Chapter - I

INTRODUCTION
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1. NEED OF INDUSTRIAL DEVELOPMENT:

India possesses certain characteristics of underdeveloped economy on the basis of the extent of industrialisation. So we will have to observe that industrialisation paves the way for increased income of the people thus leading to a higher standard of living which in turn results in further industrialisation.

In our country the rate of economic growth depends upon the coordinated development of the three sectors of the economy—primary, secondary and tertiary. The primary activities include agriculture, fishery and forestry, secondary production includes mining, manufacturing and public utilities such as gas and electricity production and tertiary production ranges over all other service activities such as transport, distribution, public administration, entertainment etc. So relative importance of each sector depends on the stage of growth which the economy has attained and that is why balanced growth of all sectors is of prime importance.

Consideration of the relative importance of investment in the different sectors, and within each sector, has an important bearing on the strategy of development to be adopted in given conditions and at a given stage of development. Though industrialisation offers many advantages, it has to be supported by a strong agricultural base. Over-rapid and unbalanced growth of the industrial sectors, may give rise to phenomena which in the long run are likely to retard economic development—balance of payment difficulties, inflation, excessive urbanisation, the disruption of accepted social pattern’s.

During the last few decades each and every field of science experienced the technological revolution. The share of raw materials and food
stuffs is regularly diminishing in the world’s foreign trade, this being attended by the growth of the share of manufactured goods the fast growth has been in the exports of the goods the production of which involved major expenditures for research, experimenting and design development. As such, there should not be any doubt regarding the leading role that industry should play in the rapid economic advancement of the country. More saving from the rural population are to be mobilised to the benefits of urban areas for investment purposes in industries.

**Table 1.1 : Annual Growth Rate of NNP and Per Capita NNP.**

(i) Economic Sector

(New Series Base Year 1999-2000)

<table>
<thead>
<tr>
<th>Plan/ Year</th>
<th>NNP (at Factor Cost)</th>
<th>Per Capital NNP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At current prices</td>
<td>At 1999-2000 Prices</td>
</tr>
<tr>
<td>2000-01</td>
<td>7.2</td>
<td>4.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>8.9</td>
<td>6.2</td>
</tr>
<tr>
<td>2002-03</td>
<td>7.9</td>
<td>3.9</td>
</tr>
<tr>
<td>2003-04 (P)</td>
<td>13.2</td>
<td>9.0</td>
</tr>
<tr>
<td>2004-05 (Q)</td>
<td>11.6</td>
<td>7.8</td>
</tr>
</tbody>
</table>

**Table 1.2 : Annual Average Growth Rates :**

<table>
<thead>
<tr>
<th>Plan/ Year</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>1.5</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>9.4</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>9.5</td>
</tr>
<tr>
<td>Three Annual Plan (1966-69)</td>
<td>12.2</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>11.0</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>10.4</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>8.3</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>15.1</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>14.2</td>
</tr>
<tr>
<td>Two Annual Plan (1990-92)</td>
<td>15.5</td>
</tr>
<tr>
<td>Eight Plan (1992-97)</td>
<td>16.3</td>
</tr>
<tr>
<td>Ninth Plan (1997-02)</td>
<td>10.8</td>
</tr>
</tbody>
</table>

**Source :** Economic Surveys 2007-08 : Joshi R, Kapoor Sangam : Business
During the first plan, annual average growth rate of NNP was 3.6 and of per capita income was 1.8% in the second plan the average growth rate of NNP increased to 4.1% and that of per capita income to 2%. During 1965-66, there was a serious drought in the country and the growth rate got depressed. As a consequence, the average annual growth rates of NNP and per capita NNP during the third plan were 2.5% and 0.2% respectively. The economy started picking up after 1967-68 and the annual rate of growth showed signs of improvement. During the fourth plan period, the average annual rate of growth of national income was 3.3% and that of per capita income 1.0% p.a. During the fifth plan (1974-79) the average annual growth rate of national income was 5% and that of per capita income 2.7%. National income registered a growth rate of 5.4% during the sixth plan (1980-85) with a per capita growth rate of 3.2%. During the seventh plan, India’s NNP showed an average annual growth rate of 5.8% and per capita income had a growth rate of 3.2%. During the Eighth plan (1992-97), national income had a growth rate of 6.7% along with per capita growth rate of 4.6%. During the Ninth plan (1997-2002) the growth rate of NNP, however declined to 5.5% and that of per capita income to 3.6% the tenth plan has fixed the target of growth of NNP at 8%.

Table 1.3: Per capita income and consumption (in 1999-2000 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Growth (%)</td>
</tr>
<tr>
<td>IX plan average</td>
<td>19245</td>
<td>3.4</td>
</tr>
<tr>
<td>X plan average</td>
<td>24156</td>
<td>2.6</td>
</tr>
<tr>
<td>2002-03</td>
<td>20996</td>
<td>2.2</td>
</tr>
<tr>
<td>2003-04</td>
<td>22413</td>
<td>6.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>23890</td>
<td>6.6</td>
</tr>
<tr>
<td>2005-06</td>
<td>25696</td>
<td>7.6</td>
</tr>
<tr>
<td>2006-07</td>
<td>27784</td>
<td>8.1</td>
</tr>
<tr>
<td>2007-08</td>
<td>29786</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: Economic survey, Govt. of India, 2007-08, p. 3.
Income is taken as GDP at market prices consumption is PFCE per capita is obtained by dividing these by population.

Per capita private final consumption expenditure has increased in line with per capita income. The growth of per capita consumption accelerated from an average of 2.2 per cent per year during the 12 years from 1980-81 to 1991-92 to 2.6 per cent per year during the next 11 years following the reforms of the 1990s. Growth is of interest not for its own sake but for the improvement in public welfare that it prings about. Economic growth, and in particular the growth in per capita income, is a broad quantitative indicator of the progress made in improvement public welfare. Per capita consumption is another quantitative indicator that is useful for judging welfare improvement. It is therefore appropriate (i.e. at constant prices) per capita income and consumption.

The pace of economic improvement has moved up considerably during the last five years (including 2007-08). The rate of growth of per capita income as measured by per capita GDP at market prices (constant 1999-2000 prices) grew by an annual average rate of 3.1 per cent during the 12 year period, 1980-81 to 1991-92. It accelerated marginally to 3.7 per cent per annum during the next 11 years, 1992-93 to 2002-03. Since then there has been a sharp acceleration in the growth of per capita income, almost doubling to an average of 7.2 per cent per annum (2003-04 to 2007-08) this means that average income could now double in a decade well within one generation instead of after a generation.
Table 1.4: Rate of growth of GDP at factor cost at 1999-2000 prices (per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agriculture &amp; Allied</td>
<td>2.5</td>
<td>-7.2</td>
<td>10.0</td>
<td>0.0</td>
<td>5.9</td>
<td>3.8</td>
<td>2.5</td>
</tr>
<tr>
<td>2. Mining</td>
<td>4.0</td>
<td>8.8</td>
<td>3.1</td>
<td>8.2</td>
<td>4.9</td>
<td>5.7</td>
<td>6.1</td>
</tr>
<tr>
<td>3. Manufacturing</td>
<td>3.3</td>
<td>6.8</td>
<td>6.6</td>
<td>8.7</td>
<td>9.0</td>
<td>12.0</td>
<td>8.6</td>
</tr>
<tr>
<td>4. Electricity</td>
<td>4.8</td>
<td>4.7</td>
<td>4.8</td>
<td>7.9</td>
<td>4.7</td>
<td>6.0</td>
<td>5.6</td>
</tr>
<tr>
<td>5. Construction</td>
<td>7.1</td>
<td>7.9</td>
<td>12.0</td>
<td>16.1</td>
<td>16.5</td>
<td>12.0</td>
<td>12.9</td>
</tr>
<tr>
<td>6. Trade &amp; hotels</td>
<td>7.5</td>
<td>6.9</td>
<td>10.1</td>
<td>7.7</td>
<td>9.4</td>
<td>8.5</td>
<td>8.5</td>
</tr>
<tr>
<td>7. Transport and Communication</td>
<td>8.9</td>
<td>14.1</td>
<td>15.3</td>
<td>15.6</td>
<td>14.6</td>
<td>16.6</td>
<td>15.3</td>
</tr>
<tr>
<td>8. Financing, real estate, housing</td>
<td>8.0</td>
<td>8.0</td>
<td>5.6</td>
<td>8.7</td>
<td>11.4</td>
<td>13.9</td>
<td>9.5</td>
</tr>
<tr>
<td>9. Community Services</td>
<td>7.7</td>
<td>3.9</td>
<td>5.4</td>
<td>6.9</td>
<td>7.2</td>
<td>6.9</td>
<td>6.1</td>
</tr>
<tr>
<td>10. GDP</td>
<td>5.5</td>
<td>3.8</td>
<td>8.5</td>
<td>7.5</td>
<td>9.4</td>
<td>9.6</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Note: Plan period is simple average.
Source: Economic Survey, Govt. of India, 2007-08 page-4.

The declaration of growth in 2007-08 is generally spread across most of the sectors except electricity community services and the composite category "trade, hotels, transport of communications". The deceleration in the growth of the agriculture sector is attributed to the slackening in the growth of rabi crops, manufacturing and construction, which grew at 12 percent in 2006-07, decelerated by about 2.5 percentage points in 2007-08. The slower growth of consumer durables was the most important factor in the slowdown of manufacturing. Cement and Steel, the key inputs into construction, grew by 7.4 per cent and 6.5 per cent respectively, during April-November, 2007-08, down from 10.8 per cent and 11.2 percent in the previous year, dampening the growth in the construction sector. There was also a deceleration in the growth of revenue earning fright traffic by railways, passengers handled at airports, and bank credit in April-November 2007-08, which formed the basis for the full year assessment.
Rate of growth of GDP at factor cost at 1999-2000 prices (per cent)
Growth in 2006-07 initially estimated at 9.2 percent in February 2007 was revised upwards to 9.4 percent in May 2007 and further to 9.6 percent in the Quick Estimates released by the CSO on January 31, 2008. This suggests that upward adjustment in 2007-08 projections.

The observed growth of 7.8 percent in the Tenth Five Year Plan (2002-07), the highest so far for any plan period, is only marginally short of the target of 8 percent. The dismal growth rate of 3.8 percent during the first year of the plan was made up by an upsurge in growth in the next four years to an average of 8.8 percent. A notable feature of growth during the Tenth Five Year Plan was the resurgence of manufacturing. There was a sharp acceleration in the growth of manufacturing during the five years ending 2007-08 is expected to be about 9.1 per cent. The contribution of manufacturing to overall growth increased from about 9.1 per cent. The contribution of manufacturing to overall growth increased from about 9.6 per cent during the Ninth Five Year Plan to about 17.7 per cent during the Tenth Five Year Plan.

The growth in the services sector continued to be broad based. Among the subsectors of services “transport and communication” has been the fastest growing with growth averaging 15.3 per cent per annum during the Tenth Five Year Plan period followed by “construction”. The impressive progress in the telecommunication sector and higher growth in rail, road and port traffic played an important role in the growth of this sector. Besides manufacturing the two other sectors whose contribution to growth has increased over the two plans are construction and communication. The contribution of the construction sector increased to 10.8 percent during the Tenth Five Year Plan from 7.5 percent during the Ninth Five Year Plan, while that of telecom increased to 11.4 percent from 6 percent over the two plans. The growth of “financial services” comprising declining to 5.6 percent in 2003-04 bounced back to 8.7 percent in 2004-05, 11.4 percent in 2005-06 and
13.9 per cent in 2006-07. Manufacturing, construction and communication were the leading sectors in the acceleration of growth during the Tenth Five Year Plan, judged by their increased contribution to growth.

Agricultural growth, dependent as it is on the monsoon, continued to fluctuate, though the five year period ending 2007-08 had the second lowest coefficient of variation (CV) since the Five years ending 1956-57. The CV for the Tenth Five Year Plan was, however, higher than the 60 year average. The overall growth during the Tenth Five Year Plan was 2.5 percent, the same as in the Ninth Five Year Plan. Weather induced fluctuations considerably influenced the GDP growth for agriculture. In 2002-03, the cumulative rainfall of North-East and South-West monsoon was 33 percent and 19 percent, respectively, of the long period averages (LPA). Similarly, in 2004-05. The cumulative rainfall was 13 percent and 11 percent from LPA for South-West and North East monsoon, respectively. The secular decline in the share of agriculture sector in GDP continued, with a decline from 24 percent in 2001-02 to 17.5 percent in 2007-08.

(i) Economic Sector:

Underemployment and unemployment can be seen in developing economies where it is cyclical in developed and chronic and permanent in underdeveloped economies. Lack of sufficient complementary resources of man-power is the reason for unemployment. On the other hand the country has deplorably low-levels of per capita GNP (Gross National Product) which is the share of a country’s GNP that each of its citizens would have if it were equally divided among them all. The main criterion used to classify economies and broadly distinguish different stages of economic development in GNP per capita is as follows. Countries have been classified as low income (per capita GNP – US $ 675 or less). Middle income (per capita GNP US $ 676 – 8,355); and high income (per capita GNP US $ 8,356 or above).\(^1\)
Now let's discuss about the Natural Resources whose mere existence does not by itself determine the economic development of a country but its maximum possible utilisation is essential, which is in turn greatly influenced by the level of technological efficiency, the methods of organisation and production and the policies of the Government though it is possible for importing the raw materials, from other countries, but will prove dangerous in times of crisis. The freight charges entail a higher cost of production. So one can conclude that plenty of resources available internally alone cannot speed up industrialisation.

Another aspect of our country in the phase of industrialisation is suffering from the vicious circle of poverty. On both the demand and supply sides this vicious circle operates. It is very certain that low income lead to low level of savings and investment. The low rate of investment in turn leads to the perpetuation of low level productivity and consequently low income. Under these conditions the entrepreneurs prefer to invest in consumer goods industries. So inducement to investment being low, low incomes are perpetuated specifying the vicious circle on demand side.

While discussing about economic sector one major contributor comes into the picture i.e. consumer goods industries whose contribution is quite high in comparison to capital goods industries. May be because of the huge investment required, long gestation period involved and low returns obtained on Capital goods industries. One can very understand that developing countries like ours can ills-afford to invest such huge sums on capital goods industries on the other hand underdeveloped countries prefer to invest in consumer goods industries because of their quicker returns.

The prosperity of a country depends directly upon the development of agriculture and industry. Agricultural production, however requires power, credit, transport facilities etc. Industrial production requires not only
machinery and equipment but also skilled man-power, management, energy, banking and insurance facilities, marketing facilities, transport services which include railways, roads and shipping communication facilities, etc. All these facilities and services constitute collectively the infrastructure of an economy and the development and expansion of these facilities are an essential pre-condition for increasing agricultural and industrial production in a country.

Economic sector basically constitute the infrastructural facilities often referred to as economic and social overheads which are mentioned below:

- Energy: coal, electricity, oil and non-conventional sources.
- Transport: Railways, roads, shipping, civil aviation.
- Communications: Posts and telegraphs, telegraphs, telephones, telecommunications etc.
- Banking, finance and insurance.
- Science and technology.
- Social overheads: health and hygiene and education.

Because of heavy investment on infrastructure, there has been phenomenal increase in infrastructural facilities. India is an underdeveloped economy and without any doubt one can say that the bulk of its population lives in miserable condition.

Economy of India due to above feature is marked by low per capita income but during 1990-2000, Indian economy has grown at a faster rate than the developed economies. The use of official exchange rates to convert national currency figures to the U.S. Dollars does not attempt to measure the relative domestic purchasing power of currencies.

Another reason for industrial development is the occupational pattern i.e. primary production. A very high preparation of working population is
engaged in agriculture, which contributes a very large share in the national income. Yet one cannot easily escape the conclusion that agriculture continue to be a depressed industry as the productivity per person engaged in it is very low.

Next reason could be the heavy population pressure where high level of birth rates is coupled with a falling level of death rates. The fast rate of growth of population necessitates a higher rate of economic growth in order to maintain the same standard of living of the population which imposes greater economic burden and consequently, society has to make a much greater effort to initiate the process of growth.

Then comes the another reason where prevalence of chronic unemployment and underemployment due to labour is an abundant factor and consequently it becomes difficult to provide gainful employment to the entire working population. In India unemployment is structural and is the result of a deficiency of capital so while developing industry we will find sufficient capital to expand its industries to such an extent that the entire labour force is absorbed.

After that low rate of capital formation is where capital deficiency is reflected by low amount of capital per head and the current rate of capital formation is also low. Gross capital formation in India is less than that of developed countries but our industries will help to increase the level as high as 14 percent of gross capital formation in order that it may cover depreciation and maintain the same level of living.

Then another reason is Maldistribution of Wealth/ Assets where urban households are in much more worse assets distribution than rural households inequality in asset distribution is the principal cause of unequal distribution of income in rural areas, while establishing industries will minimize the disparity.
After that poor quality of human capital where mass illiteracy is the major decision behind that which retards growth. But if we enlarge the definition of capital formation to include the use of any resource that enhances productive capacity, then besides physical capital the knowledge and training of the population will also form a part of capital. As a result, the expenditure on education, skill formation, research and improvements in health are included in human capital. Obviously industries will help India in going long way to reach the levels of developed countries in terms of human development index.

Then we have low level of technology where majority of the productive units and a major part of the output is produced with the help of techniques which can be described as inferior judged by modern scientific standards. Since new techniques are expensive and require a considerable degree of skill for their application in production the twin requirements for the absorption of new technology are the availability of capital and training of an adequate number of personnel.

One can recognise the importance of industrialisation which remove deficiency of capital without hindering the process of scarping off the old techniques and the installation of the up-to-date and modern techniques.

Need of industry arises when average Indians are living at low level. Roughly 25 to 40 per cent of the population in India suffers from malnutrition which results in developing less strength to fight diseases and is also partly responsible for the low level of efficiency of the Indian workers. So after the establishment of industries the increase income would help in minimizing the shortage.

Some other reasons which help in creating need for industrialisation are demographic characteristics associated with under developed and highly dense populated area, socio-economic indicators such as per capita intake of
calories, fats and proteins and lastly poor economic organisation where certain institutions necessary for economic development are not adequately developed as to mobilise savings and more especially the savings of the rural sector for which the creation and development of financial institution is essential.

(i) Share of Agriculture in the National Income:

Table 1.5: Share of Agricultural Sector in Total Gross Domestic Product at Factor Cost

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP at factor cost</th>
<th>Agriculture</th>
<th>2 as % of 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>1,40,470</td>
<td>85,150</td>
<td>55.4</td>
</tr>
<tr>
<td>1970-71</td>
<td>2,96,280</td>
<td>1,42,580</td>
<td>44.5</td>
</tr>
<tr>
<td>1990-91</td>
<td>6,92,870</td>
<td>2,42,010</td>
<td>30.9</td>
</tr>
<tr>
<td>2003-04*</td>
<td>14,24,500</td>
<td>3,15,800</td>
<td>22.1</td>
</tr>
</tbody>
</table>

Note: Agriculture includes agriculture, forestry and fishing.

Figures provided by the Central Statistical Organisation reveal that between 1950-61 to 1960-61, the share of agriculture in GDP has been in the range of 55 to 52 per cent, though it was declining, but as the process of industrialisation and economic growth gathered momentum, the share of agriculture indicated a sharp decline and reached a level of 22 per cent in 2003-04.

Two important facts must be emphasized here:
# Table 1.6: Growth Rates of Industrial Production by Use-Based Classification (Base 1993-94=100)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Basic Goods</td>
<td>35.5</td>
<td>4.9</td>
<td>5.4</td>
<td>5.5</td>
<td>6.7</td>
<td>10.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>9.3</td>
<td>10.5</td>
<td>13.6</td>
<td>13.9</td>
<td>15.8</td>
<td>18.2</td>
<td>17.4</td>
</tr>
<tr>
<td>Intermediate Goods</td>
<td>26.5</td>
<td>3.9</td>
<td>6.4</td>
<td>6.1</td>
<td>2.5</td>
<td>12.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>28.7</td>
<td>7.1</td>
<td>7.1</td>
<td>11.7</td>
<td>12.0</td>
<td>10.1</td>
<td>9.9</td>
</tr>
<tr>
<td>Durables</td>
<td>5.4</td>
<td>-6.3</td>
<td>11.6</td>
<td>14.3</td>
<td>15.3</td>
<td>9.2</td>
<td>12.4</td>
</tr>
<tr>
<td>Non Durables</td>
<td>23.3</td>
<td>12.0</td>
<td>5.8</td>
<td>10.8</td>
<td>11.0</td>
<td>10.4</td>
<td>8.9</td>
</tr>
<tr>
<td>IP (Index of Industrial Production)</td>
<td>100</td>
<td>5.7</td>
<td>7.0</td>
<td>8.4</td>
<td>8.2</td>
<td>11.6</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Source: Economic Survey, Government of India, 2007-08, p.182
Growth Rates of Industrial Production by use-based classification (Base 1993-94=100)
a) Agriculture contributes even now a major share of the national income in India.

b) The share of agriculture in national income however, has been decreasing continuously and the shares of the manufacturing and service sectors are increasing. In a rapidly developing country, this is as it should be.

Overall industrial recovery that commended from the second quarter of 2002-03 continued in 2007-08. The rate of growth of industrial sector as measured in terms of index of Industrial Production (IIP) during April-December 2007-08 was 9.2% compared to a growth rate of 11.6% in the corresponding period of 2006-07.

The target growth of industry during the tenth plan (2002-07) was put at 10% consistent with an overall GDP growth of 8%. Notwithstanding a distinct improvement in the manufacturing growth in the last two years, overall industrial growth so far has remained well short of the target.

With respect the use-based classification of industries, the growth rate in the capital goods sector in April – Nov. 2008 at 20.8% indicated a substantial improvement over the growth of 18.2% in the corresponding period 2006-07. Consumer goods both durable and non-durable is recorded poor performance. Growth rate of basic goods in April-Nov. 2007-08 at 8.4% as compared with the growth rate of 2006-07 i.e. 10.3%. Intermediate goods however witnessed an deceleration in growth as shown in the table.

