ABSTRACT

The adequate financial resources are vital for increasing the pace of industrialisation 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 populations, 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 developing countries, availability of finance is one of the important bottlenecks in the process of industrial development. Since the personal savings are meagre due to lower per capita incomes in these countries, the chances of increasing the rate of savings appear poor. However, much can be done by putting greater emphasis on institutionalization of savings. Therefore, one of the most pressing needs of the developing countries is to promote financial integrity, establish effective and cheap protection for rights of creditors and create the financial institutions through which the savings of the community can be effectively channelled into the hands of active investors.

Under the British rule 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 was the lack of financial institutions, particularly lack of specialised financial institutions, to meet the financial requirements of the industrial sector, especially the requirements of medium and long-term finances. 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. After Independence, the first institution which was set up in the country was IFCI in 1948 followed by the establishment of SFCs under the SFC Act 1951, NIDC (1954), ICICI (1955), NSIC (1955), LIC (1956) and RCI (1958). A major landmark in this field took place in 1964 when IDBI was established as the apex institution in the field of industrial finance. UTI was also established in the same year. IRCI was set up in 1971 which was later renamed as IRBI in 1985 and then IIBI in 1997. GIC came into existence in 1973. SIDBI was set up in 1990 as a wholly-owned subsidiary of IDBI. SIDCs were set up during sixties and early seventies under the Companies Act, 1956 or as autonomous Corporations under specific State Acts. RBI has played an important role in the creation of these financial institutions. Thus, now we have a fairly well developed financial institutions for the provision of term-finance to the industry. These institutions have served the country fairly well in meeting the financial requirements of the industrial sector.

In the present study entitled, "A Comparative Study of Institutional Sources of Industrial Finance in India", an attempt has been made to examine the contributions made by various financial institutions towards industrial finance and their requirements for the industrial development of the country. In the light of above, the purpose is to ascertain the role of financial institutions in a comparative manner, emphasizing on institutionwise-assistancewise, institutionwise-sectorwise, institutionwise-industrywise, institutionwise-Statewise and institutionwise-areawise development witnessed in the industrial sector of the country. The integrated structure of financial institutions constitute the main theme of the study. However, in order to make an indepth study, four financial institutions of diverse nature namely IFCI, ICICI, IDBI and SFCs have been chosen which together provided 70.5 per cent of the total assistance
sanctioned by AFIs to the industrial sector by the end of March 1997.

This study is limited to the period of seventeen years from 1980-81 to 1996-97. For the purpose of comparative analysis cumulative data by the end of March 1983, 1990 and 1997 have been taken into account. The study is exclusively based on secondary data published by RBI, IFCI, ICICI, IDBI and Government of India, etc. Trend analysis has been used as the main technique in this study and with the help of time series data, the growth and pattern of financing by the financial institutions have been analysed. The relative performance of each financial institution in the total assistance sanctioned to the industrial sector on the basis of various criteria has been ranked.

The whole study is divided into eight chapters. Chapter first introduces the subject matter of the study by dealing with the theoretical relationship between institutional financing and industrial development.

Chapter second deals with the structure of industrial finance in India. Apart from historical background and brief introduction of the role of managing agents in Indian economy in the pre-Independence period, chapter gives the details of the development of institutional framework after Independence. It also discusses the contribution of different financial institutions in providing assistance to the industrial sector of the country.

Chapter third makes an elaborate assessment of the overall operations and functioning of IFCI. IFCI was established in 1948 to make medium and long-term credits more readily available to industrial concerns in India, particularly in the circumstances where normal banking accommodation is inappropriate or recourse to capital issue method is impracticable. Chapter reveals that during 1980-97 assistance sanctioned and disbursed by IFCI has increased at an annual average growth rate of 30.1 per cent and 28.3 per cent respectively, which is higher than the growth rate of sanctions and disbursements of AFIs. IFCI has granted
92.4 per cent of its total assistance in the form of direct assistance. Loans constitute the single most important component of IFCI's direct financial assistance forming 75.6 per cent of total direct assistance. Private sector has been the largest recipient of IFCI's assistance followed by joint, public and cooperative sectors.

IFCI has sanctioned 60.8 per cent of its total assistance to the growth-oriented basic and capital goods industries such as chemicals and chemical products, metal products, electricity generation, electrical and electronic equipment, etc. IFCI has granted 56.4 per cent of its total assistance to the new projects and remaining 43.6 per cent to the existing projects for their expansion/diversification and modernisation/renovation purposes. Though IFCI's assistance is spread over all States and Union Territories, but its substantial proportion is concentrated among few relatively developed and large States. IFCI has sanctioned 47.03 per cent of its total assistance to the projects located in backward areas of the country, but a substantial part of this assistance (74.6 per cent) is concentrated among few relatively developed and large States.

Chapter four deals with the overall operations and functioning of ICICI. It analyses the contribution of ICICI in meeting the financial requirements of the industrial sector. ICICI was established in 1955 with the primary objective of providing foreign currency loans to industrial projects and promote industries in the private sector. It is the second largest source of funds to industries next only to IDBI. During 1980-97 assistance sanctioned and disbursed by ICICI has increased at an annual average growth rate of 30.7 per cent and 29.8 per cent respectively, which is higher than the growth rate of sanctions and disbursements of AFIs. In accordance with its objective, ICICI has sanctioned 25.2 per cent of its total assistance in the form of foreign currency loans. Loans (consisting of both foreign currency loans and rupee loans) constitute the single most important component of ICICI's financial assistance forming 61.1 per cent
of total assistance. Sectorwise assistance shows that private sector has been the largest recipient of ICICI's assistance followed by public, joint and cooperative sectors.

