CHAPTER II

REVIEW OF LITERATURE AND THEORETICAL FRAMEWORK

2.1 Introduction
2.2 Review of Literature
2.3 Research Gap

THEORETICAL FRAMEWORK

A) Development of Bank and Industry

2.4 Introduction
2.5 The Pre-Reform Model of Industrial Finance in India
2.6 Capital Market
2.7 History of Banking

2.8 History of Bank of India
2.9 Industrial Development in India

B) Financial Markets, Institutional Framework and Industrial Credit Policy of Reserve Bank of India

2.10 Financial Market and Economical Growth
2.11 Institutional Framework for Industry
2.12 Industrial Credit Policy of Reserve Bank of India
2.13 Conclusion
CHAPTER II
REVIEW OF LITERATURE AND THEORETICAL FRAMEWORK

2.1 Introduction
The Review of Literature in Research is very necessary because it highlights the various aspects and issues regarding the research topic covered by the previous research studies. Review of research literature also enables researcher in finding missing research aspect of concerned topic. It also helps in understanding methodological aspects of the study, which was being adopted by the previous researchers. The researcher has reviewed following few related research literatures.

Under this overall backdrop, the present research task is attempted to study the finance of the Bank of India and to make review of their Industrial credit pattern.

2.2 Review of Literature
2.2.1 Review on Books
Chougale B. K. (1986), in his book *Industrial Finance*, has given detailed analysis regarding industries and their assets, liabilities and balance sheet. The book also gives the detailed information regarding the significance of ratio, credit appraisal, small-scale industry and consortium credit, documentary credit and industrial credit.

The book, *Industrial Economy of India*, written by P. G. Gadgil and P. L. Gadgil gives specially the information about the development problem of industrialization. It gives details about size of industry, location of industry, if focuses on the industrial development in India and also labour and industry.

Bhole L.M(1999) in his book entitled “Financial Markets, Institutions and Growth”, touched upon the issue of industrial credit. In fact it is one of the comprehensive books in the field of money, banking and finance. The book has covered almost all aspects of the financial markets and institution. Author argued that industrial is only a sector through which government can create large number of employment opportunities.

Chiranjib Neogi, Ghosh B (1998) in his research article entitled, "Impact of liberalization on Performance of Indian Industries," pointed out that the benefits of liberalization have
got to export originated industries. The industries which operating in the domestic market are gambling in the 21st century. In brief author, pointed out that the policy of liberalization is beneficial to the developed country and not for underdeveloped country.

Divatia. P.J (1996), in his book entitled "Indian Industries in the Twenty-First Century" focused on the emerging issues of Indian industries in the 21st century. He pointed out that in order to get the benefits of open market; government has to adopt border view for industrial finance. The foreign portfolio investment has to be gone up. The access of industrial credit should be unrestricted. He argued that the adequate access of industrial credit definitely promotes to the industrial growth.

Jain P.C (1964), in his book entitled “Industrial Finance” elaborated growth and progress of industrial finance in India. He also presented a theoretical framework of the industrial finance and economic growth. According to author the access and adequate availability of financial sources is burning issue in India. Hence unconsciousness of the banks and government about the industrial finance resulted in the loss of resources.

Singh Ajith (1997) in his book entitled “The Stock Market, Industrial Development and the Financing of Corporate Growth in India” elaborated the progress of capital market in India and its role in the industrial development. He has presented comprehensive picture of the nature and trend of the industrial finance. He arrived at conclusion that the present scenario of industrial finance is alarming it has to improve.

2.2.2 Review on Journal
Ramchandra D.Patil (2011) in his research paper entitled “Situational Analysis of Banking Performance in Kolhapur District with Reference to Priority Sector Lending”. He studied the priority sector advances at national and district level. The study period were confided to 2005 to 2008. Author arrived at conclusion that Indian banking sector gives importance to lending to priority sector and most of the banks especially State bank groups and nationalized banks act according to the national priority set by the Reserve Bank of India. He further pointed out that Commercial Bank groups and those in the
private sector must be advised to fall in line. In addition, in case of State Bank Group and Nationalized Bank Group the targets set by the District Credit Planning Committee are not sufficient or less. He suggested that while setting the target the District Credit Planning Committee should consider the business of the respective bank as well as the demand from the borrowers belong to priority sector. Finally, he stated that the advances of cooperative banks and other financial institutions have been quite satisfactory as compare to their total advances, but it is showing the deceasing trend. The major reason behind this failure can be decrease in the business of these banks.

Dr. D. Ganesan and R. Santhanakrishnan (2013) in their joint task entitled “Non-Performing Assets: A Study of State Bank of India” truly pointed out that banks plays an important role in the economic development of a country. Banks are growth-driver and the banking business is exposed to various risk, such as credit risk, liquidity risk, interest risk, market risk, operational risk and management risk. Apart from these risks the very important risk is loan recovery. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs). Reduced NPAs generally gives the impression that banks have strengthened their credit appraisal processes over the years and growth in NPAs involves the necessity of provisions, which bring down the overall profitability of banks. The study arrived at conclusion that the Indian banking sector is facing a serious problem of NPA. The magnitude of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability of banks the NPA need to be reduced and controlled. Author also attempted to find out the causes of rising NAP. They stated that it is because of mal utilization by the industrial and agriculture credit.

N. A. Mujumdar (1998) in his article entitled “Credit Support to Priority Sector: A Macro Perspective” studied the trend of credit by commercial banks to priority sector (priority sector includes agriculture, Backward Section of the Society, Small Scale Industry and Tiny Industry). They further pointed out that the small-scale industries (SSI) sector which contributes more than 40 per cent of the value added in the manufacturing sector, and about 35 per cent of the total exports, has not received the attention it deserves of the
policy-makers. Not withstanding the fact that RBI made appropriate noises about implementing the Nayak Committee's recommendation that at least 20 per cent of the value of SSI's output be supported by banks in the form of working capital, credit extended to the sector, actually declined from 7.6 per cent of the value of output in 1991-92 to 6.5 per cent in 1995-96. This is an important finding of the Informal Group appointed by the Planning Commission recently (Report of Internal Group on Small-Scale Industries, Planning Commission, 1997). The group has also revealed that capacity utilisation in this sector is around 50 per cent (weighted average) and one of the main factors responsible for such gross under utilisation is finance. As in the case of agriculture, this sector has also been a victim of financial sector reforms. The group has come to the conclusion that timely and adequate availability of credit to this sector would enable the capacity utilisation to go up substantially both in the short and the medium term. This would also enhance export capability.

Sankalpa Bhattacharjee and Debkumar Chakrabarti (2013) in their joint task entitled “Financial Liberalisation, Financing Constraint and India’s Manufacturing Sector” examined the impact of financial liberalization on manufacturing industry. The paper attempted to analyse the slump in the manufacturing sector in India from the perspective of financing constraints faced by the sector that seemed not to have eased out since the advent of liberalisation in the early 1990s. However, buoyancy in the manufacturing sector is crucial in the Indian context, which is riddled with widespread unemployment, since this sector (unlike the services sector) has the potential to absorb a relatively unskilled workforce. Hence, it becomes imperative to take remedial measures to ease out the financing constraints in present times. They suggested measures like 1. Devising Suitable Derivative Instruments 2. Increasing Reliance on Corporate Debt Market 3. Expansion of the Mutual Funds Industry 4. Better Corporate Governance and Accounting Standards

Jyoti Gupta and Suman Jain (2012) in their research paper entitled “A Study on Cooperative Banks in India with Special Reference to Lending Practices” observed the customer satisfaction as well as efficiency of cooperative banking in respect of lending
practice. They stated that the role of cooperative banks in promoting tiny and rural industry is very significant than of public sector banks. Especially large size firms which are agro based industries (like cotton and sugar industry) are more benefited by the cooperative banking sector. The role of cooperative bank in the development of SSI and tiny Industry is also very crucial. The author also highlighted the ignorance of government towards cooperative banks. The study was based on some successful co-op banks in Delhi (India). They suggested that customer (who has taken more than one type of loan from the banks) should be targeted by the banks. Moreover they suggested that the bank should adopt the latest technology of the banking like ATMs, internet or online banking, credit cards etc. so as to bring the bank at par with the private sector banks.

Vitols Sigurt (1995) the working paper series entitled “Financial systems and Industrial Policy in Germany and Great Britain: the Limits of Convergence” deeply studied the structural gap of industrial finance in Germany and Great Britain with theoretical prospective. They studied from 1970s to 1995 industrial finance pattern in both the country. They pointed out that since the 1970s, the nation-state has suffered a significant reduction in its capacity to achieve national economic policy goals through the regulation of the financial system; as a result, national political economies are now characterized by a market-driven convergence towards financial systems dominated by privately-owned, internationally-active “financial supermarkets” with weak links to both industry and government.

Through a comparison of Germany and Great Britain, paper critically examines the factors or drivers of industrial growth. In response to their objectives, it is demonstrated that how the state has retained significant regulatory autonomy in ways which have significant consequences for industrial finance and industrial policy.

Stephen Haber (2005) in his research paper entitled “Access to Finance and the Technological Innovation: A Historical Experiment” studied historical pattern of industrial finance and its relation with technological innovation. This paper offers an answer to the question of the role of finance in the process of innovation by employing history as a laboratory. He look at the adoption of a particular set of technologies those
associated with the mechanized production of cotton cloth in the late nineteenth and early twentieth centuries in two countries where those technologies had been slow to disseminate until that time, Brazil and Mexico. He further focus on Brazil and Mexico because they were similar in a large number of dimensions, but they were remarkably different in terms of the development of their securities. The time series data and statistical interference of the study shows the impact of government regulation on banks, securities markets, and industrial development.

The first is that the specific features of regulation matter for the development of securities markets. Brazil’s mandatory disclosure laws gave minority shareholders incentives to purchase equity in textile manufacturing companies. In Mexico, the lack of transparency in financial reporting meant that few firms were able to go the markets for capital. Similarly, in Brazil, laws that protected bondholders gave rise to a large market for corporate debt. In Mexico, no such market developed.

The second is that difference in the development of securities markets exerted a powerful effect on downstream industries. In Mexico, most firms were capital constrained, and thus grew at a modest pace. A small number of firms, who had privileged access to the capital markets, however, were able to grow extremely fast. In Brazil, nearly half of all firms were able to go to the markets for capital. This meant that a large number of firms were able to purchase new plant and equipment at a rapid pace. The outcome was unambiguous. The Brazilian textile industry was larger. The Brazilian industry had a more competitive structure and productivity in Brazil grew at more than twice the Mexican rate. He argues that the implication of these findings are straight forward. Capital market imperfections exert a powerful effect on the ability to adopt new technologies.

Rakesh Mohan (2004) in his comprehensive research article on “Finance for Industrial Growth” started from the beginning of industrialization in India. He also presented changing pattern of industrial finance over a period of time. He concluded that the Indian financial system, needs to look at new ways of doing business, in terms of knowledge-based banking and better management of information. It is necessary to tailor the new institutional funds to long term investments. Besides, the next stage of industrial
financing would depend on an accelerated development of the bond market facilitating the securitization of corporate lending.

In terms of the broad framework of industrial financing, it is clear that there is sufficient room for a greater role for market financing. At the same time, this does not mean that the Indian economy is ready for a shift to a market-based system of finance. The panacea to the present challenges in industrial financing hinges on the ability to design an appropriate mix of the bank- and the market based systems of financing.

Robert Cull. (2005) in their research paper entitled “Historical Financing of Small and Medium Size Enterprises” observed historical background of small and medium size firms’ industrial finance. The main purpose of this paper was to explore the role that access to finance played in generating this distribution of firm sizes that is, the role it played in enabling firms to form at scales that were efficient for their industries and market segments, and in enabling them to grow and take advantage of new technological developments and of increases in the size and scope of markets. They begin by examining the history of the main institutions associated with modern finance securities markets and banks. As they demonstrate, although these institutions were important providers of capital to large-scale enterprises, they were of marginal significance to small- and medium-size firms. Although SMEs tended to be formed with equity obtained through personal connections and to depend on retained earnings for growth, they did need access to finance for working capital, to withstand adverse business conditions, and to take advantage of new technologies and opportunities. As they show, an impressive variety of local institutions emerged to supply these needs wherever there was sufficient demand. Governments played little role in creating these institutions, and the regulatory constraints they imposed on the financial system tended to interfere with large firms more than with SMEs. Nonetheless, they argue, governments could encourage this process by creating a secure property-rights environment and by establishing national financial institutions, such as central banks, that helped to mitigate shocks at both the national and local levels. They concluded that the failure of many governments to commit to basic financial property rights creates severe problems for SMEs. In the first place, SMEs are more vulnerable to expropriation precisely because they are so rooted in the local
economy. The more successful they are, the more attractive targets they become, and the more risk lenders bear as a result. Second, in countries where property rights are not respected, any personal institution with financial resources has an incentive to invest them abroad. But, of course, doing so reduces the amount of loans they can make to local firms (and thus to SMEs). In short, policies that enhance the security of property rights, as well as encourage entry by a diverse set of intermediaries, probably dominate any specific set of policies targeting credit to SMEs.

Edwards (1996) in their joint research task entitled “Universal Banks and German Industrialization: A Reappraisal” made a very critical analysis of the role of banks and German industrialization. They pointed out that the role of bank is not significant in industrial development of German because they are not creating money or any other marketable product so as to generate income. Just they are playing their role as a middleman between savers and investors. They also argued that in general, securities markets played a limited role in the finance of all but the largest in manufacturing enterprises. The problem resided not so much with the markets but with the firms themselves.

Guinnane, Timothy W. (2002) in their research article entitled “Delegated Monitors, Large and Small Scale Industries: Germany’s Banking System” discussed about the concept of universal banking and its impact on industrial sector in Germany. Historical studies of the role of banks in industrial finance have focused attention on what are called “universal banks” that is, institutions that provided both commercial and investment banking services to their customers. In recent years, many scholars have argued that universal banks were particularly well suited to promote economic development because of the informational advantages associated with this combination of services. In the first place, banks accumulated knowledge about their customers through their regular commercial lending business, knowledge that enabled them to determine which firms were most likely to be good investment opportunities. They could then signal this information to the general public by underwriting the firms’ securities. Second, because universal banks expected to develop multi-faceted relationships with their customers that
would yield them significant opportunities for profit over the long term, they were willing to provide early-stage financing to enterprises that would otherwise have found the cost of borrowing prohibitively expensive. Thus, they focused on the effectiveness of modern universal banking in the process of economic growth in general and industrial development in particular.

Se Jik Kim and Hyun Song Shin (2007) in their research article entitled “Industrial Structure and Corporate Finance” focused on corporate finance. Instead of focusing on a single firm as the unit of analysis in corporate finance, we look to the relationships between firms in determining corporate financial decisions. Interlocking balance sheets through accounts receivable and payable reflect the incentive structure in complex production chains. We formulate a theoretical framework, and document the cross-country empirical evidence. Firms that borrow more from other firms are also those that lend more to other firms. The elasticity of receivables with respect to payables reflects the length of complex production chains. The bilateral contracting perspective on trade credit has emphasized borrowing constraints on firms, and why they must borrow from their suppliers rather than from outside investors. Credit constrained firms would find it difficult to lend to other firms, implying that firms that borrow more are those that lend less. However, the evidence paints a very different picture.

Ross Levine (1997) in his research article entitled “Financial Development and Economic Growth: Views and Agenda” truly explored the nexuses between finance and economic growth in general and finance and industrial development in particular. He concluded that Since Goldsmith (1969) documented the relationship between financial and economic development 30 years ago, the profession has made important progress. Rigorous theoretical work carefully illuminates many of the channels through which the emergence of financial markets and institutions affect and are affected by economic development. A growing body of empirical analyses, including firm-level studies, industry-level studies, individual country-studies, and broad cross country comparisons, demonstrate a strong positive link between the functioning of the financial system and long-run economic

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32
growth. Theory and evidence make it difficult to conclude that the financial system merely and automatically responds to industrialization and economic activity, or that financial development is an inconsequential addendum to the process of economic growth.

Greenwood, Jeremy and Jovanovic, Boyan (1990) in their research study on “Financial Development, Industrial Growth and the Distribution of Income,” pointed out that a factor that complicates the analysis of financial structure and economic growth is more fundamental. They focus on debate i.e. bank-based systems versus market-based systems. Some aggregate and firm level evidence, however, suggest that this dichotomy is inappropriate. The data indicate that both stock market liquidity as measured by stock trading relative to GDP and market capitalization and the level of banking development as measured by bank credits to private firms divided by GDP predict economic growth over subsequent decades (Levine and Zervos 1996). Thus, it is not banks or stock markets; bank and stock market development indicators both predict economic growth. Perhaps, the debate should not focus on bank-based versus market based systems because these two components of the financial system enter the growth regression significantly and predict future economic growth.

International Financial Corporation (2012) in their research study on “Micro, Small and Medium Enterprise Finance in India” pointed out that The Micro, Small and Medium Enterprise sector is crucial to India’s economy. There are 29.8 million enterprises in various industries, employing 69 million people. The sector includes 2.2 million women-led enterprises (7.4 percent) and 15.4 million rural enterprises (51.8 percent). In all, the MSME sector accounts for 45 percent of Indian industrial output and 40 percent of exports. Although 94 percent of MSMEs are unregistered, the contribution of the sector to India’s GDP has been growing consistently at 11.5 percent a year, which is higher than the overall GDP growth of 8 percent. The aim of the study is to provide an assessment of the Micro, Small and Medium Enterprise sector (MSME) finance in India. The chapters in the study highlight the key characteristics of the MSME sector, and assess the demand for, and the flow of finance into the sector. The study also evaluates the consequent gap
in the financing needs of MSMEs. Finally, it explores potential interventions to address the lack of access to formal finance for MSMEs. Study also attempted to known the constraints in the development of MSMEs. Report stated that poor infrastructure and inadequate market linkages are key factors that have constrained growth of the sector. The lack of adequate and timely access to finance has been the biggest challenge. The financing needs of the sector depend on the size of operation, industry, customer segment, and stage of development. Financial institutions have limited their exposure to the sector due to a higher risk perception and limited access of MSMEs to immovable collateral.

