CHAPTER - II

INDUSTRIAL FINANCE AND FINANCIAL INSTITUTIONS IN INDIA

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2.1 INTRODUCTION:

"The growth of modern industries in India has been one of the most distinctive features of planned economic development during the last two decades. Our experience has demonstrated that modern small-scale industries can be powerful factor in the rapid and decentralized growth of a developing country."[1] The vital role of the small-scale sector in the national economy has been recognized on account of its potential for creating substantial employment opportunities at a relatively small capital cost, facilitating mobilization of local resources of capital and skill and ensuring a more equitable distribution of the National Income.

There has been a structural change in the system of provision of finance to industry after Independence. Till 1947, the setting up of an industry and its financing were left essentially to the private sector and the State intervened in the process only as a regulatory agency - as in respect of control of inter-locking of funds in the corporate sector. Such a system naturally gave an advantage to established industrial houses which alone could hope to raise finance on the market. New entrepreneurs had to depend upon a limited circle of friends for raising money for their projects.

One of the main thrusts of the country's planning effort has been to bring about rapid industrialization in the country to raise both income and employment levels, it was necessary to set up special agencies to provide industrial finance. These were the agencies of the structure for providing industrial finance which began to be set up in the country soon after Independence. The first institution to be established was the Industrial Finance Corporation in 1948, as a structure body.[2]

The Industrial Finance Corporation Enquiry Committee (1953) argued in its Report that establishment of financial institution was essential in India to meet the long-term credit requirements of industry, since on the one hand, capital market is under-developed and on the other, commercial banks are not interested in fulfilling the credit needs of industry. After Independence, the Government accepted the importance of institutional finance, a number of specific institutions have come up to meet the credit requirements of industries. The important institutions developed in India for the purpose of granting industrial finance are the following - Industrial Finance Corporation of India, Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Unit Trust of India and State Financial Corporations. Recently, the Industrial Reconstruction Bank of India has been established to take over the functions of the Industrial Reconstruction Corporation of India.[3]

2.2 MEANING OF INDUSTRIAL FINANCE:

The term 'industrial finance' is used to convey the organization of various types of finance needed by industries for their activities connected with production of goods. Production activities involve financing of construction of building, purchase of machines, purchase of raw materials, engagement of laborers, etc.[4] For the performance of these activities, three types of finances are needed: long-term, medium-term and short-term.

Long-term finance is meant to be repaid over a long period. It is used for such purpose as construction of building, purchase of machines, etc.

Medium-term finance is repayable over a little shorter period. This is employed for such activities as repairs, replacement and maintenance of machines, etc.

Short-term finance, to be returned over a short period of one year or a little more, is spent for the purchase of raw materials, making wage payments to workers and building up of inventories.

Industrial finance thus implies the provision of finance for the organization of real resources for production. The provision of finance is done through individual and institutions like banks, money market and capital market.

2.3 INDUSTRIAL FINANCE AND FINANCIAL INSTITUTIONS IN INDIA:

The need of industrial finance is obvious for a developing country like India. The development of industries requires bringing together of real resources and finance is the necessary medium through which these resources are organized and put to use. Apart from this general need for finance, there are special reasons for the organization of industrial finance.

(i) For a long time, till Independence, modern financial organizations like banks, dealt mainly with commercial finance, i.e. finance related to buying and selling operations of traders. To an extent, there were also indigenous Banks and money-lenders who financed activities mainly unconnected with production. These institutions did not and could not make the finance available for meeting all the needs of industries. It, therefore, became imperative that such institutions as the capital market, for buying and selling shares, industrial banks for term lending, etc., be organized to provide industrial finance.[5]

(ii) As the incomes of most of the Indians are low, it is necessary also to devise institutions/instruments, which are appropriate for mobilizing small savings of the people. Such institutions/instruments have to be such as that inspire confidence in savers and suit their capacities and needs.

(iii) The anti-industrial finance traditions of the past still persist with much strength. In these circumstances, institutions for industrial finance will not emerge on their own. Hence, there is a need for special efforts to set up financial institutions. This encompasses measures to promote both the Government owned/sponsored organizations as also those which are to be in the private sector.

