1.1 Introduction:

The problem of regional imbalance in economic development particularly in Industrial development is not confined only to the developing countries. This problem persists irrespective of the level and state of general economic development of the country, (Robinson, 1969)\(^{(1)}\) Since regional imbalances are a threat to the stability of Socio-economic growth, the existence of relatively depressed economic states within the region comes as a serious concern. E.A.G. Robinson has called these 'depressed' or 'lagging regions' as 'Backward areas' and divergent theories exist on whether these areas should be tackled directly or whether economic development should be allowed to percolate in due course to these centres from advanced areas.

Heston (1967)\(^{(2)}\) has argued that, as economic development proceeds, the major source of regional variations in income will be from industries rather than from agriculture. The regional dimension of the process of industrial development, therefore, has attracted attention of a large number of economists, the world over. Almost all countries are trying to industrialise as fast as possible.
For industrialization is considered as a sine qua non for economic development and a panacea for the vicious problem of economic backwardness. It is not only a key to raising the real per capita income (Moore, 1969) or reducing the real per unit cost of goods and services culminating in better standard of living for the people but also a vital catalyst for a larger transformation of the economy through linkages (Hirschman 1985) and creation of external economies (Rosen Stein Rodan, 1961).

This study presents a critical assessment of the literature on reduction of regional disparities and also contains an empirical investigation into the role of development financial institutions in the Indian context. Finance is only one input into economic development and since the financial institutions hold a myopic view of the problem by restricting themselves to assessing the economic viability of the unit which is provided financial assistance, an insight into the structure and mechanics of development has not been obtained. An attempt is made to overcome this lacuna by providing an analytical framework in this study based on intrinsic factors of linkages which exist in the economy both of a forward and backward nature. Thus efforts have been concentrated towards evolving a workable model of development which aims at reducing regional disparities rather than mere assessment of the role of financial institutions. In fact the statistical tools used to present the basic scenario are just adequate from a descriptive point of view and do not reiterate
the complexities already investigated in other studies. What is more important is that given the current situation in terms of regional inequalities in development, the analytical model presented here provides an empirically meaningful approach which can be articulated and used for formulating policies.

1.2: Comparative Scenario :

There is significant difference between the backward areas of the developed and of the developing countries. In case of the developed countries like the U.K. the backward areas have remained so due to the decline in the growth of industries, while in the developing countries like India, the backward areas have not experienced industrial development because of their rural characteristics. So disparity in the developing countries can be called the disparity between the development of urban and rural areas. Prof. Lipton describes it as 'Rural-urban dichotomy.'

The highly industrialised countries in the west have faced this at one stage or the other of their development process. In Netherlands, for instance, the Western and the Eastern regions are markedly different from each other in terms of per capita income.

The Northern part of Italy and its Southern stretch are distinct from each other from the point of view of industrialisation. Western and Central regions in France
also differ significantly from the Eastern region in terms of employment in manufacturing industry and agriculture. In the U.K., as is well-known the Barlow commission in 1937 and the Political and Economic planning group in 1939 had highlighted the urgent need for industrial dispersal. In Belgium, excluding areas peripheral to Brussels, Antwerp, Cohent etc., the rest of the regions are way behind in industrialisation. In several not so industrialised countries like Peru, Equador and Columbia industrial development is determined predominantly by resource-regions. (7)

1.3: The Indian Scene:

Industrial development that took place in India, before and after independence has been regionally imbalanced. One of the major objectives of economic planning in India, therefore, was to bring about a balanced development of different regions of the country through a decentralised growth of industries. An accelerated development of backward areas would lead to the fruits of economic development being shared equitably by one and all. However, as compared to the magnitude of the problem, not much was done or achieved in terms of this objective during the first three Five year plans. (8) In 1968, Pande committee was appointed by the Planning Commission to recommend the criteria for identification of backward
areas. Another committee headed by Mr. Wanchoo was also appointed by the Central Government to recommend the fiscal and financial incentives for setting up industries in backward areas.

Realising the need for cheaper finance to attract industries in backward districts All-India Financial Institutions - IDBI, IFCI and ICICI also introduced the schemes of concessional finance. Following this the State Government and their agencies also introduced a number of financial and non-financial incentives to promote industries in backward districts.

Usually those government incentives are positive in the form of incentives like location incentives, subsidies etc. (considered as pull factors) and negative in the form of location control and regulation (Considered as push factors). However, India being a democracy with a mixed economy more emphasis has been placed on positive measures to promote industries in backward areas / districts. It is an observable fact that economic progress in India in different regions in the 1950's and 1960's was more rapid in the developed areas than in the less developed areas. In the absence of any definite policy, the government
relied on the policy of industrial licensing to regulate private industrial location as well as the establishment of public sector project to augment industrial investment in backward states.