(ii) Agriculture sector:

This particular sector act as a major contributor in developing countries like ours but in addition to unemployment, there is under employment in this sector, which means a part of labour force can be removed from the farms without reducing the aggregate output since each labourer would be working
at less than his capacity and even if some labourers are removed the total product will remain unchanged.

This underemployment of labour force is one clear evidence of over population and the abundance of labour factor in relation to the other factors of production. Nearly 70 to 80 percent of the population are engaged in agricultural and allied occupation

Agriculture forms the backbone of the Indian economy and despite concerted industrialization in the last five decades, agriculture occupies a place of pride. Being the largest industry in the country it provides employment to around 65 per cent of the total work force.

The need for industrialisation arises as Indian agriculture has been in doldrums for a long time but various attempt to rejuvenate it were made so many times in so many different forms but without any spectacular success. The introduction of the new agricultural strategy which goes by the name of green revolution was aiming to have solved India's food problem, but this hope was only short lived. Despite eight five year-plans and three annual plans since 1950-51 we failed to solve basic and number one problem i.e. the feeding of its teeming millions. Because of growth in population crossing over 1000 million in 2001.

However slow and tardy it may have been the persistent and often helpless resort to deficit financing by the government leading to rise in money demand for food grains and other basic necessities and the direct attack on the new technology itself by the oil crisis which has raised the price of imported fertilisers and import-based domestic production of fertilisers have posed some serious challenges to Indian agriculture.
But it is of paramount importance that we raised the rate of growth in agriculture. According to Prof. V.K.R.V. Rao, India requires a minimum growth rate of 4 per cent in food grains and 6 percent in non-food crops during the rest of this century to meet the basic requirements of the economy for food and agricultural raw materials.

Poor Techniques of Production could be improved by the better tool and technique management. The Indian farmers have been using old and inefficient methods and techniques of production, since they are tradition bound and also poor. They have not adopted the modern methods which are so widely adopted in the countries of the West. Only in recent years and that too to a limited extent, the farmers have started adopting improved implements like steel ploughs, sugarcane crushers, small pumping sets, waterlifes, barrows, hoes, seeds, drills, fodder cutters etc. Increase in production is possible only if proper and adequate manures are used. To revitalise fertility and to utilise fallow land, the use of various kinds of manures is urgently called for. Next the need for industrialisation arises due to inadequate irrigation facilities where the basic cause for the weakness of Indian agriculture has been that most of the farmers through out the country have to depend upon rainfall and very few of them can avail the facilities of artificial irrigation. Despite a vigorous programme of major and minor irrigation works since 1951 the ratio of irrigated land to total cultivated land is now about 33 per cent. This gives us an idea that there is great scope for artificial irrigation in the country.

After that major reason occurred when Indian agriculture suffered because of the inadequacy of such non-farm services as provision of finance, marketing, etc. Till recently, farmers had to depend upon the village moneylender and had to pay rates of interest so high that once a farmer had borrowed, he was bound to lose his land and become a landless labourers.
Other sources of finance did exist such as cooperatives and the government agencies but they were almost insignificant. Likewise, until recently the farmers could not secure storage facilities in mandi towns and were cheated by the wholesaler and commission agents there contributing the largest share to the gross national product. Excessive reliance on agriculture prevents backward countries from quickly raising their per capita incomes. There is also lack of alternative employment opportunities. Non-agricultural occupations have not been growing at a rate commensurate with the increase in population and so the growing force has to be absorbed in agriculture where agricultural incomes tend to be less than non-agricultural income.

Certain major obstacles in backwardness of agriculture come due to low percentage of literates among the total population, because for economic development education plays an important role. It exposes the farmers and workers to new ideas, stirs their ambition and bends them to change, raise their productivity and increase their geographical and occupational mobility and facilitating innovations.

Moreover the provision of agricultural extension services, where modern techniques are imparted to farmers would probably yield better returns. So until and unless education spreads among people, it would be difficult to increase the degree of vertical mobility from unskilled work to skilled work and to remove rural unemployment.

Thus, the old balance between agriculture and industry was destroyed, the villager found his subsidiary industries decaying, there appeared nothing in their place for alternative avenues.
TRANSPORTATION AND COMMUNICATION SECTOR:

If agriculture and industry are regarded at the body and the bones of the Indian economy, transport and communications constitute its nerves, which help in the circulation and thereby broaden the market for goods and by doing so, it makes possible large scale production through division of labour.

As we know the more extensive and continuous the production in any branch of activity, the greater will be the need for transport facilities. By linking the backward regions with the relatively more advanced, transport development helps in the better and fuller utilisation of resources. So expansion of transport facilities, in turn, helps industrialisation directly. One can say expansion of transport is thus of fundamental importance for a developing country like India.

Transport development progress since 1950-51 has registered impressive progress but there are many bottlenecks, constraints and difficulties. Inadequacies and imbalances in transport threaten to constrain economic growth and the quality of life in urban as well as rural India, few of them are poor planning of transport system, no rail-road co-ordination, then overaged and obsolete assets for transport infrastructure and finally less technology upgradation. The Masani Committee pleaded that, because of the inherent advantage and superiority of road system, on the one hand and because of the defects of the railway transport, no restrictions should be placed on the road transport system.

The National Transport Policy Committee in the early 1980’s had envisaged a model split in which Railways were expected to carry 72 per cent of the long distance freight traffic and the road transport the balance of 28 per cent. The decline in the share of freight traffic by railways, inspite of it being energy efficient and environment friendly, is not a heartly trend.
The communication system comprises posts and telegraphs, telecommunication systems broadcasting, television and information services. By providing necessary information about the markets and also supplying necessary motivation, the communication system helps to bring buyers and sellers together effectively and helps to accelerate the growth of the economy. Accordingly, the modern communication system has become an integral part of the development process.

Since 1950-51, the postal network has been expanded throughout the country, with special emphasis on the rural, hilly and remote tribal areas with more than 1.5 lakh post offices, the postal network in India is the largest in the whole world.

The postal department has given a new thrust to its programme of modernisation for providing new value added services to customers which include a programme of computerised services of such postal operations as mail processing, savings bank and material management.

The introduction of Metro Channel Service Linking to metros, introduction of Rajdhani channel linking Delhi with most of the State Capitals, and a business channel with exclusive treatment to pin coded business mail have made the communication system more effective.

In line with the general trend of liberalisation and privatization, the government of India has adopted certain policies to reduce its monopoly control on carriage of letters.

A worrying aspect about the postal department is that it is working under continuous deficit – it was nearly Rs. 340 crores during 94-95. One can think this to be made commercially viable with a little careful planning but this is lacking at the top level of postal bureaucracy.
Telecommunication is a vital input for global competition and for India’s success in the International markets. It is important not only because of its role in bringing the benefits of communication to every corner of India but also in serving the new policy objectives of improving the global competitiveness of the Indian economy and stimulating and attracting foreign direct investment. India has now one of the largest telecommunication network in Asia with a capacity of 50 million times and over 40 million working connections comprising 35,510 telephone exchanges in the country during 2002.3

There has also been phenomenal increase in the number of cellular subscribers. Despite higher cost of communication, cellular telephony has become the most preferred mode of communication among the Indian public.

Realising the importance of telecommunication services as an essential infrastructural input for accelerated economic growth under the liberalised economic growth under the liberalised economic regime, the new telecom policy aims at realising 10 million connections.

RECENT DEVELOPMENTS IN THE TELECOM SECTOR:

To ensure easy access of basic telephone services to the people at affordable and reasonable prices, private companies have been invited to supplement the efforts of DOT in the area of basic telecom services.

a) Large number of villages are now covered through wireless in local loop (WLL).

b) The National Internet Backbone (NIB) was commissioned.

c) Since long distance (national and international) has been opened up to competition, long distance tariffs have come down. This has drastically reduced the margin available to basic service providers (MTNL and
BSNL). The Government of India has set up the Telecom Regulatory Authority of India (TRAI) to determine and regulate telecom tariff.

At present, India has a telephone network of nearly 89 million (fixed and mobile) and the present projections for that by the end of the Tenth Plan (2007).

Another important problem of our cities, particularly in our metropolitan cities is the extreme inadequacy of public transport facilities, as a result of which the number of personalised vehicles has increased rapidly in urban areas in the last few decades. Alarmingly, in many cities the vehicle population has reached at high proportion in relation to the road and network available as with high density of population and scarcity of land, there is almost no scope for accommodating more vehicles and meet the growing demand for transport. Besides control of energy consumption in order to check dangerously growing urban pollution point out the need for rapid increase in public transport and rail-based transport. Some half-hearted steps have been taken in this direction in Delhi and other major metropolitan cities

### Table 1.7: Growth of the Transport System

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<tr>
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</thead>
<tbody>
<tr>
<td>1. Railways Route length ('000 km)</td>
<td>53,600</td>
<td>59,800</td>
<td>63,220</td>
</tr>
<tr>
<td></td>
<td>Freight Traffic originating (million tonnes)</td>
<td>93</td>
<td>196</td>
</tr>
<tr>
<td>2. Roads Total length ('000 km)</td>
<td>400</td>
<td>915</td>
<td>2483*</td>
</tr>
<tr>
<td></td>
<td>surfaced</td>
<td>160</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>No of goods vehicles ('000)</td>
<td>82</td>
<td>343</td>
</tr>
<tr>
<td>3. Shipping Ports Overseas Shipping traffic in million tonnes (million tonnes GRT)</td>
<td>0.2</td>
<td>2.2</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Civil Aviation Number of Passengers (lakhs)</td>
<td>-</td>
<td>26</td>
<td>91**</td>
</tr>
</tbody>
</table>

Source: **Passengers carried by Government carriers only.

* Datt, R. Sundharam, K.P.M., Indian Economy, S. Chand, New Delhi, 2006, p. 129.
Indian planners gave high priority to the development of transport, for in their opinion "an efficient and well developed system of transport and communications is vital to the success of a plan of economic development, which lays stress on rapid industrialisation. "Accordingly the allocation on the transport sector was quite high during the first three plans viz., between 25 and 28 percent. The allocations in the next successive plans on the transport sector declined gradually.

The Eight Plan outlay, for instance, was only 13 percent of the total outlay. But the lower allocation in the last three plans does not mean that the transport sector had been fully developed.

There is the resource crunch on the one side and there is increasing importance given to energy and industrial sectors, on the other.

(iv) REGULATION AND CONTROL OF POPULATION:

The study of human resources is vital from the point of view of economic welfare. It is particularly important because human beings are not only instruments of production but also ends in themselves. India today possesses about 2.4 percent of the total land area of the world but she has to support about 16 per cent of the world population. The growth of population was held in check by the prevalence of a high death rate against a high birth rate. Birth and death rates were more or less equal during British period. India was in the first stage of demographic transition in this period marked by stagnant population.

Prior to 1921, India was in the first stage of demographic transition. But onwards it has entered into the second stage of demographic transition in which the high growth potential of the population was realised as a high actual growth of population. It is expected that shortly India will enter the third stage.
It would be relevant to take up some sociological factors which have recently begun to play a very important role in determining the composition of the families. Improvements in maternal mortality may result from fewer births per women. Similarly fewer children per family may mean better care for all children including girls.

The significance of the growth in population can be judged from the fact that during the decade 1991-2001, there has been an increase of about 183 million reaching a level of 1,027 million in 2001, there has been an increase of about 183 million reaching a level of 1,027 million in 2001. The alarming rate at which population is growing calls forth the need for a positive population policy to restrict this rapid growth of population.

Although India has been recognised as the first country in the world to officially adopt family planning programme in 1952, serious thinking about population growth was reflected in the Third Plan in terms of "the objective of stabilising the growth of population over a reasonable period" subsequently, targets were set in various policy documents.

In 1983, on recommendation a working group on population policy set up by the Planning Commission, the National Health Policy (1983) set the goal of deducing the Net Reproduction Rate (NRR) to / by 2000 AD by reducing crude birth rate to 21 crude death rate to 9 infant mortality rate to less than 60 per thousand and by increasing the proportion of couples practising family planning to 60 per cent. This was adopted as the demographic goal in the sixth plan for the year 1995. However a review indicated that the goal would be reached only by the period 2006-2011.4

To achieve the family planning goals the government adopted few measures some of them were:
(i) Motivation programme to spread the knowledge of family planning. All mass media newspapers, radio, T.V., films etc were widely used to spread consciousness about family limitation.

(ii) Supply of contraceptives to all sections of rural and urban population.

(iii) Financial incentives for family planning in the form of cash awards for undergoing sterilisation.

(iv) Extensive use of sterilisation of both males and females.

In India the family planning programme did not concentrate on a single method but make use of all the scientifically approved techniques of contraceptives. Apart from family planning, the government adopted rather relied upon to some extent education and economic development to restrict the growth of our population. Studies in India have confirmed the relationship between fertility rates and education and economic status - the motivation for the small family and successful adoption of contraceptive methods being the stronger among those classes who are both educated and economically better off.

It may be said that states like Kerala, Gujarat and Punjab have been able to effectively raise the mean age at marriage of females which was estimated at 17.16 years during 1971 has increased to 18.32 in 1991. This increase is largely due to the decrease in the proportion of females married in the age group 10-14 are not relevant for consideration of fertility, which was above 70% in 1971 declined to about a level below 65% in 1981. In Andhra Pradesh and Haryana this trend is even stronger social changes affecting mean age at marriage are taking place in all the states. This is also evidenced by the fact that the proportion of married females in age group 15-44 has declined from 85.75 percent in 1961 to 80.48% in 1981. The census of 1981 assuming this trend to continue estimates that proportion of married females in the age group 15-44 will come down to 77.1 percent in 1991 and further to 73.6% in
From this the Registrar General concludes: “It appears that roughly 12% decline in fertility as measured by GFR may be anticipated in the next 20 years due to increase in age at marriage which is a non family planning measure if, however, the pattern of growth in literacy accelerates, this may decline faster. This, therefore has to be considered as lower limit. The rich and elite classes have a large command over property, and income from this property provides adequate security against life risks. So the motivation for small family exists among the well-to-do sections. As against it the poorer classes considered ‘son’ as the most important social security. Consequently, the motivation to have one or two sons results in having a large family. It is virtually important that in order to induce the poor to have small family employment guarantee schemes and old age security measures are strengthened.

Nearly 36% of the population of India is living below poverty line in 1993-94 and it is this group which is registering a very high birth rate- mainly due to ignorance and illiteracy.

Even in a democratic set-up reasonable restrictions can be placed by the legislature on all or some sections of the community in the interests of economic growth. In this connection, the prescription of sterilisation in the country and a minimum age for marriage point to the same fact. The right of the state to influence the restriction of the size of the family.

Sterilization is the most important mode of family planning but the main disincentive is the high infant mortality in India. Measures to reduce infant mortality are a necessary condition for a successful sterilisation programme.

China which has a similar population problem like ours has successfully, brought down the growth rate of population from 2.2% per annum during 1965-80 to 1.0% per annum during 1990-2000. For achieving
this target, the Chinese government offered incentives such as increase in salary by 12.5% priority in housing, preference in school admissions and in jobs, adult ration for the child etc. Those who refuse to accept the one-child norm are taxed heavily.

The Planning Commission on the basis of the latest statistics relating to family planning performance, and the recent levels and trends in fertility and mortality as revealed from the Sample Registration System (SRS) constituted a Technical Group to make projections about population for the period 1996-2016. The Technical group under the Chairmanship of the Registrar General of India submitted its report in April, 1996.

The 1991 census revealed that the population of India was 846.3 million and this included the state of Jammu and Kashmir where the census could not be conducted due to disturbed conditions. Based on the SRS average growth rate, the population of India was projected for the year 1996. While making this projection, it was assumed that the age distribution of the population of 1991 will remain unchanged for 1996. On this basis, the population of India for 1996 was estimated to be 934.2 million.

The actual population as revealed by census 2001 was 1,027 million, which is only 1.48 per cent higher than the projected population. In view of the serious concern to check runaway population growth, the NDA government appointed a 100 member population commission under the Chairmanship of the Prime Minister on May 11, 2000 in its effort to provide focussed thrust to the stabilisation of population and check its further growth. The immediate task of the commission is to bring about a decline in birth rate in the BIMARU States, viz. Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh, which are the major contributors to population growth in the country. Performance of these states would determine the year and size of the
population at which the country achieves population stabilisation. To step up its efforts the outlay for the Department of family welfare has been increased from Rs. 6,500 crores in the eight plan to Rs. 15,120 crores in the Ninth Plan. The Governors hopes to achieve replacement level of fertility by 2010 with the population of 1,107 million. The goal of population stabilisation is expected to be achieved by 2045.

Table 1.8

Labour Force and Work Force Participation Rates (CDS basis) (percent)

<table>
<thead>
<tr>
<th></th>
<th>1983</th>
<th>1993-94</th>
<th>1999-00</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour Force participation rates (LFPR)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Rural Male</td>
<td>52.7</td>
<td>53.4</td>
<td>51.5</td>
<td>53.1</td>
</tr>
<tr>
<td>Rural Female</td>
<td>21.9</td>
<td>23.2</td>
<td>22.0</td>
<td>23.7</td>
</tr>
<tr>
<td>Urban Male</td>
<td>52.7</td>
<td>53.2</td>
<td>52.8</td>
<td>56.1</td>
</tr>
<tr>
<td>Urban Female</td>
<td>12.1</td>
<td>13.2</td>
<td>12.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Work Force Participation Rates (WFPR)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Male</td>
<td>48.2</td>
<td>50.4</td>
<td>47.8</td>
<td>48.8</td>
</tr>
<tr>
<td>Rural Female</td>
<td>19.8</td>
<td>21.9</td>
<td>20.4</td>
<td>21.6</td>
</tr>
<tr>
<td>Urban Male</td>
<td>47.3</td>
<td>49.6</td>
<td>49.0</td>
<td>51.9</td>
</tr>
<tr>
<td>Urban Female</td>
<td>10.6</td>
<td>12.0</td>
<td>11.1</td>
<td>13.3</td>
</tr>
</tbody>
</table>

Source: Economic Survey 07-08, p. 248.
LABOUR FORCE AND WORK FORCE PARTICIPATION RATES (CURRENT DAILY STATUS BASIS) (PERCENT)

Labour Force participation rates (LFPR)

Work Force Participation Rates (WFPR)
LFPR/ WFPR represents No. of persons/ person days in the labour force/ work force per 1000 persons/ person days.

Male participation remained higher both in labour and workforce, throughout the period between 1983 and 2004-05. Female participation per se in rural areas was much higher than in urban areas. Urban male participation rates (both labour force and workforce) were higher than rural male participation in 1999-2000 and 2004-05.

(v) INCREASE IN EMPLOYMENT GROWTH:

India is an under-developed though a developing economy. The nature of unemployment, therefore sharply differs from the one that prevails in industrially advanced countries. In such economy machines become idle and demand for labour falls because the demand for the products of industry is no longer there.

But more serious than cyclical unemployment or frictional unemployment in an underdeveloped economy like India is the prevalence of chronic under-employment or disguised unemployment in the rural sector and the existence of urban unemployment among the educated classes. It would be worthwhile to emphasize here that unemployment in under-developed economies like India is not the result of deficiency of effective demand but a consequence of shortage of capital equipment or other complementary resources.

The growth ratio of employment declined sharply from 2.04% per annum during the 10 years period 1983 to 1993-94 to barely 0.98 per annum during the period (1993-94, 1999-2000). The task force on employment opportunities admitting declaration in employment growth mentions "This sharp deceleration in the growth of employment has naturally been the focus of much attention and comment raising fears that economic growth in 1990s has been of a jobless variety. This implies that the growth rate in employment
is less than the growth rate in labour force and this has resulted in an increase in the unemployment rate.

In agriculture, the growth rate of employment observed during eightees to ninetees was 1.51 per cent, but during the period of liberalisation, the growth rate of employment became negative (-0.34 per cent) during 1993-94 and 1999-2000.

In the same manner in the manufacturing sector, construction sector, in trade, in transport, storage and communications employment growth rate increased sharply but financial services witnesses a marginal decline in growth rate from 7.18 percent though the growth rate was sufficiently high whereas community, social and personal services witnessed a sharp declaration in employment growth.

After industrialisation one can easily judge quality of employment with the help of few important indicators like wages during the year for which casual labourers were employed, share of workers engaged in organised and unorganised sectors, proportion of workers engaged in self employment, regular salaried employees and casual labour, distribution of work opportunities among primary, secondary and tertiary activities, productivity of workers based on their levels of skills and educational attainments.

The Planning Commission constituted a Task Force on Employment Opportunities under the chairmanship of Mr. Montek Singh Ahluwalia, member, Planning Commission to examine the existing employment and unemployment situation in the country and to suggest strategies of employment generation for achieving the target of providing employment opportunities to the ten crore people over the next ten years implying strategies for providing employment opportunities to one crore people on an average.
TABLE 1.9: EMPLOYMENT AND UNEMPLOYMENT IN MILLION PERSONS YEARS (BY CDS BASIS)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1983 to 1993-94</td>
</tr>
<tr>
<td>Population</td>
<td>718.10</td>
<td>893.68</td>
<td>1,005.05</td>
<td>1092.83</td>
<td>2.11</td>
</tr>
<tr>
<td>Labour Force</td>
<td>263.82</td>
<td>334.20</td>
<td>364.88</td>
<td>419.65</td>
<td>2.28</td>
</tr>
<tr>
<td>Work Force</td>
<td>239.49</td>
<td>313.93</td>
<td>338.19</td>
<td>384.91</td>
<td>2.61</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>9.22</td>
<td>6.06</td>
<td>7.31</td>
<td>8.28</td>
<td></td>
</tr>
<tr>
<td>(percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of unemployed</td>
<td>24.34</td>
<td>20.27</td>
<td>26.68</td>
<td>34.74</td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Survey (Govt. of India) 2007-08, p. 247
Employment and Unemployment in million persons years (by CDS basis)

Million Growth (p.a. %)

- Population
- Labour Force
- Work Force
- Unemployment Rate (percent)
- No. of unemployed

- 1983
- 1993-94
- 1999-00
- 2004-05
- 1983 to 1993-94
- 1993-94 to 1999-00
- 1999-00 to 2004-05
It is necessary to encourage private corporate sector to invest in agriculture and related activities by facilitating the creation of organised and corporatised entities like Integrated Agricultural complexes and Food Parks that would attract commercial investment.

