Preface

Speedy industrialisation is necessary for countries like India for reasons such as the following: for removing poverty, for liquidating unemployment and under-employment, for earning foreign exchange and for the purposes of defence. We cannot remove poverty through agricultural operations since, though important, they are less remunerative than industrial occupations. The expansion of industrial activities would lead to greater generation of incomes. The problem of unemployment can also be solved only by developing industries of all sizes - big, medium and small. The economy has to be diversified for generating additional employment opportunities. Similarly, industrialisation is needed to enhance the country's capacity to earn more foreign exchange required to finance imports of raw materials, capital equipment, life-saving drugs and to repay foreign debts. Likewise, we cannot build a strong defence against possible external aggression unless we have a well developed industrial base. It is for these reasons that our national leaders have been laying stress on industrialisation.

Of the many requisites of industrialisation, finance is the most important. It is needed in substantial quantity not only initially but continuously as industrialisation gathers momentum. Finance for industrialisation can be obtained from domestic sources and foreign sources. Domestically, the government can raise funds through taxation, borrowing and deficit financing. But the problem in poor countries is that people's savings are small. Even with the best of efforts the government cannot raise sufficient funds from the domestic market because of the low per capita income of the people. Nor can taxation and public borrowing bring in resources on the required scale. Recourse to deficit financing may help industrialisation programmes to some extent, but it cannot be stretched beyond certain safety limits.

The prospects of raising funds from foreign sources are not bright either. For one thing, the surplus sources available in the international market are limited. Even the rich developed countries need additional resources to solve their problems of unemployment, of energy and of technological improvements, and they would prefer reinvestment of their surplus resources within their domestic economies. Secondly, the demand for foreign capital is world-wide, and it is on the increase. A large number of developing countries in Asia, Africa and Latin America are applicants for foreign
capital. In such a competition, the share of individual claimant countries would naturally be small. In addition, there is a risk attached to excessive dependence of a developing country on foreign capital. In India, in particular, we would not allow the donor countries to influence and dominate our domestic and foreign policies. We would prefer foreign aid to be channelised through international agencies like the World Bank and its affiliates. A point often discussed in India is whether we should permit multinational corporations to participate in our development efforts. The problem is whether they would accept our terms, specially when they have more alternative avenues elsewhere in the world. Such foreign capital as would be forthcoming through international agencies, Aid-India Club etc. would have to be put to the most advantageous use.

In a situation where we are unable to secure foreign capital on a scale commensurate with our needs, we will have to depend primarily on our domestic sources for raising funds needed for industrialisation. If the bulk of the resources is to be raised within the domestic economy itself, vigorous efforts will have to be made in two directions: (a) initiating effective measures to enlarge surpluses in the different sectors of the economy by increasing production and restraining consumption; (b) effective mobilisation of the available surpluses and effective disbursement of the same
through rearranging/strengthening the institutional machinery in the country.

The task of increasing production in different sectors of the national economy is formidable enough. It is time consuming too. But much more difficult is the task of lowering further the consumption level in the country which is already low. Placing curbs on their level of consumption in a poor country like India is not an easy task, especially when the society is a democratic one. The only way open to the government in such a situation is to educate the people and persuade them to cut down their consumption needs to the minimum so that the economy could generate surpluses. Meanwhile steps could be taken to fill-up the institutional gaps in the economy, especially in collecting and mobilising the people's savings and also invest them in industries. These institutions assume a special role in that, unlike the ordinary institutions which are concerned with profits alone, they have to ensure purposeful utilisation and direction of the financial resources of the country in order to accelerate the pace of the developmental process of the economy. For this, new institutions may be established and/or existing institutions may be reorganised and strengthened. These steps become vitally necessary, in the context of a country like India pursuing a planned programme of economic development, to enable the private sector play its due role respon-
sibly in fulfilling the plan objectives.

In the last fifty years, especially since the second World War, a host of institutions have emerged in India and in many other developing countries as catalysts symbolising the urge for rapid economic development and an machinery to speed up the same. They have been called as 'Development Banks' or 'Development Corporations'. A 'development bank' is defined as one concerned primarily with the provision of equity capital while a 'development corporation' is described as one concerned with not only provision of equity capital but also with fostering and managing specific companies as well as providing financial support. In practice however, this distinction has been of insignificant value as there has been a continuous widening of the objectives and range of activities of these institutions. They are therefore generally called as 'development banks'. A distinction, however, is made between the development and a finance Corporation or a term-financing institution on the basis of whether or not the institution provides assistance in the form of underwriting and direct investment in shares. If this function is not performed, then the institution is called just a finance corporation or term-lending agency.²

² Simha, S.L.N., Development Banking In India With Special Reference to a State Level Institution - Karnataka, (Madras, 1976), p.5.
The wide ranging activities of the development banks include activities such as conduct of techno-economic surveys, feasibility studies, setting up of consultancy organisations etc. apart from the provision of financial assistance and equity capital. Sights are set to include the development of material infra-structures and social utilities too. Further, the urge for economic development has stimulated in these institutions acceptance of functions of avowed social and economic significance such as dispersal of industries from metropolitan areas to total development of certain selected backward areas with a view to achieving a wide diffusion of entrepreneurship. Currently these activities are called as 'promotional activities'. Because of these, the institutions have become an integral part of development planning in many countries and assumed certain leader role in relation to the trends and currents of development planning.

