag of a new and old enterprises healthy as well as sick, those run by monopoly houses as well as others, and some falling in the category of backward areas. The distribution of assistance over industries is getting diversified overtime. And, in few areas of economic activity in India since Independence there has been so spectacular a development as the growth of financial institutions. The objective of development Banking, which is to promote rapid industrial development, has at least three dimensions. One, to achieve development through spread of entrepreneurship. Two, to spread of industrial development to curb the regional imbalances. And three, to promote medium and small-scale industries. Even though a large number and a variety of small and medium scale industries have come up during the last two decades, it has not much to show on the spread of entrepreneurship, as large business houses were more benefitted by it. And the large business houses get a boost from the Government's pre-occupation with relaxing licensing and other regulations with a view to securing fast increase in industrial development. The development bank's preference for large business houses has been influenced by two considerations. First, the large business houses have
an edge over others as they have the command over and access to technical and managerial resources. Second, the development banks appear to have played safe by lending to the large business houses because of their vast industrial investments to rely upon for resources generation especially with respect to expansion programs.

It is hardly surprising, therefore, that the development banks have failed to foster the regional spread of industrial development. Development banking favoured the status quo in the pattern of entrepreneurship and followed the ventures of the traditional entrepreneurial class. Industries have remained confined to the traditional metropolitan belts and their hinterland. Barring some large projects at selected centres in the country, Western India, in particular, has been the major field of operation of the development banks. The realisation that the problem of unemployment cannot be handled by urban industrialisation has left us with no way out but to concentrate on rural industries. So the basic objective should be to concentrate on the development backward areas. Interestingly, even though Indian economy, is basically a rural economy, still there is a lot of bank finance for luxury hotels but getting finance to start a palm gur industry is not easy, even though these type of industries are labour intensive, foreign exchange earner and producing food for the poor. So the development banks should give priority in their assistance of finance to
village industries. Till now these industries are non-viable because of the constraint of finance, as the development banks generally refuse to finance them, which is of vital importance for their viability. The goal of developing backward areas would, in the first stage, require the identification of such areas in the country. Such identification poses several problems of objective criteria, availability of uniform data etc. Unemployment has been used as one objective criterion to identify the backward areas in Europe and the U.S.A., but as unemployment is a common feature everywhere in India, this criterion is not of any significance in the Indian context. The Pande Committee appointed by the Government of India in 1968, to identify the backward regions, adopted various criteria like total per capita income, per capita income from industry and mining, number of workers in registered factories, per capita consumption of electricity etc. for this purpose. The Wanchoo Committee, also appointed by Government to suggest fiscal and financial incentives for industrial development of backward areas, had recommended the selection of 2 or 3 districts in each backward state for special treatment. However, in view of the existence of large under-developed areas even in the comparatively developed states, the National Development Council decided that two districts each in the backward states and one district each in the other States/Union Territories should qualify for assistance from the Central Government.
The All-India development banks namely, the IFCI, the ICICI and the IDBI have, in turn, announced concessional financial facilities for development of industries in these districts. The package of concessions announced by the IDBI includes a low rate of interest, a longer period for initial moratorium and for repayment of loan, low rates of underwriting commission and commitment charges, special consideration in respect of promoter's contribution and margin requirement and a relatively larger contribution to risk capital of projects in backward areas; the IDBI would also bear in deserving cases the cost of consultancy services to prepare feasibility reports for entrepreneurs. In the matter of developing the backward regions, apart from selection of backward districts and provision of financial incentives, it was also essential to carry out surveys for identifying the industrial potential in such areas, which could be tapped in a planned manner. The IDBI's statute prescribed a promotional role with regard to industrialisation. The Bank, therefore, took the initiative in undertaking this task, jointly with other financial institutions. In this connection, it will be recalled that hitherto the role of financial institutions was limited purely to financing of industries. Their role in industrial development was passive in the sense that they provided finance only to those projects which came before them. The work of project identification and preparation was done by the promoters themselves, who had secured the necessary clearances from Government. The financial institutions have
now assumed a more positive role to identify the industrial potential in backward regions and to encourage new and small entrepreneurs. This new strategy is in line with the Government's emphasis on developing backward regions and encouraging the emergence of a new class of small and medium entrepreneurs.