(iv) Sound planning for industrialization also requires that there should be the right type of financial institutions and adequate industrial finance. Investment decisions that planning involves can be sound and firm only if these institutions exist to mobilize finances as per Plan needs.

2.4 SOURCES OF INDUSTRIAL FINANCE:

Every business unit needs money to finance its activities. The money is invested in physical resources, i.e. land and building, machines and building, machines and equipment, stock of raw materials, etc., which are used by the enterprise in production. All these resources together constitute 'capital'. Capital is often defined as "wealth used in the production of further wealth". In simple words, it comprises the money and the money value invested in a business unit. Capital is usually divided into Fixed Capital and Working Capital.

Fixed Capital and Working Capital:

Fixed Capital refers to the amount invested to acquire fixed assets, i.e. assets which are used for a long period. Examples of fixed assets are land, building, plant, machinery, equipment, etc. Fixed capital provides the basic foundation on which the structure of business is laid. Without it, no production is conceivable. In fact, business enterprises require fixed capital right from the stage of setting up to the stage of running and maintaining it. Any expansion, modernization, or diversification of the business unit also requires investment in fixed assets.

However, a business unit cannot commence functioning with the help of fixed capital alone. It must acquire certain other assets like raw materials, maintain stock of finished goods and have sufficient cash to meet day-to-day expenditure. Funds required to meet these expenditures form a part of working capital. The adequacy of the amount of working capital provides the necessary stability to the business and enables it to continue its production unhampered. Working capital can be classified into two categories:

(1) Permanent or Fixed Working Capital,

(2) Variable Working Capital.

Permanent or Fixed Working Capital, is that part of the working capital which is always required by the business unit for maintaining a certain minimum level of stocks of raw materials, semi-manufactured goods and finished goods, and to meet expenses of a permanent nature (like wages and rents).

Variable Working Capital is required to meet certain seasonal requirements or unforeseen contingencies. For example, the sugar industry requires special funds to buy sugarcane in particular months of the year. Similar is the fate of most of the agriculture based industries (cotton textile industry, jute industry, etc.).

As would have been clear from the above discussion that both fixed capital and permanent working capital are required for a long period. Therefore, they can be arranged through the long-term sources like the issue of shares, debentures, loans from specialised financial institutions, ploughing back of profits and public deposits. On the other hand, variable working capital is required for a short period only and can be arranged n short-term sources like bank loans, trade credit, banl draft, instalment credit, cash credit, etc.

We are not concerned with short-term sources of capital and shall concentrate only on long-term (and medium-term) sources of capital. The latter are mainly of the following types:

1. Share capital : Most of the industrial undertakings are set up as joint stock companies under the Companies Act. These companies have the right of issuing shares for building up fixed capital. According to the Companies Act, 1956, Companies can issue two types of shares:

(a) Preference shares,

(b) Ordinary shares.

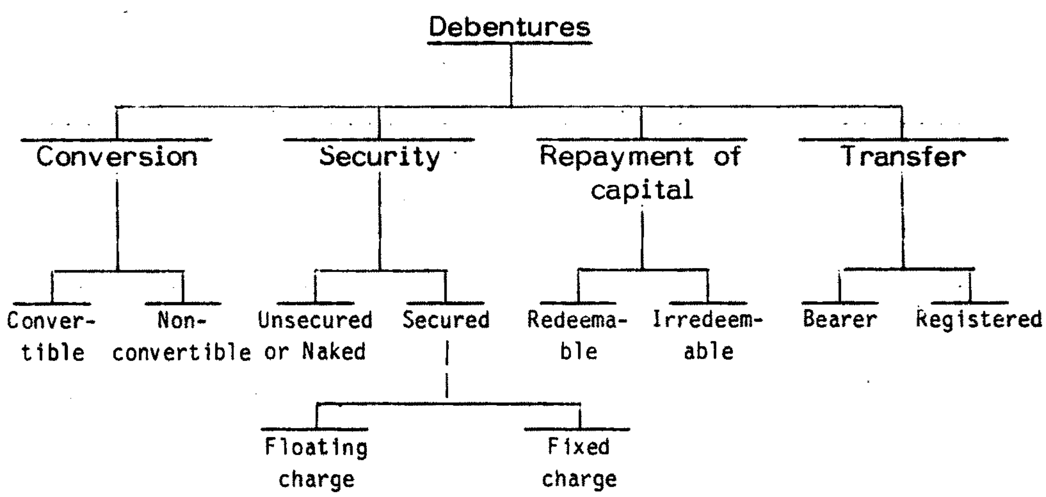
Capital acquired through the ordinary shares is also termed as 'risk shares'. Most of the authorised capital is obtained through the issue of ordinary shares. Capital obtained through the issue of ordinary shares varies between 45 and 98 percent in different industries.

