INTRODUCTION

The process of industrial growth requires, as one of its accompanying structural changes within the economy, the development of a capital market that will provide an adequate and properly distributed supply of finance to those entrepreneurs—whether public or private—who are setting up new industrial plants or expanding existing ones. The availability of money and credit permits entrepreneurs to gain control over the real resources, which enable them to engage in industry by producing and distributing industrial products.

Successful industrialisation has always been dependent on factors such as availability of entrepreneurship, efficient production techniques, skilful management methods and above all adequate financial resources. The adequate financial resources are vital for increasing the pace of industrialisation and, therefore, the existence of suitable agencies to mobilise and develop resources that are available internally becomes necessary. It is at this stage financial institutions come into picture. While the financial institutions can not be an engine of growth, but they can certainly act as a growth inducing factor in the desirable directions.

In the beginning, the would-be entrepreneurs normally find their own financial resources inadequate and, therefore, resort to external sources. The market through which such finance is made available is capital market. The role of capital market is to act as an intermediary to collect community's savings and to channelise them into appropriate productive activities consistent with national priorities. The intermediation of capital market tends to reduce the transaction costs and establishes a kind of relationship between savers and investors which facilitates transfer of savings from surplus sectors to the deficit sectors requiring these resources for investment. The availability of money and credit permits entrepreneurs to

gain control over real resources which enable them to engage in industry by producing and distributing industrial products. The capital market has, thus, crucial role to play in the process of industrial development.

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.

In a developing country, institutional arrangements for the mobilisation and channelling of financial resources must be continuously expanded and adopted to the growing and varied needs of the economy. Even in developed countries, the need for specialised financial institutions is being increasingly felt, though the quantum of assistance channelled through them is small in relation to what is provided by the ordinary capital market mechanism. In developing countries the need for such institutions is much greater and in this connection, a great deal of initiative and assistance is called for by the Government and its agencies.

For a long time industrial development in India has been hampered for want of adequate financial resources. Before Independence, Indian financial system was not responsive to opportunities for industrial investment, and incapable of sustaining a high rate of industrial growth, particularly the growth of new and innovating enterprises. However, after

Independence, 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 to fill the gaps in the supply of finance to industry. 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.

However, financial institutions operating at national or regional levels have emerged as a significant source of term finance to industry. The corporate sector came to rely on the institutional funds for investment. The aggregate institutional sanctions and disbursements of assistance by these financial institutions have increased to a large extent over the years. There is no doubt that the institutional framework for providing industrial finance in the country is now fairly developed and well equipped to meet the growing requirements of the industries.

Review of Literature

In the very beginning, J. Schumpeter emphasized the crucial role of credit institutions in the financing of innovations and thus facilitating economic development. However, recently Gurley and Shaw\(^3\) have developed a theory of finance, wherein they have discussed the role of financial markets and institutions in a growing economy. They have shown that an immature financial system acts as an obstacle to economic development. The theory of finance developed by Gurley and Shaw leads one to consider the entire financial sector's importance in the economic development. They have laid emphasis on the allocation function of the financial intermediaries.

However, the systematic and comprehensive empirical work in this

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field was done for the first time in the United States by R.W. Goldsmith, while in the United Kingdom, a comprehensive survey of financial intermediaries has been made by the Radcliff-Sayers Committee. The importance of financial intermediaries and their crucial role is vividly brought out in these studies. In our country no similar comprehensive study has been undertaken so far. But a few studies covering some financial intermediaries and their role in the growth of industry or agriculture or for the economy as a whole have been completed, both at individual and institutional levels.

In India, the first pioneering work in this field was undertaken by M.S. Joshi in his book entitled "Financial Intermediaries in India" published in 1965. Though the scope of the study has been limited to the agencies which supply finance mainly to large scale industries in the private sector, but Dr. Joshi drew attention to the growing share of financial intermediaries in industrial financing and the crucial role that they play in the country. He reveals the fact that their vigorous growth is an essential pre-requisite for rapid economic development of the country. Before Dr. Joshi, Rosen George has tried to look into the problems of industrial finance especially term-finance in his book entitled "Some Aspects of Industrial Finance in India" published in 1962. Similarly, K.S. Sharma's book "The Institutional Structure of Capital Market in India" (1969), T.V. Sethuraman's work entitled "Institutional Financing of Economic Development in India" (1970), R.M. Saxena's work entitled "Development Banking in India" (1970), P.N. Singh's study "Role of Development Banks in a Planned Economy" deals mainly with such financial intermediaries which cater to the credit needs of the industrial sector of the country.

O.P. Goyal's work entitled "Financial Institution and Economic Growth of India" was published in 1979. He has undertaken a broad coverage of all types of financial intermediaries and institutions involved in financing industrial as well as agricultural sector of the economy. He has also tried to evaluate the role of RBI in the institutional financing of economic development. M.Y. Khan in his book entitled "Indian Financial System: Theory and Practice" (1980) has undertaken a comprehensive account of the main strands in the development of Indian capital market since 1951. It contains a judicious mixture of theory and practice. Likewise, S.A. Ansari, in his book entitled "Financial Intermediaries and Industrial Development" (1998) has analysed the role of specialised financial institutions in meeting the financial requirements of our growing industrial sector and their contribution to industrial development of the country.

Nature and Scope of the Study

The problem of financing industries has acquired more prominence these days. With a faster growth of asset formation which accompanies rapid industrialisation, the proportion of external finance goes on increasing, and particularly the share of indirect external finance becomes larger. Institutional finances are the most important source of indirect external finance. Specialised financial institutions provide long-term loans to industries at concessional rates of interest with a view to faster the industrialisation process of the country. Thus, the role of financial institutions becomes crucial in the process of industrial development of the country.

