Regional imbalances in economic development have persisted in both developed and developing countries. In the interests of social distributive justice and human welfare, attempts have been made to rectify such regional inequalities. In the Indian context industrial policy was specially forged to minimise regional imbalances and development financial institutions such as the IDBI, the IFCI and the ICICI were to play special roles in encouraging investment in backward areas.

Many studies have been undertaken in the realm of assessing the efficacy of financial institutions as a catalyst for industrial investment in areas with lagged economic development. While the approaches vary with respect to statistical complexities it is generally felt that the financial institutions have not been able to engender economic growth in backward areas to the desired extent. In the process, what has been missed is the suggestion of an alternative view to the macro problem of regional imbalances.

This work takes off from the studies on financial institutions and presents an alternative macro economic framework for reducing regional disparities. Since finance is not the only input into economic development,
(iv)

in the course of investigation into the performance of financial institutions it was deduced that a workable alternative lay in the identification and strengthening of the informal sector.

CONTRIBUTION OF THIS STUDY:

This study contributes to the existing literature on ameliorating regional imbalances in the following manner:

Firstly, a critical assessment is made of the role of financial institutions by studying their impact on regional growth. Secondly, specific attention has been paid to the impact of such institutional finance on industrial units in backward areas specially with respect to cost overruns since 1973. Thirdly, IDBI assisted projects have been studied intensively to provide information on the reasons for their cost overrun, with State-wise, industry-wise, Sector-wise and purpose-wise details. Fourthly, operational performance of a sample of 50 industrial units, 25 each in Backward and Developed areas has been assessed through a series of eleven ratios. Fifthly, an analytical framework is provided wherein the informal sector is treated as the kingpin through which regional inequalities in development can be tackled. This framework is not only analytically consistent, but also empirically meaningful. On the basis of this model, certain valuable suggestions are made regarding the
pattern of industrial finance to minimise regional inequalities in economic development.

This thesis is divided into nine chapters, the first introduces the problem, the methodology adopted and the sources of data.

The second reviews the literature on balanced regional development. The third chapter deals with locational theories and review of backward area development. State-wise scenario is obtained in the fourth chapter regarding regional disparities in industrial growth for India and the fifth chapter describes the role of all India term lending institutions in the industrial development of backward areas.

Chapters six and seven present the empirical analysis on cost and time over-runs as well as operational performance of the sample projects under study. Chapter eight delineates the core of the study in terms of the analytical model with suggestions for further empirical work. Chapter nine sums up the findings of this study regarding the basic apathy and lagged economic development in backward areas which has not been rectified despite the efforts of financial institutions and presents an alternative in terms of a cooperative framework for the units in the informal sector with emphasis on the role of voluntary organisations in the process of economic development.