The active involvement of larger industrial units, including MNC’s and cooperatives where possible, in the Food Processing Industries is essential. Major national and international food processing companies should be approached to ascertain the nature of the problem which limit their activities at present problem.

Retail trade is characterised by small establishments and modernising retail trade involving large departmental stores is often considered detrimental to the employment objective. The switch to modern retailing will certainly improve the quality of employment in the sector.

Therefore one can conclude that capital intensive path of growth is better instead of labour intensive, but alternative model of development is required which can stimulate employment growth along with GDP growth.

Information Technology (IT) has opened large avenues for educated youth in the country. It is estimated that one segment of IT industry i.e. both hardware and software, computer engineers and systems analyst are having a million jobs at present. In this sense, IT Industry has great future in expanding employment opportunities.

So in this way industrialisation would help India to provide work for all and being a society in transition India should proceed to achieve decent work for all as its ultimate objective.

Estimates on employment and unemployment on CDS basis (Current Daily Status) indicate that employment growth during 1999-2000 to 2004-05 has accelerated significantly as compared to the growth witnessed during
1993-04 to 1999-2000. During 1999-2000 to 2004-05, about 47 million work opportunities were created compared to only 24 million in the period between 1993-94 and 1999-00. Employment growth accelerated from 1.25 per annum to 2.62 percent per annum. However, since the labour force grew at faster rate of 2.84 percent than the workforce, unemployment rate also rose. The incidence of unemployment on CDS basis increased from 7.31 percent in 1999-00 to 8.28 percent in 2004-05.

(vi) **HELPFUL IN SELF-RELIANCE:**

Broadly we divide occupations into three types. Agriculture, animal husbandry, forestry, fisheries, etc collectively known as Primary Industries. Then Manufacturing popularly known as secondary and Transport, Communications, banking and finance and services are tertiary activities which help the primary and secondary activities in the country. Industrialisation left a deep impact and conveyed that there is close relationship between development of an economy on the one hand and occupational structure on the other and economic progress is generally associated with certain distinct necessary and predictable changes in occupational structure.

Self-reliance in every industry helps to raise the level of per capita income which is improving over the years as the proportion of labour force dependent on agriculture declines but that on industry and services increases. The process of industrialisation introduced in the middle of the 19th century was limited to plantations and textiles. The limited modern industrial sector was supported by imported machinery and technical know how self reliance can be achieved through following techniques:

(i) Increased production of iron and steel and of heavy chemicals, including nitrogenous fertilisers and development of the heavy engineering and machine building industries.
(ii) Expansion of capacity in respect of other development commodities and producer goods such as aluminium, cement, chemicals, pulp dye stuffs and phosphatic fertilisers and essential drugs.

(iii) Modernisation and requirement of important national industries which have already come into existence, such as jute, cotton textiles and sugar.

(iv) Fuller utilisation of existing installed capacity in industries where there are wide gaps between capacity and production.

Expansion of capacity in consumer goods industries keeping in view the requirements of common production programmes and the production targets for the decentralised sector of industry. It recognised the need for expansion of capacity of several large-scale industries, whereas possible, in order to ensure larger employment opportunities.

(vii) **Sound Tax Bearing Capacity:**

India is the highest taxed country in the world where the tax structure in India has often been assailed as one which encourages disinvestment. Industrialisation is one of the major reasons when foreign undertakings which have been established attempt to explore methods to make adjustments. But potential foreign investors who are new to the country consider too high personal taxes to be an unfavourable factor in making investment decisions. It is in this respect that the high income taxes constitute a deterrent to foreign investment in India. The foreign investor is mainly worried about the taxation of the total income of the non-residents and taxation of dividends. What lures him most is the extent to which tax concessions and reliefs are provided including double taxation relief agreements.
Several concessions and reliefs which have been provided in the Indian Income Tax Act, 1961 and earlier Acts, attract more capital and skilled personnel from abroad.

The tax structure in India is designed in such a manner as to augment revenues of the Government for the implementation of its plan programme, to help reduce income inequalities and step up the growth rate of aggregate savings and investments. There is no separate investment structure for domestic and foreign assesses.

Among the different ways of collecting funds for government activities, taxes are in many respects the most important as they not only bring in large revenues into the public treasury, but they influence economic activity in a number of ways, and the government uses tax policy in pursuit of its several economic and social objectives.

Of all the sources of government receipts, the most important is tax revenue. It is also the most important instrument for ensuring social justice both in equitably distributing the burden of development as also in reducing inequalities of income. Compared to other resources such as borrowings and deficit financing.

Revenue from taxes has shown a rising trend. No doubt this rise has not been commensurate with the rise in the national income, but the fact of a continuous rise is there. Total amount of tax-revenue (direct and indirect taxes) on account of the centre, stages and Union Territories which was around Rs. 627 crores in 1950-51 has risen to a massive figure of Rs. 320,388 crore in 2000-01 of the economy's tax revenue that of the Central Government alone rose from Rs. 351 crore in 1950-51 to as much as Rs. 1,63,031 crore in 2001-02. As percentage of GDP, it increased from about 4 percent to about 7 percent of the total tax-revenue, indirect taxes have been contributing a larger share almost throughout tax which was over 60% in
1950-51 rose to over 75% during recent years. Most of the time it remained more than three fourth of the total tax revenue.7

Tax-revenues have held a significant position in the budgetary profile of the government. Taking the centre and the states together, the revenues from this sources have been four to six times higher than the non-tax revenue receipts.

(viii) Social and Political Significance:

When India became independent, the Indian people were steeped in mass poverty, unemployment and underemployment. India had an illiterate and untrained labour force, static agriculture with semi-feudal relations and a comparatively less developed industrial sector and woefully inadequate infrastructure in the form of poor transportation and communication, energy and power, banking and finance, etc. So, one can say India’s problem required a big national effort and therefore India adopted the sign of industrialisation lever of social and political change.

The excessive pre-occupation with G.D.P. growth witnessed in the 50s and the 60s was replaced with human development approach. Investment in human beings by providing education, skills and better health improved their capabilities to contribute more to the process of G.D.P. growth. Industrialisation moulded the society and contributed in universal primary education, primary health care, safe drinking water and shelter for all in the same way politically. The government was expected to direct its expenditure both plan and non plan on social sector i.e. education, health and family welfare, water supply, sanitation housing rural development, social welfare, nutrition and minimum basic services.

Provision of public utility services in selected regions may attract the industrialists for their new ventures. By establishing public utility services like transport, electricity, water, gas etc. the government can remove most of
the hurdles faced by certain areas. In the absence of socio-economic amenities like recreation, education, health etc, certain areas may fail to attract industries. By increasing these amenities along with certain other ancillary economic facilities like institutions for imparting technical knowledge to the workers, marketing organisation for the benefit of localised industries, etc, the state can encourage the development of certain regions.

Establishment of Industrial Estates in Industrially backward regions would certainly have a dominating pull on location of industries. The principal objective is to enable a number of small-scale units to have the advantage of common services and other facilities, such as, a good site, electricity, water, gas, steam, comprised, air, railway, sidings, watch and ward, etc. Being located near one another, some units may be better able to use the goods and services of others, so that they become interdependent and complementary.

The state can encourage the development of certain industries at certain areas by granting subsidies. This may be done either directly or indirectly. Direct subsidies may be in the form of price subsidization supply of raw materials and machinery at low prices and so on. Indirect subsidies may be in the form of reducing the cost of certain services, helping the manufacturers and others who supply raw materials. By providing adequate and cheap financial facilities the state may try for the development of industries at certain selected regions.

In certain cases assurance by the state to purchase the products of the industries may accelerate the establishment of industries in certain selected areas. The Government proposed, under the Industrial Policy Resolution of 1948 to investigate how far industries, which were highly localised, would be decentralised with an advantage. For the implementation of this proposal, the industries (Development and Regulation) Act was passed in 1951.
Under this act, no new industrial unit shall be established or substantial extensions to the existing plans shall be made without licence from the Central Government. The licence to be issued may contain conditions with regard to location of the proposed new units.

Thus one can say the political environment of a country has enormous influence on the industry. The viability of industrial business depends upon the ability with which it can meet the challenges arising out of the political - legal environment where it provides and promotes, shelters, directs and controls the industrial activities. According to Dimock "The two most powerful institutions in society today are business and Government, where they meet on common ground amicably or otherwise together they determine the public policy both foreign and domestic for a nation". Industries are beneficiaries as it ensure regular payment of Taxes, contributes in voluntary programmes, execution of Government contracts and in providing services to the Government Advisory boards, Election activities etc. Whereas Government ensure peaceful Atmosphere, provide system of Money and credit, basic infrastructure, information, assist small scale industries, transfer of technology, licensing and inspection and at the end it protects from Foreign Competition.

2. Historical Review:

(i) Purpose of the Study and Methodology of the Study:

India’s economic development is conditioned with the development of industrial sector in the country. While throwing a glance to industrial map of the country one very easily finds that on account of Britisher’s in different policy industrial development in the country remained very much lopsided. It created regional economic imbalances in the country which resulting a few pockets of the country industrially advanced and rest of the parts totally
undeveloped and underdeveloped. No country can survive with this so glaring inequality in the country.

With this known fact, Government of India, after attaining independence launched a very vigorous programmes to attain the targets of plan priorities. One of the most important measures taken by the government in these respects was the setting up of many financial institutions and development banks to provide financial help for setting up new industries and also to provide finance for renovation and modernisation of existing industries. With the establishment of Industrial Finance Corporation of India in 1948, plethora of institutions have been established since then. In all these institutions one thing is common, i.e. to accelerate the process of industrial development of the country. It was in the year 1964 when the Government of India set up IDBI as a wholly owned subsidiary of Reserve Bank of India. The establishment of IDBI has been a hallmark so far institutional financing is concerned. The Government gave it wide powers and maximum flexibility. The establishment of IDBI has fulfilled a long standing necessity of an apex institution of Development Banking for financing industries and reducing regional economic imbalances in close coordination with the all India and state level financial institutions and public sector Banks.

IDBI since its establishment has been providing financial assistance to large and small industries through direct and indirect assistance. The industrial assistance has been channelised through its refinance is also being rediscounting schemes. A part of indirect assistance is also being channelised through subscription to shares and bonds of financial institutions.

The IDBI, apart from this financial assistance, has also been providing great impetus for promotional activities such as survey of industrial potential areas, identification of backward districts, identification and feasible projects
etc. it has also established Technical Consultancy Organisations in various states to provide technical assistance to new entrepreneurs.

From the above accounts it is clear that IDBI is playing an increasing role by providing assistance through its refinancing facilities. IDBI alone extends assistance comprising small scale industries and small road transport operators. Therefore, it is in the fitness of things that a proper evaluation of IDBI’s assistance to small sectors should be made. Thus the purpose of this study is:

1. To study the need and Historical Review of Industrial Development in India.
2. To study the managerial and administrative setup of IDBI
3. To examine the capital structure of the industrial development Bank of India.
4. To evaluate or assess the role of IDBI i.e. financial, operational and apex activities.
5. To study the contribution of IDBI in industrial development.
6. To evaluate the performance of the IDBI
7. To highlight the strengthens and weaknesses of IDBI and suggestions to remove them.

**Methodology of the Study:**

Data available in the reports on Development Banking in India and annual report of IDBI have widely been used in examining the working of the IDBI. A number of other reports relating to Development Banking including IDBI, various brochures, leaflets have also extensively been studied. Operational statistics of IDBI published for various years have also been used for collecting information relating to its financing direct and refinance to projects and other financial institutions. A number of journals such as Lok Udyog, Commerce, Political Weekly Yojana, Kuruksheutra, Economic Surveys, India 2007-08, and its other issues have also been used. Various Five
Year Plans of the Government of India and State Government of Uttar Pradesh have also been used for collecting relevant information. Useful discussions were held with the Officers of the IDBI, Kanpur and Bombay and other financial experts which have helped in finalisation of the report. A number of research books have also been extensively studied in the preparation of the thesis.

(ii) Review of Indian Industries

Indian industries call for tremendous resources either one talk of handicraft during Mughals or at any time alter that the art was appreciated throughout the world.

During British period it tend to give a sudden downfall as they created a need of producing the product of their concern. Before the rise of the modern industrial system Indian manufacturers had a worldwide market. Indian Muslin and calicoes were in great demand the world over. Indian industries not only supplied all local wants but also enabled India to export its finished products.

Indian exports consisted chiefly of manufactures like cotton and silk fabrics, calicoes, artistic ware, silk and woolen cloth. The impact of the British connection and industrial revolution led to the decay of Indian handicrafts. Instead, machine-made goods started pouring into India. The void created by decay of Indian handicrafts was not tilled by the rise of modern industry in India because of the British policy of encouraging the impact of manufactures and export of raw materials from India.

The British government in India provided discriminating protection to some selected industries since 1913. The protection was accompanied by the most favoured nation clause for British goods. Despite this factor, some
industries such as cotton, textiles, sugar, paper, matches and to some extent iron and steel did make progress. But one thing was quite obvious that during the British period no effort was made to foster the development of capital goods industries. Rather the British government put definite hindrances and coldly shouldered their development.

The main features of the industrial pattern in India on the eve of planning was lop sided pattern of industry. The peculiarity of the industrial pattern of India was the high concentration of employment either in small factories and household enterprises i.e. the lowest size group or that there was a high concentration of employment in large factories i.e., the highest size group. The medium size factories did not develop in India. The existence of this lopsided industrial pattern was due to the colonial nature of our economy.

The foreign firms and those owned by big business and industrial magnates were of a very large size coming at the top of the pyramid, and at the bottom were a very large number of indigenous small size firms. The lopsidedness of the industrial pattern was reflected in the absence of the middle entrepreneurs running medium sized firms.

Another feature of the Indian industrial pattern was the prevalence of low capital intensity. It was the result of two factors first the general level of wages in India was low and second the small size of the home market in view of the low per capita income and the limited use of mass production or high capital intensity techniques resulted in low capital per worker employed.

There was a great need for increasing the output of final and intermediate producer of goods so as to correct the imbalance between their demand and supply.
So at the end one can say the industrial pattern in India on the eve of planning was marked by low capital intensity, limited development of medium sized factory enterprises and imbalance between consumer goods and capital goods industries. It would be of interest to examine the extent to which the five-year plans have made an attempt to improve the industrial pattern correct its lopsidedness and develop the capital goods sector.

The government of India launched the process of industrialization as conscious and deliberate policy of economic growth in early fifties. The government recognized the significant contribution industrialization could make to the development process, as a base for the growth of the primary sector as a catalytic agent for the development of infrastructure, as a stimulant to generation of technologies through R & D effort and as a growth multiplier.

The progress of industrialization during the last 50 years since 1951 has been a striking feature of Indian economic development. The process of industrialization launched as a conscious and deliberate policy under Industrial Policy Resolution of 1956 and vigorously implemented under the five year plans, involved heavy investments in building up capacity over a wide spectrum of industries. As a result over the last nearby 50 years, industrial production went up by about five times making India the tenth most industrial country of the world. The industrial structure has been widely diversified covering broadly the entire range of consumer, intermediate and capital goods. The progress India has made in the field of industrialization is clearly reflected in the commodity composition of India's foreign-trade in which the share of imports of manufactured goods has steadily declined; on the other hand, industrial products, particularly engineering goods have become a growing component of India's exports. Finally the rapid stride in industrialization has been accompanied by a corresponding growth in
technological and managerial skills for efficient operation of the most sophisticated industries and also for planning designing and construction on the such industries.

A major achievement in the industrial sector has been the diversification of India's capability in attaining self sufficiency in almost all consumer goods. Growth of capital goods production has been specially impressive which has been achieved in mining metallurgical industries, chemical and petrochemical industries, fertilizer production, capital goods industries including sophisticated equipment for steel mills fertilizer plants, chemical plants etc. light, medium and heavy engineering industries power and transportation industry, construction industry, etc.

Further India can now sustain the future growth of vital sectors of the economy primarily through domestic effort and only with marginal imports. Finally the infrastructure including K and D capability, consultancy and design engineering services, project management services and innovative capacity to improve and adopt technologies have indeed shown an impressive record of progress.

Industrial growth however has not been uniform since 1951. After a steady growth of about 8 per cent during the initial period of 14 years (1951 to 1965) there was a fluctuating trend since then near stagnancy during 1966-68, a high level of 9.5 per cent during 1976-77 and minus 1.4 per cent in 1979-80. In the sixties (1961-70) the average growth rate of industrial output was put at 5.5 per cent and in the seventies (1971-80) the average growth rate was 4 per cent per annum. Even during 1980-85, the growth rate of industrial production was 5.5 per cent per annum. The basic fact was that the rate of industrial growth has been slowing down. During the 7th plan (1985-90), the growth rate had picked up to an average of over 8 per cent per annum and in the eight plan, it had declined to 7.5 per cent per annum.8
A noteworthy feature of the changing industrial pattern in the planning era in India is the growth of the public sector in a big way in the heavy and basic industries, the machine goods sector, engineering industries etc. In 1997-98 public sector units accounted for 7.0 per cent of the number of factories in the country but they employed 32 per cent of the productive capital. Only 56% of the productive capital is employed by the private sector units which account for 91% of the total number of factories. The high share of the public sector is accounted for by the fact that investment made in this sector is largely in heavy and basic industries, which are highly capital intensive.\(^9\)

However, if we judge the contribution of different sectors in terms of employment and value added then it is evident that nearly 69 per cent of employment and 60 per cent of value added are contributed by the private sector. The share of public sector in employment and value added was only 24 per cent and 28 per cent respectively. The joint sector which represents the participation of both private and public sectors in ownership and management has not yet become significant although its contribution to value added was 12% and employment 6.7%. The conclusion is obvious: the private sector dominates the industrial scene in India.

There is a heavy concentration of productive capital in large and very large factories, but their relative contribution to employment is much less. In comparison with this, small and tiny factories accounting for only 6 per cent of productive capital provide 34 per cent of total employment. The obvious conclusion is: Large and Larger factories are capital-intensive but small and tiny factories are employment-intensive.

Though the government has been proclaiming the policy of developing new growth centers so as to diversify the industrial structure, its policies have only resulted in concentration of industrial development in metropolitan areas,
in selected states and among the top capitalists.

Obviously as a deliberate policy, the promotion of small-scale sector in consumer goods required for mass consumption can reconcile the objectives of higher growth and higher employment. Sufficient attention has not been paid in this direction during the last four decades of planning. In this connection, the sixth plan states: The expansion of large-scale industries has failed to absorb a significant proportion of the increment to labour force and led in some cases to a loss of income for the rural poor engaged in cottage industries like textiles, leather, pottery etc.

To sum up, the process of industrialization has not generated sufficient growth potential either in terms of contribution of output or in terms of employment; and what is really serious is that the rate of growth of industrialization has been declining with every decade. The question of choice of technique has, therefore, been examined anew with reference to employment.

"Taking a good hard look at what in fact has happened in India over the last decade and a half, it is evident that public and private enterprises have not remained in the categories prescribed by the industrial policy resolution."10

- Gunnar Myrdal in Asian Drama

The concept of development banking rose only after Second World War, successive of the Great Depression in 1930s. The demand for reconstruction funds for the affected nations compelled in setting up a worldwide institution for reconstructions. This concept has been widened all over the world and resulted in setting up of large number of banks around the world which coordinate the developmental activities of different nations with different objectives among the world. The Narashimam committee had recommended to give up its direct financing functions and to perform only
system operated alongside of a large private banking system. Bank were limited in their operational flexibility by the government's desire to maintain employment in the banking system and were often drawn into troublesome loans in order to further the government's social goals.

The financial institutions in India were set under the strong control of both central and state Governments, and the Government utilized these institutions for the achievements in planning and development of the nation as a whole. The all India financial institutions can be classified under four heads according to their economic importance that are:

All-India Development Banks
Specialized Financial Institutions
Investment Institutions
State-level Institutions
Other institutions.

Table 1.10: Average annual growth rate of industrial production in India during the Plan Period

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Average Annual Growth Rate (%)</th>
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<tbody>
<tr>
<td>First Plan</td>
<td>5.6</td>
</tr>
<tr>
<td>Second Plan</td>
<td>7.3</td>
</tr>
<tr>
<td>Third Plan</td>
<td>8.2</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>4.2</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>6.2</td>
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<tr>
<td>Sixth Plan</td>
<td>6.4</td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>8.4</td>
</tr>
<tr>
<td>Eighth Plan*</td>
<td>8.0</td>
</tr>
<tr>
<td>Ninth Plan (i)</td>
<td>6.6</td>
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<tr>
<td>Ninth Plan (ii)</td>
<td>4.0</td>
</tr>
<tr>
<td>Ninth Plan (iii)</td>
<td>6.2*</td>
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</tbody>
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purchasing power, lack of experience in the area of term-lending and the last but not the least the dominating position of foreign agency and managing agency houses. It was only after independence that a long-term financial corporation (IFCI) would emerge as the first development bank of India due to fresh attention was given for the setting up of specialized development financing agencies to aid the process all-round economic development of the country from 1930. The national planning committee set up by the national congress as also the authors of Bombay plan gave sufficient importance for evolving such agencies in India.