2. Debentures : The issue of debentures has become quite popular in recent times in India. It is meant to attract those investors who are not willing to risk their capital and also feel satisfied with a regular income. According to the Reserve Bank of India, at present, the share of debentures in the total capital of companies is around 10 percent.

Besides debentures being secured or unsecured, there are other classes of debentures based on terms and conditions of issue. Bearer-debentures are transferable merely by delivery and the arrangement for the payment of interest is made by annexing the coupons to the certificates which are cashed by the holder as each falls due. Registered Debentures are payable to the registered holders and their transfer is to be registered with the company. Convertible debentures provide an option to their holder to convert them into equity shares during a specified period at a particular rate. Redeemable debentures provide for the payment of the capital on a specified date or on demand or notice. In case of Irredeemable or Perpetual Debentures, the issuing company does not fix any date by which they should be redeemed and the holders of such securities cannot demand payment from the company so long as it is a going concern. The different classes of debentures can be shown in a chart as below:

Chart 2.1

Classification of Debentures



Consents for debentures increased from Rs.329 crores in 1981 to Rs.1,849 crores in 1985-86 and Rs.2,614 crores in 1986-87. The percentage of debentures in the total consents has varied between 63 and 68 during the last six years, except in 1984.

3. Ploughing back of Profits : Because of the underdevloped capital market in India, low level of capital formation and necessity of capital to carry out other programmes of development, it is very difficult to collect the requisite amount of capital for development of industries in India. Accordingly, the main source of capital formation in the private sector has been the ploughing back of the profits earned by the private sector industries. Five-Year Plans have also accepted the importance of such ploughing back of the profits. During the First Plan, total investment in the private sector as to the tune of Rs.613 crores, of which 33 percent was provided through this means. Total investment in the private sector during the Second Plan amounted to Rs.620 crores, of which 48 percent was obtained through this means. In the Third Plan and the subsequent Plan as well, this source of finance was duly emphasized and made extensive use of.

4. Public Deposits : An important charateristic of the industrial finance system in India has been the acceptance

of public deposits by the Indian industrial companies. In the Western countries, industrial units do not obtain finance through public deposits. The main reason for the emergence of this practice in India is the relatively delayed development of banking. Before the development of banking system, the usual practice prevalent in the country was to lend money to traders in return for payment of interest. After the establishment of industries in Bombay and Ahmedabad, public deposits were geared towards industries through the efforts of the managing agents. A substatial portion in the cotton textile industry of Ahmedabad, Bombay and Sholapur was obtained through public deposits.

Although the pace of the industrial development has increased considerably in India, yet the importance of this source in providing industrial finance has not declined. At present, 10 percent of the industrial finance requirements are obtained through public deposits. The main reason for the decline in the importance of public deposits is that investors are attracted more towards purchase of debentures rather than handing over their savings as deposits to industries. Debentures are transferable and can be sold on the stock exchange market. In case of need, the debenture holder can obtain loan against the security of debentures. These facilities are not available on public deposits.

We can examine the role of deposits in corporate finance by making a reference to statistical review made by the Reserve Bank of India. The regulated deposits of non-financial companies rose from Rs.2,059 crores in 1984 to Rs.2,781 crores in 1986.[6] (Table no.2.1)

Table 2.1

Deposits with non-financial companies

Year ending March	Number of Cos.	Amount (Rs.in crores)	Net owned funds (Rs in crores)	%-age of 2 to 3
1984	2,558	2,059	13,433	15.30
1985	2,510	2,406	15,196	15.80
1986	2,680	2,781	16,534	16.80

Source: Kuchal, S.C., 'Corporation Finance', p.273.