Justin Paul and A. Ramanathan (2012) in their joint research work entitled “Sources of Industrial Finance: Some Econometric Evidence” concluded that strong industrial growth is a pre-requisite for raising incomes and living standards. Twenty four years have passed since India began its transition to market system. This time period is enough to analyze the impact of economic reforms on industrial production in India. From the estimated results of the regression equations, They pointed out that the economic reforms have not brought spurt increase in industrial production. This calls for increased investment, which has to be focused for sustained growth in the industrial sector. i.e, in order to achieve long-run goals, we have to attain accelerated rate of capital formation from the domestic investors. The government can contribute by encouraging youth to become entrepreneurs and thereby formulate policies to increase the investment level as well as employment opportunities. Furthermore bank credit constitutes two-third of the total credit to the industrial sector and still continues as the important source of finance for small-scale industries. In addition they suggested that attention has to be paid for providing as much as bank credit for the industrial sector. Reserve Bank of India’s efforts to reduce the Cash reserve Ratio and withdrawal of ad hoc treasury bills (abolition of automatic monetization of fiscal deficit) will be helpful to pump more credit to the banking sector. But commercial banks are required to take steps for providing more credit to the industrial sector, rather than investing in government securities. Priority should be given for small-scale units and new entrepreneurs. Bank Rate has to brought down in order to reduce the cost of funds (interest rate) in India. Similarly, certain measures have to be
adopted immediately in the financial sector to recover the buoyancy in the stock market. The trading in Derivative instruments (futures, options, Forward Rate Agreements and Swaps will attract more buyers in the secondary market and that will have significant impact on primary issues.

Michael Thiel (2001) in his research paper entitled “Finance and industrial growth - a review of theory and the available evidence” pointed out that the EU’s structural reform agenda attaches a considerable weight to the establishment of efficiently working and integrated EU financial markets. While there is a firm consensus that a well-functioning financial sector is a precondition for the efficient allocation of resources and the exploitation of an economy's growth potential, the economic literature is less consensual on how and to what extent finance affects economic growth. This paper has reviewed the economic theory and available evidence with particular focus on three questions: (1) How does financial development affect industrial growth; (2) what are the features of a growth supportive financial structure; and (3) how are financial structures related to structural change and technical progress? It emerges that financial development is related to economic growth even in industrial countries. But it is also shown that empirical analysis at the aggregate level is unlikely to capture the complexity of the financial structures in industrial countries and of the growth process.

Hiroko Oura (2008) in his research paper entitled “Financial Development and Growth in India: A Growing Tiger in a Cage?” explains the role finance in industrial development. This paper examined the efficiency of the different segments of India's financial system using firm-level data on corporate financing patterns. Firms are increasingly relying on external funds to finance their investment in most recent years. Empirical analyses of the study indicate that (1) the financial system in India is not channeling funds into industries with higher external finance dependence; (2) the debt financing system does not allocate funds according to firms’ external finance dependence, while equity financing system does and (3) firms in an industry that are more dependent on external finance grow more slowly.
This paper contributes to the finance (and financial structure) and growth literature by looking at the corporate financing patterns and their relationship with external finance dependence, which is usually presumed in empirical tests relating external finance dependence and growth. There are signs of inefficiency in India’s financial systems, particularly in the debt financing mechanisms. Furthermore, having an efficient equity market does not seem to compensate for the lack of efficient debt financing opportunities (including banks and bond markets) in enhancing firm growth. These findings also suggest that future financial sector development policy in India should involve developing debt financing facilities.

O.V. Walekar (1991) in his the research paper entitled “Finance and Development of Industrial Sector in the North Eastern Region” pointed out that there is heterogeneity in the industrial development due to unequal distribution of financial resources. He has selected seven small states in tribal and industrially backward for study purpose. Study observed that bank finance was the below expectation of these state, mainly due to lack of government support and non-availability of financial support. This survey was conducted with the intension to understand operational problems of bank and industrial sector and expectation of industrial sector from bank and role of bank in providing non-financial help to this region. For study purpose 72 industries were selected. Study reveals that 5 % unit took help of the bank at the time of establishment and 10% unit consulted the DIC office majority of the units got all information easily at the time of loan application and loan was available in time 40 percent units got inadequate finance.

Naveri V.S (1992) in his paper the paper entitled “Development of Rural SSI and tiny Industry and the Role of Banks” surveyed four districts in Maharashtra by selecting 111 unit including tiny and village industries. All these entrepreneurs are the customers of bank of Maharashtra. Observations are made on the basis of structural questionnaire prepared for the industrial borrower. In this study on each aspect comparison is made within the modern SSI tiny industries. The objective of the study is to understand difference level and make suggestion on it. Awareness of different government schemes
and their role as developing the sector was not known to beneficiaries. Majority of them knew DIC alone. All loan proposals were cleared by village industries in time.

V.S. Kaveri (1993) in his research article “Study of Bank Overdue in SSI Sector” survey was conducted in 6 district of Maharashtra with structured questionnaire to 115 SSI including tiny unit classified under health code number 4 to 8 at the time. 55 branch managers and 25 controlling officers in bank this survey report is submitted to Maharashtra level bankers committee. Attempt was made to find out factor responsible for rise in NPA as and make suggestions to improve the position of recovery system in bank. In the study a few issue were raised such as need of collection data from the borrower for management of NPA as need of monitoring of NPA at branch level well coordination within bank and with government on this suggestion are given the borrower education regarding importance of the paper and data required by the bank.

S. R. Shinde (1994) study of credit related problem faced by industrial sector. The author studied 503 sample SSI units from 20 district spread over ten states. He made inquiry with SSI to four state level technical consultancy development institutions. The study has comprehensively examined various credit related aspects of financing industrial sector by bank. At this crucial juncture when SSI unit are standing at cross road is a proper understanding of problem faced by industrial sector and initiation of appropriate measures by various agencies including bank, financial institution, RBI and the government. Banker stated their side of story on different issue non-availability of information required unit to industrial sector.

Thomas White (2011) in his research article “Banking Sector in India: Counting and Credit Growth” he stated that India’s banking industry has evolved over a long period of more than two centuries. India’s banking industry is considered to be very stable with healthy balance – Sheet and low exposure to risky aspects. The global financial crisis did not affect the Indian Banks. Even after sustained growth since the nineties the sharp of consumer credit remain very low in total bank loan. Despite the recent growth of private
banks the sector is dominated by government controlled banks that hold nearly three fourth of total bank assets.

Robert P.E (1969) in his article entitled “Development Banking: The Issue Of Public and Private Development Banking” pointed out that development banking has been traditional form of finance in underdeveloped countries for pas 150 year. Furthermore a majority of the loan of the public bank to industrial firm are made in local currency. The impact of development bank lending on the economy. A sample of industrial firm which have borrowed from both types of banks is analyzed. An analysis of variable indicated that little difference existed between the client of public and private bank tended to more profitable than those which borrowed from public bank.

Borbora Saundarsya (1996) in his research article “The impact of bank credit on industrial development in Assam”. Assam is situated in the north – eastern part of India and it is recognized as an industrially backward state compared to other. Advanced state of India the industrialization process in Assam and present the industrial picture of the state. Researcher also tries to give on overall view of existing infrastructure facilities as well as institutional facilities which are much needed for speedy industrial development. Evaluation and development banking in India is also discussed briefly. The role played by these institutions in industrial development in India is also analyzed. In addition to this progress of commercial and comparative picture is brought out. Tries to assess the industrial development in Assam, Collecting the fact with the hypothesis taken up in this study.

Swaranjeet Arora (2013) in his research article entitled “Credit risk analysis in India commercial Banks. An empirical Investigation credit risk earlier present in banking system has also increased and credit risk analysis has emerged attempted to identify the factor that contribute credit risk analysis practices followed by Indian Public and private of employee. There is no significant difference between SBI and associates and old private sector banks in practice of credit risk analysis. This paper examined credit risk analysis system in public and private sector bank India. Credit risk analysis is crucial
because no single database typically houses all of the risk related data several years of required.

Chandrasekar C.P. (1998) in his research article “Development Banks : Their Role and Importance for Development”, Pointed out that all under developed countries launching on national development strategies often in the aftermath productivity and per capita GDP. Industrialization recommended itself also because of the benefits associated with the late entry. There already existed a range of productive technique in the form of shelf of blue print that can in principle be accessed. The role lasing developing countries cannot be overemphasized. This bound to lead to short fall in finance for long term investment, especially for medium and small enterprises.

K. B. Chore Committee (1979), the committee reconsidered a few aspects studied by Tondan Committee and made suggestion for adequate working capital norms. The committee has taken review of cash credit system of all commercial banks for those industries whose working capital finance is more than Rs. 10 lacks and suggested that after a few years. The committee has insisted on credit discipline and proper utilization of overdraft limits and suggested modification in the present cash credit system.

Devid Hulme (2014) in his research paper entitled “Has Microfinance Lost Its Moral Compass” argues that microfinance in south Asia, like mainstream finance in North America and Europe, "has lost its moral compass". Microfinance institutions have increasingly focused on financial performance and have neglected their declared social mission of poverty reduction and empowerment. Loan officers in the field are under enormous pressure to achieve individual financial targets and now routinely mistreat clients, especially poor women. The values of neo-liberal mainstream finance in the rich world have spread to microcredit in the villages of Bangladesh and India. This situation is hidden from western publics who are fed the lie of "the magic of microfinance" by their media, guided by the needs and interests of mainstream finance seeking to provide some "good news" about the financial sector as scandal after scandal unfold. Urgent action is
needed, particularly from the leaders of the microfinance industry, to refocus their organizations and workforce on achieving both financial and social performance targets.

Sankalpa Bhattacharjee and Debkumar Chakrabarti (2013) in their joint special article in EPW on the “Financial Liberalization, Financing Constraint and India's Manufacturing Sector” pointed out that the dismal performance of the manufacturing sector in India in the last two decades has been an area of concern for policymakers. This paper attempts to understand the reasons underlying such dismal performance by focusing on the role of the financing factors in manufacturing. The study argues that liberalization measures were inimical to competition. This, along with the diminishing role of development finance institutions, risk-averse behavior of the banks, lackluster performance of the new issues market, concentration of stock market activity and the minuscule size of the corporate debt market have increased the effective cost of debt. Remedial measures in terms of devising suitable derivate instruments, increasing reliance on the corporate debt market, expanding the reach of the mutual funds industry and better corporate governance and accounting standards are proposed so as to instill buoyancy in the sector.

Abhiman Das, Arvind Kumar Singh, and K S Ramachandra Rao (2006) in their research study on “Commercial Bank Lending to Small-Scale Industry It is believed that the working capital support extended by commercial banks to small-scale industry is far from adequate. Although the SSI is a part of the priority sector, its share in total priority sector advances of all scheduled commercial banks has been falling consistently from around 39 per cent in 1992 to around 24 per cent in 2004. This paper examines the trends in sectoral allocation of bank credit to the SSI, the non-SSI sector in the post-reform period. The paper also makes an attempt to understand the variations in bank credit to the SSI sector across bank groups, and also the influence of the size and performance of banks on credit to the SSI sector. The results indicate that the high incidence of bad loans arising out of SSI advances could be one of the reasons for the declining share of SSI loans of the commercial banks.
Ahluwalia, I.J (1985) in his research article entitled “Industrial Growth in India-Stagnation since the Mid-Sixties”, pointed out that the Indian industrial sector is growing but suffering from various bottleneck. The global competitiveness of Indian industrial sector is week hence there is need to pay special attention on the technological upgradation and cost effective production system.

Ajith D.and R.D.Bangar (1997) in their joint research work entitled “Banks in Financial intermediation: Performance and Issues” argued that private sector banks are playing very crucial role in the industrial finance. They suggested that the credit volume of government bank to the industrial sector has to be increased.

2.2.3 Review on Theses and Dissertation
Jayant Gadgil (1999) he done research on “ Role of Development Bank in Promoting Industrial Energy Efficiency: India Case Studies”. He studied a changing scenario of industrial finance from 1955 onwards. He pointed out that several financial institutions were established to provide fund to the large medium and small industry in India. The development finance institutions (DFI) provide finance for the establishments of new industrial sector have research organization devoted to developing new technologies and improving productivity in Indian Industry. It examined the barriers to improving energy efficiency and suggested way by which IDBI could increase and improve its lending for energy efficiency.

Shan Ajay (2002) has done research on “interest rate risk in the Indian Banking System”. The many observers have expressed concerns about the impact of a rise in interest rate upon banks in India. In this paper he measured the interest rate risk of a sample of major banks in India using two methodologies. The first consists of estimating the impact upon equity capital of standardized interest rate shock. The second consist of measuring the elasticity of bank stock price to fluctuation in interest rate that may major banks in the system have economically significant exposures. The major focus of prudently regulation and of concern about systemic fragility in banking has traditionally been upon credit risk. Most countries of the world have experienced significant bank failure owing to non-
performing loans given out by bank. Demand loan and term loan these are entirely floating rate loans linked to prime lending rate.

Wani B. P. (1999) has done research in at Pune University on “Industrial financing by the Urban Co-operative banks in Maharashtra” The object of the study was to examine the role of UCBs in providing Industrial Finance. The study examined the existing situation regarding resources available to SSI from UCBs and studied operational problem of those banks in financing small scale industries.

S. D. Chavhan (1987) has done research on “A Case Study of Industrial Estate in Jaysingpur.” The study shows that the industrial estate is an attempt to provide on a rental basis, good accommodation and other basis common facilities to group of small entrepreneur. Whether the industrial seeking accommodation in the estate is small industries. The techniques of Industrial estates have been regarded as an effective method for promoting the growth and development of small scale industries.

V. M. Chougale has worked on "Urban Co-operative Bank and Development of Small Scale Industry". The central banking inquiry committee in 1931 recommended that limited liabilities of urban co-operative Bank. The duty of these commercial banks should be to help small industry, small traders and middle class population. The profitability and turnover of the bank depend upon loans and advances given by each branch to each customer.

P. Ghosh (1982) has done research on “A Study of the Utilization of Bank Credit by Small Entrepreneurs with Special Reference to Selected Units in Pune” The objectives of the studies were three, i.e. how the SSI borrowers were utilizing bank funds, how bank sanctioning credit to small scale industrial and effect of bank finance ob production and profitability.

Geeta Gajare has done research on “Development of Banking: A Case Study of the Industrial Finance Corporation of India”. The study shows that a development of bank is
an effective instrument of economic development. The nature of financial arrangement varied from time to time depending on the stage of industrial development. These institutional devices in the advanced countries provided the model for some underdeveloped countries which were in search of suitable machinery for the financing of industrial development as an integral part of their overall economic development.

Seema Saggar (2005) in their research study on “Financing and Investment Patterns of Indian Firms” This paper other analyses the financing and investment pattern of non-financial, non-government, public limited firms over the period 1971-72 to 1999-2000, at an aggregate and disaggregate level of major industry groups. On the sources side, the financing pattern of Indian firms is found to be debt based and different from that in developed countries and other emerging markets, but their share of internal sources increased markedly in the latter half of the 1990s. On the investment side, inventory investment has shown a secular decline, while investments in financial assets are on the rise. The relationship pattern between sources and uses of funds contrasts with the pattern observed for US firms, where market imperfections lead to fixed investments having a high positive association with cash flows and a high negative association with debt.

Seshasaye R. (2006), in his titled “Financing SMEs an Industry Perspective” pointed out that competitiveness of SMEs in the global markets is a priority. Though Indian SMEs have achieved a measure of success, especially in sectors such as, garments, leather and leather products and gems and jewellery, among others, further heights can be achieved only through fostering international linkages between SME sectors of different countries. A concerted effort on the global scale is required to bring the SMEs to the mainstream from the periphery and integrate them with the organized sector. Under the WTO regime, new opportunities are being created for linkages between SMEs across the globe. It is critical for SMEs to be international in outlook, competitiveness and costs. Models for clusters are developed to help them integrate with global supply chain. Based on the strengths and diversity of the vibrant SME sector in India, there exist enormous potential for participation and partnership for further development.
Ram Vepa (1988) in his study discusses the growth of small-scale Industry, organizational structure, some key issues, and field planning for small-scale Industry and its prospectus for nineties.

Nasir Tyabji (1989) analyses the structure of small scale Industries and role of small Industry policy as a component of the Indian development process and changes in the structure of Industry and nature of small enterprise development.

Sidhartha Shankar Dash (1990) in a study under taken in Balosori district in Orissa attempt to analyse the operational problems in launching SSI units. They conclude that although policies are good, often delay in implementation upset the entrepreneur's plan and in many cases lead the production process to a standstill.

Theophilus (1990) observed that the operation of SSI’s in India and Nigeria encounter similar incidences and show the same environmental characteristics for their progress. He suggests that there should be a separate ministry exclusively for SSIs at the central level headed by a central minister in both countries.

Dias Syrian (1991) examines the scale, nature and effects of current sub-contracting linkages between small and large industries in Sri-Lanka. In general weaker relationships exist between large and small industries, however strong links exhibit with respect to more organized few large firms. The reason for this weaker relationship is the immaturity of small industries in meeting the requirements of large Industries in terms of technology, production cost, and quality and delivery services.

Prem Kumar, Asit Ghosh (1991) in their study of management of small scale industry explains the management practices and performance of small-scale Industries and their relationship with demographic features, production, planning and control of SSI, financial planning and control and Institutional structure for assistance of SSI and also the technology change for SSI.
Berry, Albert and Mzumdar Dipek (1991) states that small-scale industry has been important in the successful development of many of the economies of East and South Asia, both in cases like Japan, Korea and Taiwan where import-substitution preceded and accompanied the manufactured exporting phase and in Hong Kong, the only essentially Laissez Faire economy in the region. An important general characteristic of the small-scale sector and one long commented upon in the Japanese case, is the prevalence of subcontracting relationships either with larger manufacturing firms or with traders.