All these efforts and aspirations concreted soon after independence when a battery of development banks came to be established in India. The first development finance institution to be set up in India was the industrial finance corporation of India (IFCI) in 1948. It was soon followed by the state financial corporations act of 1951 under which 18 state financial corporations were created in the subsequent period. The setting of state financial corporations may be said to be the first experiments in the way of institutional arrangements on a state basis for providing term finance to small and medium sized industries. To inject more dynamism to the development aspect national industrial development corporation (NIDC) was established in 1954 which was expected to undertake responsibilities of entrepreneurship.

In 1955, ICICI was set up on the suggestion of world bank in the private sector. It has now become the main channel through which flow the foreign exchange loans meant for the private sector. The ICICI was set up as a limited liability company without any contribution to its share capital from the government and Reserve Bank of India on the recommendation of the Shroff committee.

Refinance corporation of India was set up in 1958 to provide refinance to the commercial banks for their term loans to the industry, its resources mainly came from the rupee funds under the PL 480 Agreement between the
Government of India and U.S.A. subsequently RCI was merged with the IDBI in 1964.

Life Insurance Corporation was established in 1956 as a result of nationalization of 245 life Insurance Companies. Now-a-days with the growth of its business LIC has also become a major financial institution even though at the time of nationalization it was not particularly expected to play that role. Unit trust of India was established in 1964 to help private investing public who find it less risky and reasonably profitable means of investing in shares.

In the field of regional development and finance the establishment of State Industrial Development Corporations (SIDCs) and State Industrial Investment Corporation (SIICs) is relatively a recent phenomenon. IDBI has been taking keen interest in the development of these institutions. The main objectives of SIDCs and SIICs are to be subscribe directly to equity and provide loans to industrial units and promote and establish medium and large sized units themselves. They are required to pay special attention to problems of industrial development in the relatively backward areas of the state. The establishment of IDBI has opened a new chapter in the history of development banking in India. This is conceived of as an apex institution in the field of development banking, co-ordinating the operations and policies of other institutions besides itself engaging in the provision of finance both directly to industrial units and indirectly through other term financing institutions and banks.

The growing need for rapid industrialization, the complexities of new industries, the enormous scale of finance required for modem industrial units, the limitations, both statutory and policy of the existing financial institution and the absence of a central coordinating agency, comparable in a way to the central bank in the field of commercial banking, all contributed to the decision to set up the IDBI.

In order to enable to discharge the functions efficiently, its statute has
been framed on flexible lines. Further the IDBI is conceived of not mainly as a financial institution but as a development agency also. It has a special responsibility for developing new and sophisticated industries, basic to the growth of self-reliant economy. It is also supposed to locate gaps in industrial structure and take all possible steps to fill the gaps.

**A Glimpse of Development Banking in Foreign Countries:**

The institution of development bank as a catalyst for industrial development is by and large post-second world war phenomenon. Development banks however are not a new institutionalized devise in the sense of an unknown and untried innovation introduced for the first time in the years after World War II.

In England the need of such financial institution was felt specially after the recommendation of Macmillan committee in 1951. In 1966, the Industrial Reorganization Corporation was set up by the U.K. Government to participate in a scheme for concentration, rationalization and modernization of industry. In Germany, the industry credit bank A.G was established in 1949 to provide long term loan to industry.

Australia has got a unique distinction of having a department of the central bank, of Australia. It is called Industrial Finance Department of the commonwealth bank of Australia. Industrial Development bank of Canada was established as a wholly owned subsidiary of its central bank, the bank of Canada.

Simultaneously with the growth of development banks at the national level, international development banks were also established. There is a global institution in this sphere, namely, the World Bank or the international bank for reconstruction and development (IBRD as it is officially called was established towards the close of 1945. The World Bank has two affiliates, namely the International Finance Corporation (IFC) established in 1956 and the International Development Association (IDA), set up in 1960. In addition
to this World Bank and its affiliates, there are regional multi-national development banks. The earliest to be established was the inter-American Development Bank in 1966. The World Bank and its affiliates have assisted in the promotion and establishment of private development finance companies in many under-developed countries.

In India various financial institutions were set up after independence only. The Government of India has taken steps to set up institution, which assist various sectors of the economy. At present the country has 12 institutions at the national level and 46 at the state level. The all India Financial institutions comprise six all India Development Banks, namely: Industrial Development Bank of India, Industrial Finance Corporation of India Ltd., Industrial Credit and Investment Corporation of India Ltd., Small Industries Development Investment Bank of India, Industrial Reconstruction Bank of India and ICICI Ltd.. Specialized institutions comprise of : Risk capital and Technology Finance Corporation Ltd.. Technology Development and Information Company of India Ltd.. And Tourism finance Corporation of India Ltd. There are three investment institutions; life insurance Corporation of India Ltd., Unit Trust of India and General Insurance Corporation of India. At state level there are 18 state finance corporations and 28 state industrial development corporations.

**Review of IFCI**

At the time of independence there was need for specialized institutes for meeting the long term finance of industries as the capital market was not properly developed in India and commercial banks were mainly financing working capital needs.

After Second World War there was a need for renovation and restructuring of industry. At the same time raw industrial units were to be set up for industrializing the country. At that particular time Government of India came forward to set up the Industrial Finance Corporation of India in
July 1948 under a special act where the Industrial Development Bank of India, scheduled banks, insurance companies, investment trusts and co-operative banks are the shareholders of IFCI. The Government of India has guaranteed the repayment of capital and the payment of a minimum annual dividend.

Since July 1, 1993, the corporation has been converted into a company and it has been given the status of a Ltd. company with the name industrial finance corporations of India Ltd. IFCI has got itself registered with companies Act, 1956. Before July 1, 1993, general public was not permitted to hold shares of IFCI, only Government of India, RBI, Scheduled Banks Insurance Companies and co-operative societies were holding the shares of IFCI. It plans its financing policies as per the priorities set by the Government through industrial Policy statements. The industries which are in high priority are given more importance.

Review of IDBI:

Industrial Development Bank of India was set up to accelerate the development of the country. A number of financial institutions came into existence after independence and were catering to a variety of needs of the industry. There was a lack of co-ordination among different institutions and it led to overlapping and duplication in their efforts. At the same time some gigantic projects of national importance were not getting required financial assistance therefore in response to this need that the Industrial Development Bank of India IDBI was established in 1964 as a wholly owned subsidiary of Reserve Bank of India. The bank was to act as an apex institution co-ordinating functions of all the financial institutions into a single integrated movement of, development banking and supplementing their resources for industrial financing and as an agency for providing financial supporting to all worth while projects of national importance whose access to existing institutional source is Limited.
The ownership of IDBI was transferred to central Government of Feb 16, 1976. It is now working, as state owned autonomous corporation. Besides acting as a reservoir on which other financial institutions can draw, IDBI provides direct financial assistance to industrial units to bridge the gap between supply and demand of medium and long term finance.

The IDBI Act was amended in 1994 to permit public ownership upto 49%. In 1995, it raised more than, Rs. 20 billion through its first initial public offer (IPO) of equity. It reduced the states of the government to 72.14 per cent. Further, in June 2000, a part of the equity shareholding of the government was converted into preference share capital, which was redeemed in March 2001, resulting into further reduction of government stake to 58.47 per cent.11

**REVIEW OF ICICI:**

The idea of setting up of industrial credit and investment corporation of India (ICICI) crystallized as a result of discussions among the Government of India, the World Bank and certain American financiers. A steering committee of five members was formed to pursue the idea. These efforts culminated in the formation of ICICI as a public limited company in 1955 to encourage and assist industrial development and investment in India. The establishment of ICICI aimed at filling certain gaps in the institution facilities for the provision of finance to industrial undertaking in the private sector. It is also to act as a channel for providing development finance to industry.

**Review of Industrial Investment Bank of India (Industrial Reconstruction Bank of India**

IRBI was established on March 20, 1985 under Indian Industrial Reconstruction Bank Act, 1984 as a result of reconstituting Indian Industrial Reconstruction Corporation. The basic aim of establishing IRBI was to revive sick and closed industrial units and to act as prime loan and reconstruction
agency. IRBI has been rechristened as industrial investment bank of India Ltd .. (IIBIL) with effect from March 27, 1997. The authorized capital of IIBIL is Rs. 1000 crore and its head office is situated at Kolkata. Now it acts as an autonomous development finance institution like IFCI, ICICI and IDBI.

Review of Small Industries Development Bank of India [SIDBI]

The Small Industrial Development Bank of India (SIDBI) was set up in 1990 under the SIDBI Act 1990. The main objective of SIDBI has been to work as a principal financial institution for the promotion, financing and development of industries in the small-scale sector. It is also expected to coordinate the functions of various financial institutions, such as state financial Corporation, state Small Industries Development Corporation, Scheduled Bank's and state co-operative Banks etc. engaged in the financing promotion and development of small-scale industries.

Review of Infrastructure Development Finance Company Ltd. (IDFC) :

Infrastructure Development finance Company (IDFC) was incorporated in 1997 as a specialized institution with a view to facilitate the flow of a private to commercially viable infrastructure projects through innovative products and processes.

Special institutions and organizations for financing agriculture had existed on the continent of Europe for many decades. But the banks took care of the capital needs of industry. A public capital market grew up beside them in most of the European countries, but without displaying banks from their leading role in industry at large. In most of the west European countries the public authorities had to step in to prevent the failure of the banking system.

As a result a member of specialized institutions spring up to fill the gap in the field of industrial finance which catered exclusively or mostly for the long and medium term requirements of industry. The question of finding new
and up to-date agencies of industrial finance attracted the attention of businessmen and financiers in England also. As a direct sequel to this feeling, there came into existence certain specialized institutions of finance (a), the Securities Management Trust (b) the Bankers Industrial Development Co. (c) the Credit for Industrial Ltd. Launched in 1934 mainly to provide capital for plant and other purposes for small and medium sized businesses. These three institutions played only a limited part in promoting industrial ventures: the gap in the financial machinery for meeting the requirements of small and medium industries could not be fully bridged by them. The establishment of two new institutions in 1945 filled the gap. These were the Industrial and Commercial Finance Corporation and the Finance Corporation for Industry Ltd.

Not only on national basis, but even on international scale a number of financial institutions have come into existence to help the Industrial development on a wider basis beyond the national, boundaries viz. the International Bank for Reconstruction and Development and its affiliate, the International Finance Corporation, the International Development Association.

The Government of India made it clear in this statement on Industrial Policy issued in April 1945 with reference to their plans for the future industrial development of the country that the question of promoting an Industrial Investment Corporation or some such institution was under careful examination.

Every country needs the services of financial institutions for accelerating the pace of development. These institutions not only provide financial assistance to industrial undertaking but also help in creating infrastructural facilities. Some institutions undertake entrepreneurial role also. Private entrepreneurs do not have sufficient funds to undertake the
development of industry. Their efforts need to be supplemented by some other institutions. So, financial institutions are required for the economic development of a country.

**Role of Financial Institutions:**

Financial institutions provide means and mechanism of transferring resources from those who have an excess of income over expenditure to those who can make productive use of the service. The commercial banks and investment institutions mobilize savings of people and channelise them into productive uses. Economic development of a country needs sufficient financial resources, adequate infrastructural facilities and persons who can take the initiative of setting up units for providing goods & services. Financial institutions provide all types of assistance required for development. These institutions help economic development in these ways.

Providing funds in underdeveloped countries where they are facing the problem of low level of capital formation. As due to low income, people are not able to save sufficient funds, which are needed for setting up new units and also for expansion diversification and modernization of existing units. There are person who have the capability of starting a business but do not have requisite help to approach financial institution for help. These institutions help large number of persons for taking up some industrial activity. The addition of new industrial units and increasing the activities of existing units will certainly help in accelerating the pace of economic development financial institutions have large investible funds, which are used for productive purposes.

Infrastructural facilities are another indication of the economic development of a country. There are need for food, water, sewerage, communication facilities, electricity etc. Financial institutions prepare their investment policies by keeping national priorities in mind. The institutions
invest in those areas, which can help in increasing the development of the country. Indian industry and agriculture is facing acute shortage of electricity. All India institution are giving priority to invest funds in projects generating electricity. These investments will certainly increase the availability of electricity. Small entrepreneurs can't spare funds for creating infrastructural facilities. To overview these problem institutions at state level are developing industrial estates and provide sheds, having all facilities, at easy installments. So financial institutions are helping in creation of all those facilities, which are essential for the development of a country.

Next could be the promotional activities where an entrepreneur faces many problems while setting up a new unit. One has to undertake a feasibility report, complete registration formalities, seek approval from various agencies etc. All these things require time, money and energy. Some people are unable to under take this exercise or some even do not even take initiative. Financial institutions have the expertise and manpower resources for undertaking the exercise of starting a new unit. So these institutions take up this work on their behalf. Some units may be set up jointly with some financial institutions and in that case the responsibilities are completed collectively. Some units may not have come up because they did not receive promotional help from financial institutions. The promotional role of financial institutions is helpful in increasing the development of country.

Next regarding the Development of the Backward Areas. As some areas remain neglected because facilities needed for setting up new units are not available there. The entrepreneurs set up new units at those places, which are already developed. It causes imbalance in economic development of some areas. In order to help the development of backward areas financial institutions provide special assistance to entrepreneur’s for setting up new units in these areas. IDBI, IFCI, ICICI give priority in giving assistance to
units set up in backward areas and even charge lower interest rates on lending such efforts certainly encourage entrepreneurs to set up new units in backward areas. The industrial units in these areas improve basic and employment opportunities. These measures will certainly help in increasing the economic development of backward areas.

Next comes **planned development of the economy** of different institutions which earmark their spheres of activities so that every business activity is helped. Some institutions like SIDBI, SFCI'S especially help small scale sector while IFCI and SIDC's finance large scale sector or extend loans above a certain limit. Some institutions help different segments like foreign trade tourism etc. In this way financial institutions devise their roles and help the development in their own way. Financial institutions also follow the development priorities set up by central or state. They give preference to those industrial activities which have been specified in industrial policy statements and in five year plans. Financial institutions help in the overall development of the country.

Then comes the role of accelerating industrialization for the sake of economic development of a country. The setting up of more industrial units will generate direct & indirect employment, make available goods & services in the country and help in increasing the standard of living. Financial institution provides requisite financial, managerial, technical help for sitting up new units. In some areas private entrepreneurs do not want to risk their funds or gestation period is long but the industries are needed for the development of areas, financial institutions have played a key role in accelerating the pace of industrialization. The country has progressed in almost all areas of economic development.

Next and the last comes **employment generation** where financial institutions have helped both direct and indirect employment generation. They
have employed many persons to man their offices. Besides office staff, institutions need the service of experts which help them in finalizing lending proposals. These institutions help in creating employment by financing new and existing industrial units. They also help in creating employment opportunities in backward areas by encouraging the setting up of units in those areas. Thus financial institutions have helped in creating new and better job opportunities.

Though a fine network of development finance institutions comprising the All-India Institutions and the regional/staff level institutions had come into existence in India by the sixties, necessity was felt to establish specialised development finance institutions also since the latter half of the eighties, a number of such institutions came into existence. Three of them are sector-specific financial institutions, while the fourth and the latest encompass all the segments of the infrastructure sector. The genesis of these institutions lies in the special needs of the sectors they serve, and the special circumstances they are placed in. In 1984, Government of India took an important decision to permit the Central Public Sector Undertakings to raise resources themselves directly from the capital market and thus to reduce their dependence on the budgetary support. Railways being run as a departmental undertaking, were not competent to enter the capital market directly. Indian Railway Finance Corporation was, therefore, set-up in 1986 to enable the corporation to raise resources for the railways by floatation of bonds in the capital market.

The Power Finance Corporation of India was also set-up with similar objective of raising resources in the market for the development of the power sector in India.

Tourism Finance Corporation of India was set-up to meet the requirements of funds for financing projects in the tourism sector, which require specialised technical knowledge for appraisal and follow up. Tourism
Finance Corporation differs from the other two corporations in two aspects i.e. it is promoted by a number of financial institutions and secondly it adopts a consortium approach in financing the projects in the tourism sector. Thus it motivates and encourages other financial institutions to participate in financing the projects in tourism sector.

Though the above specialised institutions were set-up specially to cater to the needs of the infrastructure projects in power, transport and tourism sectors and banks and all-India financial institutions have also started financing such sectors, necessity was felt by the Government to set up a new corporation for financing the infrastructure projects. The Infrastructure Development Finance Company Limited (IDFC) came into existence in 1997 with participation in equity by the Government and the financial institutions, both Indian and Foreign.

**INDIAN RAILWAYS FINANCE CORPORATION LTD.**

Established in December 1986, this corporation is a Special Purpose Vehicle aiming at mobilising necessary resources for meeting the developmental needs of Indian railways. Though named as a finance corporation, it undertakes what may legitimately and appropriately be called the leasing business. Indian railways being run as departmental undertaking of the Central Government, cannot themselves raise resources from the capital market. This corporation, therefore raises resources from various stock assets and leases them to the railways. In the initial years the new stocks placed on line by the railways was bought by the corporation by paying their price to the railways and thereafter the same stock was leased to the railways. Thereafter the corporation has not involved itself in the purchase procedure and all the purchases of leased stock have been made by the Ministry of Railways, on behalf of the Corporation. The Corporation earns by way of lease rentral.

**RURAL ELECTRIFICATION CORPORATION LIMITED:**
Rural Electrification Corporation is a wholly owned Government of India Public Sector Enterprise. Incorporated in July 1969 under the Companies Act, 1956 REC’s main objective is to finance and promote rural electrification projects all over the country. It provides financial assistance to State Electricity Boards State Government Departments, Rural Electric Cooperatives and other entities in the power sector. It is an institution which finances and promotes power generation, conservation, transmission and distribution projects in the country.

POWER FINANCE CORPORATION LIMITED:

Power Finance Corporation Limited (PFC) is a Development Financial Institution dedicated exclusively to the funding and development of Indian Power Sector. It was incorporated as a Limited Liability Company under the Companies Act, 1956 on 16th July 1986. In August 1990, it was declared as a public financial institution under the Companies Act, 1956. It is wholly owned by the Government of India.

The objectives of the Corporation include financial strengthening of the state utilities by providing funds linked with financial and institutional reforms. It also provides fund and non-fund based support to private power projects. PFC provides finance for the following:

(i) Power generation projects both thermal and hydroelectric.
(ii) Power transmission and distribution systems.
(iii) Renovation and modernisation of Power Plants.
(iv) System improvement and energy conservation schemes.
(v) Survey and investigation of Power Projects.
(vi) Consultancies/studies.

A major portion of the funds for investments in the Power Sector is allocated to the Central/ State power utilities. It means both the fund based and non-fund based needs of the power sector, which are as follows:
1. Term loans for power projects, renovation, modernisation of power plants, energy conservation schemes etc.

2. Financial Guarantees

3. Lease Financing

4. Bill Discounting

5. Loan Syndication

TOURISM FINANCE CORPORATION OF INDIA LTD. (TFCI):

TFCI is another specialised All India Development Financial Institution, which commenced its operations on February 1, 1989, realizing the significance of tourism in the national economy, the Industrial Finance Corporation Ltd. along with other All India Financial Institutions and banks, sponsored this corporation, which aims at catering to the specific needs of the tourism industry and related activities, facilities and services.

A distinctive feature of the Corporation is that it finances tourism and related projects exclusively itself and also in participation with other financial institutions and banks. It provides financial assistance to projects with capital cost of Rs. 3 crore and above. In case of projects with capital cost between Rs. 1 crore and Rs. 3 crore TFCI considers financial assistance only to the extent of the gap, if any, which remains after availing of the assistance sanctioned by State Level Institutions and bank.

The Corporation, however may consider some unique projects with capital cost below Rs. 1 crore even if assistance from State level institutions/banks is not available. Thus projects with capital cost upto Rs. 3 crore may be financed by the Corporation together with State level Institutions/ banks. Projects with high capital cost may be sanctioned assistance by TFCI along with other All India Financial Institutions like IFCI and IDBI.
TFCI offers term loans, underwriting/direct subscriptions to shares/debentures as also the facility of equipment leasing/equipment credit for setting up and/or development of tourism-related activities, facilities and services. Apart from conventional tourism projects in the accommodation and hospitality segments, TFCI also sanctions assistance to non-conventional tourism projects like restaurants, highway facilities, travel agencies, amusement parks, dolphinarium, ropeways, car rental services, ferries for inland water transport, airport facilitation control, air taxi, training institution for hotel personnel etc. TFCI caters to the financial requirements of the tourism industry, allied activities, facilities and services.

TFCI functions as a full fledged development bank in the field of tourism. It provides all forms of financial assistance for new projects and for the expansion, diversification and renovation of the existing projects in tourism industry. It also finances related activities, facilities and services. The assistance may be provided in the form of:

(i) Rupee Loans.
(ii) Underwriting of public issues of shares/debentures and direct subscription to such securities.
(iii) Guarantees for deferred payments and credits raised abroad.
(iv) Equipment finance.
(v) Equipment leasing.
(vi) Assistance under suppliers credit.
(vii) Advisory services.

INFRASTRUCTURE DEVELOPMENT FINANCE COMPANY LIMITED (IDFC)
Incorporated in 1997, IDFC’s main objective is to provide private capital to commercially viable infrastructure projects in India. It was promoted jointly by the Government of India, Reserve Bank of India and a number of financial institutions in India and abroad.

**RISK CAPITAL AND TECHNOLOGY CORPORATION LTD. (RCTC):**

In March 1975 IFCI sponsored the Risk Capital Foundation (RCF) in order to provide assistance to new entrepreneurs including technologist and professionals for promoting industrial projects by giving loans free of interest or at nominal rates of interest. In order to provide encouragement to entrepreneurs, RCF was converted into Risk Capital and Technology Corporation Limited (RCTC) in January 1988. RCTC has three schemes of assistance to the industrial sector viz. risk capital scheme, technology promotion scheme and venture capital waits scheme RCTC is providing technology finance, with special emphasis on:

a) Provision of substantial innovative technologies, products, processes, market services, technological upgradation, energy conservation etc.

b) Meeting the expenditure of national and international consultants; and

c) Sponsored commercial R&D programmes.

