CHAPTER I
INTRODUCTION AND RESEARCH METHODOLOGY

1.1 Introduction
1.2 Statement of the Problem:
1.3 Objectives of the Study:
1.4 Hypotheses:
1.5 Scope of the Study:
1.6 Significance of the Study
1.7 Research Methodology
1.8 Limitations of the Study
1.9 Chapter Scheme
1.10 Conclusion
CHAPTER I
INTRODUCTION AND RESEARCH METHODOLOGY

1.1 Introduction
It is evidence from the developed countries that any country can achieve desirable level of economic development by focusing and developing industrial sector. The development of any economy is depends on the growth of the agriculture, industrial and service sector. The social and economical development of the country is directly depends on these three sectors. The problems like poverty and unemployment cannot be addressed without the development of all economic sectors in general and industrial sector in particular. In fact poverty and unemployment are interlinked. Planners cannot eradicate poverty without boosting the level of employment, and employment cannot be boost until basic infrastructure and financial access are made available easily to the entrepreneur or the industrial sector. It is only industrial sector in India which can absorb raising manpower and provide gainful employment opportunities to the skilled and unskilled people. Since independence Government of India has taken keen effort for the industrial development. Government has undertaken huge investment in basic infrastructure for the industry.

In the direction of industrial development Government of India announced new industrial policy in 1991. The Industrial Policy 1991 has opened a new chapter in India’s economic history. Earlier reforms tinkered with license-permit raj, but left it intact in all its essential aspects. The new policy finally and explicitly admits that the license-permit raj has hampered instead of helping over development and therefore, need to be scrapped. Right from the commencement of new industrial policy, industrial sector playing very significant role in the economic development.

Contribution of Industrial Sector in GDP
The table 1.1 indicates economic sector wise share in GDP. It is seen from the table that in 1950-51 agriculture sector was the main pillar of the economy, as it had contributed around 55.4 percent share in total GDP. In 1980-80 the share of agriculture sector in total GDP has gone down from 55.4 to 38.0 percent and further in 2008-09 i.e 16.9 percent.
The share of industry which includes mining, manufacturing, electricity, gas & water supply and construction has shown a steady increase from 15 percent in 1950-51 to 24 percent in 1980-81 and 25.8 percent in 2008-09. The major components of industry are manufacturing and construction. The share of manufacturing increased from 8.9 percent in 1950-51 to 14.5 per cent in 2008-09. Similarly, the share of construction improved from 4.4 percent in 1950-51 to 7.3 percent in 2008-09. However the share of industry in the GDP of developed countries is significantly higher than that of India Economy.

Table 1.1 Economic Sector Wise Share in GDP

<table>
<thead>
<tr>
<th>Economic Sectors</th>
<th>1950-51</th>
<th>1980-81</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Agriculture and Allied Services</td>
<td>55.4</td>
<td>38.0</td>
<td>16.9</td>
</tr>
<tr>
<td>II Industrial Sector</td>
<td>15.0</td>
<td>24.0</td>
<td>25.8</td>
</tr>
<tr>
<td>III Service Sector</td>
<td>29.6</td>
<td>38.0</td>
<td>57.3</td>
</tr>
<tr>
<td>A. Commodity Sector (I+II)</td>
<td>70.4</td>
<td>62.0</td>
<td>42.7</td>
</tr>
<tr>
<td>B. Service Sector (III)</td>
<td>29.6</td>
<td>38.0</td>
<td>57.3</td>
</tr>
</tbody>
</table>

(Source : Handbook of Statistic of the Indian Economy 2007-08)

The structural change in the composition of national income by industrial origin is the consequence of the process of economic growth initiated during the plans. Since the growth process involved a rapid expansion of manufacturing in the organized sector, the share of manufacturing was bound to indicate a relatively sharp increase.

Development of Industrial Sector in India

- FDI, Portfolio Investment, and Export

The inflow of FDI is become an engine of economic growth in modern era. The foreign direct investment promotes economic growth, creates employment opportunities and helps in favorable balance of payment. The table 1.2 indicates FDI inflow, Portfolio Investment and Export in crore. The FDI and portfolio investment was highest in the year 2009-10 and then afterward both have decreasing trend, except slightly increase in FDI in 2011-12. The export is showing up and down trend.
Table 1.2 FDI, Portfolio Investment and Export (Rs. Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net FDI</th>
<th>Portfolio Investment</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>157800</td>
<td>154000</td>
<td>863300</td>
</tr>
<tr>
<td>2010-11</td>
<td>132400</td>
<td>139400</td>
<td>1165700</td>
</tr>
<tr>
<td>2011-12</td>
<td>155000</td>
<td>85600</td>
<td>1482500</td>
</tr>
<tr>
<td>2012-13</td>
<td>89000</td>
<td>32200</td>
<td>800700</td>
</tr>
</tbody>
</table>

(Source: Economic Survey 2012-13)

- Growth Rate

In the year 1950-51 the growth rate of industrial sector was just 4.6 percent which becomes negative -0.1 percent in 1991-92. The negative growth rate resulted in new economic reform. The growth rate of industrial sector was in double digit during the period 2004-05 to 2007-08 which means it is a boosting period of Industrial growth.