Tambunan Tulus (1991) examines the role of small-scale Industries in Economic development of Indonesia. This survey as the macro-level leads us to a much less pessimistic view of the performance of SSI units in Indonesia though obviously imperfections in comparison with medium and large-scale Industries do exist. It also gives attention to a critical question of appropriate policies needed to support this sector.

Schmitz, Hebert (1995) in their study are concerned with the growth of small local industry in developing countries and explores one particular route for understanding and fostering such growth. It focuses on the clustering of firms and the competitive advantage, which they derive from local external economics and joint action, captured in the concept of collective efficiency.

The international prospective planning team (1995) which made an extensive study of India’s small-scale industries was of the opinion that Government efforts for the promotion of this sector were largely scattered and deal with only isolated segments of the problem.

Salim (1998) in his study proves that in most categories of industries there is more number of high performing units followed by moderate performing units. High performing units have more market orientation than low performing units. There is a strong positive correlation between market orientation and business performance.
Sindhu Hina (1998) in their study state that, employment generation has increased over a period of time. The other findings of the study are related to decline in employment in the household industries, and a decline in the contribution of the large scale sector to employment generation. They produce more output per unit of capital and small firms use resources more efficiently than large firms in terms of total factor productivity. The analysis indicates that capital intensity and partial productivities are sensitive to alternative measures of firm size and total factor productivity are not found systematically related.

Mathew (2000) reports that small industry policy in India is ambivalent. Divergence of interests and their expression through lobbying is a characteristic of any democratic policy. It is also not correct to consider the government as a machinery to immune such influences.

Vasundhara Raje (2000) states that credit is an essential input for the working of small-scale industries. Any delay or inadequate supply of credit is detrimental to the growth of the SSI units. Therefore timely and adequate availability of credit is of crucial importance for setting up and for expanding the existing SSI units.

Narayan (1964) in his thesis discusses the financial problems faced by Industries in general and recommends the setting up of an Industrial development Bank at the state level for mitigating the problems.

Inderjith Singh & Gupta (1977) state that the expansion of the bank credit is not only desirable but also essential for the economic development of Jammu and Kashmir. Commercial banks have to take up this task of credit expansion on a challenging basis and should exploit the tremendous potentially by establishing personal contact with small industrialists.
Papola and Tewari (1981) on the impact of concessional finance on industrial development of backward areas found that the concessional finance was one of the important considerations in the location of new units in the backward districts.

James Manalel (1994) reported that the working of banks and financial institutions showed that the total assistance made available in Kerala for SSI units was comparatively small. The effectiveness of any incentive packages, however well designed it may be, depends on the quality of the system of delivery. The state has comparable package on record, but the quality of the system of delivery. The state has comparable package on record, but the quantity of delivery of the same was perceived by the entrepreneurs to be poor in relation to what units in other states get.

Prasad (1995) in his study states that, there has been a steady growth in the flow of institutional finance to SSI during the last two decades. But inadequate accesses to credit both short term and long term remain a perennial problem of the small scale sector.

Ram Dawar (1986) has made an attempt to examine and appraise the operation of the hire purchase schemes of the national small industries corporation and the state small industries corporation, particularly the Andhra Pradesh small-scale industrial development corporation.

Nisar Ahmed (1987) has made an effort to critically examine, both at micro and macro levels, the operational and other problems of the small-scale and cottage Industries in India with special reference to the state of Jammu and Kashmir.

Balla (1992) in his study discussion the centralized vs. decentralized policy towards small and medium enterprises, technological policy for small and medium they produce more output per unit of capital and small firms use resources more efficiently than large firms in terms of total factor productivity. The analysis indicates the capital intensity and partial productivities are sensitive to alternative measures of firm size. And total factor productivity are not found systematically related.
Ahmad Jaleel (1993) made an attempt to throw light on the question as to whether trade and industrial policies in developing countries discriminate against the development of small and medium scale industry. This is done by a detailed examination of the structure of tariff and non-tariff protection as well as industrial policy measure, such as foreign exchange allocation and licensing.

Venugopal (1993) observed that Governmental agencies set up for promoting village and cottage industries are inactive and their performance is below the level of expectations. He argues that the survival of village and cottage industries.

Sharma (1973) in his study explains industrial financing by national level financial institutions. It also discusses the role of the state financial institutions in financing industries of Bihar. He suggest that the financial institution should act as a guide philosopher and promoter of industries and recommend the setting up of small industries bank.

Himachalam Jayachandran, Narendra Kumar (1995) in their study on financing of small scale units by Andhra Pradesh state finance corporation reveals that though the state financial institutions came into existence to promote small-scale units, their effort to extend financial, managerial and technical assistance have been far from satisfactory and they have failed to fulfill the expectations.

Sharmila Dayal (1996) reported that the available resources of Uttar Pradesh Finance Corporation (UPFC) has increased manifold during the period of study yet it failed to cope with the growing needs of industrialization of the state.

Vasant Desai (1997) reviews the institutional framework for promoting small-scale industries in India. The institutional framework for the promotion of small scale industries aims at fostering the small-scale sector by solving their problem.
Kulkarni and Kaveri (2000) examine the need for support and extension services in accelerating its growth such support and extension services include, market intelligence, marketing services, modernization, technology upgradation, quality testing etc. It is also attempted to discuss the available institutional network in India to provide support and extension services.

Pande Parag (2000) In his study emphasis the need for extension of definition of small-scale industry and revitalizing the law governing small-scale Industry and recommended the setting up of growth centre to provide adequate infracture facilities.

Agarwal (1987) reports that the Indian banking system has failed to extent appropriate amounts of loan to SSI. He is of the opinion that lending institution should be more practical and flexible in their attitude rather than strictly legal with a view to enabling the borrowing units to overcome any temporary difficulties.

2.3 Research Gap

The forgoing analysis widely discussed the importance of the financial access to the industrial growth. It is observed that the earlier research scholars highlighted the credit benefits, implementation of credit policy, credit disbursement system and need of credit to Industries. Majority of the studies are based on secondary data and there is lack of comprehensive grass-root level study. Most of the studies have been examined the causes of lagging industrial growth due to inadequate and untimely finance. Throughout the reviews it can be observed that constraint found on demand and supply side for the industrial credit. Some researchers studied growth of industrial sector and their financial problems as well as credit related problems faced by industrial sector. Researcher also studied utilization of bank credit by industrialists and role of bank in promoting industrial sector. The researcher has not found any earlier study of Industrial credit by Bank of India in Kolhapur district. No any study on this specific issue has been carried out. The missing area of research is the study of utilization of credit, credit disbursements and the emerging issues in industrial institutional credits. Hence under this overall backdrop, present research work tries to fill up this research gap.
THEOROTICAL FRAMEWORK

A) Development of Bank and Industry

2.4 Introduction

Banks and financial institutions is very important to industrial sector for providing loan. In this theoretical framework has been given information about pre-reform model of industrial finance in India. The function and role are related with industrial development, which correlated with each other human body needs oxygen for living, like this industry requires finance. Finance is sole of industry. The government has taken into account all those things and prepared various schemes provision made in five-year plan. From Building construction to production to production each and every stage need. It is difficult task to gain for set-up industry.

2.5 The Pre-Reform Model of Industrial Finance in India

How did India fare in the domain of industrial finance? The Indian economy, like most of the former colonial economies, adopted a path of planned development after Independence. This was, in a sense, dictated by the compulsions of contemporary political economy. While there was a wide consensus that economic growth could only spring from large-scale industrialization, in consonance with the contemporary big-push theories of economic development, it was thought that firms lacked the resources to finance such rapid growth. The strong preference for self-reliant growth in view of the mercantilist roots of colonialism, reinforced by faith in the nation building capacity of the polity shaped by the successful freedom movement led to a stateled development strategy during the 1950s. This preference was also reinforced by the perceived success of the State led Russian model, that was so visible in the immediate post-World War II period.

The industrial financing strategy adopted in the 1950s, centre around the Government as the primary entrepreneur in the economy. The state-led development initiatives had two distinct avenues, viz., a) direct investment from the government budget (such as in case of irrigation projects, construction of dams, and railways), b) public enterprises (such as the steel plants - "the temples of modern India") often funded by budgetary provisions, and government guaranteed bonds. This was reinforced by the channeling of public saving by an elaborate banking network to the "socially productive" uses by an elaborate
mechanism of directed credit programmes and concessional interest rates for "priority sectors".

As a result, the role of the financial system was restricted to the channeling of resources from the savers to the users in line with the "socially productive" pattern of resource allocation, charted by the planning process. The emphasis, thus, lay in building a financial system with a widespread network, not only in terms of the geographical spread and socio-economic reach but also in the functional sense, in terms of specialized forms of finance, through developmental finance institutions. The resultant financing strategy for industrialization, as it then emerged, rested on four building blocks.

• Banks would provide short-term working capital, with appropriate allocations for the priority sector.

• Development Finance Institutions (DFIs) would provide medium- to longer-term funds for the corporate sector.

• Since banks had a readymade access to cheap resources by way of banking transactions, the Government sought to provide a cushion to DFIs by offering guarantees on bonds issued by them along with special access to concessional funds from the Reserve Bank.

• Corporate entities could supplement these forms of funding by resource mobilization from the capital market, but this also needed government approval within the constraints of the credit allocation process.

A natural corollary of the planning process was then the conscious adoption of a model of the bank-based mode of financing as against a model of market-based financing, which was adopted in some emerging countries. Although the capital markets in India were among the oldest in Asia, the role of equity as a mode of financing was not considered as important because of the limited attraction that risk capital was perceived to have for projects with a long gestation lag.

There can be little doubt that the basic objective of developing an extensive financial network was mostly, fulfilled by the early 1990s, especially following the spread of the branch bank network following the bank nationalizations of 1969 and 1980.

The corporate financing strategy, as it evolved, was, however, inextricably linked to the fiscal position, because of the assumption that public investment would eventually generate surpluses for the social good. As fiscal deficits began to enlarge, the entire
financial system began to be geared to funding the Government's budgetary needs. Banks' statutory liquidity ratio, originally a prudential requirement for solvency, was steadily raised to provide a captive market for public debt. Although interest rates were initially kept artificially low, even at the cost of financial repression, to contain the interest cost of public debt, the return on government securities was steadily raised to enhance their attractiveness to the market. As it got increasingly difficult to get voluntary subscriptions even at higher rates of return, the Government resorted to a large-scale monetization of the fiscal deficit by the end-1980s. Concomitantly, the Reserve Bank had to raise reserve requirements in order to contain the inflationary impact of deficit financing. By the early 1990s, statutory preemptions of banks amounted to over 60 percent of deposit mobilization. This process was accentuated by the Government ownership of banks.

Thus, the difficulty was that the Indian financial system, though extensive, was limited in its ability to allocate resources efficiently. A number of structural bottlenecks emerged in the process. First, a combination of an administered interest rate regime and directed credit controls prevented proper pricing of resources. Second, most financial intermediaries remained confined to markets relating to their area of operation because of balance sheet restrictions, leading to market segmentation. Finally, there was the problem of missing markets, especially at the shorter end, with caps even on the inter-bank rate.

Hence, although the Indian banking system has grown tremendously, it has a long way to go. Even relative to other developing countries, the ratio of bank assets/GDP for India continues to be low.

The role of banks as financial intermediaries can, therefore, be expected to grow significantly in the years to come. Surprisingly, the population serviced by a bank branch is also much higher in the Indian case than in many other countries.

It is against this backdrop that financial sector reforms were initiated in the early 1990s. There was clearly the need to reduce the role of Government in the allocation of resources in the economy. As this process would unfold, a competitive environment was sought to be created in the financial sector to enhance the allocative efficiency of financial markets as a whole. Such financial sector reforms would then accelerate the overall economic growth process.
At the heart of financial reforms lay the need to contain the propensity of the Government to preempt resources from financial institutions through fiat. The 1990s saw three fundamental changes in the relationship between the fiscal and the financial system. First, the Government securities market was transformed to a market-determined price discovery process by switching over to an auction mechanism for sale. This enabled the rest of the segments of the financial markets to price off this market. Second, the reduction in the statutory liquidity requirements to the minimum of 25 per cent of demand and time liabilities freed resources of the banking system for credit. However, public sector banks presently continue to hold about 40 per cent SLR bonds voluntarily. Third, the phasing out of the process of automatic monetization of the fiscal deficit rendered a sense of autonomy to the Reserve Bank and enabled it to gradually cut reserve requirements to the current level of 4.5 per cent.

The traditional model of industrial financing thus began to crumble by the mid-1990s. The dismantling of the administered structure of interest rates allowed the emergence of market-based interest rates so that resources could be allocated by market signals. Besides, the gradual withdrawal of restrictions on both the assets and liabilities of the banks and non-bank financial institutions enabled them to optimize their portfolios across instruments of varying risk and tenor according to their commercial judgment, consistent with the process of price discovery. Further, concessions, such as availability of government guarantees and central bank funding for financial institutions, were gradually phased out in the process of market integration. By the late 1990s, therefore, the Indian financial system was enabled to develop in such a way as to compete in the increasingly open economy.

2.5.1 Sources of Finance for Indian Industries during the 1990s

It is now instructive to review the financing patterns for industry during the 1990s. The general impression that has gained ground is that bank finance for industry has gone down. A closer look at the major sources of industrial finance as a proportion of GDP brings out clearly the following stylized facts. First, banks have kept up their credit to industry. Not only has there been an increase in the proportion of conventional credit to GDP, in addition there has also been resource flow in the form of investments in non-SLR instruments - such as commercial paper, corporate bonds and equity. Second,
financing from FIs to industry has clearly fallen. The decline has been sharper in recent years because of the conversion of ICICI into a bank as well as the problems besetting Industrial Finance Corporation of India. The key change that took place in the late 1990s is the virtual collapse of the capital market as a source of industrial finance. Correspondingly, as might be expected, the demand for debt from the DFIs also fell, which was compensated to a certain extent, by the participation of banks in subscribing to bond issues and other debt instruments of corporate entities through the private placement route. The exuberance of investment activity in the mid-1990s also led to the creation of overcapacity in industry, including some uncompetitive capacity that led to erosion of profits which, in turn, perhaps explains the poor performance of the stock market during this latter period. With the recovery of corporate profits in 2002-03 and its continuation in 2003-04, the stock market has recorded high growth since May 2003. After 2008 recession and sound political stability stock market recorded new highest level in 2014. With the prevailing low interest rates, and a recovery of the stock market, we can now expect some increase in industrial investment demand.

Overall also, non-food credit has increased as a proportion of GDP in the past few decades reflecting both the demand for credit per se as well as an acceleration in the process of monetization with the spread of branch banking. This ratio continued to increase during the post reform period as well though it had fallen somewhat in the early 1990s, even though the process of monetization is now more or less complete. This, in turn, suggests that there has been no credit constraint as far as industry is concerned during the late 1990s.

Thus there is reasonable evidence, at least in the aggregative sense, to suggest that Indian industry has not been starved of bank credit in recent years. A related question is the adequacy of finance is across all sectors. Were there any specific sectors that did not get adequate finance? The picture is really no different when we look at the sartorial numbers.

2.5.2 Comparison of Banks and Financial Institutions

The process of financial sector reform has changed the operating environment in which the financial institutions, banks and nonbank intermediaries operate. Until the early 1990s, the role of the financial system in India was primarily restricted to the function of
channeling resources from the surplus to deficit sectors. Reforms in the financial sector created a deregulated environment and enabled relatively free play of market forces. It also altered the organizational structure, ownership pattern and domain of operations of institutions and infused greater competition. In order to appreciate the consequential impact on the resource flow, it is useful to study the impact of financial sector reforms on each segment of financial intermediaries.

In the case of banks, there have been, in particular, three clear elements of change. First, banks now have greater operational flexibility and functional autonomy in terms of pricing and resource allocation. Second, the strengthening of prudential norms has resulted in the clean-up of balance sheets of banks, and reinforced financial stability. Third, the banking sector is facing increased pressure of competition, from both within the banking system, with the emergence of new banks and from other intermediaries and to some extent, from the capital market. There is very little doubt that the banking sector has recorded improvements in profitability, efficiency (in terms of intermediation costs) and asset quality in the 1990s. Within the commercial banking system, public sector banks however, continue to have higher interest rate spreads but at the same time earn lower rates of return, reflecting higher operating costs. Private sector banks, on the other hand, appear to have lower spreads as well as lower operating expenses comparable to the banking system in G3 countries. At the same time, asset quality is weaker so that loan loss provisions continue to be higher. This suggests that, whereas there is greater scope for enhancing the asset quality of banks in general, public sector banks, in particular, need to reduce operating costs further. Although higher administrative expenses are often explained away by the large branch network, it should be borne in mind that banks in the G-3 countries actually have a lower ratio of population per branch ratio.

2.5.3 Bank Financing of Long Term Assets
The traditional model of corporate financing was based on a clear-cut partition of roles: banks were to fund working capital requirements while DFIs (and to the extent possible, the capital market) were to cater to longer-term financing needs of the economy. The downscaling of operations of DFIs, together with sluggishness in the capital markets in recent years has created a gap at the longer end of the institutional financing spectrum in
the Indian economy. This inevitably brings us to the possible role that banks could play in bridging this gap.

The tenure of funds provided by banks either as loans or investments depends critically on the overall asset-liability position. An inherent difficulty in this regard is that since deposit liabilities of banks often tend to be of relatively shorter maturity, long-term lending could induce the problem of asset liability mismatches. The maturity structure of commercial bank deposits shows that less than one fifth is of a tenor of more than three years, and less than 7.0 per cent for private banks.

In view of the large demand by the Central and State Governments for funds for long-dated government paper, there is little flexibility left for extension of longer-term credit by banks to infrastructure, industry, agriculture and other productive sectors. Any larger investment by banks in longer-term assets could result in asset-liability mismatches. This analysis of the relative roles of banks and financial institutions in term lending for financing growth suggests that there is a greater need to think about the future of DFIs. The structure of their relative costs suggests that, if the legacy problems of DFIs are addressed they may not be intrinsically uncompetitive in their financing operations. They will have to improve their operating efficiency through the use of technology and other means in order to bring down operating costs further. Their comparative advantage in relevant skills for appraising projects will continue to give them an edge over commercial banks in their operations. They will also need to diversify their operations to take advantage of the new opportunities offered by the opening of the capital market and use of new investment techniques around instruments.