In the area of risk capital assistance, RCTC has so far sanctioned Rs. 150 crores to 300 medium and large-sized projects (upto March, 2000) and has disbursed about Rs. 100 crores. These projects were based either on new technology or new usages. This included manufacture of anti-biotic drugs, radio paging systems, pay phones, calcium silicate bricks, granite and marble processing machinery etc.

Under its Technology Finance and Development Scheme, RCTC has so far sanctioned assistance for high risk technology projects such as
development of artificial intelligence, software for three dimensional computer animation, software for local area network, digitized fonts, digitizers, educational robots, hybrid seeds etc.

Under the venture capital unit schemes, RCTC provides assistance to companies for development and commercialisation of new technologies, introduction of new products and services, etc.

RCTC has been renamed as IFCI Venture Capital Funds Ltd. (IVCF) in 1998.

RCTC provides assistance in the form of conventional loans or interest-free conditional loans on a profit and risk sharing basis with the project promoters. RCTC also subscribes to equity of projects with suitable buy-back arrangements with the promoters.

RCTC has been managing a venture capital fund under the Venture Capital Unit Scheme-III (VECAUS III), floated by UTI with participation from IFCI, to assist potentially highly profitable ventures involving innovative products/technologies/services. The initial corpus of the fund has increased from Rs. 20 crore to Rs. 120 crore through a 5:1 rights issue, which was subscribed to equally by IFCI and UTI. It is expected that the additional funds would be fully committed by 2009, for investment in innovative ventures.

TECHNOLOGY DEVELOPMENT AND INFORMATION COMPANY OF INDIA LTD. (TDICI):

TDICI is a technology venture finance company, set up in 1989 to sanction project finance to new technology ventures. Till March 2000, TDICI had assisted nearly 350 companies to the tune of Rs. 500 crores. The industrial units assisted by TDICI are in the field of Computers, Chemicals/Polymers, Drugs, Diagnostics and Vaccines, Biotechnology, Electrical/
Electronics/ Telecom, Environmental Engineering Non-Conventional Energy, etc. This is now known as ICICI Venture Funds Management Co. Ltd.

TDICI primarily provides assistance to small and medium industries conceived by technocrat entrepreneurs in the form of project loans, direct subscription to equity and a quasi-equity instrument called conditional loans. Its operations encompass Venture Capital Unit Scheme (VECAUS I) and VECAUS I Rights (V-IR) founded by UTI and ICICI and VECAUS II contributed by UTI, ICICI and the corporate sector. It also extends assistance out of KFW-IDF funds loaned by ICICI for projects of developmental nature.

During the year, TDICI has been appointed as an investment adviser to TCW/ICICI India Private Equity Fund (domiciled in Mauritius), set up pursuant to the strategic alliance between ICICI and Trust Company of the West, (TCW USA). It has also been appointed as manager to the software fund constituted by ICICI out of the unutilized funds under the World Bank Technology Line of credit. This dedicated fund would provide flexible financing options to Indian Software Companies bearing venture capital characteristics.

3. SPECIALIZED FINANCIAL INSTITUTIONS OF INDIA

(i) Industrial Credit and Investment Corporation of India

Industrial Credit and Investment Corporation of India Ltd. was the first development bank to be set up as a joint stock company in India in 1955. Though industrial finance corporation of India has already came into existence in 1948, necessity for another corporation in the private sector was felt primarily to channelise the world bank funds to industry in India and also to built up capital market in India. Initially, its entire share capital was held by commercial banks, insurance company and other financial institutions, but with the nationalization of major commercial banks and insurance companies, the major portion of shares was later held by these nationalized institutions.
<table>
<thead>
<tr>
<th>Sr.</th>
<th>Scheme</th>
<th>Sanctions</th>
<th>Disbursements</th>
<th>Cumulative up to end-March 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Direct Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Project Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>Loans</td>
<td>15605.0</td>
<td>16511.1</td>
<td>19744.0</td>
</tr>
<tr>
<td></td>
<td>(a) Rupee loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Foreign currency loans</td>
<td>2694.6</td>
<td>5529.7</td>
<td>5985.0</td>
</tr>
<tr>
<td>(ii)</td>
<td>Underwriting &amp; direct subscription</td>
<td>329.4</td>
<td>2270.0</td>
<td>1200.5</td>
</tr>
<tr>
<td></td>
<td>(a) Shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Debentures/bonds</td>
<td>3390.5</td>
<td>3735.9</td>
<td>6502.7</td>
</tr>
<tr>
<td></td>
<td>Deferred payment guarantees</td>
<td>2655.3</td>
<td>2317.5</td>
<td>4661.9</td>
</tr>
<tr>
<td></td>
<td>Sub-Total (A)</td>
<td>24674.8</td>
<td>32364.2</td>
<td>38094.1</td>
</tr>
<tr>
<td>2.</td>
<td>Direct Discounting</td>
<td>1838.7</td>
<td>2722.1</td>
<td>1302.6</td>
</tr>
<tr>
<td>3.</td>
<td>Retail Finance</td>
<td>420.2</td>
<td>936.5</td>
<td>4160.0</td>
</tr>
<tr>
<td></td>
<td>(1+2+3)</td>
<td>32370.6</td>
<td>43522.8</td>
<td>55815.2</td>
</tr>
<tr>
<td></td>
<td>Grand-Total</td>
<td>1838.7</td>
<td>2722.1</td>
<td>1302.6</td>
</tr>
<tr>
<td>Source: Shashi K. Gupta, Nisha Agarwal, Financial Institutions and Market, p. 12.27</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
After the public cum rights issue of equity capital by ICICI in 1991 the number of its shareholders increased to over 5 lakhs. The liberalization of Indian economy in the 1990 offered ICICI an opportunity to provide a wide range of financial services. For this purpose ICICI set up specialized subsidiaries in the areas of commercial banking, investment banking, non-banking finance, investor servicing, broking, venture capital financing and state level infrastructure financing. Thus the ICICI group served as a virtual Universal Bank offering a wide range of financial products and services.

During recent years ICICI enlarged the area of its operations by merging three financial institutions with itself. The shipping credit of investment corporation of India Ltd., of which ICICI was the main promoter and single largest shareholder was merged with ICICI effective from April, 1996, as it was carrying out its lending operations in close consortium with ICICI and had similar organizational structure and business ethos. Effective April 1, 1997 ICICI acquired ITC classics to gain a strong retail distribution and investor service franchise particularly in the eastern sector of the country. Further Finance Ltd. was merged with ICICI effective April 1, 1998 to acquire its retail network particularly in the western and northern sectors of the country.

The core business activity of ICICI has traditionally been the business of providing project finance. But over the years it has undertaken many other modes of providing financial assistance and has involved in non-project based finance as well.

Like other development banks, project finance was the core business of ICICI. A distinguishing feature of ICICI’s financial assistance was the significant share of foreign currency loans in total sanctioned assistance. This had been possible because of the facility it enjoyed of raising resources in foreign currencies. The world bank had been sanctioning to it lines of credit
for lending to the private industrial sector. ICICI has also raised foreign currency loans from other institutions abroad and has entered into international capital market also. It has granted assistance for technology upgradation and modernisation of balancing equipment out of world bank's lines of credit.

A significant feature of the project finance provided by ICICI was the contribution made to the financing of infrastructure projects. During 1998-99 infrastructure projects accounted for 29% of the aggregate approvals and 15 of the aggregate disbursals of ICICI. It was also called upon to provide policy level advice to the government because of its expertise in infrastructure financing. Further it had also acted as a leader in financing projects in the refining and petro-chemical segments and extended assistance to select oil and fertilizer public sector units.

Though major share of project finance went to the manufacturing sector ICICI had shifted its emphasis and favoured providing assistance only to globally scaled, intrinsically viable projects with strong sponsor support. Because of this and also to improve asset quality, ICICI had restricted its approvals for new projects in the manufacturing sector to about 5% of incremental approvals.

ICICI had in the past extended the bulk of its financing to projects in the manufacturing sector. But to improve the asset quality, ICICI provided assistance only to globally scaled intrinsically viable projects with strong sponsor support. The financial assistance sanctioned and disbursed by ICICI Ltd. not only grew substantially, but also underwent purpose-wise diversification as is evident from the following table.
Table 1.12: Purpose-wise Distribution of Loan Portfolios of ICICI Ltd. (in percentage)

<table>
<thead>
<tr>
<th></th>
<th>As at March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing Sector Project finance</td>
<td>73.1</td>
</tr>
<tr>
<td>Oil, Gas and Petro-chemical Project finance</td>
<td>9.2</td>
</tr>
<tr>
<td>Infrastructure project finance</td>
<td>8.6</td>
</tr>
<tr>
<td>Corporate lending</td>
<td>9.1</td>
</tr>
<tr>
<td>Retail lending</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
<tr>
<td>Total portfolio (Rs. billion)</td>
<td>297.83</td>
</tr>
</tbody>
</table>

Source: P.N. Varshney and D.K. Mittal, Indian Financial System, p. 2.72

ICICI had in the past been operating as a traditional project finance institution subsequently it setup specialized industry groups in the areas of infrastructure and oil gas and petrochemicals sectors over the years it had developed considerable expertise in structuring complex finance transactions thus ICICI had become a leading player in infrastructure. Financing at the same time as lead arranger and project adviser in large number of cases.

Similarly ICICI had developed considerable in house expertise in project financing in the areas of oil export exploration, production, refineries pipelines, liquefied natural gas petrochemical and fertilizers. It had earmarked the development of infrastructure for petroleum product distribution.

In recent years ICICI became a dominant player in the field of retail financing. Its personal financial services division has expanded its product range and provided complete spectrum of retail asset products to individuals.
including automobile finance, home finance, consumer durable finance and personal loans.

Besides its main business of financing, ICICI also provided fee-based value added services to its clients Advisory services & consultancy where the advisory services division of ICICI provided fee based advisory services to its clients in the private corporate sector & government & quasi-government organizations. The primary objective of the division was to facilitate the creation of better projects and improve the business environment.

Next come custodial services, where this bank offered this service which included foreign financial institutions also. The value of transactions and assets held in custody on behalf of foreign financial institutions and off share clients increased significantly.

Lastly debenture trusteeship was the service provided where ICICI acted as a trustee for the holders of debentures and bonds issued by the companies to the public by public or rights issues or on private placement basis.

Resources of ICICI Ltd.

To meet the growing requirements of funds by industrial units ICICI had raised increasingly larger funds from the capital market every year ICICI had raised funds both in Indian rupees & foreign currencies.

Share capital as on March 31, 2000 then authorized share capital of ICICI Ltd. was Rs.6950 crore comprising 160 crore equity shares of Rs.10 each, 500 crore preference shares of Rs. 10 each and 350 preference shares of Rs. 1 crore each.

Out of the above equity capital stood at Rs. 783 crore. Rs. 10 preference share capital provided Rs. 957.66 crore and Rs. 1 crore preference share capital provided Rs. 350 crores. The preference shares of Rs. 10 each
were redeemed ICICI's equity share capital was held by over half a million shareholders. Deutsche Bank held 32.65% of the shares as depository for ADS holders. Insurance Companies 22.31%, FIIs and NRI's 15.62%, Individuals 10.72%, Corporate bodies 7.87%, UTI 6.86%, Banks and financial Institutions 3.25%, Mutual funds 0.37%, ICICI Ltd. had the distinction of having issued 25.64 crore equity shares represented by American Depository shares through an International offering in US dollars.

**Borrowing through Bonds:**

ICICI Ltd.'s main source of funds was the amount raised through bonds in the Indian capital market. Entire requirement of resources had been raised through borrowings in the capital market. These bonds differed from government guaranteed bonds, and had been issued through both the modes i.e. through public issue and private placements of bonds.

During the last few years ICICI consolidated its position in the growing retail liabilities segment through the introduction of "Safety Bonds". It had a retail investor base of over 2 million. These bonds were issued with different categories like Regular income bonds, Deep Discount Bonds, Index Bonds, Encash bonds, Capital Gains Bonds, Tax saving Bonds, Easy installment bonds. Investors were given the option of regular periodic return or of re-investment of return.

ICICI had also availed of loans and advances from the government of India which were in terms of agreement under World Bank credit for various purpose. Loans from Banks and Financial Institutions and Deposits.

**Borrowings in Foreign Currencies:**

ICICI Ltd. had raised resources in foreign currencies as (i) loans and (ii) through bonds and notes.
MERGER OF ICICI LTD. WITH ICICI BANK LTD.

During the last decade ICICI Ltd. established a number of subsidiaries to undertake various types of financial services. These included ICICI Bank Ltd. also which was set up as a commercial bank. Thus all these companies together with ICICI Ltd. collectively became known as ICICI group and formed a virtual universal bank.

The financial institutions were permitted to grant working capital finance to their corporate clients and the commercial banks were allowed entry into the field of term lending and investment in corporate securities. ICICI Ltd. Took the lead in this matter and along with two of its subsidiaries – ICICI Personal Finance Services and ICICI Capital Market – merged itself with ICICI Bank Ltd. also one of its subsidiaries. Thus the ICICI Bank Ltd. became the first Universal Bank in the country. The merger took place with effect from March 30, 2002 and marked the beginning of a new era for the Bank and the financial sector in India.

After the merger the ICICI Bank Ltd. has organisational structure which is divided into five principal groups as follows:

1. Retail Banking
2. Wholesale Banking
3. Project finance and special assets management
4. International Business
5. Corporate Center

Retail Banking

ICICI Bank is a retail financial supermarket and offers entire range of credit and investment products and other banking services to the customers, in the field of mortgage finance, it has introduced adjustable rate home loans
with interest rates linked to a floating prime lending rate. It is a market leader in automobile loans. It also provides online trading facilities and has successfully developed third party distribution model. It has also focused on the call centers and mobile banking services.

**Wholesale/Corporate Banking**

ICICI Bank Ltd. provides customized financial solutions to clients, tailored to meet their specific requirements. It provides working capital finance to highly rated clients. It has focused strongly on transaction banking services such as cash management and non-fund based facilities such as letters of credit and bank guarantees. It has been a pioneer in creating a market for securitised corporate debt.

**Project finance and special assets management**

The project financing activities of the Bank include financing new projects as well as capital additions in the manufacturing sector and structured finance to the infrastructure and oil, gas and petro-chemicals sectors. Its project finance business is focused on structuring and syndication of financing of large projects.

A special assets Management group has been set up to manage large non-performing loans and to monitor large accounts under watch. In case of viable companies, the group’s approach includes operational and financial restructuring, completion of projects under implementation, sale of unproductive assets and catalyzing consolidation.

**International Business**

The bank has already established a presence in the international markets, primarily in information technology, investment banking and banking products and services for the non-resident Indian community.
Corporate Center

Corporate center comprises all shared services and corporate functions, including finance and secretarial investor relations, risk management, legal human resources and corporate branding and communications.

SUBSIDIARIES OF ICICI BANK LTD.

After the merger of ICICI Ltd. with ICICI Bank Ltd., ICICI's subsidiary companies have become subsidiaries of ICICI Bank Ltd. As at March 31, 2003, ICICI Bank Ltd. had twelve subsidiaries including four international subsidiaries and eight domestic subsidiaries.

Domestic Subsidiaries include: -
1. ICICI Securities Ltd.
2. ICICI Brokerage Services Ltd.
3. ICICI Venture funds Management Co. Ltd.
4. ICICI Prudential life Insurance Co. Ltd.
5. ICICI Lombard General Insurance Company Ltd.
6. ICICI Home Finance Company Ltd.
7. ICICI Investment Management Company Ltd.
8. ICICI Trusteeship Services Ltd.

International Subsidiaries Includes
1. ICICI Securities Holdings Ltd.
2. ICICI Securities Ltd.
3. ICICI International Ltd.

(ii) Industrial finance corporation of India

IFCI was the first development bank established in India in the year 1948. The basic objective of its establishment was to make medium and long term credits more readily available to industrial concerns in India. It was
established as a statutory corporation under the IFCI Act 1948 and its share capital was subscribed by the commercial banks, co-operative banks, insurance companies etc.

After forty-seven years of experience as the pioneer development bank in the country, IFCI was converted into a public limited company on July 1, 1993 and is now known as the IFCI Ltd. Every shareholder of IFCI became the shareholder of the company with effect from the same date. The necessity for IFCI now has the flexibility to reshape its business strategies with greater operational autonomy in providing quantity services to customers and tapping the capital markets. As a joint stock company IFCI Ltd. is now able to enter the capital market for resources, through debt and equity instruments.

IFCI is today not only a term lending institution, but an active financial intermediary and a provider of a wide range of services to industry.

Project finance is the main activity of IFCI like other development bank. Under project finance, assistance is provided in many ways like

a) Long term loans—both in rupees and foreign currencies.

b) Underwriting of equity, preference shares and debenture issues.

c) Subscribing to equity, preference shares and debenture issues.

d) Guaranteeing the deferred payment in respect of machinery imported from abroad/purchased in India.

e) Guaranteeing of loans raised in foreign currency from foreign financial institutions.

Financial assistance may be availed of by any limited company—in public, private or joint sector—or by a co-operative society incorporated in India, which is engaged or proposes to be engaged in any of the specified industrial activities. There is no minimum or maximum ceiling on the amount of assistance to be granted by IFCI.
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</thead>
<tbody>
<tr>
<td></td>
<td>Sanctions</td>
<td>Disbursements</td>
<td>Sanctions</td>
<td>Disbursements</td>
<td>Sanctions</td>
<td>Disbursements</td>
<td>Sanctions</td>
</tr>
<tr>
<td>Rupee Loans</td>
<td>11083.3</td>
<td>11206.8</td>
<td>5938.8</td>
<td>8255.0</td>
<td>15416.35</td>
<td>13079.26</td>
<td>300791.69</td>
</tr>
<tr>
<td>Direct</td>
<td>3968.4</td>
<td>4097.5</td>
<td>1523.5</td>
<td>1934.2</td>
<td>3936.56</td>
<td>4848.83</td>
<td>47919.68</td>
</tr>
<tr>
<td>Underwriting</td>
<td>1457.3</td>
<td>1386.3</td>
<td>297.3</td>
<td>458.23</td>
<td>58425.91</td>
<td>57309.46</td>
<td>47919.68</td>
</tr>
<tr>
<td>Equipment</td>
<td>1155.5</td>
<td>4818.0</td>
<td>342.3</td>
<td>270.2</td>
<td>502.65</td>
<td>37842.50</td>
<td>36002.09</td>
</tr>
<tr>
<td>Financing</td>
<td>59.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7631.65</td>
<td>7471.13</td>
</tr>
<tr>
<td>Total</td>
<td>17664.5</td>
<td>21568.0</td>
<td>7804.6</td>
<td>10756.7</td>
<td>20313.79</td>
<td>17928.09</td>
<td>452611.34</td>
</tr>
</tbody>
</table>

**Source:** Varshney P.N, Mittal D.K., Indian Financial System, p. 2.85
The assistance rendered by IFCI is meant for setting up of new industrial projects and also for the expansion, diversification, renovation or modernization of existing ones.

It also provides financial assistance to industrial concerns not tied to any project. Following schemes of assistance have been introduced by IFCI under this category.

(i) Equipment Leasing

(ii) Suppliers Credit

(iii) Buyers Credit

Indirect finance is provided as assistance to leasing companies.

As is evident from the above table, rupee loans account for the major portion of the financial assistance sanctioned and disbursed by IFCI. There has been a continuous decline in the rupee loans sanctioned during the last few years till 2001-02 due to slackness in industrial activity in the country. A sharp fall is to be noted both in respect of sanctions and disbursements of foreign currency loans. The larger sanctions and disbursements during 2002-03 were largely on account of restructuring assistance which IFCI granted for consolidation of its operations.

Only 19.78% of the assistance sanctioned during 2001-02 was for new projects, 13.51% was for expansion/diversification/modernization of existing projects. The rest of the assistance (i.e. 66.71%) was for the purpose of balancing equipment, general corporate purposes, margin money for working capital, financial restructuring etc. This shows the changing pattern of the purpose wise classification of its assistance. However fund based assistance sanctioned accounted for 95.6% during 2001-02.
As regards underwriting and direct subscription to corporate securities, market preference of IFCI is to be noted in favour of corporate debentures vis-à-vis equities, obviously due to sluggishness in the equities market during recent years.

IFCI Ltd. has in recent years, like other development banks, made its entry in the field of providing short-term loans for working capital purpose.

Out of the above shown total assistance sanctioned by IFCI a part was provided in the form of non-fund based assistance. Such assistance was sanctioned to the extent of Rs. 210.83 crore during 1997-98 and Rs. 1532.3 crore during 1998-99. Disbursements amounted to Rs. 20.56 crore and Rs. 85.7 crore respectively.

IFCI Ltd. has also laid special emphasis on projects in the infrastructure sector. Including power generation, telecom services, ports and port related services, bridges, and roads accounted for 50.4% of the total sanctions and 25.6% of total disbursements during 1998-99. But the percentage share of infrastructure projects in the total outstanding loans accounted for just 13.13% as on March 31, 2002.

Resources of IFCI Ltd.

Share capital

In September 1999 the authorized share capital of IFCI Ltd. was increased from Rs. 1500 crore to Rs. 3000 crore equally divided into equity and preference shares. Subsequently in December 1999 a rights issue of Rs. 352.30 crore (equity shares) of Rs. 10 each was launched at par. But the IFCI Ltd. received total subscription of Rs. 286.4 crore from this issue. It is to be seen that the earlier public issue of equity shares during 1993-94 aggregated Rs. 525 crore including premium of Rs. 340.65 crore. Its inability
to raise full subscription for the rights issue may be attributed to its deteriorating financial position during recent years.