Table 1.3 Sector Wise Average Annual Growth Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture Sector</th>
<th>Industrial Sector</th>
<th>Service Sector</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>1.9</td>
<td>4.6</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>1991-92</td>
<td>-1.4</td>
<td>-0.1</td>
<td>10.8</td>
<td>1.4</td>
</tr>
<tr>
<td>2000-01</td>
<td>0.3</td>
<td>6.5</td>
<td>4.5</td>
<td>4.3</td>
</tr>
<tr>
<td>2001-02</td>
<td>5.5</td>
<td>2.7</td>
<td>7.1</td>
<td>5.5</td>
</tr>
<tr>
<td>2002-03</td>
<td>-4.9</td>
<td>7.1</td>
<td>7.7</td>
<td>4</td>
</tr>
<tr>
<td>2003-04</td>
<td>8.2</td>
<td>7.9</td>
<td>5.8</td>
<td>8.1</td>
</tr>
<tr>
<td>2004-05</td>
<td>1.1</td>
<td>10</td>
<td>8.7</td>
<td>7</td>
</tr>
<tr>
<td>2005-06</td>
<td>4.6</td>
<td>10.7</td>
<td>12.6</td>
<td>9.5</td>
</tr>
<tr>
<td>2006-07</td>
<td>4.6</td>
<td>12.7</td>
<td>14</td>
<td>9.6</td>
</tr>
<tr>
<td>2007-08</td>
<td>5.5</td>
<td>10.3</td>
<td>12</td>
<td>9.3</td>
</tr>
<tr>
<td>2008-09</td>
<td>0.4</td>
<td>4.7</td>
<td>12</td>
<td>6.7</td>
</tr>
<tr>
<td>2009-10</td>
<td>1.5</td>
<td>9.5</td>
<td>9.7</td>
<td>8.6</td>
</tr>
<tr>
<td>2010-11</td>
<td>7.5</td>
<td>9.5</td>
<td>10.1</td>
<td>9.3</td>
</tr>
<tr>
<td>2011-12</td>
<td>3.1</td>
<td>3.8</td>
<td>11.7</td>
<td>6.2</td>
</tr>
</tbody>
</table>

(Source: Central Statistics Office 2013)
The figure 1.1 shows growth rate of GDP and industrial sector. It clear that growth rate curve of industrial sector is inverse u-shaped. The variations in the GDP growth rate less than that of industrial sector.

**Contribution in Employment Generation**

The industrial sector plays very crucial role in employment generation. It provides employment to over 17% of workforce in the country. The highest number of employment is being offered by community, Social and personal services which is followed by transport, storage and communication industry. The table 1.4 shows contribution of industrial sector in employment generation.

**Table 1.4 Industry Wise Employment Generation in India (in Lakh persons)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1    Agriculture and Allied Activities</td>
<td>4.69</td>
<td>4.75</td>
<td>4.71</td>
<td>4.77</td>
<td>4.78</td>
<td>4.77</td>
</tr>
<tr>
<td>2    Mining and Quarrying</td>
<td>11.46</td>
<td>11.37</td>
<td>11.21</td>
<td>11.12</td>
<td>11.03</td>
<td>10.9</td>
</tr>
<tr>
<td>3    Manufacturing</td>
<td>10.92</td>
<td>10.87</td>
<td>10.44</td>
<td>10.6</td>
<td>10.66</td>
<td>10.16</td>
</tr>
<tr>
<td>4    Electricity, Gas and Water</td>
<td>8.49</td>
<td>8.49</td>
<td>7.96</td>
<td>8.39</td>
<td>8.35</td>
<td>8.31</td>
</tr>
<tr>
<td>5    Construction</td>
<td>8.94</td>
<td>8.66</td>
<td>8.52</td>
<td>8.45</td>
<td>8.59</td>
<td>8.47</td>
</tr>
<tr>
<td></td>
<td>Wholesale and Retail Trade</td>
<td>Transport, Storage and Communication</td>
<td>Finance, Insurance Real Estate etc</td>
<td>Community, Social and personal services</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>----------------------------</td>
<td>--------------------------------------</td>
<td>-----------------------------------</td>
<td>----------------------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>1.82</td>
<td>26.75</td>
<td>13.9</td>
<td>91.76</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td>1.78</td>
<td>26.37</td>
<td>13.69</td>
<td>90.9</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>1.65</td>
<td>26.34</td>
<td>13.47</td>
<td>88.54</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>1.74</td>
<td>26.01</td>
<td>13.56</td>
<td>90.11</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>1.71</td>
<td>25.29</td>
<td>14.13</td>
<td>90.51</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.7</td>
<td>23.84</td>
<td>13.61</td>
<td>90.95</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Central Statistics Office 2013)

