CHAPTER - VIII

CONCLUSIONS

The adequate financial resources are vital for increasing the pace of industrialization and, therefore, existence of suitable agencies to mobilise and develop resources that are available internally becomes essential. It is at this stage that financial institutions come into picture. Financial institutions not only help in the mobilisation and collection of scattered savings from different sections of population, but they also help to increase the overall level of savings and investment and allocate scarce savings more efficiently among most desirable and productive investments, in accordance with the national priorities.

In the pre-Independence period, India could not achieve much on the front of industrial development. Among other factors, one of the most important factor which hampered the development of industries under the British rule was the lack of financial institutions, particularly lack of specialized financial institutions in the country, to meet the financial requirements of the industrial sector, especially the requirements of medium and long-term finances. Immediately after Independence, the absence of an organised and developed capital market was keenly felt. Government of India, consistent with its policy of playing an active role in the industrial development of the country took appropriate steps towards creating a network of financial institutions in the country to fill the gaps in the supply of long-term finance to industry. Beginning with the setting-up of IFCI in 1948, the structure of financial institutions in India has so greatly diversified and strengthened that at present a battery of such institutions has come into being with the ability to supply finance to a variety of enterprises in diverse forms for different purposes.
The importance attached to the special institutions for financing industry is increasing since Second Plan. Development planning has changed the very conception of the industrial financing problem in India. In the preplanning period the problem was concerned essentially in terms of specific gaps indicated by the financial difficulty faced by small and medium sized enterprises. However, the expansion of institutional financing facilities is indeed the most outstanding post-Independence development in the sphere of industrial finance, whereas before Independence, intermediary financial institutions were hardly of any significance in the raising of long-term industrial finance, the position today is quite different with a variety of institutions providing substantial amounts by way of medium and long-term loans, playing a leading part in the underwriting of new issues, guaranteeing credit from other sources and also forming an influential class of buyers on the stock market. Also, the whole financial system has come under the increasing control of public authorities, partly through extension of Government and semi-Government financial institutions and partly through more stringent regulation of private financial institutions.

Upto 1980, the operations of AFIs in the form of assistance sanctioned and disbursed were modest. But in the post 1980 period, there has been phenomenal growth in the assistance granted by the financial institutions in the country. During eighties, the term-lending institutions operating at national and State levels have emerged as a significant source of term finance to the industrial sector. During 1980-97, assistance sanctioned by AFIs increased at an average annual growth rate of 21.2 per cent, while assistance disbursed by them increased at an average of 21.8 per cent per annum during the same period. Thus, during 1980-97 both assistance sanctioned and disbursed by AFIs have increased at about the same rate. Part of this increase in assistance is
due to the inflationary increase in the supply of money and due to the efforts of the financial institutions to provide increasing assistance to the industrial sector. During 1980-97, assistance sanctioned by ICICI has increased at an average annual growth of rate of 30.7 per cent while that of IFCI increased at the rate of 30.1 per cent, and IDBI and SFCs at 18.1 per cent each during the same period. Thus, both ICICI and IFCI have recorded an increase in their annual growth rate of sanctions which is higher than annual growth rate of sanctions of AFIs, but on the other hand, annual growth rate of sanctions of both IDBI and SFCs has increased at a lower rate during 1980-97. Like sanctions, assistance disbursed by both ICICI and IFCI has also increased at a rate higher than average growth rate of disbursements of assistance by AFIs, but average growth rate of assistance disbursed by both IDBI and SFCs were lower than that of AFIs. This shows that ICICI and IFCI have dominated the field of industrial finance during 1980-97. A notable feature is that assistance disbursed by ICICI, IFCI and IDBI has increased at a lower rate than their sanctions, but assistance disbursed by SFCs has increased at a higher rate than their sanctions. This shows that SFCs have been quicker in the disbursements of their assistance than ICICI, IFCI and IDBI.