During the year 1999-2000 the corporation issued preference share capital of Rs. 20 crore with a two year tenure and a coupon rate of 10.5% per annum. The paid up share capital amounted to Rs. 1067.95 crore comprising equity capital of Rs. 638.67 crore and preference capital of Rs. 429 crore as at March 31, 2002.

**Bonds and Debenture**

IFCI's main dependence for funds has been on borrowings both within the country and outside where principal source in India has been the bonds issued by it carrying Government guarantees. Such bonds were eligible for subscription by commercial banks to meet their statutory liquidity requirements.

During their financial years (1997-98 to 1999-2000) IFCI Ltd. raised Rs. 3367.1 crore through private placements of bonds, while no public issue was made.

**Other Borrowings**

IFCI Ltd. also borrows funds through inter corporate deposits, certificates of deposits, term money borrowings and government borrowings. Out of these, long term borrowings as on March 31, 2002 comprised Rs. 33.7 crore from Government of India in terms of KFW Agreement for interest differential fund, Rs. 533 crore from other sources. The short term sources like certificate of deposits accounted for the major portion of borrowings.

**Foreign Currency Loans**

For meeting the foreign exchange requirements of its clients, IFCI raised foreign currency loans through
A) Lines of Credit: these are bilateral/multilateral lines of credit from KFW, Asian Development Bank and other banks.

B) Commercial borrowings: through syndicated loans.

INSTITUTIONS PROMOTED BY IFCI

The industrial finance corporation of India has promoted the following specialized institutions to cater to needs of industry:

a) Tourism finance Corporation of India Ltd. (TFCI).

b) Management Development Institute

c) Technical Consultancy Organizations

d) Investment information & credit rating agency of India Ltd. (ICRA)

e) Institute of labour development (ILD)

f) Tourism advisory and financial services corporation of India Ltd.

SUBSIDIARY COMPANIES OF IFCI LTD.

1) IFCI Financial Services Ltd.

In 1995, IFCI established IFCI financial services Ltd., IFCI investor services Ltd. and IFCI custodial services Ltd. as its wholly owned subsidiaries. IFCI financial services Ltd. provides merchant banking and allied services to its clients. IFCI Investors services Ltd. provide registrar and transfer agent services, while IFCI custodial services Ltd. rendered similar services to its clients.

The latter two subsidiary companies have been merged with IFCI financial services Ltd. effective from February 15, 2000. This company is engaged in stock broaching business. It has decided to diversify into related areas including retailing of insurance products as insurance broker for general insurance and corporate sales agent for life insurance.
2) IFCI Venture Capital Funds Ltd.

Established under the name of the risk Capital & Technology finance corporation Ltd. (RCTC) this subsidiary of IFCI is now known as IFCI Venture Capital Funds Ltd. It now concentrates only on managing venture capital funds in some select industries.

Institutions Co-sponsored by IFCI

IFCI has also co-sponsored the following national institutions:

1. Stock Holding Corporation of India Ltd.
2. Securities Trading Corporation of India Ltd.
3. Over the Counter Exchange of India
4. National Stock Exchange of India Ltd.
5. Biotech Consortium India Ltd.
6. A B Homes Finance Ltd.
7. LIC Housing Finance Ltd.
8. GIC Housing Finance Ltd.
9. Entrepreneurship Development Institute of India

(iii) State Financial Corporation:

State financial corporations (SFCs) are state level financial institutions which play an important role in the development of small and medium enterprises. There are 18 states financial corporations, of which 17 were established under the state financial corporation Act 1951. Tamil Nadu Industrial Investment Corporation Ltd. established under the companies Act, acts as State Financial Corporations. According to the State Financial Corporation Act, the State Government may establish a SFC and two or more states may enter into an agreement for the establishment of Joint State Financial Corporation for those states. State Financial Corporations perform the usual functions of a development bank, but in relation to small and
medium enterprises. To be specific, they provide financial assistance by way of:

(i) Term loan
(ii) Direct subscription to equity shares/debentures
(iii) Guarantees
(iv) Discounting of Bills
(v) Seed/special capital

Besides, they also implement special schemes for artisans and special target groups such as scheduled class/scheduled tribes women, ex-servicemen, physically handicapped etc.

In recent years SFCs have also started providing assistance to newer types of enterprises including floriculture, tissue culture, poultry farming commercial complexes and services relating to engineering marketing etc.

SFCs have in recent years enlarged the area of their operations also. They have started offering facilities such as equipment leasing and have commenced the business of consultancy, merchant-banking debenture-trusteeship and capital market related services.

THE STATE FINANCIAL CORPORATIONS (AMENDMENT) ACT, 2000

The state financial corporations Act 1951, was amended in 2000 to enlarge their shareholder base, to provide them with greater functional autonomy and operational flexibility:

1. Share Capital

The share capital held by industrial development bank of India in the state financial corporations shall be transferred to the small industrial
development bank of India. Various powers enjoyed by IDBI have also been transferred to the SIDBI.

The authorized capital of a financial corporation shall be fixed by the state government and shall not be less than Rs. 50 lakh and not more than Rs. 500 crore. The state government may increase it upto Rs. 1000 crore.

The shares shall consist of equity shares and redeemable preference shares. The shares are allowed to be issued to the public also upto 49% of the issued capital. The State Government, small industrial development bank of India, public sector banks, life insurance corporation of India, other insurance companies or other institutions owned or controlled by the central government or the state government shall be the major shareholders having been allotted at least 51% of the share. The shares shall be freely transferable subject to the conditions that at least 51% of the shares are always retained by the state government and above mentioned institutions.

2. Resources

The financial corporation shall raise resources from the following sources:

1. Issue of Bonds and Debentures.
2. Borrowings from Reserve Bank of India.
4. Deposits from State Government/ local authority or any other persons repayable after 12 months.

Management

The SIDBI, in consultation with the state government shall appoint the Chairman of Board of Directors. The managing director shall be appointed in consultation with SIDBI, by the state government. Besides, two directors are
to be nominated by State Government.(including one with special knowledge or experience in small scale industries). Two directors nominated by SIDBI, two directors Banks & financial institutions and 2 to 4 directors by the individual shareholders (depending upon their shareholding in the corporation). The Latter may be removed by the shareholders who have appointed them.

**Business**:

The Amendment Act authorizes the financial corporations to undertake the following business also, in addition to their existing business:

1. Consultancy and merchant banking services.
2. Acting as trustee for the debenture holders.
3. Leasing, sub leasing, giving on hire or hire purchase of industrial plant equipment, machinery or any other asset.
4. Factoring.
5. Export related credit and services.
6. Money market related activities.
7. Setting up of mutual funds and undertaking asset management activity.
8. Promotions & confirming of companies, subsidiaries, societies, trusts etc.
9. Opening or confirming or endorsing letters of credit and negotiation or collecting bills etc. drawn there under.

**Investment of Funds**

Prior to the Amendment the financial corporations were allowed to invest their funds in the securities of the central government or of any state Government. Now they are authorized to invest their funds in accordance with the applicable guidelines and prudential norms, as may be prescribed, and in such securities as the Board may decide from time to time.
ASSISTANCE SANCTIONED AND DISBURSED BY SFCs

The following table depicts the amount of assistance sanctioned and disbursed by SFCs during the recent years.

Table 1.14: Assistance Sanctioned & Disbursed by SFCs.  (Rs. Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctioned</th>
<th></th>
<th></th>
<th>Disbursements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Growth rate %</td>
<td>Amount</td>
<td>Growth rate %</td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>1908.3</td>
<td>-5.3</td>
<td>1563.4</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>2702.4</td>
<td>41.6</td>
<td>1880.9</td>
<td>20.3</td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td>4188.5</td>
<td>55.0</td>
<td>2961.1</td>
<td>57.4</td>
<td></td>
</tr>
<tr>
<td>1996-97</td>
<td>3544.8</td>
<td>-15.8</td>
<td>2117.6</td>
<td>-23.9</td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>1864</td>
<td>-29.0</td>
<td>1626.7</td>
<td>-22.9</td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>2395.2</td>
<td>28.5</td>
<td>1842.6</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>2000-2001</td>
<td>2911.4</td>
<td>21.6</td>
<td>1979.0</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>2001-2002</td>
<td>2210.2</td>
<td>-24.1</td>
<td>1749.6</td>
<td>-11.6</td>
<td></td>
</tr>
<tr>
<td>2002-2003</td>
<td>1856.0</td>
<td>-16.0</td>
<td>1454.0</td>
<td>-16.9</td>
<td></td>
</tr>
<tr>
<td>2003-2004</td>
<td>1134.0</td>
<td>-38.9</td>
<td>857.0</td>
<td>-41.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Varshney P.N Mittal D.K Indian Financial System p.2.121

It is be noted that while the total assistance sanctioned and disbursed went on increasing till 19995-96, there has been perceptible decline in the same in the following years. The decline was not shared by all the SFCs since the end of March 2000 has almost remained stagnant around Rs. 12500 crore in the aggregate.

Major portion of the assistance has been provided in the form of term loans to industrial enterprises, while a very small amount was made available by way of direct subscription and underwriting. Small scale amount was made available by way of direct subscription and underwriting. Small scale sector comprising small scale industries and small road transport operators
Assistance Sanctioned & Disbursed by SFCs.

- Sanctioned Amount
- Sanctioned Growth rate %
- Disbursements Amount
- Disbursements Growth rate %

accounted for two-third of the total assistance sanctioned in 1997-98. The share of small-scale industries in total sanctions to small scale sector increased from 88.6% to 90.8% during 1997-98.

SFCs provide financial assistance for the setting up of new units, expansion and diversification of existing units, modernization/ balancing equipment, rehabilitation and other purposes. New projects account for the largest assistance (70.4%) in SFCs sanctions, followed by expansion/ diversification (14.5%), other purposes (13.7%) modernization and balancing equipment (1%) and rehabilitation (0.4%).

SFCs have not been able to diversify their products and services. They are highly bureaucratic organizations having high transaction costs and very poor appraisal skills. They state governments are the majority owners and have exclusive powers under SFC Act to give policy direction to SFCs. Thus the combination of policy making and regulatory function results in creation of mobilithic organizations with undesirable consequences.

The working group feels that after the exit of the SFCs as recommended by it, the gap can be filled by banks and by suitably respoitioning SIDBI.

(iv) Industrial Reconstruction Bank of India:

In recent years several industrial units, particularly in the Eastern Region, were in severe difficulties and were on the verge of closing down. Lack of adequate demand, managerial imprudence, labour troubles, shortage of raw material and import restriction were some of the reasons responsible for this state of affairs, in view of their importance to the national economy and the needs of employment of large work force, these units had to be assisted financially. The Government of India set up the Industrial Reconstruction Corporation of India (I.R.C.I.) in April 1971 under the Indian Companies Act mainly to look after special problems of ‘sick’ units and provide assistance for their speedy reconstruction and rehabilitation if
necessary by undertaking the management of the units and developing infrastructure facilities like those of transport, marketing etc.

The management of IRCI was entrusted to a board of directors, while its day-to-day administration was looked after by a Managing Director appointed by IDBI, since its inception in 1971 till the end of March 1984, IRCI had sanctioned reconstruction assistance of Rs. 265 crores to 242 sick or closed industrial units and had disbursed Rs. 185 crores. Textiles, engineering, mining and foundry industries were assisted by IRCI which had paid special attention to the units located in the classified backward areas as also to those in the small scale sector. The corporation had also charged concessional rate of interest.

In august, 1984, the Government of India passed an Act converting the industrial Reconstruction Corporation of India (IRCI) into the Industrial Reconstruction Bank of India (IRBI). IRBI was established in March 1985 to take over IRCI.

Now IRBI has to function as the principal all-India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns. It has also to co-ordinate similar work of other institutions engaged in this field.

IRBI assistance is mainly in the form of term loans, for modernization, diversification, expansion, renovation etc.

Now IRBI extends assistance to sick small-scale units also. While extending financial assistance, emphasizes the need for continuing modernization, improving productive capacity and upgrading of technology of industrial units their survival where its contribution to industrial revival is quite significant.

IRBI had diversified its activities into ancillary lines such as consultancy services, merchant banking and equipment leasing all these activities were incidental and allied to its task of rehabilitation of sick
Table 1.15: Assistance Sanctioned and Disbursed by IIBIL.

(Rs. crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions</th>
<th>Growth rate (%)</th>
<th>Sanctions</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>6.6</td>
<td>-7.6</td>
<td>1.1</td>
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</tr>
<tr>
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<td>6.1</td>
<td>18.0</td>
<td>3.5</td>
<td>48.6</td>
</tr>
<tr>
<td>1973-74</td>
<td>7.2</td>
<td>-7.6</td>
<td>5.2</td>
<td>53.8</td>
</tr>
<tr>
<td>1974-75</td>
<td>7.6</td>
<td>-30.3</td>
<td>8.0</td>
<td>41.3</td>
</tr>
<tr>
<td>1975-76</td>
<td>5.3</td>
<td>88.7</td>
<td>4.7</td>
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</tr>
<tr>
<td>1976-77</td>
<td>10.0</td>
<td>9.0</td>
<td>10.8</td>
<td>-1.8</td>
</tr>
<tr>
<td>1977-78</td>
<td>10.9</td>
<td>159.8</td>
<td>9.1</td>
<td>35.2</td>
</tr>
<tr>
<td>1978-79</td>
<td>10.7</td>
<td>23.6</td>
<td>12.6</td>
<td>33.5</td>
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<tr>
<td>1979-80</td>
<td>15.2</td>
<td>59.4</td>
<td>12.5</td>
<td>32.4</td>
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<tr>
<td>1980-81</td>
<td>19.4</td>
<td>67.8</td>
<td>16.9</td>
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<tr>
<td>1981-82</td>
<td>50.4</td>
<td>98.0</td>
<td>28.4</td>
<td>39.7</td>
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<td>1982-83</td>
<td>62.3</td>
<td>11.6</td>
<td>37.9</td>
<td>7.6</td>
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<td>69.5</td>
<td>23.6</td>
<td>41.4</td>
<td>9.2</td>
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<tr>
<td>1984-85</td>
<td>110.8</td>
<td>11.6</td>
<td>54.8</td>
<td>32.4</td>
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<tr>
<td>1985-86</td>
<td>75.2</td>
<td>59.4</td>
<td>67.8</td>
<td>23.7</td>
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<tr>
<td>1986-87</td>
<td>148.9</td>
<td>60.1</td>
<td>94.7</td>
<td>39.7</td>
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<td>1987-88</td>
<td>186.5</td>
<td>25.3</td>
<td>101.9</td>
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<td>1988-89</td>
<td>208.8</td>
<td>12.0</td>
<td>116.5</td>
<td>-14.3</td>
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<td>146.6</td>
<td>29.8</td>
<td>141.1</td>
<td>21.1</td>
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<td>1990-91</td>
<td>234.7</td>
<td>60.1</td>
<td>153.9</td>
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<td>1991-92</td>
<td>277.7</td>
<td>18.3</td>
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<td>1992-93</td>
<td>294.3</td>
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<td>183.9</td>
<td>-0.7</td>
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<td>1993-94</td>
<td>425.8</td>
<td>44.7</td>
<td>188.6</td>
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<tr>
<td>1994-95</td>
<td>777.9</td>
<td>82.7</td>
<td>397.6</td>
<td>110.8</td>
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<td>1995-96</td>
<td>897.3</td>
<td>15.3</td>
<td>528.6</td>
<td>32.9</td>
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<tr>
<td>1996-97</td>
<td>816.0</td>
<td>-9.1</td>
<td>549.6</td>
<td>4.0</td>
</tr>
<tr>
<td>1997-98</td>
<td>2061.0</td>
<td>152.6</td>
<td>1153.2</td>
<td>109.8</td>
</tr>
<tr>
<td>1998-99</td>
<td>2175.2</td>
<td>5.5</td>
<td>1688.5</td>
<td>46.4</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2338.1</td>
<td>7.5</td>
<td>1439.6</td>
<td>-14.7</td>
</tr>
<tr>
<td>2000-01</td>
<td>2102.3</td>
<td>-10.1</td>
<td>1709.8</td>
<td>18.8</td>
</tr>
<tr>
<td>2001-02</td>
<td>1320.7</td>
<td>-37.2</td>
<td>1070.0</td>
<td>-37.4</td>
</tr>
<tr>
<td>2002-03</td>
<td>1206.4</td>
<td>-8.7</td>
<td>1091.9</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Cumulative up to end-March, 2003: 11862.5

Source: Shashi, K. Gupta and Nisha Aggarwal, Financial Institutions and Markets, Page 12.33
industrial units. Through its consultancy services, IRBI attempted to help banks and financial institutions to assess intrinsic worth of sick units which were seeking assistance for revival. Through its merchant banking services, IRBI enabled units in the process of amalgamation, merger, and reconstruction, equipment leasing was in fact, an extension of the IRBI hire-purchase scheme.

During March 1997, the Government of India converted the Industrial Reconstruction Bank of India into a company and renamed it as Industrial Investment Bank of India Ltd. During 1999-2000 IRBI sanctioned loans worth Rs. 2338.1 crores and disbursed Rs. 1439.6 crores.

During the year 1998-99 there has been remarkable growth in terms of IIBIs disbursement, which grew by around 46% to Rs. 1688.5 crore as compared to Rs. 1,153.2 crore during the previous year. Sanctions increased by around 6% to Rs. 2,175.2 crore from Rs. 2,061.0 crore in the previous year. About 82% of the total assistance sanctioned by the Bank was in respect of Project Finance and Non-Project Asset backed finance 92% of such sanctioned assistance was in respect of private sector, 7% in respect of Public Sector and 1% for joint sector. Non-performing assets constituted 14% of its total assets as on March 31, 1999. BIFR appointed IIBI as Operating Agency under the sick Industrial Companies (Special Provisions) Act 1985 in 336 cases its role as Operating Agency is next only to that of IDBI amongst all the institution and Banks.

During 1999-2000 the sanctions and disbursements by IIBI were Rs. 2338.1 crores and Rs. 1439.6 crores respectively. Disbursements were 15% lower compared with the previous year. The public sector and joint sector accounted for large share in the sanctions during the year i.e. 17% and 15% respectively as compared to 7% and 1% during the year 1998-99.

Sanctions and disbursements declined during 2000-01 and 2001-02 when the former fell to Rs. 2102.3 crore and Rs. 1320.7 crore respectively.
Disbursements amounted to Rs. 1709.8 crore in 2000-01 and fell substantially to Rs. 1070 crore the next years.

The major portion of the funds of IRBI have been utilized by investing in government and corporate securities and by granting term loans to assisted concerns.

In its budget for 2005-06, the government have made a separate budgetary provisions of Rs. 150 crore for IRBI on “Capital A/c”. This assistance has contributed to improve the bottom line of IRBI but the critical phase continues.

The Institutions future lies in its merger with another development bank or its closure at an early date.

5) LIFE INSURANCE CORPORATION OF INDIA

Life Insurance Corporation of India was established as a statutory corporation under the Life Insurance Corporation of India act 1956, after the nationalization of life insurance companies in India. It is wholly owned by the government of India and undertakes the business of life insurance by offering a variety of insurance policies to various segments of society. In the course of undertaking life insurance business, LIC mobilizes savings of the masses and employs them in various types of securities and as loans and advances. LIC thus is a prominent investment institution in the country. The investible funds of LIC grew from Rs. 62505 crores at the end of March 1995 to Rs. 161000 crores as at March 31, 2000.

In November 1997, the Government removed the restrictions of investing in specified proportions and permitted the corporation to invest the entire amount within the ceiling of 25% on the basis of its commercial judgement but subject to prudential norms.

At the same time, the investment pattern of LIC Group Insurance Scheme was also liberalized. LIC was permitted to invest 60% of the
scheme's funds in approved market investments and the balance in Government and guaranteed securities, earlier such market related investments were restricted to 40%.

The scope of the socially-oriented sector was also widened to include ports, railways (BOLT projects) roads and highways and airports. LIC has been given the liberty of investing in both public as well as private sector ventures. Thereby long-term funds were invested in infrastructure sector.

It is thus apparent that major portion of the LIC's funds are required to be invested in Government or Government approved securities and socially oriented sectors and only a smaller proportion is to be invested in the private sector, funds are broadly deployed in the form of loans and investments in stock exchange securities. As at March 31, 2005 funds invested in the latter accounted for Rs. 355636 crores, while the outstanding loans aggregated Rs. 54239 crore only other investments accounted for Rs. 2983 crore only.

**LIC Assistance to Corporate Sector:**

Within the constraints stipulated by section 27 A of the Insurance Act, life insurance Corporation grants assistance to the corporate sector in various ways as is evident from the following table:

It is apparent from the above table that LIC employs its resources in the corporate sector in the form of debts or through debt instruments (i.e. Term Loans to companies and financial institutions and debentures). Its investments in equity/preference shares accounted for less than 10% of the cumulative assistance granted to corporate sector. Term loans to the corporate sector are granted along with the development banks and commercial banks. Cumulative assistance through term loans accounted for about 25% of the total assistance granted to the corporate sector. Terms loans granted to
<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions rate (o/o)</th>
<th>Growth rate (%)</th>
<th>Disbursements rate (o/o)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>18.0</td>
<td>27.8</td>
<td>8.0</td>
<td>-37.5</td>
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<td>43.0</td>
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<td>32.0</td>
<td>-25.6</td>
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<td>21.2</td>
<td>71.0</td>
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<td>-12.5</td>
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<td>-7.0</td>
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<td>137.1</td>
<td>136.0</td>
<td>106.1</td>
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<td>87.0</td>
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<td>262.0</td>
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<td>14.9</td>
<td>1395.0</td>
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<td>1343.3</td>
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<tr>
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<td>30.8</td>
<td>2529.7</td>
<td>88.3</td>
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<tr>
<td>1995-96</td>
<td>2820.8</td>
<td>20.5</td>
<td>2960.6</td>
<td>17.0</td>
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<tr>
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<td>3563.1</td>
<td>26.3</td>
<td>3971.4</td>
<td>34.1</td>
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<td>1997-98</td>
<td>4845.6</td>
<td>36.0</td>
<td>4837.0</td>
<td>21.8</td>
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<td>6825.5</td>
<td>40.9</td>
<td>5629.4</td>
<td>16.4</td>
</tr>
<tr>
<td>1999-2000</td>
<td>10867.3</td>
<td>59.2</td>
<td>7095.0</td>
<td>26.0</td>
</tr>
<tr>
<td>2000-01</td>
<td>6741.5</td>
<td>-38.0</td>
<td>8914.2</td>
<td>25.6</td>
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<tr>
<td>2001-02</td>
<td>4341.5</td>
<td>-35.6</td>
<td>6205.8</td>
<td>-30.4</td>
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<tr>
<td>2002-03</td>
<td>27748.0</td>
<td>539.1</td>
<td>15781.6</td>
<td>154.3</td>
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<tr>
<td>Cumulative up end-March 2004</td>
<td>82732.8</td>
<td>67736.1</td>
<td></td>
<td></td>
</tr>
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</table>

financial institutions like National Housing Bank and Housing finance companies augment their resources and thereby their lending capacity for housing purposes.