The deposits held by the companies numbering 2,680 in 1986, constituted 16.80% of their aggregate net owned funds at Rs.16,534 crores. This percentage went up from 15.30 in 1984 to 16.80 in 1986. Still, this percentage was much below the combined statutory ceiling of 35% of their net owned funds, that is, (a) 10% by way of deposits from shareholders, deposits guaranteed by the directors, etc., and (b) 25% from the public.[7]

5. Commercial Deposits : The share of industrial finance in the total credit made available by the commercial banks is continuously on the increase. At present, the position of the industrial finance is second in bank advances. However, commercial banks are generally interested in short-term

credit only. This is mainly on account of the following two reasons:

(i) according to the traditional banking thinking, banks should not grant long-term advances on the basis of short-term deposits obtained from the public in general; and

(ii) the Indian banking structure is a legacy of the British banking structure which had a tendency to stay away from the industries.

However, in 1964, the then Governor of the Reserve Bank did not favour the participation of the commercial banks in medium- and long-term credit. As on the last Friday of March, 1988, the share of industrial advances in the total advances of the commercial banks stood at 56.1 percent (industry includes large, medium and small-scale industries).

6. Institutional Finance for Industries : The Industrial Finance Corporation Enquiry Committee (1953) argued in its Report that establishment of financial institutions was essential in India to meet the long-term credit requirements of the industry, since on the one hand, capital market is under-developed and on the other, commercial banks are not interested in fulfilling the credit needs of industry. After Independence, the Government accepted the importance of institutional finance and now, thanks to its active participation and cooperation, a number of specific institutions have come up to meet the credit requirements of the industries. The important institutions

developed in India for the purpose of granting industrial finance are the following: Industrial Finance Corporation of India, Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Unit Trust of India and State Financial Corporations. Recently, the Industrial Reconstruction Bank of India has been established to take over the functions of the Industrial Reconstruction Corporation of India.

2.5 GROWTH OF FINANCIAL INSTITUTIONS:

Before Independence, there were no adequate provisions for finance to industries. But after Independence, India has a number of institutions, which supply small, medium and long-term finance to various industries. The various factors responsible for the development of the financial institutions are:

(1) <u>Need for Long-Term Finance</u>:

In India, commercial banks do not provide long-term loans to industries. They are concentrated on providing working capital only. Hence, there is a need of long-term finance to industries. Therefore, it is necessary to develop financial institutions.

The spcial financial institutions were established in India after 1951 in order to solve the problems of industrial finance with reference to small, medium and large industries.

(2) Finance for Small Business:

There is a great need of financial institutions to provide finance to small scale industries. Financial problems of small business are of special character. Hence, India established special institutions to solve their problems.

(3) Organized Capital Market:

The finance and development corporations not only help in the promotion and financing of business enterprises, but they also invigorate the capital market. Financial institutions are necessary to offer institutional services of promotion, underwriting, finance and investment.

(4) Planned Economic Development:

Planned economic development requires huge investment. The projects of national importance which may not be taken up by the private enterprises are entrusted to these corporations. Scarce financial resources can thus be planned to give the utmost utility. Certain basic industries can be organized by the government through these special bodies.

(5) Low Capital Formation:

A developing country like India suffers from shortage of finance. India has a low rate of capital formation. Hence, the gap between saving and investment is intended to be filled up by the finance corporations.

(6) Need for Promotion Services:

Without professional company promoters, quick industrialization under our development plans would not have taken place. Private enterprises were reluctant to go into new and untried ventures on a large scale. Specialized institutions are expected to offer technical and managerial know-how in the formulation and evaluation of new industrial projects.

(7) Need of Replacement Finance:

After the Second World War, the old and the new enterprises required huge finance for renovation and modernization. Special financial institutions were necessary to bring about rationalization of Indian industries.

(8) Development of Backward Areas:

The financial and development corporations have been assigned a significant role in the development of identified backward areas by providing finance on easy terms. In India, they have been active in this field after 1970.