A major part of the assistance sanctioned by AFIs was in the form of loans consisting of rupee loans as well as foreign currency loans. AFIs sanctioned 76.9 per cent of the total assistance in the form of loans by the end of March 1997. Rupee loans accounted 66.3 per cent of total sanctions, while foreign currency loans accounted 10.6 per cent of total sanctions by AFIs. A break-up of total loans shows that 86.3 per cent of the total loans was in the form of rupee loans, while foreign currency loans accounted 13.7 per cent of the total loans sanctioned by
AFIs. Thus, rupee loans constitute the major form of assistance sanctioned by AFIs.

IFCI grants assistance to industries directly as well as indirectly through other institutions. By the end of March 1997, IFCI sanctioned 92.4 per cent of its total assistance in the form of direct assistance. Loans (consisting of rupee loans as well as foreign currency loans) constitute the single most important component of IFCI's direct financial assistance to industrial sector forming 75.6 per cent of total direct assistance upto March 1997. A break-up of total loans shows that 61.5 per cent of the total direct assistance was in the form of rupee loans, while 14.1 per cent in the form of foreign currency loans. This indicates the significance of loans in the total direct assistance sanctioned by IFCI.

Like IFCI, loans also constitute the single largest component of ICICI's financial assistance. ICICI sanctioned 61.1 per cent of its total assistance in the form of loans upto March 1997. However, ICICI has granted a significant proportion of its assistance in the form of foreign currency loans. A break-up of total loans shows that 25.2 per cent of the total assistance was in the form of foreign currency loans, while 35.9 per cent in the form of rupee loans. However, the relative shares of both foreign currency loans and rupee loans have declined continuously during 1980-97. The annual average of foreign currency loans declined from 32.3 per cent during 1980-85 to 24.5 per cent during 1985-90 and further to 14.6 per cent during 1990-97. Likewise, the annual average of rupee loans declined from 57.4 per cent to 42.0 per cent and further to 37.1 per cent during the same period.

IDBI's assistance to industries consists of both direct and indirect assistance. By the end of March 1997, IDBI sanctioned a major
part of its assistance in the form of direct assistance constituting 63.3 per cent of the total assistance. However, loans constitute the single most important source of the direct assistance of IDBI forming 79.2 per cent of the total direct assistance sanctioned by IDBI. A break-up of total loans shows that 66.0 per cent of total direct assistance was in the form of rupee loans, while 13.2 per cent in the form of foreign currency loans.

Rupee loans constitute the single most important component of SFCs assistance. Upto March 1997, total rupee loans sanctioned by SFCs accounted to 99.6 per cent of the total assistance. This clearly reflects the importance of rupee loans in the total assistance sanctioned by SFCs over the years. Thus, IFCI, ICICI, IDBI and SFCs all have provided major part of their assistance in the form of loans. This reflects that financial institutions (national as well as State level) act basically as term-lending institutions.

AFIs also grant their financial assistance in the form of underwriting and direct subscriptions. In fact, it is the second important form of assistance by AFIs, but underwriting assistance granted by them has been of limited magnitude. By the end of March 1997, AFIs sanctioned 18.4 per cent of their assistance in the form of underwriting and direct subscriptions followed by ICICI 12.3 per cent, IFCI 12.2 per cent and IDBI 9.3 per cent. Though financial institutions have also granted assistance to industries in the form of guarantees but their share is very low. By the end of March 1997, AFIs sanctioned only 4.7 per cent of their total assistance in the form of guarantees, while the share of ICICI and IDBI was 8.3 per cent and 7.7 per cent respectively.