Reviewing the contributions made by the financial institutions so far towards the redress of the regional imbalances, we find that the impact of the concessions and incentives offered by them has been far less in evidence on the less organised counterpart of the private sector, which is intrinsically least amenable to them. Secondly, it has to be realised that the total resource-mobilisation has been extremely inadequate in relation to the needs. These institutions must intensify their efforts on the front of mobilisation of rural savings. Thirdly, in a broad sense these institutions can operate at high levels only when the Central Government makes adequate resources available to them. Fourthly, in so far as during the short-run the economic considerations have necessarily to be given due priority in view of the paucity of funds, the regional problems cannot enlist full attention on the part of the planners. Conflicts of a regional character can be resolved only in terms of a long-term plan that fits different regions into a wider design of national development. Fifthly, the financial accommodation from these institutions must be both speedy and adequate. Finally, appropriate techniques of assessing their own progress must soon be evolved by these institutions.
Orissa State Financial Corporation was established with
the main objective of providing medium and long term finance
to the small and medium-scale industries in the state of Orissa.
It has extended its activities in various directions. Besides
providing financial and promotional assistance on its own, the
corporation has also been authorised to act as an agent of the
Central and State Governments and the IDBI. But there is a
marked difference between the amount of sanction and disburse­
ment. The main reasons attributable to the low percentage of
disbursements were the delay in completing mortgage formalities
by the loanee firms, the cancellation of loans sanctioned to
non series and infructuous units and the delay on the part of
the OSFC itself due to its bureaucratic functioning.

The assistance pattern of the OSFC appears to be welcome,
for, more assistance is needed for setting up new units to
expedite the process of industrialisation of the state. Among
individual industries, while a downward trend in assistance
was noticed in the cases of Metal products, Fisheries (Trawlers),
Rubber and rubber products, paper and paper products and
Engineering industries like Chemicals, Textiles, Electrical
machinery apparatus etc. improved their share. The remaining
industries showed a mixed trend. The regional distribution
of the corporation's assistance has not been very satisfactory. When we look to the relative shares of individual districts, we find that the highest share was accounted for by the Cuttack district followed by Puri, Balasore, Sundagarh etc.

It is found that the OSFC has financed similar type of projects in the same area. So the projects face many problems at the time of implementation and marketability. So, it is better to avoid financing and encouraging similar type of projects in the same area. Before financing similar type of industries, the feedback information should be utilised as the basic data so that the merits and demerits of the same type of industries will be well judged. The gap between the sanction and the disbursement is very wide. So, it is advisable to minimise the gap between the sanction and the disbursement. The Corporation should complete the procedure as quick as possible to the assisted units in order to avoid time because, it accelerates towards liabilities i.e. interest during non-production. Interest will be charged from the date of first disbursement to the date of starting production. But during that period the units assisted finance from the Corporation, gets no production. Before the sanctioning the loans to the units, the marketability of the products of such units should be well considered. The marketability should be such selected which should be at least three times more than the repayment period of the assisted units to avoid premature sickness. Now-a-days, the educated
and skilled rural youths tend to move towards urban areas. Therefore, at least 30% of the industrial sanction should aim at utilising rural resources and Forest resources to provide more employment generation in rural and tribal area. A close follow-up procedure should be adopted at the time of implementation of the project. It should be noted that at the time of installation, the machines should be properly used. The Corporation should follow all the three methods for follow-up and monitoring i.e. physical inspection, progress reports and annual accounts. The Corporation, during operation, should examine the installed and utilised capacity of the machines. It is also to see the ratio of budgeted and actual production. The duty of the Corporation is also to study the market conditions and to take necessary steps for modification and diversification if necessary.