Industrial finance is one of the chief bottlenecks in our rapid industrialisation programmes and hence it is felt necessary to bring forth the growing importance of financial institutions in this connection. 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-area wise development witnessed in the industrial sector of the country.

The integrated structure of financial institutions constitute the main theme of the study. The structure of financial institutions comprises of:

1. Commercial Banks;
2. All-India Development Banks viz. IFCI, ICICI, IDBI, IIBI, and SIDBI;
3. Investment Institutions viz. LIC, UTI, and GIC,
4. State-level Institutions viz. SFCs, and SIDCs; and
5. Specialised Financial Institutions viz. RCTC, TDICI, and TFCI.

In this study all the above financial institutions have been taken as major components of industrial finance in India. Moreover, these financial institutions except commercial banks have been established after Independence to meet the term requirements of the industrial sector to accelerate the industrial development of the country. An analysis of their operations and workings will help us to find out whether they have succeed in their task or not, and what steps are required to further strengthen the existing structure and improve the functioning of these financial institutions so as the objective of rapid industrial development can be achieved more quickly. In order to make an indepth study, we have chosen four financial institutions namely, Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI) and State Financial Corporations (SFCs), which together accounted 70.5 per cent of the total assistance sanctioned by AFIs by the end of March 1997. IFCI has been taken into account because it is
the oldest and pioneer financial institution in the field of industrial finance. Normally, commercial banks do not extend their credit facilities for medium and long-term capital requirements of the industry and hence, to fill this lacuna, IFCI was established. In fact, it was the result of a conscious policy adopted by the Government of India to stimulate the growth of new industries and the expansion of existing ones, particularly of large scale industries. ICICI has been chosen because it is the only privately-owned financial institution and also, it has occupied the first place as institutional underwriter of capital issues in the country. At the same time, it is the second largest source of finance to industries. IDBI has been chosen because it is the apex institution in the field of industrial finance and apart from being the largest and the residual source of funds to industries, it also coordinates the activities of other financial institutions engaged in this field. Lastly, study of SFCs become essential because they are State level institutions and cater basically the financial requirements of medium and small scale industries in their respective States. Thus, this study has incorporated financial institutions of diverse nature and activities operating at national and State level for providing the financial assistance to industries in the country.

The study is limited to the period of seventeen years from 1980-81 to 1996-97. However, for the purpose of comparative analysis cumulative data by the end of March 1983, 1990 and 1997 have been taken into account. This has been done in order to determine the share claimed by each financial institution at equal interval.

Objectives of the Study

The present study aims at examining the contributions made by financial institutions towards industrial finance in a comparative manner. Objectives of the study are as follows:

(i) To determine the amount of financial assistance granted by financial institutions to industrial sector of the country.
(ii) To examine the flow of financial assistance to different sectors by financial institutions.

(iii) To examine the flow of financial assistance to different industries by financial institutions.

(iv) To examine the role of financial institutions in providing financial assistance to new as well as existing projects for their expansion/diversification and modernisation/renovation purposes.

(v) To examine the flow of financial assistance to different States and Union Territories by financial institutions.

(vi) To ascertain the role of financial institutions in removing regional imbalances by providing financial assistance to projects located in identified backward areas of the country.

Sources of Data and Methodology

The study is exclusively based on secondary data, which have been mainly published by RBI, IFCI, ICICI and IDBI. Most of the relevant data have been collected from various issues of "Report on Development Banking in India" published by IDBI. Data have also been collected from various issues of "Report on Trend and Progress of Banking in India", "Report on Currency and Finance", and "Reserve Bank of India Bulletin" published by RBI. Annual Reports of IFCI, ICICI and IDBI have also been used. Various issues of "Economic Survey" and "Annual Survey of Industries" have also been used for the data. Thus, for the present study data have been collected from reliable and secondary sources.

However, in order to analyse the role of financial institutions in a comparative manner, trend analysis has been used as the main technique in this study. At the same time, with the help of time series data, the growth and pattern of financing by the financial institutions have been analysed. Ranking has been done on the basis of relative performance of each financial institution in the total assistance sanctioned for industrial development of the country.
Scheme of the Study

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. In the beginning, types and functions of financial intermediaries are briefly discussed. The role of three distinct and interdependent activities, namely, saving, finance and investment, in the process of capital formation and their impact on industrial development of the country is discussed in this chapter.

Chapter second deals with the structure of industrial finance in India. In the beginning, financial requirements and sources of finance are discussed briefly. However, 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. It also deals with the composition of assistance sanctioned by IFCI in the form of direct and indirect assistance. In this chapter, performance of IFCI's operations on the basis of different criteria has also been analysed in detail.

Chapter four deals with the overall operations and functioning of ICICI. It studies ICICI's contribution in providing underwriting facilities and foreign currency assistance to Indian industries. At the same time, performance of ICICI's operations on the basis of different criteria has also been analysed.
Chapter five makes an indepth assessment of the overall operations and functioning of IDBI. It also studies the composition of assistance sanctioned by IDBI in the form of direct and indirect assistance. However, performance of IDBI’s operations on the basis of various criteria has also been evaluated in this chapter.

Chapter six is associated with the overall operations and functioning of SFCs. It also highlights the role of SFCs in meeting the financial requirements of the small scale sector. Performance of SFCs' operations has also been analysed on the basis of different criteria.

Chapter seven deals with the overall analysis of AFIs in meeting the financial requirements of the industrial sector. It deals with the quantitative and qualitative role of AFIs. Performance of AFIs' operations on the basis of different criteria has also been analysed in this chapter. At the same time, comparative analysis of AFIs has also been discussed in detail.

Chapter eight summarizes the findings of the present study and tries to make certain observations about the future development of financial institutions in India. Along with, a few suggestions are made for increasing the role of financial institutions in rapid industrial development of the country.