A notable feature of AFI's financial operations is that they grant assistance to all sectors of the economy. However, private sector
has been the largest recipient of assistance from the financial institutions. Upto March 1997, AFIs sanctioned 81.3 per cent of their total assistance to the private sector. IFCI sanctioned 85.5 per cent of its total assistance to the private sector followed by ICICI 85.3 per cent and IDBI 78.9 per cent. Thus, IFCI and ICICI grant major part of their assistance to the private sector. Public sector projects have been the second largest beneficiary of assistance from the financial institutions. Upto March 1997, AFIs sanctioned 12.2 per cent of their total assistance to the public sector. However, relative share of public sector in total sanctions increased during eighties reflecting the fact that the financial institutions have paid greater attention to the financing of projects in the public sector. IDBI sanctioned 13.2 per cent of its total assistance to the public sector followed by ICICI 8.7 per cent and IFCI 4.1 per cent upto March 1997. This reflects that both IFCI and ICICI are mainly interested in financing the projects in the private sector. AFIs sanctioned only 6.5 per cent of their total assistance to joint and cooperative sector projects. However, the relative share of joint sector increased during eighties but declined during nineties. On the other hand, we notice continuous decline in the share of cooperative sector over the years. This is not a healthy development. In India, where large inequality of income and wealth is existing, cooperatives can play a very important role in the redistribution of income in favour of poor people and hence financial institutions should increase their assistance to the projects in the cooperative sector. Likewise, IFCI, ICICI and IDBI have sanctioned very less amount of their assistance to the projects in the joint and cooperative sectors.

Industrywise distribution of assistance sanctioned by AFIs reflects that a major portion of their assistance has gone to growth-oriented basic and capital goods industries like basic metals, metal
products, chemicals and chemical products, electrical and electronic equipment, cement, paper, transport equipment, electricity generation and machinery. These industries together accounted 58.4 per cent of the total assistance sanctioned by AFIs upto March 1997. ICICI has sanctioned 63.0 per cent of its assistance to the basic and capital goods industries followed by IFCI 60.8 per cent, IDBI 58.5 per cent and SFCs only 35.1 per cent. This reflects that ICICI, IFCI and IDBI have taken greater interest in the development of non-traditional and growth-oriented industries by making greater part of their assistance available to these industries. As against this, SFCs have paid greater attention on the development of consumer goods and services industries. This is a healthy sign as national level institutions are helping in the development of basic and capital goods industries while regional level institutions are paying greater attention to the consumer goods and services industries, so that balanced industrial development of the country is attained. Thus, financial institutions by providing substantial part of their assistance to basic and capital goods industries have helped in the creation of strong industrial base in the country.

AFIs grant assistance for the establishment of new projects as well as existing projects for their expansion/diversification and modernization/renovation purposes. Upto March 1997, 40.3 per cent of the total assistance of AFIs has gone for the establishment of new projects, while remaining 59.7 per cent has gone to the existing projects. IFCI has granted 56.4 per cent of its total assistance to the new projects and remaining 43.6 per cent was granted to the existing projects for their expansion/diversification and modernization/renovation purposes by the end of March 1997. ICICI has granted 20.7 per cent of its total assistance to the new projects, while rest 79.3 per cent was granted to the existing projects for various purposes. IDBI has granted
45.7 per cent of its total assistance to the new projects, while remaining 54.3 per cent was granted to the existing projects. This reflects that IFCI and IDBI have paid relatively greater attention to the establishment of new projects, while ICICI has given preference to the existing projects. As against this, 74.4 per cent of the total assistance sanctioned by SFCs has gone to the new projects, while remaining 25.6 per cent to the existing projects. This shows that SFCs are basically interested in the establishment of new projects and existing projects are not getting much attention from them. This may be due to the fact that basic aim of SFCs is to grant assistance to small and medium industries in their respective States which generally do not have major expansion or diversification or modernizations plans.