If these institutions are to play their role effectively it is necessary that each institution is organizationally strong enough to discharge the role assigned to it and be able to successfully coordinate with other institutions in those areas where the institution cannot operate alone. It is aptly said

that its success depends on how it reacts to the environment in which it works. Essentially the functions of a development bank relate to the evaluation of investment proposals. In this, it has to go through virtually the same kind of examination of the proposal that the entrepreneur himself goes through. Success of a sound appraisal of the proposal depends greatly, however, on shaping the proposal so as to minimise the risks of failure in it. This implies that the institutions appraisal goes beyond the description and the relatively simplistic financial analysis that often go by in the name of appraisal. For this purpose, the institution must have not only financial skills but also engineering and technological skills at its disposal. In other words, the institution is expected to fill in the gap of experience which most often is missing in the developing economies.

The function of a development bank does not stop with its decision to finance a project. Indeed, it grows more through supervision thereafter. This involves keeping a finger on the pulse of the enterprise, diagnosing the difficulties and advising on their solution. As the development bank makes use of the public funds, it has a social responsibility to ensure that units assisted by them do not become sick.

Further, the development bank, through its experience, becomes repository of knowledge regarding the sectors in
which it is working. This knowledge can be effectively used in advising the government in its tax proposals, incentive schemes etc. pertaining to the industrial policy. The business community can also be guided in matters going for beyond specific projects and thereby improve their standard of operation. It can also take steps to educate the industrial community on a host of subjects aimed at sharpening their preconceptions on what goes wrong with the industrial projects and how to deal with those problems. In addition, it can provide training facilities for imparting knowledge on various aspects of the industrial sector. All these things will require on the part of the development bank a dynamic management, qualified and trained staff and financial resources.

Moreover, in the course of its functioning a development bank may be beset with new problems. To face them successfully, it will have to regularly reinforce, modify and adapt itself according to the demands of the time. It becomes necessary, therefore, to examine the functioning of a development bank constantly so that the bank becomes capable of playing its role effectively in the economy. This is all the more vital with the emergence of a number of development banks in a country like India. Indeed "we have thus come to the point when it is more important to improve the efficacy of the framework of development banking by consolidating and
strengthening it, than to continue to expand the institutional set-up indefinitely, at this stage."

The object of the present study is to evaluate at the micro level, the role and functioning of the Tamilnadu Industrial Investment Corporation which was established in 1949 to promote industrialisation within the state of Tamilnadu by providing industries with financial assistance in diverse spheres. It qualifies for the study by its long standing in the field of industrial finance in the country. Earlier studies on the institutional financing of industries in the country at the academic level have been of a comprehensive nature and at the national level only. Because of their comprehensive approach, these studies do not deal in detail with the individual state level financial institutions. In the present context of the country's economic development more and more regional studies are required so that the problems of each state are identified and solved in order to bring about a balanced economic development in the country. Moreover in many of the existing studies, including the one conducted by the

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4. Ibid., p.55.
Reserve Bank of India in 1964 and 1972 respectively, there is only a passing reference to the Tamilnadu Industrial Investment Corporation as it does not fall within the strict definition of State Financial Corporations though, of late, it is deemed to be one such for all practical purposes. All these factors pointed to the need for a study of this institution which has a crucial role in the industrialisation of Tamilnadu. Our present attempt is just to meet this need. However, mention may be made here of a micro-level study on Karnataka State Financial Corporation which is relevant to our present venture. In the present work, it is proposed to undertake an investigation into the Corporation's objectives, its organisational structure, resources, policies and procedures, functioning and achievements. The plan of study is as follows:

The study is divided into eight chapters. The first chapter gives an account of the progress of development banking in India. In this, pre-independence and post-independence conditions have been described. The second chapter reviews the economic scene of Tamilnadu against the background of which this study is to be made. The next chapter reviews the institutional financing of industries in Tamilnadu. An analysis

7. Simha, S.L.N., loc.cit.
of the objectives, organisational structure and the resources of Tamilnadu Industrial Investment Corporation is made in the fourth Chapter. The fifth Chapter deals with the policies and performance of the Corporation in financing industries in the State. This is continued in the sixth Chapter too. The seventh Chapter relates to the promotional activities of the Corporation. The eighth and final chapter attempts an appraisal of the Corporation's activities and offers suggestions for improvement. The data and material for the study have been collected from diverse, authentic sources such as the publications of the Tamilnadu Industrial Investment Corporation, the Tamilnadu State Government, the Industrial Development Bank of India and the Reserve Bank of India and journal articles of scholars of repute. Information was also obtained through field work involving use of schedules/questionnaires.

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* The tables have been generally presented as part of the running matter on the right-hand page but, for the convenience of the reader, some of them have been presented on the left-hand page for ready reference.
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