**Growth of Industrial Sector in Maharashtra**

Manufacturing sector, maintains its existence due to large domestic market and availability of labour at low cost. The fluctuation in manufacturing sector reflects in its share of Industry sector in GDP which is between 29 per cent and 32 per cent. Year 2008-09 was the year of global crisis as well, effect of which is reflected in the negative growth of Industry sector (-1.1 per cent). Since 2004-05, Industry sector is able to maintain its growth at constant prices at 10 per cent or more except in 2008-09. The GDP of Industry sector in 2010-11 at current prices is estimated at 3,23,311 crore (30.3 per cent of total GDP).

The share of Industry sector in GSDP reached at its peak value of 29 per cent in 2007-08 from where it again started declining and reached 28 per cent in 2010-11. The growth in Industry sector at constant prices is more than 8 per cent except in 2008-09, where it decelerated to 4.4 per cent and now again has moderated at 7.2 per cent in 2010-11.

**Need of Credit to Industrial Sector**

Credit works as blood works in human body. In order to expand business activities, firm required credit assistance. The credit access helps in the growth of the firm. The entrepreneur takes loan/credit assistance whenever he wants from capital and money market. The development and growth of any industry is directly depends on the credit supply or access. Thus there is strong positive association between credit supply and the growth of the industry.
Role of Bank Credit towards Industrial Credit

Organized sector finance for -large, medium, small and tiny industries by commercial banks - the State Bank of India group, nationalized banks, private sector banks and development corporations which have been especially established to provide industrial finance. In addition, the Reserve Bank of India gives credit guarantees and the ECGC gives export guarantees to the small-scale sector. By its refinance operations, the Industrial Development Bank of India, too, plays a significant role in the promotion of the small scale-sector for it has enabled the SFCs SSIDC/SSIACS and commercial banks to extend a large quantum of financial assistance to this sector. The National Small Industries Corporation offers financial assistance is the form of its hire-purchase schemes.

Under this overall backdrop present study has attempted to study the industrial credit by Bank of India in Kolhapur district. The study has humbly tried to study the credit policy of bank of India, growth and performance of beneficiaries and the problems & prospects.

1.1.1 Major Industries in India

Textile Industry – Textile industry covers wide range of activities ranging from generation of raw material such as, Jute, wool, silk and cotton to greater value added goods such as readymade garments prepared from different type of manmade or natural fiber textile industry provides job opportunity to over 35 million. Thus individuals are playing major role in nation’s economy. The share of textile industry is 4% in GDP and shares 35% of gross export income beside adding 14% of value addition in merchandizing sector.

Food Processing Industry – In terms of global food business India accounts less than 1.5% in spite of being one of key food producing nation worldwide. On the other hand it also indicates the enormous possibilities for the growth of this industry. Supported by GDP estimate the approximate expansion of this sector is between 9-12% and during the tenth plan period the growth rate was around 6.8%. Food processing industries provide job opportunity to 1.6 millions people and it is estimated to expand by 37 million by 2025.

Chemical Industry – Indian chemical industry generates around 70,000 commercial goods ranging from plastic to toiletries and pesticide to beauty product. It is regarded
as the oldest domestic sector in India and in term of volume it gives a sense of pride to India by featuring as the 12 largest producer of chemicals, with an approximate cost of $ 28 billion, it accounts to 12.5% of the entire industrial out-put of India and 16.2 of its entire export. Under chemical industries some of other rapidly emerging sectors are petrochemical, agrochemical and pharmaceutical industries.

**Steel Industry** – Indian steel industry is a 400 years old industry which has past record of registering 4% growth in 2005-2006. The production during this period reached at 28.3 million tones. India steel industry is the 10th largest in the world which is evident from its Rs. 9000 crore of capital contribution and employment opportunities to more than 0.5 million people. The key players in steel industry are steel authority of India.

**Software Industry** – Software industry registered a massive expansion in the last ten years. This industry signifies India’s position as the knowledge based economy with compounded Annual growth rate (AGR) of 42.3%. In the year 2008 the industry grew by 7% as compared to 0.59% in 1994-95.