Statewise distribution of assistance sanctioned by AFIs shows considerable concentration among few States like Maharashtra, Gujrat, Tamil Nadu, U.P., Karnataka, Andhra Pradesh, Madhya Pradesh and West Bengal. These eight States together accounted 74.3 per cent of the total assistance sanctioned by AFIs by the end of March 1997. A disappointing feature is that backward States like Bihar, Rajasthan, Orissa, Assam, etc. have got very low share in the assistance granted by AFIs. North-Eastern States have been almost neglected by AFIs which together accounted only 0.6 per cent of the total assistance sanctioned by AFIs. A healthy development is that during 1980-97 shares of some of the developed States like Karnataka, Gujrat, Tamil Nadu and West Bengal have declined, while shares of backward States like Madhya Pradesh, U.P. and Himachal Pradesh have increased leading to reduction in concentration of assistance sanctioned by AFIs. However, despite some reduction in the degree of concentration of assistance among few relatively developed and large States they continue to be the largest beneficiaries of assistance from AFIs.
Likewise, assistance sanctioned by IFCI shows considerable concentration among few relatively developed and large States like Gujrat, Maharashtra, U.P., Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Karnataka and Rajasthan. These eight States accounted 76.8 per cent of the total assistance sanctioned by IFCI. Likewise, 84.2 per cent of the total assistance sanctioned by ICICI has gone to the States of Maharashtra, Gujrat, Tamil Nadu, Karnataka, Andhra Pradesh, U.P., West Bengal and Madhya Pradesh. IDBI sanctioned 77.2 per cent of its total assistance to the States like Maharashtra, Gujrat, Tamil Nadu, U.P., Andhra Pradesh, Karnataka, Madhya Pradesh and Rajasthan. Statewise distribution of assistance sanctioned by SFCs shows considerable concentration among few States. By March 1997, SFC's of Karnataka, Maharashtra, Tamil Nadu, U.P. and Gujrat have accounted 60.1 per cent of total sanctions. However, backward States have got very low share in the total assistance sanctioned by these financial institutions. We also notice that six North-Eastern States have been almost neglected by these financial institutions. There has been significant changes in the flow of assistance to different States during 1980-97, leading to reduction in the concentration of assistance. However, still situation is not satisfactory as it continues to be concentrated in few States specially developed States. Financial institutions should further reduce regional concentration of assistance by providing greater assistance to relatively backward States and reducing assistance to relatively developed States.

Since the inception of planning, Govt. of India has emphasized on balanced regional development of the country. For this purpose, special emphasis has been placed by the Government for rapid industrial development of the backward areas. In pursuance of Government's policy to accelerate the industrialization of backward regions, AFI's have played an increasingly important role in providing assistance to projects located
in identified backward areas of the country. Upto March 1997, AFIs sanctioned 33.7 per cent of their total assistance to the projects located in identified backward areas of the country. However, there has been continuous decline in the share of assistance sanctioned to backward areas by AFIs from 40.4 per cent by March 1983 to 38.4 per cent by March 1990 and further to 33.7 per cent by March 1997. This is not a desirable trend. Statewise distribution of assistance shows considerable concentration among few relatively developed and large States like Gujrat, Maharashtra, U.P., Karnataka, Madhya Pradesh, Andhra Pradesh, Tamil Nadu and Rajasthan. These eight States together accounted 74.8 per cent of the total assistance sanctioned to the backward areas by March 1997.

IFCI sanctioned 47.03 per cent of its total assistance to the projects located in backward areas of the country by March 1997. In fact, there has been significant increase in the flow of assistance to the backward areas over the years. Statewise distribution of assistance sanctioned to backward areas shows considerable concentration among few relatively developed and large States like Gujrat, Madhya Pradesh, Maharashtra, U.P., Karnataka, Andhra Pradesh, Rajasthan and Tamil Nadu. These eight States together accounted 74.6 per cent of the total assistance sanctioned to the backward areas by March 1997. ICICI sanctioned 25.4 per cent of its total assistance to the projects located in backward areas of the country by March 1997. However, assistance sanctioned by ICICI to backward areas has increased at an average annual growth rate of 48.6 per cent during 1980-90, but declined to 29.8 per cent per annum during 1990-97. IDBI sanctioned 36.0 per cent of its total assistance to the backward areas upto March 1997. There has been continuous decline in the share of assistance sanctioned to the backward areas by IDBI from 42.0 per cent by March 1983 to 41.6 per
cent by March 1990 and further to 36.0 per cent by March 1997. Average annual growth rate of sanctions to the backward areas by IDBI declined from 42.8 per cent during 1980-90 to 32.4 per cent during 1990-97. SFCs sanctioned 44.2 per cent of their total assistance to the backward areas. This reflects that State level institutions have played relatively greater role than national level institutions in financing projects located in the identified backward areas. However, the relative share of assistance sanctioned to the backward areas by SFCs increased during eighties but declined during nineties. Statewise distribution of assistance sanctioned by these financial institutions shows considerable concentration among few relatively developed and large States like Maharashtra, Gujrat, Karnatka, U.P., Tamil Nadu and Andhra Pradesh, while backward areas of backward States such as Bihar, Orissa, Rajasthan and North-Eastern States, etc. have got very low share. However, over the years some decline in the concentration of assistance has taken place, but still situation is not very much satisfactory. Financial institutions should provide greater part of their assistance meant for backward areas on a priority basis to achieve balanced industrial development of the country.