Growth-oriented basic and capital goods industries such as basic metals, chemicals and chemical products, metal products, electrical and electronic equipment, electricity generation, machinery, etc. have accounted 63.0 per cent of total assistance. ICICI has granted greater part of its assistance (79.3 per cent) to existing projects for their expansion/diversification and modernisation/renovation purposes, while new projects accounted only 20.7 per cent of its total assistance. Statewise distribution of assistance sanctioned by ICICI shows considerable concentration among few relatively developed and large States. However, over the years the concentration of assistance has declined but still the situation is not very much satisfactory. ICICI has sanctioned 25.4 per cent of its total assistance to the projects located in backward areas of the country, but a substantial part of this assistance (82.5 per cent) has gone to backward areas of few relatively developed and large States.

Chapter five makes an indepth assessment of the overall operations and functioning of IDBI. IDBI was established in 1964 as the principal financial institution for coordinating and supplementing the operations of financial institutions providing term-finance to industry and also as an agency for giving financial assistance to fill in the gaps. During 1980-97 assistance sanctioned and disbursed by IDBI has increased at an annual average growth rate of 18.1 per cent and 16.3 per cent respectively, which is lower than the growth rate of sanctions and disbursements of AFIs. IDBI has granted 63.3 per cent of its total assistance in the form of direct assistance. Loans constitute the single most important component of direct assistance of IDBI constituting 79.2 per cent. Private sector has been the largest recipient of assistance sanctioned by IDBI followed by public, joint and cooperative sectors.
IDBI has sanctioned 58.5 per cent of its total assistance to the growth-oriented basic and capital goods industries such as chemicals and chemical products, metal products, electrical and electronic equipment, machinery, cement, etc. IDBI has granted 45.7 per cent of its total assistance to the new projects, while remaining 54.3 per cent has gone to the existing projects for various purposes. IDBI's assistance is spread over all States and Union Territories, but its major portion of assistance is concentrated among few relatively developed and large States. IDBI has granted 36.0 per cent of its total assistance to the projects located in identified backward areas but, 79.7 per cent of total sanctions to backward areas has gone to few relatively developed and large States.

In chapter six, the contribution of SFCs in meeting the financial requirements of the industrial sector has been analysed. SFCs have been set up under SFCs Act 1951 as specialised State level institutions for providing term-finance to small and medium enterprises. At present, there are 18 SFCs in the country. During 1980-97 assistance sanctioned and disbursed by SFCs has increased at an annual average growth rate of 18.1 per cent and 18.4 per cent respectively, which is lower than the growth rate of sanctions and disbursements of AFIs. However, assistance disbursed by SFCs has increased at a higher rate than their sanctions. Rupee loans constitute the single most important component of SFCs' assistance constituting 99.6 per cent. Performance of different SFCs has varied from one another and from year to year. In accordance with their basic objective, 72.1 per cent of the total assistance sanctioned and 89.3 per cent of the total number of units assisted by SFCs were in the small scale sector.

Industrywise assistance shows that services have been the largest recipient of SFCs' assistance followed by chemicals and chemical products, food products, metal products, paper, basic metals, machinery, etc. SFCs have confined their financing mainly to the new projects which accounted
74.4 per cent of the total assistance, while remaining 25.6 per cent to the existing projects. Statewise distribution of assistance shows that SFC of Karnataka got the highest share followed by Maharashtra, Tamil Nadu, U.P., Gujrat, etc. SFCs sanctioned 44.2 per cent of their total assistance to the projects located in backward areas, but a substantial part of their assistance have gone to backward areas of few States. Sizewise assistance shows that more than half (63.3 per cent) of the SFCs' assistance were in the size range of 10 lakhs to 90 lakhs, while they accounted only 9.5 per cent of the total number of units assisted, while 90.5 per cent of total assisted units in the size range of less than Rs. 10 lakhs got 36.7 per cent share in the total assistance of SFCs.

Chapter seven deals with the overall analysis of AFIs in meeting the financial requirements of the industrial sector. It also deals with the comparative analysis of AFIs. During 1980-97 assistance sanctioned and disbursed by AFIs has increased at an annual average growth rate of 21.2 per cent and 21.8 per cent respectively. 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) constituting 76.9 per cent of the total assistance. Private sector has been the largest beneficiary of assistance sanctioned by AFIs followed by public, joint and cooperative sectors.

AFIs sanctioned 58.4 per cent of their total assistance to growth-oriented basic and capital goods industries. AFIs have granted major part of their assistance (59.7 per cent) to the existing projects for their expansion/diversification and modernisation/renovation purposes, while remaining 40.3 per cent for the establishment of new projects. AFIs' assistance is spread over all States and Union Territories, but major portion of their assistance is concentrated among few States such as 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. AFIs sanctioned 33.7 per cent of their total assistance
to the identified backward areas. However, there has been continuous decline in the share of assistance sanctioned to backward areas by AFIs during 1980-97.

Institutionwise assistance sanctioned by AFIs shows that IDBI, being the apex body in the field of industrial finance, has been the largest source of funds to the industrial sector followed by ICICI, UTI, IFCI, SIDBI, SFCs, LIC, SIDCs, GIC and IIBI.

In the last chapter, conclusions of the present study are given. The important findings of this study are summarised 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.