Conclusions

Industrial finance in India may be termed as efforts of an independent nation to reshape its financial resources to channelize them in the direction of fulfilling objectives of balanced industrial growth in the country with a sense of social commitment. Initially, it was a sharp reaction to the British finance system in India of the pre-independence time with all its vices and vicious motives. In the light of new visions and dreams to be fulfilled and new responsibilities to be shouldered, India needed to evolve its own vision and insight into industrial development and plan its financial policy to suit them. So it sought to reshape its autonomous industrial policy and plans-strategies and determined its priorities and objectives accordingly.

The first task that the government of free India performed was to set up its own planning commission in 1951. Being an agency to work out plan-strategies, priorities and objectives of industrial development in India, it formulated Industrial policy resolution since 1951 and revised it over the period in the light of changing scenario and demands arising out of them.

The first IPR was conceived in retrospect to the 1948 policy of mixed economy in which the government was supposed to undertake the responsibility of industrial plan and development and its regulation. The IPR of 1956 is a revised version of the IPR of 1948 with objective of rapid industrialization and socio-economic goals. It stressed on the development of basic capital, heavy and machine building industries. It as well stressed on diffusing monopoly and concentration of economic power in a few hands by setting up industrial estates in all regions of the country equally.

When the IPR of 1956 was rendered ineffective to prevent monopolistics practices, the new IPR of 1973 was reframed on the same line with minor revisions in the form of MRTP Act and FERA Act. It stressed on proper utilization of industrial finance. The IPR of 1977 is a second minor revision on the IPR of 1956 to ensure growth of small-scale industrial sectors that would generate more employment opportunities and help to reduce regional disparities in industrial growth. Further, with the IPR of 1980, the base of industrial growth was widended in the light of technological upgradation and modernization. The policy adopted a more liberalized view by lifting partly the government control over industrial growth. It encouraged the private sector to flourish in different parts of the country. The NIP of 1991 marked a huge step by the Government of India to unshackle the industrial economy from all bureaucratic controls and to allow it to breath freely to suit the emerging scene of globalization and liberalization.

Within the framework of industrial policy statements and control and liberalization measures, the priorities of industrial programmes under the five year plans were established. They were further put to requisite amendments form time to time. The first plan assigned priority to the full utilization of the excess installed capacity of the existing industries. The second and third plans emphasized on the establishment and development of basic capital, heavy and producers goods industries and machine building industries. During the fourth and fifth five year plan, to accelerate the spirit of industrial growth, with conditions of stability, self-reliance and reduced uncertainties, the policy of export promotion, import substitution and mass consumption goods were given importance. While the sixth and seventh plan intended to work with regard to the objectives of structural diversification, modernization, improved productivity and self-reliance in consonance with IPR of 1980. Whereas, the eighth and ninth plan sought to achieve a desired industrial development in different sectors, through the modifications in industrial, trade, fiscal policies and change in duties and taxes.

In view of the industrial policy resolutions and plans-strategies, the resulting growth pattern was reviewed. The review revealed efficacies in industrial growth pattern. The period of 1951-65 experienced high industrial growth pattern. The period of 1965-80 registered a sharply reverse trend in the form of low industrial growth. It occurred due to the inefficiency of the government machinery to implement the industrial licensing policy, the procedural delay and restrictive controls measures imposed by the government of India. However, the period of 1981-90 witnessed a new structural composition of industrial sectors that emerged with diverse industries like basic chemicals, petrochemicals and their allied industries flourishing fast. In its light, the growth of basic capital and machine industries was adversely affected. Again, the post-reform period of 1991 did not exert expected impact on structural growth of Indian industry with the new industrial policy resolution. In this way, the overall scenario of industrial growth pattern in India shows a trend of inconsistent growth demeaning the priorities and objectives envisaged through Industrial policy resolutions and plans.

The government of India, at its outset, looked for a viable option to private money lending system that prevailed during the British rule. It sought to create its own industrial financial structure with first establishing IFCI in 1948, ICICI in 1955, IDBI in 1964, IRBI in 1971, SIDBI in 1990 at the national level. It as well set up a network of finance agencies and institutions like SFCs and SIDCs, owned by state governments in most regions of the country. In addition, the government establishes specialized financial institutions like the RCTC, the TDIC, the TFCI and the NEDFI etc. The prime objective of the industrial finance structure was to facilitate medium and long-term financial assistance to industries of all categories in all sectors and in all states or regions on equal parity in the light of balanced industrial growth.

The performance of finance through this structure was expected to achieve the twin goals; industrial growth and socio-economic development. It was expected to foster industrial growth through supporting projects of expansion, renovation, modernization and diversification of existing units. In view of modernization, it looked to encourage enhancement of technical know-how and technological advancement. Further, in view of the fast changing scenario on international level with liberalization and globalization, it encouraged foreign investment in India by providing foreign currency loans and forex services. It also sought to enhance the market potentials of Indian products to elevate them to competition in international markets. However, in course of the development, some industrial units were unable to survive and cope with changing trends. Hence, the finance performance also looked to support such sick units and help them through rehabilitation programmes.