Institutionwise–assistancewise analysis reflects that IDBI, being the apex body in the field of industrial finance, has been the largest source of funds to the industrial sector. By the end of March 1997, IDBI accounted 31.9 per cent of the total assistance sanctioned by AFIs followed by ICICI 22.3 per cent, UTI 11.6 per cent, IFCI 9.8 per cent, SIDBI 7.1 per cent, SFCs 6.5 per cent, LIC 4.4 per cent, SIDCs 3.3 per cent, GIC 1.6 per cent, IIBI 1.1 per cent and others 0.4 per cent. However, over the years we notice significant changes in the distribution of assistance sanctioned by different financial institutions. IDBI and IFCI maintained their first and fourth position in the total
industrial finance respectively but SFCs lost their second position to sixth position and ICICI improved its position from third place to second place during 1980-97.

Institutionwise-sectorwise analysis of assistance shows that IDBI, being the apex body in the field of industrial finance, has been the largest source of funds to all sectors of the economy. IDBI accounted 37.1 per cent of the total assistance sanctioned to the private sector by March 1997 followed by ICICI 29.3 per cent, IFCI 12.9 per cent, UTI 10.9 per cent, SIDCs 4.5 per cent, LIC 3.9 per cent and IIBI 1.4 per cent. As far as public sector is concerned, IDBI contributed 41.7 per cent of the total assistance followed by UTI 22.7 per cent, ICICI 20.1 per cent, LIC 8.5 per cent, IFCI 5.0 per cent, SIDCs 1.3 per cent and IIBI 0.7 per cent. However, IDBI accounted 47.7 per cent of the total assistance sanctioned to the joint sector followed by ICICI 24.0 per cent, IFCI 16.9 per cent, SIDCs 6.6 per cent, UTI 3.3 per cent and IIBI 1.5 per cent. In case of cooperative sector, IDBI contributed 37.8 per cent of total sanctions followed by ICICI 29.5 per cent, IFCI 21.2 per cent, LIC 5.1 per cent, UTI 3.6 per cent, IIBI 1.5 per cent and SIDCs 1.3 per cent by March 1997. This reflects that IDBI, SIDCs and IIBI accounted their largest share in the total assistance sanctioned to the joint sector (47.7 per cent, 6.6 per cent and 1.5 per cent respectively), while ICICI and IFCI in the total sanctions to the cooperative sector (29.5 per cent and 21.2 per cent respectively), and UTI and LIC in the total sanctions to the public sector (22.7 per cent and 8.5 per cent respectively).

Institutionwise-industrywise analysis of assistance reflects that IDBI accounted the largest share of the total assistance sanctioned to the industries such as services, textiles, basic metals, electricity
generation, food products and all other industries together, while on the other hand ICICI claimed largest share of total sanctions to the industries like chemicals and chemical products, electrical and electronic equipment and machinery. It also reflects that IDBI accounted its largest share in the total assistance sanctioned to electricity generation industry (44.6 per cent), while ICICI to electrical and electronic equipment (36.2 per cent), IFCI, UTI and LIC to basic metals industry (17.2 per cent, 16.9 per cent and 7.6 per cent respectively), SFCs, SIDCs and IIBI to food products industry (15.4 per cent, 7.6 per cent and 2.1 per cent respectively) and SIDBI to machinery industry (11.5 per cent) by March 1997. This also reveals the fact that national level institutions are more interested in the development of growth-oriented basic and capital goods industries, while State level institutions have paid greater attention on the development of consumer goods industries. This is desirable for the industrial development of the country and this trend should be continued.