Banks also have some capacity to invest in longer term assets, but this capacity will remain highly limited until the fiscal deficit remains as high as it is and Government demand for investment in long dated bonds remains high, even though they are of course tradable. Some enhancement of their capacity to invest in infrastructure, industry and agriculture in longer gestation projects can be enhanced by allowing a limited recourse to longer-term bond issues.

2.6 Capital Market

The Indian capital market began to expand in the late 1980s. This was abetted by wide-ranging reforms in the capital markets, in terms of reviving the process of price
discovery, enhancing transparency and improving trading and settlement practices. The reforms in the capital markets during the 1990s in terms of market microstructure and transactions have ensured that the Indian capital market in particular is now comparable to the capital markets in most developed markets. The early 1990s saw a greater willingness of the saver to place funds in capital market instruments, on the supply side as well as an enthusiasm of corporate entities to take recourse to capital market instruments on the demand side. The size of the capital market is now comparable to other developing countries but there is still a long way to go. It is important to note that developed economies with bank-based systems, such as Germany and Japan, also have capital markets with substantial market capitalization in relation to GDP.

The market for corporate debt is still in the process of development in the Indian economy, as is the case with most developing economies. The private placement market has emerged as an important source of resource mobilization in the Indian debt market. The first steps in development of the debt market have been taken through development of the government securities market. The issue of government bonds through auction, and their active trading by banks has led to the emergence of a sovereign yield curve. Steps have also been taken, though still in their infancy, to enable active trading of government securities in the stock exchanges. As this market grows and as steps are taken to regulate the private placement market, the corporate bond market will also develop. Creditworthy corporate borrowers will then be able to raise longer term funds for financing their growth.

2.7 History of Banking

The history of banking begins with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia. Later, in ancient Greece and during the Roman Empire, lenders based in temples made loans and added two important innovations: they accepted deposits and changed money. Archaeology from this period in ancient China and India also shows evidence of money lending activity.

Banking, in the modern sense of the word, can be traced to medieval and early Renaissance Italy, to the rich cities in the north such as Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing
branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, established by Giovanni Medici in 1397. The oldest bank still in existence is Monte dei Paschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472.

The development of banking spread from northern Italy throughout the Holy Roman Empire, and in the 15th and 16th century to northern Europe. This was followed by a number of important innovations that took place in Amsterdam during the Dutch Republic in the 17th century, and in London in the 18th century. During the 20th century, developments in telecommunications and computing caused major changes to banks' operations and let banks dramatically increase in size and geographic spread. The financial crisis of 2007–2008 caused many bank failures, including some of the world's largest banks, and provoked much debate about bank regulation.

**Major events in banking history**

- 1100 – Knights Templar run earliest European wide/Mideast banking until the 14th century.
- 1397 – The Medici Bank of Florence is established in Italy and operates until 1494.
- 1542 – The Great Debasement, the English Crown’s policy of coement during the reigns of Henry VIII and Edward VI.
- 1553 – The first joint-stock company, the Company of Merchant Adventurers to New Lands, was chartered in London.
- 1602 – The Amsterdam Stock Exchange was established by the Dutch East India Company for dealings in its printed stocks and bonds.
- 1609 – The Amsterdamsche Wisselbank (Amsterdam Exchange Bank) was founded.
- 1656 – The first European bank to use banknotes opened in Sweden for private clients, in 1668 the institution converted to a public bank.
- 1690s – The Massachusetts Bay Colony was the first of the Thirteen Colonies to issue permanently circulating banknotes.
- 1694 – The Bank of England was founded to supply money to the English King.
- 1695 – The Parliament of Scotland created the Bank of Scotland.
- 1716 – John Law opened Banque Générale in France.
1717 – Master of the Royal Mint Sir Isaac Newton established a new mint ratio between silver and gold that had the effect of driving silver out of circulation (bimetalism) and putting Britain on a gold standard.

1720 – The South Sea Bubble and John Law's Mississippi Scheme failure caused a European financial crisis and forced many bankers out of business.

1775 – The first building society, Ketley's Building Society, was established in Birmingham, England.

1782 – The Bank of North America opened.

1791 – The First Bank of the United States was chartered by the United States Congress for 20 years.

1800 – The Rothschild family establishes European wide banking.

1800 – Napoleon Bonaparte founds the Bank of France on January 18.

1811 - The Senate tied on a vote to renew the charter of the First Bank of the United States charter. Vice President George Clinton broke the tie and voted against renewal, and the bank was dissolved.

1816 – The Second Bank of the United States was chartered for five years after the First Bank of the United States lost its charter. This charter was also for 20 years. The bank was created to finance the country in the aftermath of the War of 1812.

1817 – The New York Stock Exchange Board was established. [210]

1818 – The first savings bank of Paris was established.

1862 – To finance the American Civil War, the federal government under U.S. President Abraham Lincoln issued legal tender paper money, called "greenbacks".

1874 – The Specie Payment Resumption Act was passed provided for the redemption of United States paper currency, in gold, beginning in 1879.

1913 – The Federal Reserve Act created the Federal Reserve System, the central banking system of the United States, and granted it the legal authority to issue legal tender.

1930–33 – In the wake of the Wall Street Crash of 1929, 9,000 banks close, wiping out a third of the money supply in the United States.

1933 – Executive Order 6102 signed by U.S. President Franklin D. Roosevelt forbade ownership of gold coin, gold bullion, and gold certificates by US citizens beyond a certain amount, effectively ending the convertibility of US dollars into gold.
1971 – The Nixon Shock was a series of economic measures taken by U.S. President Richard Nixon which canceled the direct convertibility of the United States dollar to gold by foreign nations. This essentially ended the existing Bretton Woods system of international financial exchange.

1986 – The "Big Bang" (deregulation of London financial markets) served as a catalyst to reaffirm London's position as a global centre of world banking.

2007 – Start of the Late-2000s financial crisis that saw the credit crunch that led to the failure and bail-out of a large number of the world’s biggest banks.

2008 – Washington Mutual collapses, the largest bank failure in history up to that point.

2.7.1 History of Indian Banking

Banking in India in the modern sense originated in the last decades of the 18th century. Among the first banks were the Bank of Hindustan, which was established in 1770 and liquidated in 1829-32; and the General Bank of India, established 1786 but failed in 1791. The largest bank, and the oldest still in existence, is the State Bank of India. It originated as the Bank of Calcutta in June 1806. In 1809, it was renamed as the Bank of Bengal. This was one of the three banks funded by a presidency government, the other two were the Bank of Bombay and the Bank of Madras. The three banks were merged in 1921 to form the Imperial Bank of India, which upon India's independence, became the State Bank of India in 1955. For many years the presidency banks had acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935, under the Reserve Bank of India Act, 1934.

In 1960, the State Banks of India was given control of eight state-associated banks under the State Bank of India (Subsidiary Banks) Act, 1959. These are now called its associate banks. In 1969 the Indian government nationalized 14 major private banks. In 1980, 6 more private banks were nationalized. These nationalized banks are the majority of lenders in the Indian economy. They dominate the banking sector because of their large size and widespread networks.

The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those which are included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalized banks; State Bank of India and its associates; Regional Rural Banks (RRBs);
foreign banks; and other Indian private sector banks. The term commercial bank refers to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949.

Generally banking in India was fairly mature in terms of supply, product range and reach—even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State Bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with things like microfinance.

2.7.2 Ancient India
The Vedas (2000-1400 BCE) are earliest Indian texts to mention the concept of usury. The word kusidin is translated as usurer. The Sutras (700-100 BCE) and the Jatakas (600-400 BCE) also mention usury. Also, during this period, texts began to condemn usury. Vasishtha forbade Brahmin and Kshatriya varnas from participating in usury. By 2nd century CE, usury seems to have become more acceptable. The Manusmriti considers usury an acceptable means of acquiring wealth or leading a livelihood. It also considers money lending above a certain rate, different ceiling rates for different caste, a grave sin. The Jatakas also mention the existence of loan deeds. These were called rnapatra or mapanna. The Dharmashastras also supported the use of loan deeds. Kautilya has also mentioned the usage of loan deeds. Loans deeds were also called rnalekhaya. Later during the Mauryan period (321-185 BCE), an instrument called adesha was in use, which was an order on a banker directing him to pay the sum on the note to a third person, which corresponds to the definition of a modern bill of exchange. The considerable use of these instruments have been recorded. In large towns, merchants also gave letters of credit to one another.

2.7.3 Medieval era
The use of loan deeds continued into the Mughal era and were called dastawez. Two types of loans deeds have been recorded. The dastawez-e-indultalab was payable on demand and dastawez-e-miadi was payable after a stipulated time. The use of payment orders by royal treasuries, called barattes, have been also recorded. There are also records of Indian bankers using issuing bills of exchange on foreign countries. The evolution of
hundis, a type of credit instrument, also occurred during this period and they continue to be in use today.

**2.7.4 Colonial era**

During the period of British rule merchants established the Union Bank of Calcutta in 1869, first as a private joint stock association, then partnership. Its proprietors were the owners of the earlier Commercial Bank and the Calcutta Bank, who by mutual consent created Union Bank to replace these two banks. In 1840 it established an agency at Singapore, and closed the one at Mirzapore that it had opened in the previous year. Also in 1840 the Bank revealed that it had been the subject of a fraud by the bank's accountant. Union Bank was incorporated in 1845 but failed in 1848, having been insolvent for some time and having used new money from depositors to pay its dividends.

The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India, it was not the first though. That honour belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla.

Foreign banks too started to appear, particularly in Calcutta, in the 1860s. The Comptoir Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French possession, 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 first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It failed in 1958. The next was the Punjab National Bank, established in Lahore in 1894, which has survived to the present and is now one of the largest banks in India.

Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian rebellion, and the social, industrial and other infrastructure had improved. Indians had established small banks, most of which served particular ethnic and religious communities.

The presidency banks dominated banking in India but there 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 under capitalised and lacked the experience and maturity to compete with the presidency and exchange banks. This segmentation let Lord Curzon to observe, "In respect of banking it seems we are behind the times. We are like some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments."

The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

The fervour of Swadeshi movement lead to establishing of many private banks in Dakshina Kannada and Udupi district which were unified earlier and known by the name South Canara (South Kanara) district. Four nationalised banks started in this district and also a leading private sector bank. Hence undivided Dakshina Kannada district is known as "Cradle of Indian Banking".

During the First World War (1914–1918) through the end of the Second World War (1939–1945), and two years thereafter until the independence of India were challenging for Indian banking. The years of the First World War were turbulent, and it took its toll with banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities. At least 94 banks in India failed between 1913 and 1918 as indicated in the following table. 2.1

**Table 2.1 Number of Banks Failed during 1913 to 1918**

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Banks that failed</th>
<th>Authorized Capital Rs. in Lakh</th>
<th>Paid-Up Capital Rs. in Lakh</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>12</td>
<td>274</td>
<td>35</td>
</tr>
<tr>
<td>1914</td>
<td>42</td>
<td>710</td>
<td>109</td>
</tr>
<tr>
<td>1915</td>
<td>11</td>
<td>56</td>
<td>5</td>
</tr>
<tr>
<td>1916</td>
<td>13</td>
<td>231</td>
<td>4</td>
</tr>
<tr>
<td>1917</td>
<td>9</td>
<td>76</td>
<td>25</td>
</tr>
<tr>
<td>1918</td>
<td>7</td>
<td>209</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: Reserve Bank of India, 10. Social Controls, the Nationalization of Banks and the era of bank expansion - 1968 to 1985*
2.7.5 Post-Independence

The partition of India in 1947 adversely impacted the economies of Punjab and West Bengal, paralyzing banking activities for months. India's independence marked the end of a regime of the Laissez-faire for the Indian banking. The Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The major steps to regulate banking included:

• The Reserve Bank of India, India's central banking authority, was established in April 1935, but was nationalized on 1 January 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948 (RBI, 2005b).

• In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India".

• The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

2.7.6 Nationalization in the 1960s

Despite the provisions, control and regulations of the Reserve Bank of India, banks in India except the State Bank of India (SBI), continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, the then Prime Minister of India, expressed the intention of the Government of India in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalization." The meeting received the paper with enthusiasm.

Thereafter, her move was swift and sudden. The Government of India issued an ordinance ('Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969') and nationalised the 14 largest commercial banks with effect from the midnight of 19 July 1969. These banks contained 85 percent of bank deposits in the country.

Jayaprakash Narayan, a national leader of India, described the step as a "masterstroke of
Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

In the early 1990s, the then government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, UTI Bank (since renamed Axis Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for foreign direct investment, where all foreign investors in banks may be given voting rights which could exceed the present cap of 10% at present. It has gone up to 74% with some restrictions.

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4–6–4 method (borrow at 4%; lend at 6%; go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People demanded more from their banks and received more.

2.7.8 Current Period

All banks, which are included in the Second Schedule to the Reserve Bank of India Act, 1934, are Scheduled Banks. These banks comprise Scheduled Commercial Banks and
Scheduled Co-operative Banks. Scheduled Commercial Banks in India are categorized into five different groups according to their ownership and/or nature of operation. These bank groups are:

- State Bank of India and its Associates
- Nationalised Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks.
- Cooperative Banks
- Scheduled Bank

In the bank group-wise classification, IDBI Bank Ltd. is included in Nationalised Banks. Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Cooperative Banks.

By 2010, banking in India was generally fairly mature in terms of supply, product range and reach—even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government.

With the growth in the Indian economy expected to be strong for quite some time—especially in its services sector—the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong.

In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them.

In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connexion with housing, vehicle and personal loans. There are press reports that the banks' loan recovery efforts have driven defaulting borrowers to suicide.
By 2013 the Indian Banking Industry employed 1,175,149 employees and had a total of 109,811 branches in India and 171 branches abroad and manages an aggregate deposit of Rs. 67504.54 billion (US$1.1 trillion) and bank credit of Rs. 52604.59 billion (US$820 billion). The net profit of the banks operating in India was Rs. 1027.51 billion (US$16 billion) against a turnover of Rs. 9148.59 billion (US$140 billion) for the financial year 2012-13.

The structure of Indian Banking has been depicted in below tree diagram.

2.8 History of Bank of India

Bank of India was founded on September 07, 1906 by a group of eminent businessmen from Mumbai. The bank was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Beginning with one office in Mumbai, with a paid-up capital of Rs 50 lakh and 50 employees, the bank has made a rapid growth over the years and blossomed into a mighty institution with a strong national presence and
sizable international operations. In business volume, the bank occupies a premier position among the nationalized banks.

The bank has 3101 branches in India spread over all states/union territories including 141 specialized branches. These branches are controlled through 48 Zonal Offices. There are 29 branches/offices (including three representative offices) abroad. The bank came out with its maiden public issue in 1997 and follow on Qualified Institutions Placement in February 2008. Total number of shareholders as on September 30, 2009 is 2,15,790.

While firmly adhering to a policy of prudence and caution, the bank has been in the forefront of introducing various innovative services and systems. Business has been conducted with the successful blend of traditional values and ethics and the most modern infrastructure. The bank has been the first among the nationalized banks to establish a fully computerized branch and ATM facility at the Mahalaxmi Branch at Mumbai way back in 1989. The bank is also a founder member of SWIFT in India. It pioneered the introduction of the Health Code System in 1982, for evaluating/rating its credit portfolio. The bank's association with the capital market goes back to 1921 when it entered into an agreement with the Bombay Stock Exchange (BSE) to manage the BSE Clearing House. It is an association that has blossomed into a joint venture with BSE, called the BOI Shareholding Ltd. to extend depository services to the stock broking community.

2.8.1. International Operations

The bank has presence across 4 continents and 18 countries covering all the major financial centres such as London, New York, Paris, Tokyo, Singapore and Hong Kong. As on March 31, 2011, bank has a network of 29 branches and offices abroad, including 5 representative offices.

The bank has also received permission from RBI to expand its overseas operations in Bangladesh, Canada, China, Egypt, New Zealand, Madagascar, Qatar, South Africa, UK (Leeds and Coventry), UAE and Vietnam. In New Zealand, the subsidiary Bank of India (New Zealand) Limited has been registered as a bank by the local regulators RBNZ on March 31, 2011. The bank has a Global Processing Centre (GPC) at Singapore with identical IT systems at Bank of India foreign branches, thereby improving the Management Information system and the customer service.
The bank is acting as Mandated Lead Arranger (MLA) and Joint Book Runner (JBR) for Multicurrency International Syndication loans and has arranged loan in USD, JPY, EURO and GBP currencies for Indian Corporates for their expansion / acquisition and Joint Ventures, covering a wide range of industries. The bank has also opened Global Remittance Centre (GRC) in Mumbai. The inward remittances, SB accounts, NRE/NRO Account opening of NRI customers have been centralized at GRC. The bank has initiated the process for establishing a hub for the purpose of handling the documentation part of Trade Finance portfolio.

2.9 Industrial Development in India

History of Industry in India dates back to the history of mankind. India’s handicrafts manufactured in village huts and houses all over the country were prized in foreign countries.

Working on the locally available raw materials and with the skills and tools handed over to them by their forefathers, the village artisans produced products of high aesthetic quality with ease and efficiency.

Generations of such workers provided India with a long and glorious tradition of artistic handicrafts of a varied nature. Among all the industries of early times, the textiles, especially the cotton textile industry, had the place of pride both in India and in the outside world.

There is enough evidence to show that the Indians knew weaving some 1,500 years before Christ, when the Europeans were still covering themselves with animal skins. Pyrard, the 17th century Portuguese writer has recorded that everyone from the Cape of Good Hope to China was clothed from head to foot in Indian made garments.

The fine Dhaka muslin was the envy of the world for centuries together. Iron and Steel industry was also in advanced stage at that time. The iron column near Qutab Minar in Delhi is standing in the open and is exposed to sun, rain and weathering over 1,500 years old and it still looks fresh. It seems that this column will continue to stand there till eternity.