2.6 FINANCIAL INSTITUTIONS OF INDIA:

In a country like India, which has no tradition of industrial finance, there is a great role to be played by special industrial financial institutions for term lending. With this objective in view, the Government has set up quite a few financial institutions, both at the central and state levels,

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to provide credit to both large and small scale industries.

The following are the main financial institutions operating in India with a view to providing finance to industries.

2.6.1 State Financial Corporations:

These corporations were established in different States beginning from 1951. At present, there are 18 such corporations in 18 States. These have been set up for the financing of small-scale and medium-scale industries. In fact, State Financial Corporations are prohibited from granting financial assistance to large units. The authorised capital of the SFCs varies from Rs.50.0 lakhs to Rs.5.0 crores. In most of the cases, it is Rs.2.0 crores and the paid-up capital is Rs.1.0 crore. The capital has been subscribed by the State Governments, the Reserve Bank of India, Scheduled Banks, cooperative banks and insurance companies, etc. Their shares and bonds are guaranteed by the State Governments in respect of repayment of the principal and payment of interest or dividend. These corporations can increase their financial resources through the issue of debentures.

Functions and Types of Assistance:

The SFCs have been set up to extend long-term finance to small and medium-scale industrial undertakings organized as public or private companies, cooperatives, partnerships or propritory concerns.

The SFCs render assistance in the following forms:

(1) Grant of loans and advance to industrial concerns for periods not exceeding 20 years;

(2) Subscription to debentures repayable within a period of 20 years;

(3) Guarantee of loan raised in the market or from scheduled or cooperative banks by the industrial concerns and repayable within 20 years;

(4) Guarantee of deferred payments for purchase of plant, machinery, etc.;

(5) Underwriting the issue of stocks, shares, bonds and debentures by industrial undertakings.

Apart from independently rendering financial assistance in the above mentioned forms, the SFCs can also act as the agents of the Central and State governments, the Industrial Development Bank of India, the Industrial Finance Corporation of India or some other special industrial financing institution, in respect of grant of loans or advances or subscription to bonds or debentures.

Lending Operations of SFCs:

The SFCs had started their operations on a modest scale and their lendings were rather small in the early years of their existence; so much so that until March 1975, their cumulative loan sanctions aggregated only to Rs.437 crores. Their loans and advances picked up thereafter in a big way. For example, in 1989-90 alone, the total assistance sanctioned by the SFCs touched the figure of Rs.1,556 crores.

2.6.2 Industrial Finance Corporation of India (IFCI):

The Industrial Finance Corporation of India was set up in the year 1948 with the object of providing medium and long-term credit to the industry. The role assigned to it was that of a gap-filler, which implied that it was not expcted to compete with the existing channels of industrial finance. It was only meant to supplement their efforts. It was expected to provide credit to industrial concerns, including cooperatives, only when they could not raise funds by recourse to capital issue method or normal banking accommodation.

Functions of IFCI:

The Industrial Finance Corporation of India grants financial assistance in the following forms:

(1) Granting loans or advances both in Rupees and foreign currencies repayable within 25 years;

(2) Guaranteeing Rupee loans floated in the open market by industrial concerns;

(3) Underwriting of shares and debentures of the industrial concerns;

(4) Guaranteeing:

  a. deferred payments in respect of machinery;

  b. foreign currency loans raised from foreign institutions;

  c. Rupee loans raised from scheduled banks or state cooperative banks by industrial concerns.

Lending Operations of IFCI:

The IFCI had started its lending operations on a modest scale in 1948, but over the years, with greater accent on industrialization, they have grown both in scope and size. In recent years, there has been spectacular rise in the amount of assistance provided to industrial establishments. While in 1970-71, assistance sanctioned was of Rs.32.2 crores, in 1989-90, it had touched the level of Rs.2,295 crores. The cumulative assistance sanctioned and disbursed by the IFCI as at the end of March 1990 stood at Rs.8,713 crores and Rs.5,475 crores, respectively.