Since 1971 the government is pursuing the policy of industrial development in backward areas/districts through incentives and subsidies like capital subsidy, grants, loans at concessional rates income tax rebate and Sales tax loans. These incentives are based on the basis of (1) Infant industry argument (2) spread effect argument and (3) Better utilisation of labour.

However, the efforts during 1970-80, created an awareness among the planners and administrators, and a few centres cornered the Lion's share of incentives and subsidies, leading to a new policy in 1982 to expedite industrial development in backward regions. The important ingredients of this policy are categorisation of backward district identification of 'No Industry' districts, Nucleus Industrial Centre, creation of industrial complex and introduction of graded pattern of subsidies. The impact of this policy does not seem to have been spectacular nor has much in-depth study been carried out.
There are a number of studies about the impact of incentives in other countries, conducted by Allen Rodgers on Italy (1979)\(^9\), Naclum Finger on Israel (1971)\(^{10}\), Luttrell W.F. (1962)\(^{11}\), G.C. Cameron and B.D. Clark on Britain (1962)\(^{12}\), William Tabb on U.S.A.\(^{13}\).

In India attempts have been made to assess the impact of assistance of term lending institutions on industrial development of backward areas, by Dr. Menon (1979)\(^{14}\), Dr. Godbole (1978)\(^{15}\), Dr. Sandesara (1982)\(^{16}\), Dr. K.R.G. Nair (1981)\(^{17}\), Dr. (Mrs.) Hemlata Rao (1984)\(^{18}\), Dr. R.H. Dholakia (1985)\(^{19}\), Dr. Saithak (1986)\(^{20}\), Dr. K.R. Sarma (1986)\(^{21}\) with respect to some specific issues.

Finance and credit have been perpetual problems hindering industrial growth specially in industrial areas and financial institutions have tried to provide assistance with the dual purpose of encouraging banking and development activities. In the Indian context such All-India financial institutions have been playing an important role in encouraging industrial units in backward areas.

Recent months have brought about an economic revolution initiating trends which are radically different from what the country has faced in the past four decades. Liberalisation as a process on all fronts and the new package of economic policies on the industrial and trade fronts have now given the market mechanism, indigenous
entrepreneurship and foreign investment and technology crucial roles changing the approach to growth from an import - substitution oriented one to an export - led growth process. Such a strategy can succeed only if regional disparities in growth are overcome by accelerated industrial and agricultural progress through a proper change in technology. Whatever the section of the economy, be it the organised or the unorganised sector has to brace itself to a challenge which if not faced strategically will lead to retrogression making survival all the more difficult.

1.4: The Approach:

In the study, we have therefore attempted to delineate the role played by All India financial institutions in the development of industrial growth in backward areas by comparing projects in such areas with an equal number of projects from the developed regions of the country. Using several statistical ratios based on the balance sheets of such companies, the operational performance of the units have been studied along with time and cost overruns. Taking off from these conclusions as a point of departure, the study attempts to draw a parallel between the informal sector and the units in the backward
areas. After initially identifying several common features between these two sections of the economy, attempts have been made to formulate new methods of intervention by which the financial institutions can service credit facilities to the unorganised or informal sector in order to incorporate it into the process of economic development activity. Further, a theoretical model is enunciated which explicitly incorporates the informal sector into general economic activity, the advantages of such an approach are highlighted and recommendations for further empirical work are suggested.

Thus, the assessment of the role of all India term lending institutions has been used as a sound statistical base to evolve a frame work for integrating the informal sector in a consistent manner. The informal sector is beset with several constraints ranging from lack of government recognition and assistance to poor availability of finance, infrastructure and raw materials. It is entrepreneurship that plays an important role in generating employment and increasing production to such levels that despite hurdles the rate of return of investment is found to be about 17.8 per cent in this sector. Drawing some lessons from the operation of financial institutions in
backward areas, several paradigms have been formulated for providing smooth flow of credit to the unorganised sector and helping them to organise into cooperatives along the Japanese experience.

1.5: The objectives of the study:

The following are the objectives of the Study:

1) To review backward areas development policy for industrialisation since 1950 more particularly since 1970.

2) To examine the role played by All-India term lending institutions (IDBI, IFCI, ICICI) in the development of backward areas.

3) To evaluate the performance of projects assisted by IDBI (for which data were available) located in backward as well as non-backward areas with special reference to cost and time overrun.

4) Financial performance of projects located in backward and developed area (Sample of 50 Projects).

5) To present an analytical framework which is empirically meaningful for the informal sector as a catalyst.
1.6: Methodology and Sources of Data:

A good deal of data, on which this study relies, is collected from secondary sources i.e. extensive use of prospectus, published accounts of companies, annual reports of the various financial institutions and big projects, had been made. The period covered by this study is 1970-71 to 1988-89 in general.