This rare monument is a testimony to the forging and fabricating ingenuity of ancient India. It is believed that the famous Damascus swords were made from steel imported from India. In addition to cotton textiles and steel industries; wood, stone and ivory
carvings, silk textiles, pottery, bronze, brass, silver and copper works, dyeing and calico printing were also famous throughout the world.

Industrial Revolution in Europe resulted in modern factories. With this the scale of manufacturing goods increased tremendously leading to mechanisation. As a result, migration of workers occurred from villages to cities. The barter system of goods with goods came to an end, exchange of goods with money started. It is correct that a revolution occurred in the manufacturing sphere but the traditional village handicrafts and cottage industries witnessed their death toll. Thousands of artisans were rendered jobless as their manufacturers could not compete with the fine and low cost goods manufactured in modern industries. A near chaos prevailed in villages. Goldsmiths, blacksmiths and weavers began to starve. Thus, modern industry eroded the strong traditional industrial base.

2.9.1 The Origin of Modern Industry

The decline of the traditional industry and the rise of the modern industry in India were neither simultaneous nor causally connected. The beginning of modern large scale industry in India dates back to 1830 when the first charcoal fired iron making was attempted in Tamil Nadu. However, this venture collapsed in 1866. Therefore, the real beginning of the modern industry in India is recognised with the establishment of cotton textile industry at Mumbai in 1854. This industry grew tremendously in 1870s due to a spurt in demand in the wake of the American Civil War. By 1875-76, the number of cotton textile mills rose to 47. The first jute mill was set up at Rishra near Kolkata in 1855. Since the geographical conditions were very much favourable for jute industry in the Hugli basin, this industry flourished well and there were 64 mills in 1913-14, providing employment to over two lakh persons.

Among the other industries which appeared on the industrial scene of India before the outbreak of World War I in 1914 were woollen textiles, paper and breweries. The main industrial centres were port cities of Mumbai, Kolkata and Chennai. This pattern of industrial location was conceived by the British rulers to facilitate imports and exports.
The sole inland industrial centre of any consequence was Kanpur, the base of military equipment production.

2.9.2 Inter War Period

Indian industries made rapid strides during the First World War (1914-18) due to rise in demand for industrial goods by the Armed Forces. However, the real spurt was provided by the Indian Fiscal Commission set up in 1921-22. This gave the much needed protection to industries like iron and steel, textiles, cement, sugar, paper and metals.

One of the most prominent features of Indian industrial scene during this period was the dispersal of cotton textile industry away from Mumbai. In 1875-76, 61.7 per cent of cotton textile mills were located in Mumbai and by 1938-39 only 17.5% per cent of the mills remained in Mumbai.

In fact this industry gained a lot as a result of war. On the eve of the war, India had emerged as the fourth largest cotton manufacturing country next to the USA, the U.K. and Japan in that order. Jute industry on the other hand, continued to concentrate in the Hugli basin only. However, the number of jute mills rose from 64 in 1913-14 to 107 in 1938-39.

2.9.3 World War II

While Indian industry prospered during World War I, the Second World War created problems for Indian industry. India became an active participant in war and the entry of Japan in the hostilities brought war to India’s doorstep. However, the impact of war was short-lived and the industry was quick to recover from the initial shock and exploited the opportunities offered by the war.

A programme costing Rs. 4 crore for the manufacture of armaments and explosives was launched in 1941 to meet the immediate requirements of war. The ordinance factories started producing 700 varieties of ammunition. There were pressing demands to meet the civilian requirements too.

With this object in view, heavy chemical industry was started in 1941 and the production of sulphuric acid, synthetic ammonia, caustic soda, chlorine and bleaching powder commenced. The Hindustan Aircraft Company also assembled its first aircraft in 1941.

Metal fabricating industries such as copper were also initiated. A wide variety of engineering industries like machine tools, machinery manufacture in respect of cotton,
tea, and oil processing industries, electrical equipment, vanaspati manufacturing, power, alcohol, synthetic resin and plastic industries also flourished. However, some other industries including diesel engines, pumps, sewing machines and electric fans suffered a setback.

2.9.4 Post War II and Partition

The post war period was characterized by many ups and downs and by the overall decline in industrial products. Several factors contributed to this state of affairs, the most prominent among them being fall in demand, overworked machinery, labour trouble and bottlenecks of transport and distributions till 1946. Cotton textiles, sugar, cement and steel industries were the worst sufferers.

Partition of the country in 1947 threw everything out of gear and dealt a severe blow to industry in India. While Pakistan accounted for only 23 per cent of the area and 18 per cent of the population of pre-partition India, that country got 40 per cent of the cotton and 81 per cent of the jute output.

Obviously, jute and cotton industries were the worst sufferers. Further India suffered losses in terms of markets as well as skilled labour that migrated to Pakistan. The situation improved in 1948 following three year truce on labour front, tax concessions and active state help by setting the Industrial Finance Corporation. The industrial policy of 1948 indicated the direction of industrial development in India.

2.9.5 Industrial Development in the Planning Era

Immediately after independence, need to take solid steps for improving industrial scene was badly felt. It was realised that industrialisation was the only vehicle which could lead the shattered economy of the country on the path of progress and prosperity. Consequently, industry attracted special attention of plans and planners.

The First Five Year Plan (1951-56)

This plan became operational only four years after Independence. The main thrust of the plan was on agriculture because the country was facing shortage of food-grains at that time. Therefore, the emphasis was on increasing capacity of existing industries rather than starting new ones. Cotton textile, sugar, vanaspati, cement, paper, chemical and engineering industries showed some progress.
Some of the new industries that emerged during this plan were newsprint, power looms, medicines, paints and varnishes and transport equipment. In spite of the top priority given to agriculture, irrigation and power generation in the first five year plan, industrial production showed 40 per cent increase as compared to 30 per cent increase recorded by grain production. As a matter of fact, the First Five Year Plan laid down the basis for future progress of industries.

**The Second Five Year Plan (1956-61)**

This plan laid emphasis on the development of basic and heavy industries and defined the key-role which the public sector was to play in the economic development of the country. A comprehensive Industrial Policy Resolution was announced on 20th April 1956. This resolution had industrial development as major thrust. Iron and steel, heavy engineering, lignite projects and fertilizer industries formed the basis of industrial planning. In addition to the expansion of pre-existing steel plants at Jamshedpur, Kulti-Bumpur and Bhadravati, three new state owned plants at Durgapur, Rourkela and Bhilai were either initiated or completed. The Chittaranjan Locomotive Workshop, The Hindustan Shipbuilding Yard (Vishakhapatnam), The Sindri Fertilizer Factory and the Hindustan Machine Tools Limited (HMT) plant at Bangalore were expanded. A heavy electrical equipment manufacturing plant was established at Bhopal. Two new fertilizer plants at Nangal and Rourkela were set up.

**The Third Five Year Plan (1961-66)**

This plan laid stress on the expansion of basic industries like steel, chemicals, fuel, power and machine building. The basic philosophy behind this plan was to lay foundation for a ‘self-generating’ economy. The Hindustan Machine Tools Limited had only one factory in the Second Plan and this number rose to five in the Third Plan. Heavy Machine Tools plant at Ranchi was also completed. Machine building, locomotive and railway coach making, shipbuilding, aircraft manufacturing, chemical drugs and fertilizers industries also made significant achievement. However, the achievement fell short of the target to a great extent due to the following reasons:

(i) Untimely monsoon rains, severe drought in 1965 and bad weather conditions.
(ii) India’s war with China in 1962 and with Pakistan in 1965.
(iii) Non-availability of foreign credit.
(iv) Inability of rigid administrative rules to cope with such abnormal situations.

The Annual Plans:
The Fourth Five Year Plan was deferred and Annual plans were adopted for a period of three years (1966-69). Not much headway was made due to resource crunch. The index of industrial production increased only by 1.7 per cent and 0.3 per cent in 1966-67 and 1967-68 respectively. However, things improved in 1968-69 and the industrial production rose by 7 per cent.

The Fourth Five-Year Plan (1969-74)
Indian Economy started recovering from recession at the beginning of the Fourth Five Year Plan. But the growth rate showed wide yearly fluctuations from peak of 7.3 per cent in 1969-70 to zero growth in 1973-74 as against the stipulated annual growth rate of 8-10 per cent.

Agro-based industries such as sugar, cotton, jute, vanaspati showed uneven growth due to shortage of raw materials and difficult power situation. Metal-based industries and chemical industries also suffered setbacks.
However, a significant progress was reported by some other industries like alloys and special steels, aluminium, automobile tyres, petroleum refining, electronic goods, machine tools, tractors and heavy electrical equipment. Public sector undertakings also showed good progress. Efforts were made to accentuate the process of industrial dispersal through regional and local planning process.

The Fifth Five Year Plan (1974-79)
The main emphasis of this plan was on rapid growth of core sector industries and increase the production of export oriented articles and articles of mass consumption. The average annual rate of growth was 8.21 per cent. The public sector had assumed much importance.

Steel plants at Salem, Vijaynagar and Vishakhapatnam were proposed to create additional capacity. Steel Authority of India (SAIL) was constituted. Drug manufacturing, oil refining, chemical fertilizers and heavy engineering industry made good progress.

The Sixth Five Year Plan (1980-85):
This plan marked a watershed in the development process which was initiated three decades ago with the commencement of the first plan. Although considerable growth was achieved during the first five plans, much thought could not be given to quality, cost competitiveness or needs of modernisation. Thus high cost, low quality production structure had emerged.

The period 1950-80 marked the first phase of industrialisation. The second phase started with the commencement of the Sixth Five Year Plan. It was felt that large domestic and foreign market remained to be exploited for industrial growth. This was possible only if our industries were efficient, globally competitive, cost effective and modernised. For this purpose liberalisation was initiated. The average annual growth rate was 5.5 per cent which fell short of the initial target of 8 per cent. Targets of capacity creation had been achieved for industries like aluminium, zinc, lead, thermoplastics, petro-chemicals, electrical equipment, automobiles and consumer durables. Production targets were achieved in industries like petroleum, machine tools, automobiles, T.V. receivers, etc. Shortfall in production was reported for coal, steel, cement, non-ferrous metals, drugs and pharmaceuticals, textiles, jute manufacture, commercial vehicles, railway wagons, sugar, etc.

**Seventh Five Year Plan (1985-1990)**

This plan registered an annual growth rate of 8.5 per cent as against the target of 8.7 per cent. The plan aimed at developing a ‘high tech’ and electronics industrial service base. Industrial dispersal, self-employment, improving the exploitation of the local resources, proper training were the main planks of the plan.

**Eighth Five Year Plan (1990-95)** - could not take off due to fast-changing political situation at the centre. The new Government which assumed power at the Centre in June, 1991, decided that the Eighth Five-year Plan would commence on 1 April 1992 and that 1990-91 and 1991-92 should be treated as separate Annual Plans. The impact of liberalization was felt on industries, along with other sectors of economy.

**Eighth Five Year Plan (1992-97)**

The major policy changes initiated in the industrial sector in 1991 included removal of entry barriers, reduction of areas reserved exclusively for public sector, rationalization of approach towards monopolistic and restrictive practices, liberalization of foreign
investment policy and import policy, removing regional imbalances and encouraging the growth of employment intensive small and tiny sector.

The period immediately following the reforms was marked by low growth rates and even stagnations in the major industrial sectors. However, the growth rates quickly recovered and the index of industrial production increased by 6 per cent. The general annual growth rate in major sectors of industry was 12 per cent in 1995-96.

**Ninth Five Year Plan (1997-2002)**

Industrial growth improved marginally to 6.6 per cent in 1997-98 but fell to 4.1 per cent in 1998-99. This decline was probably caused by poor performance in mining and manufacturing sectors. The overall industrial output grew by 6.7 per cent in 1999-2000, which again fell to 4.9 per cent in 2000-01 mainly due to fall in manufacturing sector.

The growth rate of consumer goods including durables and non-durables accelerated to 7.9 per cent during 2000-01. The growth rate of basic goods, capital goods and intermediate goods declined drastically and it was estimated at 3.8 per cent, 1.4 per cent and 4.5 per cent respectively during the year 2000-01.

Six core and infrastructure industries, viz., electricity, crude oil, refinery, coal, steel and cement, having a weight-age of 26.7 per cent in the average Index of Industrial Production (IIP) grew by 5.3 and in 2000-01 compared to 9.1 per cent in 1999-2000.

The main factors responsible for slowdown of industrial growth during the year 2000-01 were lack of domestic demand for immediate goods, low inventory demand for capital goods, high oil prices, existence of excess capacity in some sectors, business cycle, inherent adjustment lacks in industrial restructuring and calamity like Gujarat earthquake, and high interest rate with an adverse impact on private investment, and slowdown in the world economy.

**Tenth Five Year Plan (2002-07)**

The Tenth Five Year Plan is still continuing. This plan targets a Gross Domestic Product (GDP) growth rate of eight per cent and the growth target for industrial sector has been set at ten per cent. Indian Industry, especially the manufacturing sector, was recorded a consistently high growth rate which shows robustness of Indian Industry, particularly automobile/auto components and pharmaceutical sub-sectors.
For sustaining pace of growth and investment, several initiatives have been launched for modernising, technology upgradation, reducing transaction costs, increased export thrust, so as to enhance its global competitiveness and achieve balanced regional development.

Further, in order to give export thrust, Department of Commerce had launched major initiatives such as Assistances to States for Infrastructure Development for Exports (ASIDE), Market Access Initiatives (MAI), Special Economic Zones (SEZs) Policy, Modernization of Director General of Foreign Trade (DGFT), etc.

For a balanced industrial development, industrial policy packages had announced for special category states of Uttarakhand, Himachal Pradesh, Jammu and Kashmir and North East states. Social scarcity issues have been addressed through insurance cover for workers in handloom, agro and rural industrial and processed marine product sector.

Textile industry is a major employment intensive sector for which special schemes/packages were introduced. Technology Upgrading Funds Scheme (TUFS) is one such scheme which is expected to improve the access for decentralized powerloom sector. Textile Canter Infrastructure Development Scheme (TCIDS) had taken care of infrastructure development aspect of textile industry.

**Eleventh Five-Year Plan (2007-12)**

The national Development Council in December 2006 approved the approved the approach to the 11th plan document titled “Towards Faster and More Inclusive Growth” and directed the planning Commission to prepare a detailed plan to assess the resources required to meet the broad objectives set forth in the Approach Paper. The plan intends to improve the growth rate of agriculture from 2.13 percent realized in the 10th plan to 4 percent. Industry growth is targeted to be stepped up to 10-11 percent and service sector growth to 9-11 percent. However, this targeted growth rate did not realized. The growth rate of industrial sector was 7.4 percent and 3.2 percent of agriculture sector. The total Rs. 8,54,123crore or the 23.4 percent of the total plan outlay was allotted to the industrial and Minerals. The projected employment generation in industrial sector was 11.94 million, which was 8.64 million during the tenth five year plan. The share of industrial sector in total GDP was 27 percent during plan period.
Twelfth Five-Year Plan (2012-2017)

After independence Indian economy has successfully completed eleven five-year plans and twelfth five year plan is being implemented. The government authentic documents regarding industrial sector development has been not published yet. However, the twelfth five year approach documents targeted 10.9 percent growth.

The major objectives of 12th five-year plan in the context of industrial development are as below.

1. Increase manufacturing sector growth to 12–14 per cent over the medium term to make it the engine of growth for the economy. The 2 to 4 per cent differential over the medium term growth rate of the overall economy will enable manufacturing to contribute at least 25 per cent of the national GDP by 2025.

2. Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2025. Emphasis should be given to creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.

3. Increase ‘depth’ in manufacturing, with focus on the level of domestic value addition, to address the national strategic requirements.

4. Enhance global competitiveness of Indian manufacturing through appropriate policy support.

5. Ensure sustainability of growth, particularly with regard to the environment.
Table 2.2
Department-wise Twelfth Five-Year Plan (2012–17) Outlays Industry Sector

<table>
<thead>
<tr>
<th>Ministry/Department</th>
<th>Budgetary Support (Rs. Crore)</th>
<th>Outlay (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Chemicals</td>
<td>2,890</td>
<td>2,893.00</td>
</tr>
<tr>
<td>Department of Pharmaceuticals</td>
<td>2,968</td>
<td>3,095.00</td>
</tr>
<tr>
<td>Department of Fertilizers</td>
<td>1,484</td>
<td>16,921.00</td>
</tr>
<tr>
<td>Department of Industrial Policy and Promotion</td>
<td>12,601</td>
<td>12,601.00</td>
</tr>
<tr>
<td>Ministry of Corporate Affairs</td>
<td>233</td>
<td>233</td>
</tr>
<tr>
<td>Ministry of Food Processing Industries</td>
<td>5,990</td>
<td>5,990.00</td>
</tr>
<tr>
<td>Department of Heavy Industry</td>
<td>4,680</td>
<td>22,223.00</td>
</tr>
<tr>
<td>Department of Public Enterprises</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Ministry of MSME</td>
<td>24,124</td>
<td>26,014.00</td>
</tr>
<tr>
<td>Ministry of Mines</td>
<td>2,332</td>
<td>20,553.00</td>
</tr>
<tr>
<td>Ministry of steel</td>
<td>200</td>
<td>91,175.00</td>
</tr>
<tr>
<td>Ministry of textile</td>
<td>25,931</td>
<td>25,931.00</td>
</tr>
</tbody>
</table>

(Source: Twelfth Five Year Plan, Vol II Economic Sector P129)

The planners have given the more priority to the textile industry, which has followed, by Ministry of Micro, Small and Medium Enterprises. The Micro, Small and Medium Enterprises are playing very significant role hence special attention were given in the twelfth five-year plan. The outlay of fertilizer industry is not significant.
With the quickened pace of economic development under the impetus of the Five-Year Plans, the most striking change in the Indian economy has been the initiation of an industrial revolutionist and the reemergence of small-scale industries. Further, during the past decade, there has been a deepening as well as widening of the entrepreneurial structure as well as the small-scale preindustrial structure. Not only have the established small industries increased their installed capacity and output, but a wide range of new small industries has also come into being. During the last two decades, there is a boom of entrepreneurial activities in the country. Thus, in the field of capital-and product goods industries, enterprises manufacturing such items as machine tools, electrical and engineering equipment, chemicals etc., which provide the foundation for a self (sustained growth of the economy have been set-up. Amongst the consumer goods industries, small units producing such items as -bicycles, sewing machines, plastic products, etc. are for going ahead.
These far-reaching developments and the scale and scope of operation of entrepreneurs, particularly in small-scale industries, have brought to the fore the importance of provision of administrative and institutional assistance at various levels.