**Mining Industry** – The contribution of mining industry in GDP varies from 2.2% to 2.5% only but going by the GDP of the total industrial sector it contribute around 10% to 11%. Even mining done on small scalp contributes 6% to the entire cost of mineral production Indian. Mining industry provide job opportunities to around 0.7 million individuals.

**Petroleum Industry** – Petroleum industry started its operation in the year 1887 and it considered as oldest Indian industry. India is one of the most flourishing oil markets in the world and last few decades have witnessed the expansion of top national companies like ONGL, HPLL, BPCL, and IOC.

### 1.1.2 Industrial Profile of Kolhapur District

Foundry, engineering, textile, leather and silver are the main industrial activities in the district. Textile industries through co-operative spinning and weaving mill and small size power loom unit have been developed in and around Ichalkaraji City. Kolhapuri Chappals, Kolhapuri Jaggery, Kolhapuri silver works are famous in country for their speciality. The district is having 17 co-operative and 4 private sugar factories and 4 milk product co-operative processing union. The district has registered as many as 30501 industries. There are three big M. I. D. C. industries developed Shiroli, Gokul
Shirgaon and 5 star M. I. D. C. Kagal with 747810 and 984 units respectively. Beside M. I. D. C. has also developed mini industrial estate at Halkarni, Ajara and Gadlinglaaj M. I. D. C. has set up 5 star industrial complex at Kagal, Hatkanagale covering 1187 Hq. land to boost up industrial activity in the area and plot are ready for allotment M. I. D. C. propose to develop silver park zone in and around Hupari area. Apart from eleven co-operative industrial estate are developed in the district at Jaysingpur, Udyamnagar, Kolhapur, Hupari, Ichalkaranji, Hatkanagale, Gadlinglaaj, Murgud.

Table No. 1.5

No. of Industrial Units in Kolhapur

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Industrial Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>22,047</td>
</tr>
<tr>
<td>2008-09</td>
<td>23,901</td>
</tr>
<tr>
<td>2009-10</td>
<td>25,667</td>
</tr>
<tr>
<td>2010-11</td>
<td>27,848</td>
</tr>
<tr>
<td>2011-12</td>
<td>30,501</td>
</tr>
</tbody>
</table>

(Source – District Industry centre)

1.1.3 Evolution of Banking System

The banking history is interesting and reflects evolution in trade and commerce. It also throws light on living style, political and cultural aspects of civilized mankind. The strongest faith of people has always been religion and God. The seat of religion and place of worship were considered safe place for money and valuables. Ancient homes didn’t have the benefit of a steel safe, therefore, most wealthy people held accounts at their temples. Numerous people, like priests or temple workers were both devote and honest, always occupied the temples, adding a sense of security. There are records from Greece, Rome, Egypt and Ancient Babylon that suggest temples loaned money out, in addition to keeping it safe. The fact that most temples were also the financial centre of their cities and this is the major reason that they were ransacked during wars. The practice of depositing personal valuables at these places which were
also functioning as the treasuries in ancient Babylon against a receipt was perhaps the earliest form of “Banking”

Gradually, as the personal possession got evaluated in term of money, in form of coins made of precious metal like gold and silver. These were being deposited in the temple treasuries. As these coins were commonly accepted form of wealth, ‘lending’ activity to those who needed it and were prepared to ‘borrow’ at an interest began. The person which conducted this ‘lending’ activity was known as the ‘Banker’ because of the bench he usually set. It is also observed that the term ‘bankrupt’ got evolved then as the irate depositors broke the bench and table of the insolvent banker.

With the expansion of trade the concept of banking gained greater ground. The handling of ‘banking’ transcended from individual to groups to companies. Issuing currency was one of the major functions of the banks. The earliest from of money coins, were a certificate of value stamped on a metal, usually gold, silver and bronze or any other metal, by an authority of their valuation and the necessities of wider trade a substitute to metal was found in paper. The vagaries of monarchial rule led to the issues of currency being vested with the banks since they enjoyed faith, controlled credit and trading. The forms of money were a unit of value and promised to pay the bearer of specified value. Due the failure on account of unwise loans, to rule and organize, a stable banking system arose. The word’s earliest bank currency notes were issued in Sweden by stock Holms Banco in July 1661.

The story of Indian coinage itself is very vast and fascinating, and also throws tremendous light on the various aspects of life during different periods. The Rig Veda speaks only gold, silver, copper and bronze and the later Vedic texts also mention tin, lead, iron and silver. Recently iron coins were found in very early levels at Attranji Kheri (U. P.) and Pandu Rajar Dhibi (Bengal) a money economy existed in India since the days of Budda.