Investments in corporate securities take place in both the primary market and the secondary market. LIC’s preference for corporate debentures vis-à-vis equity shares is evident from the fact that out of the total assistance of Rs. 3563 crore sanctioned to the corporate sector during 1997-98, Rs. 2718 crore were by way of investment in debentures of the companies while only Rs. 78 crore were invested in equities.

The pattern of investments by LIC in the corporate sector has undergone a radical change during the last few years. As on March 31, 1999 its investments in equity amounted to Rs. 7730 crore, which increased to Rs. 14021.97 crore at the end of the year 2001-02 (i.e. a rise of Rs. 6291 crore). Thus the rise in equity investments over the three year period ending March 31, 2001 works out to 137.8%.

For the year ending march 2003, LIC has laid down the target of deploying Rs 4500 crore in the stock markets. LIC has undertaken aggressive trading in it’s equity portfolio and it has taken advantage of price appreciation. LIC has emerged as largest buyer of equity in the market today. More than 9% of LIC’s incremental investible fund have been invested in the equity market.

The corporate sector has sanctioned assistance for varied purposes viz. for establishment of new units, for expansion diversification, modernization of existing units and for balancing equipment rehabilitation and above for other purposes including mainly for relieving constraints of cash resources.
(VI) GENERAL INSURANCE CORPORATION OF INDIA

General Insurance Corporation of India (GIC) was established in January 1973 when general insurance corporation were nationalized till recently. The GIC has four subsidiary companies, e.g., National Insurance Company Ltd., New India Insurance Co. Ltd., Oriental fire and General Insurance Company Ltd. and United India Insurance Company Ltd. GIC along with its former subsidiaries are engaged in the business of general insurance of India and operates various types of policies to suit the diverse needs of the various segments of the society. They derive these income from insurance premium and invest in the various types of securities as well as in the form of loan. GIC has thus emerged an important investment in the Indian capital market.

Section 27(B) of the Insurance act 1938 provides the basic framework within which the investible of GIC are invested. Besides, the Government of India has also issued guidelines in this regard from time to time. The investment pattern and policy of GIC were governed by these statutory requirements and guidelines till 2000.

With effect from April 1, 1995 the Government has relaxed the investment policies of GIC and its subsidiaries. Till then they were required to invest 70% of the annual accretion to their funds in Government securities and socially oriented sectors of the economy and only 30% in the market.

ASSISTANCE TO CORPORATE SECTOR

It is apparent from that about 30% of the total investments made by GIC and subsidiaries were channelised towards the corporate sector. Assistance was sanctioned to the corporate sector in the form of term loans and investment in corporate securities.

The assistance sanctioned to corporate sector is intended for the establishment of new units, for expansion, diversification modernization and
**TABLE 1.17: INVESTMENT PATTERN OF GIC**

(Rs. crore)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Investments</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Government and other approved securities, special deposits with Government of India, etc.</td>
<td>1504.1</td>
<td>1870.4</td>
<td>2114.2</td>
<td>2325.4</td>
<td>2694.6</td>
</tr>
<tr>
<td>2.</td>
<td>Shares and debentures of, deposits with and term loans to companies/GIC-HF</td>
<td>1667.9</td>
<td>2053.1</td>
<td>2520.4</td>
<td>3200.4</td>
<td>3713.7</td>
</tr>
<tr>
<td>3.</td>
<td>Loans to banks on participation certificates/bills rediscounting scheme</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Others</td>
<td>700.4</td>
<td>618.3</td>
<td>795.6</td>
<td>717.0</td>
<td>949.4</td>
</tr>
<tr>
<td></td>
<td>(a) Equity shares of public sector undertakings</td>
<td>685.4</td>
<td>721.1</td>
<td>915.1</td>
<td>893.0</td>
<td>1147.9</td>
</tr>
<tr>
<td></td>
<td>(b) Loans to HUDCO/State Government for housing/fire fighting equipment, etc.</td>
<td>111.3</td>
<td>133.7</td>
<td>168.1</td>
<td>209.1</td>
<td>270.7</td>
</tr>
<tr>
<td></td>
<td>(c) Holdings in subsidiary companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Units of Unit Trust of India</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(e) Loans to GIC Mutual Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(f) Application money</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(g) Units of Indus Venture Capital Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(h) Loans to infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Taxable &amp; tax-free bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4557.8</td>
<td>5262.9</td>
<td>6345.3</td>
<td>7135.8</td>
<td>8505.6</td>
</tr>
</tbody>
</table>

**Source:** Shashi, K. Gupta and Nisha Aggarwal, Financial Institutions and Markets, Page. 14.22
rehabilitation of the existing units. Besides, the GIC also grants assistance for long-term working capital requirements and for meeting the cost over-run etc. The GIC and its former subsidiaries thus participate in industrial financing like other development banks and along with all India financial Institutions. Within the corporate sector itself private sector constituted the bulk (87.4%) of the total amount sanctioned followed by public sector (10.9%) and joint sector (1.7%)

The table 1.17 depicts that during the year 2003, GIC invested Rs. 2694.6 crores (nearly 32% of the total investments of Rs. 8505.6 crore) in Government and other approved securities etc. In invested Rs. 3713.7 crores in shares and debentures of companies. GIC extended loans to banks against participation certificates and bills rediscounting schemes to the tune of Rs. 949.4 crores during the year 2003. Others investments in the form of equity shares of public sector undertakings, units of UTI, loans to GIC Mutual Funds, for development of infrastructure and in taxable and tax-free bonds amounted to Rs. 1147.9 crore in aggregate.

(VII) UNIT TRUST OF INDIA

Unit trust of India, the oldest and the largest Mutual Fund in India, was established in 1964 under the Unit Trusts of India Act, 1963 as a statutory corporation. This institution pioneered the concept of pooled investment management in India. The basic objective of its establishment was to encourage investment and participation in the income, profits and gains accruing the corporation from the acquisition, holding, management and disposal of securities.

Unit Trust of India is approximately four decades old institution today, during the first three decades of its existence it grew from strength to strength and gained almost public confidence as an investment institution. But since 1998 it has passed through a period of crisis. The government undertook
several measures to overcome the crisis, but the lasting solution came in 2002 when the UTI was bifurcated into two entities.

On 31\textsuperscript{st} August, 2002, Government announced a structural reform package and a bail out programme for the UTI. On 29\textsuperscript{th} October, 2002, Government promulgated an ordinance whereby the UTI Act, 1963 was repealed and the entire undertaking of UTI was split into two separate entities – UTI-I and UTI-II.

UTI-I has taken over US 64 scheme and all monthly Income Plan Schemes, which assures a definite income to the investors. Till Net Asset value based schemes have been transferred to UTI-II, which has also taken over units of US 64 issued since 1\textsuperscript{st} January, 2002 at NAV based sale price.

**UTI-I [Specified Undertaking of the Unit Trust of India]:**

After the enactment of unit trust of India (transfer of undertaking and Repeal) Act, 2002 the undertaking of the Unit Trust of India (excluding the specified undertaking) has been transferred to the specified company. [i.e. UTI-II]. The terms and conditions of such transfer have mutually agreed upon, and administered by an Administrator.

The entire initial capital in the UTI held by IDBI, LIC, SBI, its subsidiaries and other financial institutions has been transferred to the central Government and these institutions have been reimbursed by the Government on the basis of book value of assets and liabilities of the UTI.

The UTI-I is being managed by a government appointed administrator and a team of officially nominated advisors.

In case of US 64 scheme and the monthly assured return schemes, the Government is fully committed to fulfill the assurances given to the investors. Unit scheme 64 was terminated with effect from June 1, 2003. In order to
avoid heavy redemption's of US 64 units in May 2003 and to retain the investors thereafter, Government announced the following measures:

(1) The UTI-I offered a chance to the unit holders to convert their units into tax free 6.75% bonds that will be redeemed after five years and are guaranteed by the government. These bonds are listed for trading at the National Stock Exchange and the OTCEI.

(2) The Government also proposed in the Budget for 2003-04 to provide that any income arising from transfer of US 64 units shall be exempted from tax.

The specified undertaking of UTI withdrew 7 monthly income plans with assured returns, with effect from April 1, 2004. This step was taken to arrest the gap between assets and liabilities of these schemes.

UTI- I also decided to foreclose its two monthly income plans – MIF-1999(II) and MIP 2000 from August 1, 2004. In its budget for 2004-05, the Government has given to UTI an amount of Rs. 1200 crore to enable it to meet the shortfall in the assured return schemes maturing in 2004-05 and to meet contingent liabilities on account of 6.75% bonds of the US 64 scheme.

**UTI-II Named as Mutual fund**

After the bifurcation of the undertaking of UTI, the specified company has been named as UTI Mutual fund. It has been set up as a Trust under the India trust Act, 1882. Its sponsors are life Insurance corporation of India, State Bank of India, Punjab National Bank and Bank of Baroda. Each of them has contributed 25% of its share capital of Rs. 10 crore. UTI Trust Company (Private) Ltd. has been incorporated under the companies Act, 1965 to act as Trustee for the Mutual Fund. Another company-UTI. Asset Management Company (private) Ltd. has been incorporated to function as Investment manager.
<table>
<thead>
<tr>
<th>Year</th>
<th>Sanctions</th>
<th>Growth rate (%)</th>
<th>Disbursements</th>
<th>Growth rate (%)</th>
</tr>
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<td>1972-73</td>
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<td>(-9.1)</td>
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<td>7.8</td>
<td>11.4</td>
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<td>5162.1</td>
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<td>(-1.1)</td>
<td>4599.9</td>
<td>(-10.9)</td>
</tr>
<tr>
<td>2001-02</td>
<td>991.0</td>
<td>(-85.4)</td>
<td>1269.6</td>
<td>(-72.4)</td>
</tr>
<tr>
<td>2002-03(up to Oct.)</td>
<td>307.4</td>
<td>(-69.0)</td>
<td>414.7</td>
<td>(-67.3)</td>
</tr>
<tr>
<td>Cumulative up to end-October 2003</td>
<td>70458.4</td>
<td>53954.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Trend in Assistance Sanctioned and Disbursed by UTI to Corporate Sector
UTI Mutual Fund commenced its operations with effect from February 1, 2003. UTI Asset Management Company manages 42 NAV based domestic schemes and 5 offshore funds which are SEBI compliant schemes.

Moreover, Units in US 64 scheme issued since 1st January, 2002, at its NAV based price have been carved out of US 64 schemes and constitute a new unit scheme, US 2002, which has also been entrusted to UTI Mutual Fund.* Thus UTI Mutual Fund has emerged as another Mutual Fund without Govt. Control, ownership and Liability. The UTI Mutual Fund without Government control, ownership and liability.

Several measures have been undertaken by UTI Mutual Fund to improve its performance. These include improved transparency and disclosure, well laid down investment guidelines and greater emphasis on risk management.

The UTI Mutual Fund has also launched several innovative schemes, merged some of the schemes and converted units into bonds. It has also undertaken delegation of power and beefed up its organization.

As a result of all these measures, the UTI MF has witnessed a turnaround in its resources mobilization. During April-September 2003, there was inflow of Rs. 637 crore as compared to a negative resources mobilization by UTI during the past two years.

UTI has been providing funds to corporate sector for accelerating the pace of industrialization the trust sanctioned a sum of Rs. 15 crore in 1971-72. Though this assistance has been going up in most of the years (Table 1.18) but showed some decline in some of the years. The highest amount sanctioned in one year period was Rs.10302.5 crore. In 1992-93 and disbursements were
to the tune of Rs. 7469.4 crore. In 1993-94 there was a decline of 19.1% in assistance sanctioned and 11.5% in disbursement. The UTI sanctioned Rs.70458.4 crore and disbursed Rs. 53954.2 crore upto October 31, 2002. The figures of assistance and disbursements as shown in Table 1.18 depict a significant contribution by UTI in providing finances to the corporate sector.

(VIII) SIDBI (Small Industries Development Bank of India):

Small Industries Development Bank of India (SIDBI) is the principal institution in the country set up for promotion, financing and development of industries, in the tiny and small scale sectors. It co-ordinates the functions of other institutions engaged in similar activities, undertaking the financing function and also renders promotional and support services.

Prior to SIDBI's establishment in 1990, IDBI functioned as the apex bank in the field of financing but when financing activities of small scale industries grew significantly, need for a separate apex bank for small scale industries was felt which resulted in establishment of Small Industries Development Bank of India (SIDBI) by a separate Act of Parliament in April 1990, taking over IDBI's financing activities relating to small scale industries.

SIDBI was established as a wholly owned subsidiary of the Industrial Development Bank of India (IDBI), but was delinked from it on March 27, 2000 after the enforcement of SIDBI (Amendment) Act, 2000. The Amendment Act has changed the provisions relating to capital structure, shareholding pattern, management, business, borrowings and investments.

Share Capital:

The authorized share capital of SIDBI has been raised from Rs. 500 crore to Rs. 1000 crore divided into 75 crore equity shares of Rs. 10 each and 25 crore redeemable preference shares of Rs. 10 each. The central Government may, on the recommendation of its Board of Directors, increase
the authorized share capital of Rs. 2000 crore. The Central Government may convert upto Rs. 25 crore of the existing share held by IDBI, public sector banks, GIC, LIC and other institutions controlled by the Central Government into preference shares.

The present equity capital may be increased from Rs. 450 crore by allotment of such shares to persons as the Board may determine, but it is obligatory that IDBI and the above mentioned financial institutions shall hold in the aggregate atleast fifty one percent of the issued share capital of SIDBI. Shareholders other than the above mentioned institutions shall not be entitled to exercise voting rights in excess of ten percent of the total votes. The equity shares shall be freely transferable but such transfer shall not be permitted if it results in the reduction of shares held by IDBI and government controlled financial institutions to less than 51% of the issued equity share capital of SIDBI.

Management:

The Amendment Act has conferred wide powers on its Board of Directors to manage and control the affairs of the Bank. The Board in discharging its functions shall act on business principles with due regard to public interest. Share holders other than IDBI and government controlled institutions may appoint 2 to 4 directors depending upon the total amount of equity held by them. The Central Government shall appoint the Chairman and Managing Director and two officials as Directors while 3 directors shall be nominated by financial institutions. Besides, three directors shall be nominated by Government from amongst experts in relevant fields. Directors elected by non-institutional shareholders may be removed by them by a majority resolution.
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sanction ed</td>
<td>Disbursed ed</td>
<td>Sanction ed</td>
<td>Disbursed ed</td>
<td>Sanction ed</td>
<td>Disbursed ed</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
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<td>--------------------</td>
<td>--------------------</td>
<td>--------------------</td>
<td>--------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Refinance including Financial support (STL) to banks</td>
<td>6353.29</td>
<td>4137.85</td>
<td>8087.99</td>
<td>4411.59</td>
<td>6374.97</td>
<td>4144.44</td>
</tr>
<tr>
<td>Bills financing</td>
<td>1503.47</td>
<td>1313.73</td>
<td>880.49</td>
<td>778.63</td>
<td>782.39</td>
<td>711.26</td>
</tr>
<tr>
<td>Resources support to institutions/ agencies engaged in the development of small industries</td>
<td>1320.50</td>
<td>692.17</td>
<td>792.24</td>
<td>437.54</td>
<td>492.00</td>
<td>451.67</td>
</tr>
<tr>
<td>Project Financing</td>
<td>1021.72</td>
<td>7868.65</td>
<td>995.64</td>
<td>771.01</td>
<td>1276.18</td>
<td>550.74</td>
</tr>
<tr>
<td>Equity Assistance</td>
<td>30.13</td>
<td>19.05</td>
<td>44.02</td>
<td>25.79</td>
<td>45.70</td>
<td>25.26</td>
</tr>
<tr>
<td>Promotional Development Assistance</td>
<td>30.13</td>
<td>19.05</td>
<td>44.02</td>
<td>25.79</td>
<td>45.70</td>
<td>25.26</td>
</tr>
<tr>
<td>Total</td>
<td>10264.74</td>
<td>6963.50</td>
<td>10820.60</td>
<td>6441.41</td>
<td>9025.52</td>
<td>5919.33</td>
</tr>
</tbody>
</table>

Overall Operation of SIDBI

SIDBI provides assistance to small industries directly and also through other financial institutions. The government of India have lowered the ceiling on investment in plant and machinery for small scale and ancilliary industrial undertaking from Rs. 3 crore to Rs. 1 crore with effect from December 24, 1999. The assistance given by SIDBI takes different forms.

Refinance assistance to banks and other financial institutions constituted the major portion of the total assistance to banks and other financial institutions constituted the major portion of the total assistance sanctioned and disbursed by SIDBI during these years. During 1998-99, SIDBI introduced a new refinance scheme i.e. Financial Support (Short Term Loans) to banks. The share of banks in total refinance came down from 55.2% in 1997-98 to 28.1% in 1998-99 and the share of state financial corporation increased from 36.5% to 53.8%. The share of state Industrial Development Corporation also improved from 8.3% to 18.1%.

Granting refinance to the eligible institutions is one of the principal businesses of SIDBI. After the enforcement of the SIDBI Amendment Act 2000, SIDBI may grant refinance assistance to any State Financial Corporation, State Industrial Development Corporation, State Small Industries Corporation, Scheduled Bank, State Co-operative Bank and any other financial institution approved by the board. The loanee organization may be in the small scale sector, but in case of the above mentioned corporations and institutions loans granted to any other industrial concern repayable within 25 year are also eligible for refinance.

Refinance from SIDBI is provided to the three categories of primary lending institutions, viz., banks, State Financial Corporations and (SIDCs) State Finance Corporations had availed of the largest share in the refinance provided by SIDBI till 1999-2000. The banks share in total refinance
increased significantly as they also availed of assistance under Financial Support (Short-term loans) to Banks Scheme.

**Resources Support to Institutions:**

In order to augment the resources of the institutions engaged in financing and promotion of small scale sector in India, SIDBI provides resources support to the following institutions for on lending to small borrowers:

(i) State Financial Corporations and State Industrial Development Corporation (SFCs/SIDCs) Resources. Support to these corporations is provided for development and financing of small scale industries, for marketing activities, for hire purchase/leasing and for technology development and modernization of small scale industries.

(ii) Non-Banking Financial Companies for leasing and hire purchase activities.

(iii) Factoring Companies have been granted lines of credit by SIDBI. Highest amount of disbursement (Rs. 172 crore) was made to factoring companies during 2001-02.

(iv) Other institutions short-term loans are granted by SIDBI to State Electricity Boards, Power Corporations, State Small Industries Development Corporations, Indian Renewable Energy Development Agency Ltd. and Tourism Financial Corporations of India Ltd.

Total Resource support provided by SIDBI to all these institutions increased from Rs. 451.67 crore during 2001-02 to Rs. 660.39 crore during 2002-03.

**Project Financing:**

SIDBI extends direct assistance to small scale industries through its various project related financing schemes like providing assistance for setting
up of small hotels and other tourism related activities and also hospitals and nursing homes.

There are various Equity Finance Scheme Technology Development and Modernization Fund Scheme, Scheme of Integrated Infrastructural Development, Venture Capital Assistance.

**Equity Assistance:**

SIDBI also provides equity assistance under its National Equity Fund Scheme Mahila Udyam Nidhi and Scheme of self-employment of Ex-serviceman. Such assistance was sanctioned upto Rs. 24.83 crore in 1998-99 and disbursed to the extent of Rs. 22.17 crore.

**Promotional And Development Services of SIDBI:**

These services have been expanded in scope and diversity to met the varying needs of small scale sector. Some important services rendered by SIDBI are Enterprise Promotion under which it promotes Rural Industries Programme, Micro Credit Scheme, Mahila Vikas Nidhi, Entrepreneurship Development Programmes, Information dissemination through mass media and publication of project profiles.

Then comes Enterprise Strengthening, Management Development, Marketing Fund.

**SUBSIDIARIES OF SIDBI:**

There are two subsidiary companies of SIDBI namely SIDBI Venture Capital Ltd. and SIDBI Trustee Company Ltd.

**SIDBI Venture Capital Ltd. (SVCL):**

This is an asset management company set up for managing the venture capital funds sponsored by SIDBI. At present it manages two funds, namely
(i) National Venture Fund for Software and Information Technology Industry (NFSIT) set up in 1999.

(ii) SME Growth Fund (SGF) launched in October 2004.

NFSIT is a 10 year close-ended venture capital fund. Ministry of Communication and Information Technology, Government of India and IDBI Ltd. It invests in information technology sector software industry and related business.

SIDBI Trustee Company Ltd.

This company was set up by SIDBI in July 1999 to carry out trusteeship functions in general and for venture capital funds in particulars. At present it is acting as trustee of the above mentioned both the venture capital funds.