Over the years, financial institutions are playing a key role in providing finance and counseling to the entrepreneurs to start new ventures as well as mode diversify and even rehabilitate sick enterprises. In this context, we shall discuss the scale and scope of operation of various development banks (institutions) that have been rendering financial assistance, directly or indirectly, to entrepreneurs and their various ventures.

B) Financial Markets, Institutional Framework and Industrial Credit Policy of Bank of India

2.10 Financial Market and Economical Growth

Industries and firms that rely heavily on external financing grow disproportionately faster in countries with well-developed banks and securities markets than in countries with poorly developed financial systems. In addition, ample country studies suggest that differences in financial development have, in some countries over extensive periods, critically influenced economic development. Yet, these results do not mean that finance is everywhere and always exogenous to economic growth. Economic activity and technological innovation unquestionably affect the structure and quality of financial systems. Innovations in telecommunications and computing have undeniably affected the financial services industry. Moreover, “third factors,” such as a country’s legal system and political institutions certainly drive both financial and economic development at critical junctures during the growth process. Nevertheless, the weight of evidence suggests that financial systems are a fundamental feature of the process of economic development and that a satisfactory understanding of the factors underlying economic growth requires a greater understanding of the evolution and structure of financial systems.
2.10.1 The Functions of the Financial System

The costs of acquiring information and making transactions create incentives for the emergence of financial markets and institutions. Put differently, in a Kenneth Arrow (1964) Gerard Debreu (1959) state contingent claim framework with no information or transaction costs, there is no need for a financial system that disburses resources researching projects, scrutinizing managers, or designing arrangements to ease risk management and facilitate transactions. Thus, any theory of the role of the financial system in economic growth (implicitly or explicitly) adds specific frictions to the Arrow-Debreu model. Financial markets and institutions may arise to ameliorate the problems created by information and transactions frictions. Different types and combinations of information and transaction costs motivate distinct financial contracts, markets, and institutions.
In arising to ameliorate transaction and information costs, financial systems serve one primary function: they facilitate the allocation of resources, across space and time, in an uncertain environment (Merton and Bodie 1995, p. 12). To organize the vast literature on finance and economic activity, I break this primary function into five basic functions.

Specifically, financial systems
- Facilitate the trading, hedging, diversifying, and pooling of risk,
- Allocate resources,
- Monitor managers and exert corporate control,
- Mobilize savings, and
- Facilitate the exchange of goods and services

**Chart 2.2 Theoretical Approach to Finance and Industrial Growth**

2.10.2 Institutional Finance

With the launching of the Five Year Plans, in the absence of a sufficiently broad domestic capital market, there was need for adopting and enlarging the institutional structure to meet the medium and long-term credit requirements of the industrial sector. It was in this context that the RBI took the initiative in setting-up statutory corporations at the all-India and regional levels to function as specialised financial agencies purveying term credit.
2.10.3 Development Function

Development being the function of capital as the tempo of development grows NS, so does the requirement for capital. The need for capital is continuous and (also boundless. However, capitals is not only necessary for development' but capital, (also generated by development. Economic progress creates its surpluses with which further deployment is achieved, often at an accelerated rate. India's Five-Year Plans are a proof in themselves that substantially larger resources used is each successive plan same from the economic growth resulting from investment in the preceding plans. Only a relatively small part of the resources came from external sources though they were crucial to development. Similarly, in consonance with the development activities in the country, the development banks activities are on higher scale as well as diversified in multi direction way.

2.11 Institutional Framework for Industry

Institutional 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.

This apart, a host of newly cropped up institutions such as mutual funds, lease companies, financial service institutions, investment companies, merchant banks, asset management companies etc. provide financial assistance and financial services to industries. Some of them go to the extent of conceiving a project and see through its progress till the end.

In India, long-term loans are provided for a host of financial institutions of the five all-India develop merits IDBI and SIDBI are apex banks providing refinance facilities to other institutions. Like-wise, NABARD is an apex bank for agricultural finance and Exim bank of export import trade. Then industrial development banks, special institutions,
saving and investment institutions, financial service institutions and regulatory institutions. RBI, SEBI, and NSEIL are three regulatory bodies.

In the cumulative sanctions by APIs up to end-March 1998, IDBI (including resource support to other FIs) claimed the largest share (33.6%), followed by ICICI (25.7%), IFCI (11.1%), SIDBI (8.2%) and LIC I (1.4%). UTI and LIC (including resource support to other FIs) accounted for 11.6% and 4.8% respectively, followed by GIC (1.7%). Of the state-level institutions, SFCs and SIDCs claimed 6.5% and 3.5% respectively.

The area of operation of development almost covers all key sectors of the economy, i.e., agriculture, small industries, rural industries medium and large industries, infrastructure, housing, export and import trade, shipping, 'capital market stock exchange, saving, investment, insurance, credit guarantee, financial service etc. Special institutions have cropped up to foster development a special area of activities. The financial institutions have even setup institution to rehabilitate sick enterprises.

By and large, a greater slice of domestic savings are mopped up by commercial banks (Rs. 4,75,000 crores), Unit Trusts of India (Rs. 65,000 crores), Life Insurance Corporation (Rs. 90,000 crores), General Insurance (Rs. 20,000 crores), and mutual funds and other financial companies (Rs. 100,000 crores). Even IDBI, ICICI, SIDBI have commenced mopping up deposits from the public. The aggregate resources available for investment with financial institutions adds up to over 7,50,000 crores. Sources of funds (long-term funds) for development are given in the following figure.

Financial assistance to entrepreneurs is granted by commercial banks, State Financial Corporations, State Directorate of Industries, National Small Industries Corporation, state Small Industries Corporations, and - all-India - development banks.

Credit facilities granted, by commercial banks - and State Financial Corporations are covered under the Credit Guarantee Scheme for Industries, which offers protection to credit institutions against possible loss on their lending to this sector.

Institutional agencies grant financial assistance to Small-scale industrial units

For:

1. Participation in equity capital.
2. Acquisition of fixed assets by way of term loans; and
3. Working capital.
2.11.1 Industrial Finance Corporation of India (IFCI)

Incorporation and Purpose

The Industrial Finance Corporation of India (IFCI) was established in 1948 under an Act of Parliament with the object of providing medium and long-term credit to industrial concerns in India. IFCI transformed into a corporation from 21st May, 1993 to provide greater flexibility to respond to the needs of the rapidly changing financial system.

Management

The Board of Directors consists of a whole-time Chairman and twelve directors. The Chairman is appointed by the Central Government after consultation with the IDBI. Two directors are nominated by the Central Government and four by the IDBI. Six Directors are elected by shareholders other than the IDBI. Financial assistance provided by the IFCI can be in one or more of the following forms:

- Rupee and foreign currency term loans
- Underwriting of share and debenture issues
- Direct subscription to equity
- Guarantees
- Soft loans
- Equipment financing

Projects costing up to Rs. 300 lakh are financed by the State Financial Corporations, State Industrial Development Corporations and Commercial banks under the refinance scheme of the IDBI. Only projects costing in excess of Rs. 300 lakh are considered for assistance by the JFCL.

Forms of Assistance

Section 23 of the IFCI Act outlines the types of activities, which the Corporation is authorised, to undertake. These are indicated below with the year in which it was authorised to undertake each type of activity shown within the brackets.

1) Granting loans on subscribing to debentures repayable within a period not exceeding 25 years. (1948)
2) Underwriting the issue of stock, shares, bonds or debentures by industrial concerns provided that it does not retain any shares, etc., which it may have had to take up in
fulfillment of its underwriting liabilities beyond a period of 7 years except with the permission of the central Government (now the IDBI).

3) Guaranteeing loans a) raised by industrial concerns, which are repayable within a period not exceeding 25 years and are floated in the market. (1948)
b) raised by industrial concerns from scheduled banks or state cooperative banks (1960)

4) Guaranteeing deferred payments due from any industrial concern
a) In connection with the import of capital goods from outside India
b) In connection with the purchase of capital goods within India

5) Guaranteeing loans (with the prior approval of the Central Government) raised from, or credit managements made with, any bank or financial institution in any country outside India by Industrial concerns in foreign currency (1960)

6) Acting as agent for the Central Government or, with its approval, for the International Bank for Reconstruction and Development (IBRD) in respect of loans granted or debentures subscribed by either of them (1952)

7) Subscribing to the stock or shares of any industrial concern (1960)

**Functions and Lending Policies**

Any limited company or co-operative society incorporated and registered in India which is engaged, or proposes to engage itself, in the manufacture, preservation or processing of goods, or in the shipping, mining or hotel industry, or in the generation or distribution of electricity or any other form of power, is eligible for financial assistance from the Cooperation on the same basis as industrial projects in the private and joint sectors.

Public sector projects are also eligible for financial assistance from the Corporations on the same basis as industrial projects in the private and joint sectors.

The assistance may take the form of long-term loans' both in rupees and foreign currencies, the underwriting of equity, preference and debenture issues; subscribing to equity, preference and debenture capital; guaranteeing of deferred payments in respect of machinery imported from abroad or purchased in India. And guaranteeing of loans raised in foreign currency from foreign financial institutions. Financial projects and for the expansion, diversification, renovation or modernization of existing ones.
Financial assistance on concessional terms is available for the setting-up of new industrial projects in industrially less developed districts in the States/Union Territories notified by the Central Government.

**Sources of Funds**

The main sources of funds of the Corporation, other than its own capital, retained earnings, repayment of loans and sale of investments are borrowings from the market by the issue of bonds, loans from the Central Government and foreign credits.

In its development role, the Industrial Finance Corporation has undertaken various promotional activities. The resources for financing such activities come from the benevolent 'Reserve Fund' which was created in terms of an amendment of the IFC Act in 1972, and from the allocation of the Interest Differential Funds by the Government. The Interest Differential Funds are received in the form of loans and grants on a 50:50 basis under an agreement entered into by the Government of India with the Government of the Federal Republic of Germany in respect of lines of credit from the Kreditanstalt fur Wiederaufbau allocated to the Corporation from time to time. The promotional activities undertaken by the Corporation - which are, no doubt, still modest - in their scope are in consonance with the measure which need to be taken to achieve the objective of broadening the entrepreneurial bases in the country, particularly in less developed areas.

The promotional activities, undertaken by the Corporation are briefly reviewed here.

The Corporation's Technical Assistance Scheme for training middle level executives of the State financial and development agencies and the senior executives of these organisations continues to elicit a good response because it has been found to be very useful. Since the inception of the scheme in 1971, 78 middle level executives from 33 state level institutions and 43 senior executives from 28 state level institutions have availed themselves of the scheme, which aims at acquainting them with the policies, procedures and practices of the Corporation.

**New Promotional Schemes**

In 1989, the Corporation framed two new schemes of promotional activities, which encourage new entrepreneurs and technologists to set up their own industries, and which assist in the growth of indigenous technology and small industries. The scheme for encouraging the development of ancillary industries was liberalised.
The present positions is that IFC1 has fourteen Promotional Schemes, of which eight are consultancy fee subsidy schemes, four interest subsidy schemes and two entrepreneurship development schemes, as per details given below:

**Consultancy Fee Subsidy Schemes**

- Scheme of subsidy to small entrepreneurs in the Rural, cottage, tiny and small sectors for meeting cost of feasibility studies, etc.
- Scheme of subsidy for consultancy to industries relating to animal husbandry, dairy farming, poultry forming and fishing.
- Scheme of subsidy for consultancy to industries based on or related to agriculture, horticulture, sericulture and Pisciculture.
- Scheme of subsidy for promotion of ancillary and small-scale industries.
- Scheme of subsidy to new entrepreneurs for meeting cost to market research surveys.
- Scheme of subsidy for Providing Marketing Assistance to Small Scale Units.
- Scheme of subsidy for Consultancy on Use of Non-Conventional Sources of Energy and - Energy Conservation Measures.
- Scheme of Subsidy for Control of Pollution in the Village and Small Industries Sector.
- Own generation by way of repayment of past borrowings and plough-back of profits.

**Interest Subsidy Schemes**

- Scheme of Interest Subsidy for Self-Development and Self-Employment of Unemployed Young Persons.
- Scheme of Interest Subsidy for Women Entrepreneurs.
- Scheme of Interest Subsidy for Encouraging Quality Control Measures in Small Scale Sector.
- Scheme of Interest Subsidy for Encouraging the Adoption of Indigenous Technology

**Entrepreneurship Development Schemes**

- Scheme for Encouraging Entrepreneurship Development in Tourism and Tourism-related Activities.
• Scheme for Encouraging Self-Employment amongst Persons Rendered Jobless due to Retrenchment or Rationalization in a Sick Industrial Unit in the Organised sector Undergoing a Process of Rehabilitation/Revival.

The Consultancy for Subsidy Schemes is aimed at providing subsidized consultancy services to industrial units, largely in Village and Small Industries’ (VSI) Sector through Technical Consultancy Organisations (TCOs). The Interest Subsidy Schemes are intended to provide encouragement to self-development and self-employment to unemployed youths, women entrepreneurs adoption of quality control measures, amassing the indigenously available technology etc. The Entrepreneurship Development Schemes envisage giving impetus to self-employment in tourism related activities in the small scale sector, and help in mitigating the suffering of people, who have to face retrenchment due to implementation of modernization, rehabilitation and revival plans in the case of potentially viable sick units, by process of retaining or self-employment avenues.

2.11.2 The Industrial Development Bank of India (IDBI)

The industrial bank of India (IDBI) was established on 1 July, 1964 under the industrial development back of India act, as a wholly owned subsidiary of the reserve bank of India. In terms of the public financial institutions laws (Amendment) Act, 1975, the ownership of the IDBI has been transferred to the central government with effect from 16 February 1976. The most distinguishing feature of the IDBI is that it has been assigned the role of the principal financial institution for co-ordinating, in conformity with national priorities, the activities of the institutions engaged in financing, promotion or developing industry. The IDBI has been assigned a special role to play in regard to industrial development.

Objectives and Functions

• To serve as an apex institution for term finance for industry, to co-ordinate the working of institutions engaged in financing, promoting or developing industries and to assist in the development of these institutions.

• To plan, promote and develop industries to fill gaps in the industrial structure in the country.

• To provide technical and administrative assistance for promotion, manage-
ment or expansion of industry.

• To undertake market and investment research and surveys as also technical and economics studies in connection with development of industry.

• To act as lender of last resort and to finance all types of industrial concerns which are engaged, or which propose to be engaged, in the manufacture, processing or preservation of goods, or in mining, shipping, transport, hotel industries, or in the generation distribution of power, in fishing or in providing shore' fishing, or in the maintenance, repairs, testing or servicing of machinery or vehicles, vessels, etc., or for the setting-up of industrial estates. The Bank may also assist industrial concerns engaged in the research and development of any process or product or in providing special or technical knowledge or other services for the promotion of industrial growth. Besides, it provides finance or the export of engineering goods and service on deferred payment basis.

The IDBI has been playing a significant role in the promotion of small-scale industries. Its assistance has been channeled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscouniting Scheme. Since its inception, the IDBI has been playing a significant role in the promotion of small scale industries.

Its assistance has been channeled through its scheme for the refinance of industrial loans, and to a limited extent, through the Bills Rediscouniting Scheme. Since its inception, the IDBI has been operating a special scheme of concessional assistance to the small-scale sector. The procedure in respect of loans to the small-scale sector has been put on a semi automatic basis under the liberalised refinance scheme (LRS). As a result of the progressive liberalisation and simplification of its refinance operations, its assistance to the small-scale sector has increased substantially since 1971-72. Its assistance to the small and medium industrial units flows through 18 SFCs and 28 SIDCs, commercial banks and regional rural banks.

**IDBI Schemes**

IDBI is having the following schemes for the benefit of enterprise and entrepreneurs in the small and medium scale sector;

**Direct Assistance**

Project finance scheme (loans, underwriting, direct subscription and guarantees); Project Finance Scheme (loans, underwriting, direct subscription and guarantees)
Modernization Assistance Scheme for all industries;
Textile Modernization Fund Scheme;
Technical Development Fund Scheme;
Venture Capital Fund Scheme;
Energy Audit' Subsidy' Scheme;
Equipment Finance for Energy Conservation Scheme;
Equipment Finance Scheme;
Foreign Currency Assistance Scheme.

**Indirect Assistance**
• Refinance Scheme for Industrial Loans for Small and Medium Industries;
• Refinance Schemes for Modernization and Rehabilitation of Small and Medium Industries;
• Equipment Refinance Scheme;
• Bills Discounting/Rediscounting Scheme;
• Seed Capital Scheme;
• Scheme for Concessional Assistance for Development of No-Industry Districts and Other Backward Areas;
• Scheme for Concessional Assistance for Manufacture &Industrialisation of Renewable Energy Systems;
• Scheme for Investment Shares and Bonds of Other Financial Institutions.