In ancient India during the Maurya dynasty (321 to 185 BC) an instrument called adesha was in use, which was an order on a banker desiring him to pay the money of the note to a third person which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in large towns gave letters of credit to one another.
Trade guilds acted as bankers, both receiving deposits and issuing loans. The larger temples served as bankers and in the south the village communities economically advanced loans to peasants. There were many professional bankers and moneylenders like the sethi, the word literally means “chief”. It has survived in the North India as seth. Small purchases were regularly paid for in cowry shells (varataka), which remained the chief currency of the poor in many parts of India. Indigenous banking grew up in the form of rural money lending with certain individuals using their private funds for this purpose. The scriptures singled out the vaishyas as the principal bankers. The earliest form of the Indian Bill of Exchange was called “Hundi”. Exports and import were regulated by barter system.

Kautilya’s Arthasastra mentions about a currency known as panas and even fines paid to courts were made by panas. E. B. Havell in his work, The History of Aryas Rule in India says that Muhammad Tughlaq issued copper coin as counters and by an imperial decree made them pass at the value of gold and silver. The people paid their tribute in copper instead of gold, and they bought all the necessaries and luxuries they desired in the same coin.

However, the Sultan’s tokens were not accepted in countries in which his decree did not run. Soon the whole external trade of Hindustan comes to a standstill. When last the copper tankas had become more worthless than clods, the Sultan in a rage repealed his edict and proclaimed that the treasury would exchange gold coin for his copper ones. As a result of this thousands of men from various quarters who possessed thousands of these copper coins bought them to the treasury and received in exchange gold tankas. The origin of the word ‘rupee’ is found in the Sanskrit rupya, shaped, stamped, impressed, coin: and also from the Sanskrit word ‘rupa’ meaning silver. The standardization of currency unit as Rupee in largely due to Sher Shah in 1542.

The English traders that came to India in the 17th century could not make much use of the indigenous bankers, owing to their ignorance of the language as well the inexperience indigenous people of the European trade. Therefore, the English Agency Houses in Calcutta and Bombay began to conduct banking business, besides their commercial business, based on unlimited liability. The Europeans with aptitude of
commercial pursuit, who resigned from civil and military services, organized these agency houses.

A type of business organization recognizable as managing agency took form in a period from 1834 to 1847. The primary concern of these agency houses was trade, but they branched out into banking as aside line to facilitate the operations of their main business, based on unlimited liability. The Europeans with aptitude of commercial pursuit, who resigned from civil and military services, organized these agency houses.

A type of business organization recognizable as managing agency took form in a period from 1834 to 1847. The primary concern of these agency houses was trade, but they branched out into banking as aside line to facilitate the operations of their main business. The English agency houses, that began to serve as bankers to the East India Company had no capital of their own, and depended on deposits for their funds, They financed movements of crops, issued paper money and established joint stock banks. Earlier of these was Hindustan Bank, established by one of the agency houses in Calcutta in 1770.

Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790, both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three which were established under charters from the British East India Company. For many years of Presidency banks acted as quasi-central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which upon India’s independence, became the State Bank of India.

Indian merchants in Calcutta established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank of India.

Foreign banks too started to arrive, particularly in Calcutta, in the 1860’s. The Comptoiré Escopmpte de Paris opened a branch in Calcutta in 1860 and another in Bombay in 1862, branches in Madras and Pondicherry, then a French colony,
followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking Centre.

The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India. The presidency banks dominated banking in India but three were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally undercapitalized and lacked the experience and maturity to complete with the presidency and exchange banks.

1.1.4 Theoretical Framework of Industrial Finance

Economists hold shockingly diverse opinions regarding the significance of the financial system for economic growth in general and industrial development in particular. Walter Bagehot (1873) and John Hicks (1969) argued that finance played a critical role in igniting industrialization in England by facilitating the mobilization of capital for “immense works.” Joseph Schumpeter (1912) argued that well-functioning banks spur technological innovation by identifying and funding those entrepreneurs with the best chances of successfully implementing innovative products and production processes. In contrast, Joan Robinson (1952, p. 86) stated that “where enterprise leads finance follows.” As per this view, economic development generates demands for particular types of financial arrangements, and the financial system reacts automatically to these demands. Additionally, some economists just do not believe that the finance-growth relationship is important. Robert Lucas (1988, p. 6) asserts that economists “badly over-stress” the role of financial factors in economic growth, while development economists frequently express their skepticism about the role of the financial system by ignoring it (Anand Chandavarkar 1992). For example, a collection of essays by the “pioneers of development economics,” including three Nobel Laureates, does not mention finance (Gerald Meir and Dudley Seers 1984). Likewise, Nicholas Stern’s (1989) review of development economics does not discuss the financial system, even in a section that lists omitted topics.
In light of these conflicting views, this section uses existing theory to organize an analytical framework of the finance-industry nexus and then put focus on present framework of industrial finance in India.