2.6.3 The Industrial Credit and Investment Corporation of India (ICICI):

The Industrial Credit and Investment Corporation of India (ICICI) was the second all India special industrial financing institution to be established in the country. It was set up in January 1955 and it commenced business in March of the same year. The ICICI differs from the two other all-India development banks, viz. the IFCI and IDBI, in respect of ownership, managemental and lending operations. Unlike the IFCI and the IDBI, which are public sector development banks, the ICICI is a private sector development bank. Its distinguishing feature is that it provides underwriting facilities which are generally neglected by the other institutions.

Functions of ICICI:

(1) Long or medium term loans or equity participation;

(2) Subscription to ordinary or preference capital and underwriting of new issues of securities;

(3) Guaranteeing loans from other private investment sources;

(4) Rendering consultancy service to Indian industry in the form of managerial and technical advice.

Lending Operations of ICICI:

In terms of sheer amount of financial assistance provided by the ICICI, its performance has been quite impressive. From Rs.14.80 crores in 1961-62 and Rs.43.0 crores in 1970-71, the assistance sanctioned by the ICICI rose to Rs.2,951 crores in 1989-90. The cumulative assistance sanctioned and disbursed by the ICICI as at the end of

March 1990 stood at Rs.12,484 crores and Rs.8,089 crores, respectively.

2.6.4 Industrial Development Bank of India (IDBI):

The IDBI was set up in 1964 as a subsidiary of the Reserve Bank of India. It was delinked from it in 1976 and made an autonomous corporation. It is an apex institution to coordinate the operations of other institutions, providing term finance to industry as well as an agency to provide direct financial assistance to industrial units. Among its other functions, the major ones are location and filling in of gaps in the industrial structure, marketing, investment, research surveys, techno-economic studies, etc. Since 1970, it has also been promoting surveys of industrial possibilities in backward areas.

Functions of the IDBI:

(1) Direct financial assistance to industrial enterprises;

(2) Indirect financial assistance to industries;

(3) Assistance to backward areas;

(4) Assistance to small-scale industries.

Lending Operation of IDBI:

The IDBI is the leading development bank in India. Its progress has been spectacular in whole of the period of its existence but particularly so in recent years. The cumulative assistance sanctioned and disbursed by the IDBI upto end-March 1990 stood at Rs.42,191 crores and Rs.30,197 crores. This was more than the contribution of all other financial institutions put togther.

Assistance sanctioned by the IDBI during 1989-90 was Rs.6,075 crores which was 38.1 percent of the assistance of Rs.15,965 crores sanctioned by all the financial institutions collectively.

2.6.5 Industrial Reconstruction Bank of India (IRBI):

There are a number of industries having sick industrial units. These units possess obsolescent machinery and poor management. The economic position of some units has deteriorated because the managers of these units have paid more attention to the distribution of dividends rather than reinvestment of profits. The Government does not want these units to shut down because this would lead to retrenchment of employees and large scale unemployment of industrial workers. Accordingly, it established the Industrial Reconstruction Corporation of India in 1971 to provide financial assistance to industrially sick units and, if necessary, to provide managerial and technical assistance as well.

Lending Operations of IRBI:

During 1989-90, IRBI sanctioned assistance of Rs.146.60 crores to the industries, of which Rs.141.1 crores were disbursed. As at the end of March, 1990, the cumulative assistance sanctioned and disbursed by the IRBI stood at Rs.1,030 crores and Rs.765 crores, respectively.

2.6.6 Unit Trust of India:

The Unit Trust of India was set up on November 26, 1963, after the Parliament had passed the Unit Trust Act. The sale of units were started on July 1, 1964. The main purpose of the Trust is to tap savings of small investors and then invest them in securities. Thus, it aims at affording the small investors a means of acquiring a share in the industrial development at minimum risk and at a reasonable return. More than 95 percent investment of the UTI is in the ordinary and preference shares, debentures, etc., of the industrial concerns. This shows that the UTI serves as a source of industrial finance.

Objectives of the UIT:

(1) To mobilize sources of the community;

(2) To provide investors, particularly small and middle income groups, a medium of investments in industrial securities.