In accordance with the national priorities the corporation is trying to do a good job in its efforts towards a more balanced regional distribution of industrialisation emphasis has also been laid in the development of variety range of industries and various products with versatile utility. Attempts have also been made to identify potential growth centres and to promote talents. In its working there is a reflection of a picture of success. OSFC faced a major problem in its operation in the magnitude of overdues. Its efficiency is restricted due to a high default ratio which creates problem to roll over
funds, assist more wants and play an effective role in industrial development. The corporation should have a self-sufficient organizational set up with adequate complement of specialised and trained staff. But in the conclusion it can be said that OSFC is the story of financial institution taking the leadership to exploit local resources of industrial development and to stimulate individual habit, courage, confidence and determination of the talented persons to participate in National Reconstruction programme.

VI

There is a marked change in the industrial structure of Orissa. Earlier, the state was having a large number of traditional industries. But now there are more non-traditional industries involving latest technology and big investment. But still a lot to be achieved. It was on a public platform, that a prominent citizen of Orissa, lamented recently, that it was a sad state of affairs, indeed, that the ceremonies of Lord Jagannath, at Puri, were held up, due to a delay in the arrival of bananas from Andhra Pradesh. Far-fetched though these words may seem, they are a sad reflection on the results of entrepreneurship in Orissa. Major hurdles for successful entrepreneurship in all sectors, still remain unbroken. These range from erratic power supply, to adverse taxation at the retail sales level and totally inadequate thrust on marketing, sales and advertising.
Wherever an entrepreneur has been able to tackle the bug of productivity, he falls into the vicious circle of low sales and therefore, low profitability. Few seem to realise, that insufficient thrust on marketing and advertising, has rendered local efforts too weak, to take on national brands and products.

It is an acknowledged fact, that creating a brand identity requires extensive inputs in marketing, sales promotion and advertising. An exercise that seems prohibitive, for those in the small and medium sectors. But then, wherever such efforts have been made, they have either been too ambitious, or simply cost inefficient. Take marketing and sales. As soon as an entrepreneur attempts to reach out beyond local markets, instead of concentrating on select market areas that can be controlled and monitored logistically, he attempts to reach all India. Thus losing control over his market area and not being able to control his advertising efforts to a select area, cost-efficiently in order to create a strong brand identity.

Another reason for the entrepreneurship debacle in Orissa, has been the self-defeating, short-term approach to fast profits and quick money.

However all is not lost. A new managerial ethos is emerging in Orissa. There are increasing numbers of MBA's passing out every year, in the State. And entrepreneurs are including them in their recruitment plans. Trained professionals,
with expertise and experience in various aspects of production and marketing, are now coming home to Orissa, hopeful that the scenario will change. Institutional attitudes are undergoing infrastructural changes. Major national companies are moving in to Orissa, alive to the vast potential market in the State. Entrepreneurs, growing increasingly aware of the locational advantage they enjoy, are slowly, but surely, approaching enterprise, with the right perspectives in project planning. Advertising, the barometer of social change and attitudes and of lifestyles, is not longer dominated solely by national brands. A "Made in Orissa" identity is emerging, in a wide range of products and services, that challenge established national brands. But to end up, it can be said that the process of industrial development of Orissa had made rapid strides in the field of industrialisation. So, Orissa if not yet a heaven for entrepreneurs, it is a land of promise. Perhaps, it is the new generation of entrepreneurs, who will transform the State economy, into a self-sufficient and export-oriented one.

VII

Now it can be said that the concept of development financing is an evolving one and the area of activities of development financing institutions is getting ever widened. With more and more demands being made on them continually the development financing institutions are strengthening their
organizational structure to undertake new and growing responsibilities in the field of industrial development. Industrial development, on its part, is an important ingredient for the economic upliftment of the masses, irrespective of their ideologies. It is not surprising in the least, therefore, that every state apparatus round the world has spared little effort towards development finance with a view to galvanizing industrial development. Industrial development needs both for its sustenance and impetus considerable financial backing as it is neither autotelic nor sui generis.