A growing body of work would push even most skeptics toward the belief that the development of financial markets and institutions is a critical and inextricable part of the growth process and away from the view that the financial system is an insignificant sideshow, responding passively to economic growth and industrialization.

There is even evidence that the level of financial development is a good predictor of future rates of economic growth, capital accumulation, and technological change. Furthermore, cross-country, case study, industry and firm-level analyses document extensive periods when financial development or the lack thereof significantly affects the speed and pattern of economic development.

The working of financial systems is vitally linked to economic growth. Specifically, countries with larger banks and more active stock markets grow faster over subsequent decades even after controlling for many other factors underlying economic growth.

1.1.5 Framework of Industrial Finance in India

Finance is a crucial ingredient for economic growth. In this section, researcher propose to examine the adequacy of the availability of finance for fuelling growth in the late 1990s, a period during which Indian economic growth has tended to slow down, particularly in the industrial sector. Although researcher concerned with overall economic growth, our focus in this section is on the financing of industrial growth.

The way we think about the modes of financing industrial development has been changing over the years (Levine, 1997). The initial section focused on the need to develop extensive financial systems that could tap savings and then channelize the funds so generated to a wide spectrum of industrial activities. It has been realized gradually that the mode of provision of industrial finance is as important for fostering industrial growth as is the quantum of funds. Cross-country experience suggests that economies that have mature financial systems for allocating funds efficiently among competing uses tend to grow faster. Well-functioning banks, financial institutions and other financial intermediaries such as venture capital funds promote technological innovation and industrial growth by providing risk capital and funds to those entrepreneurs who have the highest probability of developing new products,
production processes and competitive production facilities. The Indian financial sector reforms of the 1990s, largely guided by the two excellent reports authored by Mr. Narasimham (1992, 1998), have been designed to adapt the Indian financial system to the new realities of an open competitive economy in a globalizing world.

The key objective of India's economic reforms initiated in the early 1990s was to accelerate growth. The reform process of the 1990s did help to accelerate overall economic growth over that of the 1980s, but only marginally (RBI, 2003). Real gross domestic product (GDP) grew at 5.9 per cent during the reform period (1992-93 to 2002-03), higher than that of 5.6 per cent in the pre-reform period (1981-82 to 1990-91). Growth in both industry and agriculture has been slow after the initial burst in the 1990s, although growth in the tertiary sector has accelerated somewhat (Acharya, 2002).

1.1.6 Framework for Corporate Financing

To set the stage, let start with the basic framework of corporate financing. Corporate entities raise capital from either a) internal sources, essentially retained profits, b) external sources. External funds are accessed from sources outside the firm through the issue of equity capital and debt instruments. Equity capital can be raised from the firm's promoters or the capital market that taps institutional investors, mutual funds and retail investors. Debt can be raised through floatation of corporate bonds or borrowing from banks and non-bank financial intermediaries. An important aspect of the growth process that has been widely discussed in recent times is the type of the financial system that is most conducive to growth. Seen from this standpoint, most of the systems of industrial finance in developed countries can be grouped into two clear systems. At one end is the Anglo-American model of market-based finance where financial markets play an important role and the role of the banking industry is much less emphasized. At the other extreme is the Continental/Japanese model of bank-based finance, in which savings flow to their productive uses predominantly through financial intermediaries such as banks and other financial institutions, and the capital market is less important for the raising of funds.

Most of the industrial financing systems have evolved endogenously from their own particular circumstances of economic history- and have their own success story to tell or otherwise. The market-based system is relatively impersonal because the sources of funds could actually be atomistic household savers, directly or indirectly through mutual funds, pension funds or insurance funds. The bank-based systems are more
relationship based, because the lenders are few and large. At the risk of broad generalization, bank-based systems tend to be stronger in countries where governments have taken a direct role in industrial development, such as Germany, in the 19th century, and Japan, East Asia, South-East Asia, China and India, in the 20th century.

The basic point of partition between the two systems is that in the one case, corporate entities interact with the intermediary, say a 'bank', whereas in the other, they directly approach the "public" for finance. This distinction between a 'bank-based' and a 'market-based' system is not a water-tight compartment; on the contrary, it has become blurred in recent years with the institutionalization of the sources of finance all over the world. The blurring of the distinction has emanated from the gradual spread of universal banking, spanning the entire range of financial services across commercial banking, insurance and securities (investment as well as underwriting). This has been fortified by the emergence of institutional investors, in the capital market, including mutual funds, which, for example, have an asset base of as much as 70 per cent of GDP in the US.