**Sources of Funds**
• Capital Contribution from Government;
• Loan Capital from Government;
• Loan Capital from RBI out of National Industrial Credit (Long Term Operation) Fund created out of its annual profits;
• Borrowings by way of Government - guaranteed bonds from domestic market;
• Borrowings in foreign currency from international capital market;
• Deposits under Investment Deposit Account Scheme in lieu of investment allowance under Section 32-AB of Income-tax Act:
• 3-year 1DBI Capital Bond Scheme.
Own generation by way of repayment of past borrowings and plough-back of profits.
**Soft Loan Scheme**

The IDBI extends soft loans to units in selected industry groups, namely, cotton textiles, jute, cement, sugar and specified engineering industries to enable them to overcome the backlog in modernization, replacement and renovation of plant and machinery so that they may achieve higher and more economic levels of production and improve their competitiveness. The scheme is operated in participation with the IFCI and the ICICI, with the overall responsibility vesting in the IDBI. The IFCI is the lead institution for jute and sugar industries, the ICICI for engineering and the IDBI for cotton textiles and cement industries.

The loans under the Soft Loan Scheme are extended on concessional terms not only in regard to the interest but also in regard to the promoter's contribution, debt equity ratio, initial moratorium and, repayment period. In pursuance of the decision taken by the Government of India, loans under this scheme have been exempted from the convertibility stipulation.

2.11.3 **Industrial Credit and Investment Corporation of India (ICICI)**

The ICICI (Industrial Credit and Investment Corporation of India) was conceived as a private sector development bank in 1955 with the primary function of providing development finance to the private sector. Its objectives now include:

- assisting in the creation, expansion and modernization of such enterprises;
- encouraging and promoting the participation of private capital, both internal and external, in ownership of industrial investment and the expansion of investment markets.

Apart from its head office at Mumbai, the ICICI has four regional offices located at Mumbai, Calcutta, Chennai and New Delhi.

Financial assistance is being provided by ICICI in the following forms:

- Rupee and foreign currency term loans
- Underwriting of share and debenture issues
- Direct subscription to equity
- Guarantees
- Soft loans
- Suppliers line of credit for promoting sale of industrial equipment on deferred payment terms
• Lease financing
• Financial Indo-US joint ventures in research and development.

In practice only such projects costing in excess of Rs. 300 lakhs are considered for financial assistance by the ICICI. However, for purpose of foreign currency loans, no minimum project cost restriction is imposed.

**Finance for Industry**

Over the past thirty years, the ICICI, in pursuit of its objective of promoting industrial development, has provided financial assistance in various forms, such as:

- Underwriting of public and private issues and offers of sale of industrial securities (ordinary shares, preference shares, bonds and debenture stock);
- Direct subscription to such securities;
- Securing loans in rupees, repayable over periods up to 15 years.
- Providing similar loans in foreign currencies for the payment for imported capital equipment and technical services;
- Guaranteeing payments for credits made by others;
- Providing credit facilities to manufacturers for the promotion of the sale of industrial equipment on deferred payment terms.

The primary purposes for which assistance is extended is the purchase of capital assets in the form of land, buildings and machinery. Of the alternative types of assistance provided by the ICICI. The one best calculated to assure the success of enterprise is chosen in each case.

Any company with a limited liability (the promoter of such a company) any sole proprietary concern, partnership firm or any cooperative society may approach the ICICI for assistance in financing a sound proposal for the establishment, expansion or modernization of an industrial enterprise.

The applicant may be an Indian or foreigner; his plans may provide for invent in any part of India, he may require assistance in any form. He must, however, be prepare to make a reasonable contribution to the resources required for the implantation of his proposal. The enterprise should have, or should undertaking to obtain, experienced management and expert technical personnel and advice. Special consideration is given to projects
promoted by new entrepreneurs and those who desire to set up industries in backward areas.

There are neither firm limits to the size of the enterprise the ICICI is prepared to assist, nor is there a maximum or a minimum limit to the assistance that it may offer. In practice, the lower limit of the finance provided by the ICICI is set at Rs. 5 lakh, but there are other institutions which provide assistance for smaller amounts. However, to meet the requirements of industry for loans in foreign currency, the ICICI may offer assistance for smaller amounts. However, to meet the requirements of industry for loans in foreign currency, the ICICI may offer assistance below this limit. At the upper end, prudence requires that it limit the proportion of its resources, which it can safely invest in a single enterprise. However, no proposal is too large for the ICICI to handle; it is prepared to enlist the cooperation of other financial institutions, in India and abroad, to share in the investment.

In promoting industrial investment, the ICICI is anxious not only to invest but also to encourage others to invest. Accordingly, it seeks to encourage other financial institutions and individuals, both Indian and foreign, to co-operate with it in its investment and lending operations.

In order to promote new industries, to assist in the expansion and modernization of existing industries, and to furnish technical and managerial assistance, the ICICI grants long-term and medium-term loans, subscribes to shares, underwrites new shares and debentures, guarantees loans from other private investment sources, and provides managerial and technical advice. ICICI also provides assistance by way of suppliers credit, equipment leasing, installation sale, and venture capital and renders merchant banking services. Technology, development, and information company of India Ltd. (TBIC), established by ICICI in 1988, provides technological information and finances borrowing, acceptance of deposits, and receipt of gifts, grants, etc. The national bank may borrow foreign currency from any bank or financial institution in India or abroad, visit the approval of the central government, which will guarantee such loans.

2.11.4 The Small Industries Development Bank of India (SIDBI)

The idea of setting up a small industries development bank of India (SIDBI), in response to a long-standing demand from the small-scale sector as an apex-level national institution...
for promotion, financing and development of industries in the small scale sector, embodied an opportunity to set up proactive, responsive and forward looking institution to serve the current and emerging needs of small scale industries in the country. As a precursor to the setting up of the new institution, the small industries development fund was cleared by industrial development fund was created by industrial development bank of India (IDBI) in 1986 exclusively for refinancing, bills rediscouning and equity support to the small scale sector.

The outstanding portfolio of the order of Rs. 4200 crore from IDBI was transferred to SIDBI in March 1990. SIDBI started off from a strong base; percentage of IDBI, banking of a special statute, the small industries development bank of India act of 1989, a large capital base of Rs. 450 crore, availability of experienced manpower endowed with development banking skills carved out of IDBI's professional staff and ready availability of a cast network of institutional infrastructure and enduring financial linkages with state financial corporations (SFCs), commercial banks and other institutions, all these augured well for the growth of the nascent institution. SIDBI became operational on April 2, 1990.

The Environment

Indian economy has been in transition for most part of the last five years: the industrial policy, fiscal policy, public sector policy, foreign investment policy- trade policy and monetary and credit policies have been in various stages of liberalization. Decontrol, deregulation and relicensing have given enormous scope for private initiative and market forces to come to play. New relationships within and between different sectors in the economy are being evolved; the small-scale sector has been an important constituent of such a liberalization in the country, Government of India formulated a set of new policies aimed at harnessing the potential of the small-scale sector in August 1991 a year and half after the establishment of SIDBI. The prescriptions of the policy focused at removal of implements affecting the growth of small scale sector together with consolidation of the strengths, in the context of the emerging economic order. SIDBI has been refining its strategies and business policies in alignment with the policy, charges that have been taking place at the national level.
**Operational strategy**

Stepping up of flow of credit to the units in the small scale sector through direct and indirect financing mechanisms and ensuring speedy disbursement have remained the main plank of the operational strategy of SIDBI. Over the years the share of direct assistance in the total assistance has steadily gone up.

**Table No 2.3 Operational Strategy (Figures in Percentage)**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Assistance</td>
<td>95</td>
<td>91</td>
<td>79</td>
<td>59</td>
<td>41</td>
<td>66</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Direct Assistance</td>
<td>5</td>
<td>9</td>
<td>21</td>
<td>41</td>
<td>5</td>
<td>34</td>
<td>36</td>
<td>36</td>
</tr>
</tbody>
</table>

**Shift in Business Mix**

The new schemes designed and implemented were directed at filling the gaps in the existing credit delivery system focusing on new target groups and activities. These are targeted at addressing some of the major problems of SSIs, in areas such as marketing, infrastructure development, and delayed realization of bills, an eillarisation and obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalized based on ongoing review process. The procedures have been simplified with gradual decentralization and progressive levels of operational efficiency and better customer service.

To mitigate the difficulties faced by SSIs on account of delayed payment- two factoring companies viz., SBI factors and commercial services Pvt. Ltd. And ear bank factors Ltd. have been established with SIDBI as a partner with 20% shareholding, SIDBI has enlarged the list of institutional member of over the counter exchange of India (OTCEI). This facilitates SSIs to access capital market through the route of OTCEI in raising resources in a cost-effective manner. SIDBI has overall productivity, product quality levels and process standards in such clusters. Significant achievements truck in these spheres will be buttressed with new initiatives in the years to come.
2.11.5 Industrial Investment Bank of India

The Industrial Investment Bank of India (IIBI) was established in 1985 under the IRBI Act, 1984 on reconstitution of the erstwhile Industrial Reconstruction Corporation of India as the principal credit and reconstruction agency to, undertake reconstruction aid rehabilitation of sick and closed industrial units in the country. RBI was convened into a full-fledged all-purpose development institution as IIBI on 17.03.97. The scope of IIBIs financing activities has widened with the withdrawal of the Government stipulation that 60% of its portfolio should consist of sick companies, IIBI now finances all industrial projects like any other financial institution.

IIBI extends loans and advances to industrial concerns, underwrites stocks, shares, bonds, and debentures and provides guarantees, for loans deferred payments. It provides finance for acquisition of equipment and makes available machinery and other equipment on lease or hire purchase basis. It also provides infrastructure facilities, consultancy, managerial and merchant banking services. During 1993-94, as a part of its merchant banking services, IRSI ventured into issue management activities for the last time. It also took several steps to re-orient its business strategy in response to the emerging environment and ongoing changes in the financial sector by introducing newer products for financing. IIBI has envisaged the setting up of a Special Fund, viz. Reconstruction Assistance Fund to meet special financial needs of assisted medium and large-scale units for their revival and rehabilitation which cannot be met from banks and financial institutions under normal conditions.

2.11.6 Life Insurance Corporation of India

The Life Insurance Corporation of India (LIC) was set up under the LIC Act in 1956, as a wholly owned Corporation of the Government of India, on nationalization of the life insurance business in the country. LIC took over the life insurance business from private companies to carry on the business and deploy the funds in accordance with the Plan priorities. UC operates a variety of schemes so as to extend social security to various segments of society and for the benefit of individuals and groups from the urban and rural areas. The Committee on Reforms in the Insurance Sector set up by the Government has recommended privatization and restructuring of UC with Government retaining 50%
stake. The Committee has also suggested that foreign companies be allowed to cum.net life insurance business in the country through joint ventures with India partners.

According to the investment policy of LIC, Out of the accretion to its Fund, not less than 75% has to be invested in Central and State Government securities including Government-guaranteed marketable securities in the form of shares, bonds and debentures. UC extends loans for the development of socially-oriented sectors and infrastructure; facilities like housing, rural electrification, water supply, sewerage and provides financial assistance to the corporate sector by way of term loans and under writing direct subscription to shares and debentures. UC also extends resource support to other financial institutions by way of subscription to their shares and bonds and also by way of term loans.

2.11.7 General Insurance Corporation of India

The General Insurance Corporation of India (GIC) was established in January 1973 on nationalization of general insurance companies in the country. GIC has four subsidiaries, viz., National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Fire & General Insurance Co. Ltd. and United India Insurance Co. Ltd. GIC and its subsidiaries operate a number of insurance schemes to meet the diverse and emerging needs of various segments of society. In the recent past, GIC and its subsidiaries several need-based covers to keep pace with the new liberalized economic environment. The investment policies of GIC and its subsidiaries have been evolved within the ambit of the provision 27(B) of the Insurance Act 1938 and guidelines issued by the Government from time to time. According to Government guidelines, 70% of the annual accretions to their investible funds are required to be invested in socially oriented sectors of the economy. Since April 1976, GIC has been participating with other financial institutions in extending term loans to industrial undertakings and providing facilities for underwriting direct subscription to their shares and debentures.

2.11.8 Export-Import Bank of India

The Export Import Bank of India (Exim Bank) was set up on January 1, 1982 by an Act of Parliament as the principal financial institution for promotion and financing of India's international trade. Exim Bank finances exporters and importers, co-ordinates the working of institution engaged in financing expert and import of goods and services, finances export-oriented units and undertakes promotional activities necessary for -
international trade. It has a menu of 23 major programmes to meet the needs of different customer groups, viz., Indian exporters’ overseas entities and commercial banks. Exporters can avail of pre-shipment credit, supplies credit, and overseas investment finance; export product development loans, loans for export marketing, bulk import finance and investment' vendors development finance. Foreign Government-and agencies are offered buyers' credit and lines of credit. To commercial banks in India, Exim Bank offers export bills rediscounting facile, refinance of suppliers: credit and refining of term loans in respect of export-rowed units. It also participates in guarantees issued by commercial banks on behalf of Indian project exporters. Besides providing finance, EXIM Bank promotes exports through advisory and information services to exporters on procurement bidding procedures of multilateral institutions, country risk analysis, it banking and marketing focused on catalyzing exports of non-traditional products to developed countries.

2.11.9 Khadi and Village Industries Commission

The Khadi and Village Industries Commission (KVIC) established by an Act of Parliament in 1956, is engaged in the development of khadi and village industries in rural areas. It has under its purview 26 village, industries besides khadi. After amendment to the KVIC Act in July 1987, the scope for coverage of activities was widened and as a consequence 70 more new village industries were identified and brought under its ibid for implementation. The main objectives of the KVK are providing employment in rural areas, skill improvement, transfer of technology, budding up of strong rural community base and rural industrialization. The significant characteristics of khadi and village industries under the purview of KVIC lie in their lility to use locally available raw materials, local skills, local markets, low per capita. Investment, simple techniques of production, which can be easily adopted by the run., people, short gestation period and above all production of consumer goods. KVI activities serve the poorest of the poor comprising scheduled castes, scheduled tribes physically handicapped and minority communities in difficult, inaccessible hill and border areas.

The development programmes of khadi and villages industries are implemented through 30 State Khadi and Village Industries Boards which are statutory organisations, set-up under State legislation, 2,320 institutions registered under Societies Registration Act,
1860 and 29,813 Cooperative Societies registered under State Co-operative Societies Act. KVIC also assists individuals through State KVI Boards. KVI programmes now cover more than 2.1 lakh villages in the country.

Some of the notable developments in KVI activities during 1991-92 are extension of special programme aimed at intensive development of KVI through area approach under tie up with District Rural Development Authority (DRDA) to more number of districts, improvement and upgradation of KVI technology and quality of products, establishment of linkage with an export company for exporting KVI technology on hand-made paper and gurkhandisari on turn-key basis, initiation of steps for tapping distribution network of big business houses for marketing KVI products, introduction of ‘fabric-painted Khadi ready-made garments, development of modified version of new model charkha by replacing all its metal parts with high quality nylon and reinforced fibre material and development of mini. Honey processing unit. National Small Industries Corporation Ltd.

The National Small Industries Corporation Ltd. (NSIC) was setup by the Government of India in 1955 with the objective of promoting and developing small scale industries in the country. Various activities undertaken by NSK include supply of indigenous and imported machines on easy hire-purchase and lease terms, marketing of the products of small industries on consortia basis, export marketing of small industries products, developing export worthiness of small-scale units, enlistment of small scale units for participation in Government stores purchase programme, development and modernization of prototypes of machines, equipment and tools, supply and distribution of indigenous and imported raw materials, training in various technical trades and co-operation with other developing countries in setting-up of small scale projects on turnkey basis.

Activities of National Small Industries Corporation (NSIC)

Formerly, the Corporation had four subsidiary corporations at Delhi, Mumbai, Calcutta and Chennai. However, since 1961, all the subsidiary corporations have been amalgamated with the main Corporation, and three Branch Offices have been set-up at Mumbai, Calcutta and Chennai. The Delhi subsidiary corporation has been merged with the parent Corporation, and its work is looked after by a separate Delhi Cell setup in it. The National Small Industries Corporation provides a complete package of financial assistance and support in the following areas:
• Supply of both indigenous and imported machines on easy hire-purchase terms. Special concessional terms have been introduced for units promoted by entrepreneurs from weaker sections of the society, entrepreneurs, ex-servicemen and those units located in the backward areas.
• Marketing of small industries products within the country.
• Export of Small Industries products and developing export worthiness of Small Scale Units.
• Enlisting competent units and facilitating their participation in Government Stores Purchase Programme.
• Developing prototypes of machines, equipment and tools which are then passed on to Small-Scale Units for commercial production:
• Technical training several industrial trades. With a view to create technical culture in the young entrepreneurs.
• Development and up gradation of technology and implementation of modernization programmes.
• Supply and distribution of indigenous and improved raw materials.
• Supply of both indigenous and imported machines on easy lease terms to existing units for diversification and modernization.
• Providing of Common Facilities through Prototype Development and Training Centres.
• Setting-up Small-Scale Industries in other developing countries on turnkey basis.

With a view to giving a fillip to development efforts and to supplement the activities of State Small Industries Corporations and District Industries Service Institutes, the NSIC has opened its offices in some of the States in which the (NSIC) Corporation has been hitherto under-represented. In the central region, offices have been opened in Bhopal and Raipur in Madhya Pradesh. Four development executives and six field inspectors have been recently posted in the backward areas of the western region to serve as "contact points" and to work in close co-operation with DICs and other developmental agencies in the area. Of these, three field inspectors have been posted in Raigad, Ratnagiri, Satara, Yeomen, Chandrapur, Bhandara, Bulihana, Aurangabad, Nanded, Seed, Osmanabad, etc. all backward districts in Maharashtra.
2.11.10 State Industrial Development Corporations

The State Industrial Development Corporations (SIDCs) were established under the Company Act, 1956, in the sixties and early seventies as wholly-owned State Government undertakings for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription shares, debentures and guarantees. They undertake a variety of promotional activities such as preparation of feasibility reports, industrial potential surveys, entrepreneurship Development programmes and developing industrial areas estates. SIDCs' are also involved in setting up of medium and large industrial projects in the joint sector in collaboration with private entrepreneurs as wholly owned subsidiaries. The SIDC's activities have now widened to include equipment leasing, providing tax benefits under State Government's Package Scheme of Incentives, merchant banking services and setting-up of mutual funds. Some of the SIDCs also offer a package of development services such as technical guidance, assistance in plant location and coordination with other agencies.