The aspects that are examined are delay in completion (time overruns) and differences between projected and actual cost (cost overruns). Delay or time overrun is measured by difference between the projected and the actual date of commencement of commercial production in terms of months. Cost overrun is measured by the difference between total originally estimated project cost and the actual cost on completion as percentage to the original cost.

To study the operational performance of projects a sample of 50 projects with cost overrun and single location (25 projects located in backward areas and 25 projects located in non-backward areas) is selected from IDBI's projects assisted between 1973-1980. The operational performance of projects have been examined from 1981-1988 on the basis of various financial ratios e.g. current ratio, Quick ratio, Debt/Equity ratio. Return on capital
employed, Gross Profit/Sales, operating profit/Sales, Sales/Gross fixed assets, Sales/Gross Capital employed, total Debt/Net worth etc.

The analytical framework for integration of the informal Sector is based on the process analysis approach whose empirical counterpart is the Input - Output tool. The delivery system for credit to the informal sector uses several building blocks derived from the micro studies on the informal sector. The working of the model is also described wherein the informal sector plays a catalytic role in reducing regional disparities and various possibilities for using the model in an empirically meaningful manner are indicated.

The main sources of data are listed below:

1) IDBI - Operational statistics.

2) IDBI - Report on development banking in India.

3) IDBI - Annual Report.

4) Report on General Issues relating to backward areas Development Published by National Committee on the Development of Backward areas.

1.7 : **CHAPTER SCHEME** :

The Chapter Scheme of this study is as follows:

**CHAPTER I**, is introductory in nature and delineates the problem of regional disparities in India followed by an identification of the objectives of the study as well as the methodology adopted and the sources of the data base for the study.

**CHAPTER II**, reviews literature dealing with inter-regional industrial disparities both with reference to some developed countries as well as India.

**CHAPTER III**, deals with the different location theories, Industrial Development in Backward Areas through the five year plans and concludes with a critical assessment of the literature surveyed.

**CHAPTER IV**, adopts a disaggregative approach to the problem and presents state level regional disparities and juxtaposes this picture against All India aggregates.

**CHAPTER V**, is a study of the term lending institutions such as the IDBI, IFCI and ICICI and the role played by them in the industrial development of backward areas. Special attention has been paid to the projects financed by the IDBI in an indepth manner.
CHAPTER VI, Presents the causes and magnitude of cost overruns and time overruns in IDBI assisted projects.

CHAPTER VII, deals with the performance of projects assisted by IDBI in backward areas and non-backward areas which is presented in a comparative manner in terms of operational performance for a random sample of fifty projects through eleven ratios.

CHAPTER VIII, Presents an analytical model which helps to incorporate the informal sector into planned economic development after highlighting the crucial role played by the informal sector in the Indian context. The model yields to empirical application in section I. Section II sketches the new economic reforms and identifies the role of the informal sector under the current liberalisation ethos as well as deregulatory trends, by suggesting a more active role for voluntary organisations to serve as a catalyst to the informal sector units.

CHAPTER IX, presents some concluding observations and recommendations arising from the empirical work as well as analytical model of the study.
1.8: **CONCLUSION:**

Since Independence, India has been trying to attain a rapid rate of growth through Industrialisation within the framework of a highly uneven spatial structure with a Centre-Periphery Syndrome. This has further aggravated the problem of inter-regional inequality in the level of industrial development, where early starters continue to dominate the Industrial scene of the country.

The Government policies in the post Independence period/up until now have been somewhat regressive as far as balanced regional industrial development is concerned. Almost all the policies have only marginally affected the location dynamics of industries even after more than 40 years of planning.\(^{(22)}\)

The regional distribution of industries by and large represents the same picture of industrial concentration as under the British Rule.\(^{(23)}\) Some researchers, however, maintain that the inter-regional inequalities in the level of industrial development have declined over the past 40 years as a result of Government intervention. They emphasise that industrial concentration would have been further aggravated in its absence.
As part of the development strategy, financial infrastructure was created by establishing development financial institutions at national as well as state levels. The record of all India term lending institutions is impressive in terms of the magnitude of assistance given to backward areas. Yet the cost of backward area projects increased due to cost overrun and time overrun. Escalation in project costs, delay in implementation of projects have ultimately resulted in loss of production, employment, revenue to the exchequer and foreign exchange earnings. This study intends to examine the effectiveness of the policy for backward area development as seen in the impact of financing by term lending institutions.

This base of study will serve as a foundation to the analysis of the new economic reforms and the impetus they will provide to the informal sector. The role of financial institutions will not only become more varied but also critical to accelerating economic growth in a balanced manner.
References


16) Dr. Sandesara, J.C. 'Efficacy and Incentives for Small Industries,' *IDBI*, Bombay (1982).