There are also historical reasons for this emerging convergence. A number of countries, including the USA segregated banking and securities trading in their financial licensing laws as it was believed that direct commercial bank involvement in corporate securities would involve significant conflicts of interest. It was only recently that the US. Financial Services Modernization Act of 1999 repealed the Glass-Steagall Act of 1933, which had prohibited commercial banks from underwriting, holding or dealing in corporate securities, whether directly or through securities affiliates. A number of emerging market economies, such as Argentina (1991), Chile (1997-98), Indonesia (1995) and Malaysia (1991) have also recently liberalized restrictions governing banks' exposures to the capital markets.

Beyond the partition based on risk characteristics, it will be recognized that the need for diversification of the financial structure is also driven by the demand for funds of different tenors. Banks, for example, are a natural source of working capital because their resource base essentially emanates from the economy's transaction processes, and the funds available with them are of a short-term nature. Bond markets are relatively more flexible because they can mediate both the short-term corporate funds as well as long-term household saving. However, in the absence of developed capital
markets, there arises a need for specialized financial institutions - the so-called development financial institutions which provide project finance. The process of corporate financing is changing all over the world. There has been, for example, a sharp jump in market-based financing during the 1990s driven by a combination of financial liberalization and high growth. Private bond markets grew especially rapidly, jumping 500 per cent between 1980-85 and 1992-97 by one estimate, [see Domowitz, Glen, and Madhavan (2000) for details] outstripping bank credit off take. Equity markets, especially in the G-4 markets and the East Asian tigers, also grew explosively although much slower than that of the bond market. Corporate bond markets remain underdeveloped in most emerging markets since they are more difficult to develop than equity markets.

1.2 Statement of the Problem:
The main focus of this research study is to know the problems or difficulties before the beneficiaries while sanctioning the industrial credit. This research is related to the loan sanctioned by the Bank of India, to its beneficiaries of Kolhapur district during the year from 2005 to 2014. It is also related to how loan is sanctioned, disbursed to the beneficiaries. It also focuses on how the credit utilized in proper manner for the purpose. Further, it studies the performance of beneficiaries for better prospect. Hence the researcher selected this topic entitled "A Study of Industrial credit by Bank of India with reference to Kolhapur district."

1.3. Objectives of the Study:
The main objective of study is industrial credit by Bank of India with special reference to Kolhapur District. The specific objectives of study are as follows -

1) To study Industrial credit policy by bank of India.
2) To study the growth and performance of beneficiaries in industrial sector.
3) To study the problem and prospect in recovery from beneficiaries.
4) To draw conclusion and suggest measures for better credit policy Implementation.
1.4 Hypotheses:

During the course of study the following hypotheses may be revised on the basis of result thereof.

1. There is an association attribute between industrial credit disbursement by Bank of India and growth of the industry.

2. There is significance difference in profit, working capital, physical assets, turnover and production, before and after industrial credit by Bank of India.

1.5. Scope of the Study:

1.5.1 Topical scope – The present study is on the topic ‘A study of Industrial credit by Bank of India with special reference to Kolhapur district.

1.5.2 Analytical scope - For the analysis of the present research topic the researcher has used the pie chart, bar diagram, chi-square test, T test for testing the hypotheses.

1.5.3 Geographical Scope – In the present research branches of Bank of India have been selected from Kolhapur district.

1.5.4 Periodical Scope – The industrial credit by Bank of India has been studied for period from 2005 to 2014.

1.6 Significance of the Study

The present study is helpful for the bank to know the performance of credit policy. It is useful for knowing the performance of beneficiaries also. The present study clears whether the loan is used for the same purpose for which loan is disbursed. The beneficiaries also understand the benefits of credit policy towards the development of industries. The study is also helpful to the beneficiaries to know the policy of credit facility. They get information about how to use the credit facility for their industrial purpose.

1.7 Research Methodology:

1.7.1 Data Collection -

The researcher has used primary and secondary source has been used for collection of data. The present study in an analytical study and mainly depends on primary source of data. The secondary source of data is supplementary.
A) **Primary Data** – The researcher has collected primary data regarding industrial credit process and credit beneficiaries are done by Bank of India. The data has been collected from managers of Bank of India and Head office.

B) **Secondary data** – The researcher has collected necessary information from Annual report, books, M.Phil., Ph.D. research work, magazine, internet, different web site and article etc.

1.7.2 **Data Analysis**: Researcher has used appropriate technique of pie –chart, bar diagram, chi-square test, T test for data analysis and hypotheses testing.

1.7.3 **Sample Selection**

The study area has confined to Kolhapur District of Maharashtra State. There are 12 tahsils and 44 bank branches of the Bank of India in the district. All these tahsils and bank branches have been covered for the rigorous study. In other words universal sampling technique has applied for the selection of tahsils and bank branches.