Investments and Assistance by UIT:

Of the total investible funds of Rs.17,496 crores as on June 30, 1990, UTI invested Rs.10,392 crores (59.4 percent) in the corporate sector and Rs.7,104 crores (40.6 percent) as deposits and other investments with bonus and government securities. As far as financial assistance is concerned, UTI sanctioned and disbursed Rs.1,497 crores and Rs.1,281 crores, respectively, in 1989-90 through subscription to (a) privately placed debentures/special deposits/loans; (b) public issue of ordinary and preference shares; and (c) debentures and bonds.

2.7 A CRITICAL APPRAISAL OF THE INDUSTRIAL FINANCING INSTITUTIONS:

While examining the importance of special institutions in providing industrial finance, it is frequent to talk of their quantitative and qualitative roles. From the quantitative point of view, the contribution of the financial institutions in industrial finance seems quite impressive. Financial assistance provided by these institutions has increased by leaps and bounds, particularly during the last decade or so.

This is clear from the Table no.2.2 (on the following page), which shows that the total assistance sanctioned by the financial institutions was a meagre Rs.60.5 crores in 1961-62, of which Rs.29.8 crores were disbursed. With the establishment of the IDBI in 1964, there was a substantial expansion in the assistance. In 1965-66, assistance sanctioned stood at Rs.290.3 crores, of which Rs.119.8 crores were

Table 2.2

Financial assistance sanctioned and disbursed by the financial institutions in selected years

(Rs.in crores)

INSTITUTIONS	1961-62		1965-66		1970-71		1987-88		1989-90	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
1. IFCI	26.7	8.3	45.9	27.1	32.3	17.4	1025.1	660.0	2294.9	1121.7
2. ICICI	14.8	8.6	29.3	25.8	43.0	29.8	1283.3	771.2	2951.3	1357.0
3. IDBI	-	-	63.0	35.3	73.3	55.8	3286.9	2673.2	6074.7	3720.3
4. IRBI	-	-	-	-	-	-	186.5	101.9	146.6	141.1
5. SFCs	13.3	9.0	23.3	18.6	49.6	33.5	1284.7	938.0	1556.1	1190.1
6. UTI	-	-	2.1	1.7	9.2	5.1	1024.8	749.1	1496.6	1280.[illegible]
7. Other Institutions*	5.7	3.9	29.7	11.3	39.1	19.1	1080.8	894.9	1447.0	1137.9
Total:	60.5	29.8	190.3	119.8	246.5	160.7	9171.7	6788.3	15964.9	9949.4

*Includes State Industrial Development Corporation, Life Insurance Corporation of India and General Insurance Corporation of India.

Source: Mishra & Puri : 'Indian Economy', 1991 Edn., p.789.

disbursed. During 1989-90, assistance sanctioned and disbursed stood at Rs.15,965 crores and Rs.9,949 crores, respectively. Massive expansion of assistance has taken place during the period of the Seventh Plan. In fact, sanctions during the Seventh Plan constituted 67.5 percent of the cumulative assistance sanctioned upto the end of March 1990 (Rs.53,608.50 crores out of Rs.79,375.60 crores), while assistance disbursed during the Seventh Plan constituted 64.6 percent of the cumulative assistance disbursed upto the end of March 1990 (Rs.36,405.30 crores out of Rs.56,351.60 crores). As shown clearly in the Table, a substantial part of assistance has come from the IDBI. In 1989-90, it provided 38.1 percent and 37.4 percent of the assistance sanctioned and disbursed, respectively.

As far as the qualitative aspect is concerned, the financial institutions provide assistance to new enterprises, small and medium firms and industries, established in the backward areas. Similarly, instead of granting more assistance to the industries established in the backward regions, financial institutions have contributed more to the industries established in the developed States. This would be clear from the fact that of the total financial assistance of Rs.5,132.20 crores sanctioned by the financial institutions till 1977, the four advanced industrial States of Maharashtra, Gujarat, Tamilnadu and West Bengal together accounted for approximately 50 percent.[9]

Even when steps were taken to ensure more assistance to industries established in backward areas, the financial institutions pursued a policy of granting more assistance to backward areas of the developed States vis-a-vis backward areas of less developed States.

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