Of the 28 SIDCs operating in the country, nine are twin-function SDICs functioning also as SFCs to provide assistance to small-scale units as well as act as promotional agencies. The twin-function SIDCs are in Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Goa, Pond cherry and Sikkim. Seven SIDCs are also involved in infrastructure development and other extensions services for the swell sector.

The SIDCs are agent of IDBI and SIDB for operating its seed capital scheme: Under the scheme, equity type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

The major functions of these Corporations include:

• Providing risk capital to entrepreneur by way of equity participation and seed capital Assistance;

• Grant of financial assistance to industrial units by way of loans, guarantees and of late, Lease finance by some Corporation:

• Administering incentive schemes of Central, State Governments.
• Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs and
• Developing industrial areas/estates by providing infrastructure facilities.

2.12 Industrial Credit Policy of Bank of India


As per study it is found that Bank of India has been working as per guideline provided by RBI considering the policy of RBI, the Bank of India is doing very well in MSME Sector. The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. With the enactment of MSMED Act 2006, the paradigm shift that has taken place in the inclusion of the services sector in the definition of Micro, Small & Medium Enterprises, apart from extending the scope to medium enterprises. The MSMED Act, 2006 has modified the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services as under.

1. Cost of the following items shall be excluded while calculating the investment in plant and machinery in the case of the enterprises mentioned in (1) (a) above, namely:
   i) Equipment such as tools, jigs, dyes, moulds and spare parts for maintenance and the cost of consumables stores;
   ii) Installation of Plant and Machinery;
   iii) Research and Development equipment and pollution controlled equipment.
   iv) Power generation set and extra transformer installed by the enterprise as per regulations of the State Electricity Board;
   v) Bank charges and service charges paid to the National / State Small Industries Corporation
   vi) Procurement or installation of cables, wiring, bus bars, electrical control panels (not mounded on individual machines), oil circuit breakers or miniature circuit breakers which are necessarily to be used for providing electrical power to the Plant and Machinery or for safety measures;
   vii) Gas producers plants;
viii) Transportation charges (excluding sales-tax or value added tax and excise duty) for indigenous machinery from the place of the manufacture to the site of the enterprise;

ix) Charges paid for technical know-how for erection of Plant and Machinery;

x) Such storage tanks which store raw material and finished produces and are not linked with the manufacturing process;

xi) Firefighting equipment.

2. In the case of imported machinery, the following shall be included in calculating the value of Plant and Machinery namely;

i) Import duty (excluding miscellaneous expenses such as transportation from the port to the site of the factory, demurrage paid at the port);

ii) Shipping charges;

iii) Customs clearance charges; and

iv) Sales tax or value added tax.

**Target for Micro & Small Enterprises Credit:**

The RBI has prescribed the following overall target for the Bank as a whole for Micro & Small Enterprises Credit:

**Table No 2.4 Micro and Small Enterprises Credit System**

<table>
<thead>
<tr>
<th>Small Enterprise Advances</th>
<th>Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC (Adjusted Net Bank Credit) or credit equivalent amount of Off-Balance Sheet) exposure whichever is higher.</th>
</tr>
</thead>
</table>
| Micro Enterprises Advances within Small Enterprises Sector | i) 40 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery upto Rs.5 lakh and micro (service) enterprises having investment in equipment upto Rs.2 lakhs.  

ii) 20 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in Plant and Machinery above Rs. Lakh and upto Rs.25 lakh, and micro (service) enterprises with investment in equipment |
above Rs.2 lakh and upto Rs.10 lakh. (Thus, 60 percent of small enterprises advances should go to the micro enterprises).

iii) By corollary, the rest 40% should go to Small Enterprises (Manufacturing) with investment in Plant and Machinery more than Rs.25 lakhs and upto Rs.5 Crores as well as to Small Enterprises (Services) with investment in equipment more than Rs.10 lakhs and upto Rs.2 Crores.

| Export Credit | Export credit is not a part of priority sector for domestic commercial banks. |

Small Enterprise Advances

It is clear from the table 2.4 that the banking system in India has been actively involved in financing various sectors of the economy, of which, financing of industry, in general, and micro and small enterprises, in particular, has been of high significance. Reserve Bank of India being a central bank of India has taken several initiatives to promote industrial finance and to promote a competitive environment in the financial sector to enhance the allocative efficiency of resources. As a part of that initiatives RBI has given guidelines to all commercial banks regarding financial framework. It has been suggested by RBI that out of the total priority sector lending 40 percent loan should be offered to Micro and Small Enterprise. In other words out of the total priority sector lending target 40 percent should be goes to micro and small enterprise.

Micro Enterprises Advances within Small Enterprises Sector

In the context of micro enterprises advances within small enterprises sector RBI suggested that 40 per cent of total advances (under the priority sector target) to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery upto Rs.5 lakh and micro (service) enterprises having investment in equipment upto Rs.2 lakhs. Furthermore, 20 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in Plant and Machinery above Rs. Lakh and upto Rs.25 lakh, and micro (service) enterprises with investment in equipment above Rs.2 lakh and upto Rs.10 lakh. (Thus, 60 percent of small enterprises advances should go to the micro enterprises).
In addition RBI recommended that by corollary, the rest 40% should go to Small Enterprises (Manufacturing) with investment in Plant and Machinery more than Rs.25 lakhs and upto Rs.5 Crores as well as to Small Enterprises (Services) with investment in equipment more than Rs.10 lakhs and upto Rs.2 Crores.

**Export Promotion**

In order to promote the development of export oriented industries both i.e Government and central bank have taken major initiative. The initiatives like exception from sales tax, exclusive duties and export tax are taken by the government under the foreign trade policy. RBI has also cleared that export credit is not a part of priority credit. It means that it is not mandatory on the part of bakers to offer loan to export agencies or industries from priority sector advances. In fact, such an advances will not be considered under the priority sector advances.

**Time Norms for Disposal of Applications**

Applications received under SME finance must be disposed off within the following time limit

<table>
<thead>
<tr>
<th>Limits</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to and including Rs.25,000/-</td>
<td>4 Business Days.</td>
</tr>
<tr>
<td>Over Rs.25,000/- and up to Rs.10 Lakhs</td>
<td>8 Business Days.</td>
</tr>
<tr>
<td>Over Rs.10 Lakhs upto Rs.5 Crores</td>
<td>12 Business Days.</td>
</tr>
<tr>
<td>Over Rs.5 Crores</td>
<td>20 Business Days.</td>
</tr>
</tbody>
</table>

Before discussing about the “times norms for disposal of application” it is essential to know the situation in which these norms were prescribed by the RBI.

The industrial sector accounted for 53.0 per cent of total bank credit in 1990-91 as against its share of 22.0 per cent in the GDP. However, by end-March 2007, the share of bank credit to industry declined sharply to 36.2 per cent, while its share in GDP declined marginally to 20 per cent. As a result, credit intensity of industry (credit to industry as percentage of sectoral GDP) increased from 55.7 per cent in 1990-91 to 90.0 per cent in
By taking into consideration increasing credit intensity of the industrial sector, RBI has given guidelines regarding time bands for the disposal of applications. By assuming that the time band norms will help in achieving operational and allocation efficiency.

The table 2.5 shows guidelines of the RBI regarding time norms for disposal of loan applications of the industrial units. It is clear from the table that up to Rs. 25,000/-, bank has to clear all processes and issue loans within four working business days. If the loan amount is over Rs.25,000/- and up to Rs.10 Lakhs, then it should clear within 8 business working days by the concerned bank. In case of over Rs.10 Lakhs up to Rs.5 Crores loan applications, the bank has to dispose applications within 12 business days and over 5 crore within 20 days.

Thus easy and quick access of credit to industry is the main motive behind issuing these time norms for disposal of applications.

**Special Scheme for Micro & Small Units at Rural/Semi/Urban centres**

As per RBI guidelines, BOI has taken special efforts for Star Laghu Udyami Samakit Loan under this scheme, rural, sub-urban and urban area MSME loan proposals have been offered by the Bank. It is a unique activity with a loan of 1 to 5 lakhs rupees at 50% margin money at the rate of 8.5 to 9% of Interest.

In order to give focused attention to the growth of Micro & Small Sector, our bank has developed a new product called Star Laghu Udyami Samakit Loan. The salient features of the scheme are given below:

**Table No 2.6 STAR LAGHU UDYAMI SAMEKIT LOAN**

<table>
<thead>
<tr>
<th>Target Group</th>
<th>Micro &amp; Small Enterprises in rural, semi urban and urban branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of loan</td>
<td>Composite Loan in the form of Demand Loan</td>
</tr>
<tr>
<td>Purpose</td>
<td>Investment and Working Capital Requirements</td>
</tr>
<tr>
<td>Quantum of Loan</td>
<td>Maximum Rs.1 Lakh for units in rural areas and Rs.5 Lakhs for units in semi-urban and urban areas (as per location of the unit)</td>
</tr>
<tr>
<td>Margin</td>
<td>15%</td>
</tr>
<tr>
<td>Rate of Interest</td>
<td>Linked to BPLR without minimum clause</td>
</tr>
<tr>
<td></td>
<td>8.5% for limits up to Rs.1 Lakh for units located in rural area.</td>
</tr>
<tr>
<td></td>
<td>9.0% for other units irrespective of limit.</td>
</tr>
<tr>
<td><strong>Repayment</strong></td>
<td>Demand Loan is repayable in 36 months inclusive of three months moratorium.</td>
</tr>
</tbody>
</table>
| **Security** | 1. Hypothecation of Assets created out of bank finance as well as existing unencumbered assets of the MSE unit.  
2. Equitable Mortgage of the Land and building which is part of the business activity such business premises.  
3. Guarantee Cover under CGTMSE Guarantee Scheme.  
(As the maximum loan limit is Rs.5 Lakhs, CGTMSE cover is available upto 85%).  
**No collateral security/third party guarantee to be obtained.** |
| **Credit Rating** | As per extent guidelines credit rating for loans upto Rs.10 Lakhs is exempt. |
| **Processing Charges** | Rs.500 in rural areas and Rs.1,000 in other cases. |
| **Documentation** | 1. Demand Promissory Note.  
2. Deed of Hypothecation CHA 1.  
3. Installment Letter.  
5. Other connected documents applicable for demand loans as per extent guidelines.  
6. Equitable Mortgage as Primary Security wherever applicable. |
| **Processing** | 1. Simplified Application and Proposal Forms as Annexed with the Br. Cir. No. 103/174 to be used.  
2. Processing and sanction of proposals beyond the branch delegated authority by Special / Zonal SME Hubs.  
3. Turnaround time for sanction will be 2 working days after all relevant information is obtained. |
| **Implementing Agency** | The scheme will be implemented directly by the bank. No outside agency whether Govt. or otherwise will be involved in the implementation. |
Classification

Advances under this scheme will be classified MSME advances with Sector Code 32, Scheme Code 209 and Special Category Code from 150 to 173 depending upon the original cost of investment in plant and machinery / Equipment. BSE Code will depend upon the activity.

Micro, Small and Medium Enterprises Development (MSMED) Act. 2006 has passed in the parliament for boosting industrial production & employment and strengthen to micro, small and medium enterprises. Therefore a new scheme entitled “STAR LAGHU UDYAMI SAMEKTI LOAN” has been launched and the salient features of the scheme have been presented in table 2.6.

Target Group

The main target group of the scheme is Micro & Small Enterprises in rural, semi urban and urban branches. Because they are the main players of the rural economy.

Type of loan

Under this schemes the Composite Loan in the form of Demand Loan being offered. Demand loan implies loan on demand of the borrower. It means quick loan access to the needy firm.

Quantum of Loan

As it is loan on demand type of loan it is Maximum of Rs.1 Lakh for units in rural areas and Rs.5 Lakhs for units in semi urban and urban areas (as per location of the unit). In fact it is short noticed type loan therefore the quantum of loan is not big.

Margin

Up to 15% of the total security value is being offered under this scheme.

Rate of Interest

The rate of interest is varies between 8 to 9 percent depends on the size of loan or the quantum of loan and the operational area of the firm.

Repayment

The amount obtained through this scheme as demand Loan is repayable in 36 months inclusive of three months moratorium.

Security
Following type of securities are being accepted.

1. Hypothecation of Assets created out of bank finance as well as existing unencumbered assets of the MSE unit.
2. Equitable Mortgage of the Land and building which is part of the business activity such business premises.
3. Guarantee Cover under CGTMSE Guarantee Scheme. (As the maximum loan limit is Rs.5 Lakhs, CGTMSE cover is available upto 85%). No collateral security/third party guarantee to be obtained.

Credit Rating
As per extent guidelines credit rating for loans upto Rs.10 Lakhs is exempt. It means that industry which want loan up to 10 lakh does not required credit rating from credit agencies. Credit rating is essential if loan amount is exceeds 10 lakh.

Processing Charges
In fact 2 percent of the total loan amount are being charged as a processing fee for other type of loan but under this scheme it fixed i.e. Rs.500 in rural areas and Rs.1,000 in other cases.

Documentation
Following documents are essential in order to obtain loan under this scheme.

1. Demand Promissory Note.
2. Deed of Hypothecation CHA 1.
3. Installment Letter.
5. Other connected documents applicable for demand loans as per extent guidelines.
6. Equitable Mortgage as Primary Security wherever applicable.

Processing

- Simplified Application and Proposal Forms as Annexed with the Br. Cir. No. 103/174 to be used.
- Processing and sanction of proposals beyond the branch delegated authority by Special / Zonal SME Hubs.
Turnaround time for sanction will be 2 working days after all relevant information is obtained.

Implementing Agency
The scheme will be implemented directly by the bank. No outside agency whether Govt. or otherwise will be involved in the implementation.
Thus in brief this scheme is specially meant for weak micro, small and medium enterprises. It is observed by the researcher that all these norms and guidelines as per the act and RBI bank of India are following very cautiously.

2.13 Credit supply by the Commercial Banks to the Industrial Sector in India
The banking system in India has been actively involved in financing various sectors of the economy, of which, financing of industry, in general, and SMEs, in particular, has been of high significance. Banks have, historically, financed short-term working capital requirements of industry, while long-term funding requirements were met by development finance institutions (DFIs), the initiation of which dates back to as early as 1947 when the Industrial Finance Corporation of India was established exclusively to extend term loans to industry. This was followed by the establishment of several DFIs, both in public and private sectors. However, with the initiation of financial sector reforms in the early 1990s to promote a competitive environment in the financial sector to enhance the allocative efficiency of resources, the industrial finance structure has changed with the conversion of two major DFIs into banks.

The share of credit to industry in total bank credit declined over the years. Also over the years, the share of industry in total GDP declined. As a result, credit intensity of industry increased in recent years. One of the reasons for increased credit intensity was increased dependence of corporate on banks for funding their medium to long-term requirements. The industrial sector accounted for 53.0 per cent of total bank credit in 1990-91 as against its share of 22.0 per cent in the GDP.
Table 2.7 Type of Credit to Industry by Banks (Rs. in Crore)

<table>
<thead>
<tr>
<th></th>
<th>Short Term</th>
<th>Medium term</th>
<th>Long Term</th>
<th>Total Credit of Industry amt.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage Share in Total Credit to Industry</td>
<td>Amount</td>
<td>Percentage Share in Total Credit to Industry</td>
</tr>
<tr>
<td>1995</td>
<td>77,134</td>
<td>82.5</td>
<td>5,438</td>
<td>10,874</td>
</tr>
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<td>1996</td>
<td>97,809</td>
<td>81.7</td>
<td>6,620</td>
<td>15,273</td>
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<td>1997</td>
<td>1,09,666</td>
<td>79.6</td>
<td>8,136</td>
<td>19,988</td>
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<td>1998</td>
<td>1,23,408</td>
<td>78</td>
<td>10,579</td>
<td>24,261</td>
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<td>1999</td>
<td>1,36,487</td>
<td>76.1</td>
<td>10,660</td>
<td>32,151</td>
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<td>2000</td>
<td>1,52,997</td>
<td>74.6</td>
<td>13,299</td>
<td>38,778</td>
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<td>1,70,114</td>
<td>74.8</td>
<td>16,067</td>
<td>41,341</td>
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<td>2002</td>
<td>1,65,828</td>
<td>63</td>
<td>22,314</td>
<td>74,910</td>
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<td>2003</td>
<td>1,79,687</td>
<td>59.5</td>
<td>22,366</td>
<td>99,853</td>
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<td>1,89,917</td>
<td>57.9</td>
<td>32,188</td>
<td>1,06,084</td>
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<tr>
<td>2005</td>
<td>2,29,672</td>
<td>52.4</td>
<td>46,535</td>
<td>1,62,296</td>
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<td>2006</td>
<td>2,68,138</td>
<td>48.2</td>
<td>58,018</td>
<td>2,30,202</td>
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<tr>
<td>2007</td>
<td>3,36,958</td>
<td>46.1</td>
<td>71,865</td>
<td>3,22,335</td>
</tr>
</tbody>
</table>

(Source: Report on Currency and Finance 2006-07)

However, by end-March 2007, the share of bank credit to industry declined sharply to 36.2 per cent, while its share in GDP declined marginally to 20 per cent. As a result, credit intensity of industry (credit to industry as percentage of sectoral GDP) increased from 55.7 per cent in 1990-91 to 90.0 per cent in 2006-07.

Proportion of long-term credit extended by the SCBs to industry increased sharply from 11.6 per cent at end-March 1995 to 44.1 per cent by end-March 2007. As a result, the share of short-term loans to industry in total short-term loans by banks declined between 1995 and 2007, while that of medium and long-term loans increased.

2.14 Conclusion

The above chapter concludes with that finance has been provided to Industrial sector from long time. In colonial and medieval era also needed. Finance but in those days finance system was not present. Banks and financial institutions had been developed as well as industrial sector also developed. In 1950 banks have been provided finance to industrial sector, as a result industrial sector has been expanded. Government notice
implement of industrial sector and launched various schemes for industrial sector. The development of industrial sector is dynamic and in it finance plays critical role.

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