4. INTERNATIONAL FINANCIAL INSTITUTIONS:

(i) World Bank: The International Bank for reconstruction and development (IBRD), popularly known as the World Bank, was also founded in the year 1944 (i.e., the same year in which IMF was founded).

At Bretton Woods, the international community assigned to the World Bank the aims implied in its formal name (i.e. IBRD), giving it's primary responsibility for financing economic development. The Bank's first loan was extended during the late 1940s to finance the reconstruction of the war-ravaged economies of Western Europe. When these nations achieved some degree of self-sufficiency, the Bank turned its attention to the economic problems of less-developed countries. Since the 1940s, World Bank has loaned more than $330 billion. The central purpose of the World Bank is to promote economic and social progress in developing countries by helping them to raise productivity so that their people may live a better life.
Initially, only nations that were members of the IMF could become the members of the World Bank. However, this restriction was relaxed subsequently.

The structure of the World Bank is somewhat more complex than that of the IMF. The World Bank itself comprises two major organisations:

(i) The IBRD and (ii) The International Development Association (IDA). IDA was established in 1960 to provide concessional assistance to countries that are too poor to borrow at commercial rates. Some other institutions like International Finance Corporation (which mobilises funding for private enterprises in developing countries was set up in 1955), the International Centre for settlement of Investment Guarantee Agency, are also associated with the World Bank (though they are legally and financially separate from the Bank). With over 7,000 staff members, the World Bank Group is about 40 offices throughout the world. About 95% of its staff work at its Washington D.C. headquarters.

MEMBERSHIP AND ORGANISATION:

All the countries which joined the IMF in the beginning became the original members of the IBRD. Any country acquiring the membership of the Fund, automatically becomes the member of the World Bank. In case a country ceases to become the member of the Fund, it can retain the membership of the Bank only when it can secure a support of 75% of the voting power of the countries in the Bank in its favour. Any country holding the membership of the World Bank must subscribe to the charter of the Bank. Any member can withdraw at any time its membership through a written notice to the bank.
Each member of the World Bank has a capital subscription that is similar to, but not identical with, its quota in the Fund. The member's subscription also measures roughly its voting power, but again the smaller nations have a slightly higher vote.

Each member has 250 votes plus one additional vote for each 1,00,000 shares of the capital stock held. The volume of assistance available to a member from the Bank is, however, not linked to the size of its subscription. In June 1999, 182 countries were members of the Bank.

The World Bank is managed in the same way as the IMF, except that the head officer of the Bank is called the president. The Governors and Executive Directors of the two organisations are frequently the same persons. It has become the practice to convene annual meetings of the Bank jointly with the annual meetings of the Board of Governors of the Fund.

The President of the World Bank is assisted by a number of Departments, each under the charge of a Department head. The internal organization of the Bank was restructured first in 1952 and then in 1972. Each of these reorganisations sought to cope with the basic organizational considerations involved in leading for development by an institution which was required by its Articles to lend primarily for 'projects'. The changes represent different solutions to certain recurring problems: how to develop and maintain project quality and project objectives and, at the same time, to reconcile and integrate these goals with the Bank's general economic work and the development objectives of the borrowing country.

**MAIN FUNCTIONS OF THE BANK:**

Since the IMF was designed to provide temporary assistance in correcting balance of payments difficulties of the member countries, another institution was needed to provide long-term loans to the countries for the
purpose of liquidating their war-time obligations and to finance economic growth and productivity in the developing countries. The World Bank functions as a development institution, assisting the developing countries through expanded lending operations, policy advice, technical assistance, and proposals for institutional reform. The principal functions of the World Bank are as follows:

(i) To assist the process of economic development in the member countries by facilitating the productive investment.

(ii) To promote foreign investment in the member countries by acting as a guarantor to the loans provided by these private investors.

(iii) To promote the sustained and balanced growth of international trade and maintenance of equilibrium in the balance of payments account of the member countries.

(iv) To help the less-developed member countries in strengthening their banking and financial sectors, in strengthening the ability of the member governments to deliver quality services to their people.

(v) To conduct its operations so as to bring about a smooth transference from a wartime to peacetime economy.

INDIA AND THE WORLD BANK:

The World Bank had given loans under various schemes for the development of electric power, transport and communication, development of basic industries, irrigational facilities, etc. By 1958, India became the single largest borrower from the Bank and had continued to retain that position for a long time. Till June, 1966, the Bank had made 160 loans to India amounting to $27 billion. The Bank has lent for the expansion of Indian Railways, generation and distribution of electricity, development of multipurpose
irrigation projects, development of ports, air-fields, financial institutions like ICICI (Industrial Credit and Investment Corporation of India), etc.

Apart from such loans extended to the public and private sectors, the Bank has also taken a keen interest in the planned economic development of India. A consortium of countries and international institutions interested in assisting, India has been formed under the auspices of the World Bank and this is known as “Aid India Club”. Besides, the IBRD and the IDA, this ‘club’ consists of ten countries, viz., the USA, the UK, Germany, France, Canada, Japan, Austria, Italy, Belgium and the Netherlands.

India also received “soft loans” for long periods from the IDA. These loans were given to India for the development of social overheads like the construction of roads and bridges, slum clearance and urban development, etc. IDA’s loans are interest free but carry service charges of 0.67% annually and the loan is repayable within 50 years. Upto June 1994, India had received 213 credit facilities from the IDA amounting to $23.5 billion. The major agricultural development projects assisted by the IDA include agricultural credit projects, command area, development projects, dairy development projects, drought prone area programmes, etc, during the plan period.

India had also received Structural Adjustment Loan (SAL) from the World Bank for the proper implementation of structural reform policies undertaken by the government since 1991. Table shows the authorised amount of IBRD loans to India and their actual utilisation during 1980-97. Though the amount of loan utilised should be less than the authorised amount, but yet Table shows that in some years the actual utilisation of IBRD loan crosses the authorised amount:
Table 1.20: Authorised Amount of IBRD loans to India and their utilisation during 1980-2007 (US $ million).

<table>
<thead>
<tr>
<th>Year</th>
<th>Authorisation</th>
<th>Utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>458.0</td>
<td>175.5</td>
</tr>
<tr>
<td>1990-91</td>
<td>1236.7</td>
<td>1217.5</td>
</tr>
<tr>
<td>2000-01</td>
<td>1945.3</td>
<td>706.8</td>
</tr>
<tr>
<td>2001-02</td>
<td>1649.1</td>
<td>772.8</td>
</tr>
<tr>
<td>2002-03</td>
<td>1228.4</td>
<td>657.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>717.4</td>
<td>902.3</td>
</tr>
<tr>
<td>2004-05</td>
<td>762.7</td>
<td>845.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>1355.5</td>
<td>933.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>1603.0</td>
<td>1034.4</td>
</tr>
</tbody>
</table>


(v) **Asian Development Bank**: In 1963, the proposal for the establishment of Asian Development Bank (ADB) was put forth by the Expert Group on Regional Cooperation of the United Nations Commission for Asia and the Far East (ECAFE). The Charter of the Bank was signed by the member countries in early 1966 and it started its operations in Manila in December, 1966.

The ADB is a multilateral development finance institution whose capital stock is owned by 57 member countries, and engaged in promoting the economic and social progress of its developing member countries in the Asian and Pacific region. Its headquarters are in Manila and Philippines.
Membership and Organisation: The membership of the ADB includes both the regional and the non-regional members. Members from outside the region have been included so as to promote economic relations with those countries and also to get financial resources for development of the region. Membership is open to countries in the region or other countries which are members of the United Nations or any of its specialised agencies. As non-regional members, USA, U.K., Austria, Belgium, Canada, Denmark, West Germany, Finland, Italy, Netherlands, Norway and Sweden had joined ADB from its very beginning. Switzerland, France and Spain joined afterwards. Regional members are mostly underdeveloped countries. China was admitted to its membership in 1987. The ADB membership rose to 56 as at end of 1996.

The Bank has a Board of Governors, a Board of Directors, a President, a Vice President and other officers and staff. The Board of Governors is the highest policy making body. Each member country nominates one Governor and one Alternate Governor to the Board of Governors. The Board of Governors meets at least once annually. The responsibility for the general direction of the operations of the Bank rests with the Board of Directors. The Board of Governors elects a President who should be a citizen of any of the countries in the region. He functions as a the Chairman of the Board of Directors and executive head of the Bank. The total voting power of each member country consists of the sum of its basic votes which is 20% of the aggregate sum of the total voting power of all members, and it’s proportional votes based on the member’s share in Bank’s capital stock.
FUNCTIONS OF THE BANK:

The functions and objectives of the ADB are specified as below:

1. To promote investment in the ECAFE region of public and private capital for development purposes; (ECAFE was the later designated as Economic and Social Commission for Asia and Pacific, ESCAP).

2. To utilise the available resources for financing development giving priority to those regional and sub-regional as well as national projects and programmes which will contribute most effectively to the harmonious economic growth of the region as a whole and having special regard to the needs of the smaller or less developed member countries of the region.

3. To meet requests from members in the region to assist them in coordination of their development policies and plans with a view to achieving better utilization of their resources making their economies more complementary and promoting the orderly expansion of their foreign trade, in particular, intra regional trade.

4. To provide technical assistance for preparation, financing and execution of development projects and programmes, including the formulation of specific proposals.

5. To cooperate with the United Nations and its organs and subsidiary bodies including in particular, ECAFE and with public international organisations and other international institutions, as well as national entities, whether public or private and to interest such institutions and entities in new opportunities for investment and assistance.

6. To undertake such other activities and to provide such other services as may advance its purpose.
Over the years, in some perceptions the ADB has played a role in Asia parallel to that which the World Bank does globally. The ADB is principally a project lending institution which has lent the bulk of its resources to the public sector in the areas of irrigation, parts, power, reach, etc. It has diversified with great success in supporting agro-business as well as social infrastructure projects. The private sector is a new line of activity for the Bank.

INDIA AND THE ADB:

India became a founder member of ADB in 1966 and held fourth largest share in its capital. Initially India deliberately opted not to borrow from the ADB in favour of the weaker Asian nations. The ADB’s involvement with India started only in 1986, when the Bank granted a first loan of $100 million to ICICI. Between 1986 and 1989, the ADB provided loans amounting to $1.6 billion for 14 projects, all in the public sector. These projects related to the fields of power, ports, roads, railways and telecommunication. Lending to India was expected to rise to an average of $800 million over the next three years. Lending in 1992 amounted to $982 million.

During 1996-97, ADB has sanctioned a total of $630 million for executing various projects compared to $249 million authorised in the previous year. During 1997-98 and 1998-99, the ADB’s lending in India amounted to $650 million and $625 million, respectively. ADB decided to increase its exposure in India to over a billion dollars in 2000.

Since India started borrowing in 1986, the ADB extended 47 loans amounting to US $7.7 billion till 1999. Sectorwise energy accounts for the largest share of 35% of the cumulative assistance, whereas transport and

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1 World Bank Report.
communication accounted for 25% and social infrastructure and communication accounted for 25% and social infrastructure 13%. An additional US $ 285 million was extended to a select private sector projects and entities.

The ADB is looking at the Indian private sector benignly, despite the “attendant” problems, while doing business in India. The ADB proposes to work closely with the government to initiate changes in the capital market and its examining several private sector projects.

The Saburo Okita Panel is in it's report on the role of ADB in 1990s, suggested that the Bank should provide India and China with access to interest-free ADF resources because of their eligibility in terms of their per capita incomes. conditions as exist, India may not get excess to the scarce concessional finance from the ADB is “soft-window”. ADB has voiced serious concern over India’s pace of aid disbursements under most external assistance programmes, which has been “less than satisfactory with the result that there has been significant aid under-utilisation. Longer delays in project implementation in India contribute to the slower pace of disbursements. The ADB authorities hold the view that given the size of Indian economy, the issue is probably not one of aid absorption capacity per se, but of deep rooted structural impediments, in the system of public administration/ public sector units /line agencies.
Table 1.21: Authorised amount of ADB loans to India and their Actual Utilisation during 1990-2007

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Authorised amount (US $ million)</th>
<th>Amount utilised (US % million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>446.9</td>
<td>212.4</td>
</tr>
<tr>
<td>2000-01</td>
<td>1155.0</td>
<td>470.9</td>
</tr>
<tr>
<td>2001-02</td>
<td>1380.1</td>
<td>392.3</td>
</tr>
<tr>
<td>2002-03</td>
<td>804.7</td>
<td>519.4</td>
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<tr>
<td>2003-04</td>
<td>740.1</td>
<td>613.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>1928.6</td>
<td>492.3</td>
</tr>
<tr>
<td>2005-06</td>
<td>946.1</td>
<td>600.8</td>
</tr>
<tr>
<td>2006-07</td>
<td>1523.1</td>
<td>999.5</td>
</tr>
</tbody>
</table>


(iii) International Development Association (IDA): The International Development Association (IDA, established in 1960, is an international organization affiliated to the World Bank. The objectives of the IDA as laid down in its Articles of Agreement are “.....to promote economic development, increase productivity, and thus raise standards of living in the less developed areas of the world included with in the Association’s membership, in particular by providing finance to meet important development requirements on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the IBRD and supplementing it’s activities”. The First Annual Report (1961-62) of IDA again stressed: "the primary purpose underlying the establishment of IDA was the creation of a supplementary
source of development capital for countries whose balance of payments prospects would not justify their incurring, or continuing to incur, external debt entirely on conventional terms.¹⁶

**Membership and organisation**: Membership in IDA is open to all members of the World Bank. In 1961 the number of member countries was 51. This had increased to 160 by the end of June 1998. IDA’s charter provides for two categories of membership: Part-I, which includes the richer countries, and Part II, which is composed of developing countries. Each Part-I member pays its full subscription in convertible currency, all of which can be used by IDA in lending. Each Part-II member pays only 10% of its subscription in convertible funds. The remaining 90% is paid in the member’s own currency and cannot be used for lending without the consent of the members. IDA is a fund administered by the World Bank. The President of the World Bank is IDA’s President. The Bank’s Executive Directors serve as IDA’s Executive Directors, and the Bank’s Governors are IDA’s Governors. IDA has no employees of its own. Its employees are World Bank employees. Its purpose is also the same as the World Bank’s, and it lends to the same economic sectors as the World Bank. Its standards for reviewing projects are the World Bank’s standards. However, the Bank and IDA do not lend funds on the same terms.

IDA provides resources on highly concessionary terms to those very poor developing countries which cannot afford to borrow on World Bank terms. A World Bank loan carries an interest rate of around 9-10% and usually has to be fully repaid within less than 20 years. The terms for IDA “credits” (so called to distinguish them from Bank “loans”) are: 50-year maturities; 10 year grace periods before repayments of principal begins; and no interest (but an annual services charge of 0.75 per cent on the disbursed portion of each credit). The IDA has been called “the World Bank’s soft loan
window”. But there is nothing “soft” about the credits themselves. The same rigorous standards that are applied to projects supported by Bank loans are applied to projects supported by IDA credits. The difference is that the countries receiving IDA credits are not creditworthy for a loan on the Bank’s conventional terms. IDA credits are provided on terms that really poor developing countries can afford to accept.

The development strategies of the low-income countries of Asia and Sub-Saharan Africa must clearly give priority to raising agricultural productivity, and to meeting the requirements for essential infrastructure such as roads, health and sanitation facilities, power generating capacity, and schools. The investment needed to support that strategy is immense. The domestic savings of the low-income countries have to be supplemented by external capital flows if the total investment requirements for even modest growth are to be met. Because most of the low income countries have limited debt-servicing capacity, most of the external capital must be obtained on concessional terms. IDA has helped the low income countries in obtaining such resources on terms which allow them to invest in development and gain the benefits of development before capital repayment begin.

INDIA AND IDA:

An increase in IDA’s resources becomes more essential particularly when the flow of Official Development Assistance (ODA) available to the developing countries on concessional terms has shown a disquieting trend in recent years, in relation to combined GNP of the Development Assistance (DAC) Countries.

IDA has granted a number of credits to India for her development schemes. The grant of credits for development projects given by IDA to India has been in the nature of a continuous flow. But for the funds that have been made available by IDA to India, our development pace would have been considerably slower.
In fine, it may be said that the IDA is expected to make a distinct contribution to the economic development of backward nations forthering their development projects and supplementing the activities of the World Bank. Moreover, unlike the World Bank loans which are meant to cover only the foreign exchange costs, the IDA loans can be utilised to finance both foreign exchange and local currency costs.

Table 1.2: Authorised amount of IDA loans to India and their Utilisation during 1980-2007

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Authorised amount (US $ million)</th>
<th>Amount utilised (US % million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1,945.8</td>
<td>660.1</td>
</tr>
<tr>
<td>1990-91</td>
<td>946.6</td>
<td>773.9</td>
</tr>
<tr>
<td>2000-01</td>
<td>905.9</td>
<td>1083.4</td>
</tr>
<tr>
<td>2001-02</td>
<td>883.0</td>
<td>1177.3</td>
</tr>
<tr>
<td>2002-03</td>
<td>1121.2</td>
<td>900.4</td>
</tr>
<tr>
<td>2003-04</td>
<td>735.6</td>
<td>928.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>1384.8</td>
<td>1054.8</td>
</tr>
<tr>
<td>2005-06</td>
<td>626.6</td>
<td>1197.7</td>
</tr>
<tr>
<td>2006-07</td>
<td>1577.6</td>
<td>995.5</td>
</tr>
</tbody>
</table>

Source: Economic Survey (Govt. of India), 2007-08, P. A-109 – A-113.

(iv) International Financial Corporation: International Financial Corporation (IFC) is the affiliate of the World Bank which was established in 1956 “as an autonomous international institution designed to stimulate growth in its developing member countries by investing in productive private
enterprises in association with private capital and management, and without any government guarantee”.

Membership and Organisation: The membership of the IFC is open to all the members of the World Bank to which it is affiliated. In 1998, the number of member countries increased to 172. The management of IFC is similar to that of the World Bank. Governors and Executive Directors of the World Bank representing member countries of IFC serve the Corporation in similar capacities. The President of the Bank is the Chairman of the Board of Directors of the IFC. It is on the recommendaton of the Chairman that the Board of Directors of the IFC appoints its President. The affairs of the IFC are controlled by the authorities of the World Bank, but it retains a separate entity and maintains separate accounts. The Corporation has its own operating and legal staff, but draws upon the Bank for administrative and other services.

Objectives and Functions:

IFC is the arm of the World Bank which provides debt and equity finance to projects sponsored by the private sector in developing countries. Its main objectives are as under:

1. The Corporation is to make investment in private sector enterprises in member countries particularly in the less developed areas, in association with private investors and without government guarantee of repayments, in cases where sufficient private capital is not available on reasonable terms.

2. It seeks to bring together investment opportunities – domestic and foreign private capital and experienced management.

3. It also seeks to stimulate the international flow of private capital.

4. It assists the growth of capital markets in less developed countries.

Originally the corporation was limited to making loans only, and it made
no equity investments during its initial years of operation (1956-61). The restriction was removed in 1961, and the IFC began taking equity positions.

For several reasons, the Corporation's investments are likely to be in industrial rather than in other fields, although it has been involved in providing finance for agro-business also since 1964.

IFC is an affiliate of the World Bank, but it differs from the World Bank mainly in three important respects:

1. IFC behaves like a private investment firm, with a compact staff of engineers, offices, accountants, and lawyers. In addition, it hires outside consultants to deal with special technical problems or market surveys.

2. It has the option of making fixed interest loans or making investments with equity-type features. In other words, IFC can invest in the ownership of private sector companies through buying stock. The fact that the IFC can participate in equity financing is not only rather rare among international financial institutions, but it is also an extremely important part of a package of investment services the corporation offers.

3. While the World Bank has sufficient funds to make substantial impact upon the economies of countries where the projects are located, the role of IFC is that of a "catalyst". It employs its limited funds in conjunction with private business and investment capital in the expansion of private industrial enterprises in the developing areas to achieve the same effect.

**IFC's Future**:

IFC intends to place special emphasis on intensifying its activities in the smaller and poorer countries and to initiate a major promotional effort in sub-Saharan Africa. IFC will also continue to assist the semi-industrialised countries, especially in the field of export industries and large-scale projects...
that require sophisticated technology and access to international capital markets. IFC, as one of the few international institutions, which can provide equity, should and must be at the leading edge of efforts to mobilise a significant increase in equity financing. Secondly more countries are turning to their private sectors to lend additional dynamism to their economic development. Increasingly, the corporation will be called upon not only to provide direct assistance to provide investors in general but help mobilise large amounts of funds for certain non-traditional areas. In addition to increasing its corporate restructuring assistance under the new programme, the corporation is expected to give greater attention to the development of domestic financial markets and institutions and diversity its activities into new sectors, including energy exploration.

**INDIA AND IFC:**

IFC’s programme for India has four objective viz,

(i) to extend help in the export sector

(ii) to help such small and medium sized companies which need a minimum capital of $5 million for their projects

(iii) to help in development of India’s capital market, and

(iv) to find out ways and means to attract high technology foreign companies to India.

Given the size of the Indian economy and its relatively developed industrial super-structure, the IFC’s resources have not been used adequately in India. Since the Indian market is bigger and the capital market is also burgeoning, the IFC officials feel that India has the potential to emerge as the main beneficiary of the IFC’s expanding lending operations both directly to the private sector and through the capital market.
IFC has made investments in various sectors including capital markets, automotive, power generation, petro-chemicals, industrial equipment and shipping. It is hoped that the coming years would see enhanced investments in several infrastructural projects particularly in power and petrochemicals and telecommunications with considerable foreign investment flows.
REFERENCES:

3. Ibid., p. 146
4. Ibid., p. 59
5. Ibid., p. 59
6. Ibid., p. 60
9. Ibid., p. 652
10. Ibid., p. 176
13. Ibid., p. 7.28
15. Ibid., p. 439
16. Ibid., p. 427