Institution-wise-State-wise analysis of assistance reveals that IDBI claimed the largest share of the total assistance sanctioned to all States and Union Territories except Maharashtra, while ICICI accounted the largest share of the total assistance sanctioned to Maharashtra by March 1997. We notice that IDBI accounted its largest share in the total assistance sanctioned to Andhra Pradesh (42.7 per cent), while ICICI, UTI and LIC to Maharashtra (34.0 per cent, 10.1 per cent and 4.7 per cent respectively), IFCI and SIDCs to U.P. (15.9 per cent and 6.6 per cent respectively), SFCs to Karnataka (13.0 per cent), and SIDBI and IIBI to all other States and Union Territories together (8.3 per cent and 1.6 per cent respectively). This also reflects the fact that IDBI, ICICI, IFCI and SFCs together accounted largest share in the
total assistance sanctioned to Andhra Pradesh constituting 84.7 per cent by March 1997 followed by U.P. 84.3 per cent, Gujrat 80.0 per cent, Karnatka 79.7 per cent, all other States and Union Territories together 78.3 per cent, Maharashtra 76.5 per cent and Tamil Nadu 75.4 per cent. Thus, these financial institutions grant substantial amounts of their assistance particularly to less developed States of the country. This is healthy development as it reduces the concentration of assistance among few relatively developed States of the country.

Institutionwise-areawise analysis of assistance shows that IDBI has been the largest source of funds to the projects located in both backward and non-backward areas of the country. However, we notice that IDBI, IFCI, SFCs and SIDCs accounted their largest share in the total assistance sanctioned to backward areas, while ICICI, SIDBI and IIBI to non-backward areas of the country. IDBI accounted 39.9 per cent of the total assistance sanctioned to backward areas by March 1997 followed by IFCI 16.8 per cent, SFCs 10.4 per cent and SIDCs 5.9 per cent. On the other hand, ICICI accounted 32.0 per cent of the total assistance sanctioned to non-backward areas followed by SIDBI 8.4 per cent and IIBI 1.5 per cent.

Finally, the important findings of the study can be summarized as follows:

1. During 1980-97, the average annual growth rate of both assistance sanctioned and disbursed by AFIs have increased at about the same rate.

2. The average annual growth rate of assistance sanctioned and disbursed by both IFCI and ICICI have increased at a higher rate than that of AFIs, while IDBI and SFCs have recorded a lower growth rate.
3. Assistance disbursed by IFCI, ICICI and IDBI has increased at a lower rate than their sanctions, while assistance disbursed by SFCs has increased at a higher rate than their sanctions.

4. Loans (consisting of rupee loans as well as foreign currency loans) constitute the major form of assistance sanctioned by the financial institutions.

5. Private sector has been the largest recipient of the assistance of financial institutions followed by public sector. However, both IFCI and ICICI have confined their assistance particularly to the private sector.

6. IFCI, ICICI and IDBI have sanctioned major part of their assistance to non-traditional and growth-oriented industries but SFCs have paid greater attention on the development of consumer goods and services industries.

7. Financial institutions have sanctioned their assistance for the establishment of new as well as existing projects. However, ICICI has confined its assistance particularly to existing projects, while SFCs to new projects.

8. Statewise distribution of assistance sanctioned by financial institutions shows considerable concentration among few large and developed States. North-Eastern States have been almost neglected by the financial institutions.

9. Financial institutions have granted a substantial part of their assistance to projects located in identified backward areas of the country, but their Statewise distribution reflects concentration among
few relatively developed and large States. Despite of decline in the concentration of their assistance still the situation is not very much satisfactory.

10. IDBI has been the largest source of funds to the industrial sector followed by ICICI, UTI, IFCI, SIDBI, SFCs, LIC, SIDCs, GIC and IIBI.