There are total 3298 loan borrowers of industrial credit by Bank of India in whole Kolhapur district or in the 12 tahsils. Out of these 3298 universe beneficiaries 330 beneficiaries have been selected by using convenience sampling technique. In other words 10 percent beneficiaries from each tahsil have been selected conveniently. More precisely the sample designed has been depicted in table 1.6

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Taluka</th>
<th>No. of Branches of BOI</th>
<th>No. of Industrial Credit Beneficiaries</th>
<th>No. of Industrial Credit Beneficiaries Selected for study</th>
<th>Percentage of Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Radhanagari</td>
<td>4</td>
<td>165</td>
<td>17</td>
<td>10%</td>
</tr>
<tr>
<td>2</td>
<td>Bhudargad</td>
<td>3</td>
<td>140</td>
<td>14</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>Ajara</td>
<td>2</td>
<td>122</td>
<td>12</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>Location</td>
<td>Code</td>
<td>Population</td>
<td>Growth</td>
<td>Percentage</td>
</tr>
<tr>
<td>---</td>
<td>------------</td>
<td>------</td>
<td>------------</td>
<td>--------</td>
<td>------------</td>
</tr>
<tr>
<td>4</td>
<td>Chandgad</td>
<td>2</td>
<td>147</td>
<td>15</td>
<td>10%</td>
</tr>
<tr>
<td>5</td>
<td>Gadlinglaj</td>
<td>3</td>
<td>324</td>
<td>32</td>
<td>10%</td>
</tr>
<tr>
<td>6</td>
<td>Kagal</td>
<td>3</td>
<td>401</td>
<td>40</td>
<td>10%</td>
</tr>
<tr>
<td>7</td>
<td>Karveer</td>
<td>10</td>
<td>706</td>
<td>71</td>
<td>10%</td>
</tr>
<tr>
<td>8</td>
<td>Gaganbavada</td>
<td>1</td>
<td>84</td>
<td>08</td>
<td>10%</td>
</tr>
<tr>
<td>9</td>
<td>Shahuwadi</td>
<td>3</td>
<td>127</td>
<td>13</td>
<td>10%</td>
</tr>
<tr>
<td>10</td>
<td>Shirol</td>
<td>2</td>
<td>331</td>
<td>33</td>
<td>10%</td>
</tr>
<tr>
<td>11</td>
<td>Hatkanangale</td>
<td>5</td>
<td>581</td>
<td>58</td>
<td>10%</td>
</tr>
<tr>
<td>12</td>
<td>Panhala</td>
<td>6</td>
<td>170</td>
<td>17</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>44</strong></td>
<td><strong>3298</strong></td>
<td><strong>330</strong></td>
<td></td>
</tr>
</tbody>
</table>

(Source – Bank of India)

1.7.4 Parameters of the Study:

Measurement of Industrial Growth:

1) Turnover

2) Expansion in business activity

3) Profit

Parameter of Good Banking Service:

1) Easy access of credit

2) Rate of interest

3) Customer satisfaction

4) Timely service
1.8 Limitations of the Study

The following are the limitations of the present research study.

1. The research is restricted to the Bank of India in Kolhapur district.
2. The research study period is defined in the year 2005 to 2014.
3. Study is limited to the industrial credit of Bank of India.
4. The study has considered only credit account holders of the Bank of India

1.9. Chapter Scheme

The chapter scheme shall be as follows

Chapter I: Introduction and Research Methodology

This chapter has covered the different important point regarding with research design. These points are known as research methodology, scope of the study, significance of research, objective and hypothesis of research, primary and secondary data collection method and also limitation of study.

Chapter II: Review of Literature and Theoretical Framework

This chapter is concerned with the review of literature. It has covered the published and unpublished literature, various research paper, article and other sources.

Chapter III: Profile of Kolhapur District

This chapter has included theoretical framework, profile of Bank of India and Industrial sector.

Chapter IV: Data Analysis and Interpretation -

This chapter has included the data analysis and interpretation about the industrial credit by Bank of India.

Chapter V: Conclusion and Suggestion

This chapter has covered finding and suggestion with respect of industrial credit of Bank of India.
1.10 Conclusion

In this chapter the researcher has also given major objective of study. The hypothesis which is to be tested by using various Test. The scope of study about topical and analytical, geographical, periodical point of view. There is also given the significant of study in perspective of the shareholder, management, employee, Industrialist, Government etc. The limiting factor of the methodology has given about the data collection and analysis of data. There is also given the different parameters of the study which are used for the analysis of data. In the last chapter scheme are also maintained in this chapter.

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3. Economic Survey of Maharashtra 2011-12
5. Economic Survey of Maharashtra 2011-12