The performance of industrial finance also reiterated its commitment to society in terms of attaining socio-economic development to suit the socialistic thinking of the time. Using industrial development as agency, it was supposed to avail increasing employment opportunities to the people of India. It was expected to help the development of the infrastructure and advancement of telecommunication and information technology through industrial growth to elevate the living standard of the people of India. All these benefits were supposed to be distributed equally and justly among all states or regions of India. It would ensure balanced regional industrial growth to foster the objective of social justice, that the Government of India is supposed to ensure.

In view of the twin objectives, the Government of India sought to put all available sources of industrial finance to appropriate use. It well sought to explore new resources of finance to cope with fast increasing demand for industrial growth. To affect just distribution of finance sources in right direction, the government floated huge number of schemes with diverse motives. Some of them are Bills Rediscounting

Scheme (1965); Risk-capital Foundation Scheme (1975); Soft Loan Scheme for modernization, Bridge Finance Scheme, Seed Capital Assistance Scheme (1976); Technical Development Fund Scheme (1977); Automatic Refinance Scheme (1978); Modified Soft Loan Schemes (1984); Textile Modernization Fund (1986); Small Industries Development Fund (1986); National Equity Fund, Single Window Scheme, Equipment Finance and Refinance Scheme (1987) and many other schemes in the pre-reform period. In the post-reform period since 1991, the institutional finance schemes and several other organizations addressed more specifically to the demands of privatization, through venture capital fund for high-risk, high-return ventures in IT sector, Scheme of Direct Assistance for Development of Industrial Infrastructure and Forex Services and liberalization and globalization, through the SEBI, the EDII, the NSEIL, the SHCIL, the ISIL, the CARE, the INFUSE, the CRISIL and the NSDL. To foster balanced regional industrial development, the government also floated schemes to provide assistance, incentives and concessions in finance in form of low rate interest, lower margins, tax-exemptions and reduced service charges, etc.

The present research has been an attempt to review the performance of finance by financial institutions in India. The performance has been operated through various finance schemes announced and implemented by the government from time to time. Since the finance performance has the eventual realization in industrial performance, it accepted the data on industrial performance as the base to have comparative analysis in view of envisaged objectives. So the analysis was devised on selected parameters or indicators of industrial development, such as: number of factories, productive capital, total number of employees, total emoluments, net value added, profit, outstanding loans, value of output, total input and net capital formation. The industrial performance was analysised on the grounds of the following hypotheses.

1. There exists no one to one correspondence or functional relationship between capital intensity and net value added.
2. An increase in number of factories does not always mean an increase in all remaining selected development indicators of industries.
3. A higher or increase in the share of net value added would not necessarily asserted by a higher or increased share of the productive capital, the total inputs and the value of output.
4. Higher share of productive capital does not always lead to increase in number of factories as well as in the level of employment.
5. Higher net value added would not necessarily mean higher share of profit.
6. Higher value added and profit oriented industries may not necessarily have a lower share of outstanding loans.
7. Higher capital intensity does not mean higher capital productivity.
8. Higher capital per employee may not necessarily lead to higher labour productivity.
9. Higher capital productivity would not essentially lead to higher labour productivity.
10. Higher was the productivity of capital the higher would not mean the profitability of the industry and vice-versa.
11. Higher the capital per employee higher would not mean the debt capital ratio and vice-versa.
12. Higher profitability of the industries would not lead to lower debt capital ratio.
13. The higher wages per employee would not always lead to higher labour productivity.

The above hypotheses were reviewed for industrial performance in the contexts like industrial sectors in India and statewise or regionwise industrial development in India. The data that was employed for the analysis posed a practical problem related to linking of the data obtained from two prime sources, IDBI reports and ASI summary results of factory sector. The former details on industrial finance disbursed to industries while the latter details on the performance status based on the development indicators. But there is lacking of proper linking of two in terms of the benefitter and the performer. However, an attempt is made to conduct analysis that has revealed the following observations.

1. There is little support to contend that production function and the level of technology, innovation and inventions remain the same for all different manufacturing industries in India. On the contrary, we have a strong ground to view considerable variations in the levels of technological options available in the different manufacturing industries in India. This reveals that the strategy of industrial policies and priorities of planned programmes introduced by the Government of India could not maintain a balanced structure-based growth pattern of industrialization in India during the period of analysis.

2. The industrial assistance granted by financial institutions to industries does not always exert influence on their contribution in terms of net value added, productive capital and net capital formation in cases of all the types of industries in India.

3 The result of the analysis reflects that the relations in the groups of net value added and disbursals of finance and the productive capital and disbursals of finance are significant and positive. However, this positive relationship does not always exist in cases of all manufacturing industries in India. Actually, the relationship may give negative and significant results, provided the objectives of financing for balanced structure-based growth pattern of industrial development are realized through correct or proper implementation. To some extent, this negative relationship between them ought to be emerged in those industries where factors other than the industrial finance disbursed by the financial institutions for industrial development are more important.

Secondly, the relationship between industrial finance and the net capital formation is positive and significant too. However, in a restricted sense actually the relationship may give negative and significant results, provided the disposition of the industrial assistance once received depends upon the decisions of the entrepreneurs whether to invest it in the process of industrial development or to use it for some other purposes. As a result, the industrial assistance disbursed by the financial institutions may or may not generate high volume of fixed capital formation in the different industries of India. Further, there is a positive and highly significant nexus between the disbursals of finance and the outstanding loans available to the industries irrespective of their nature. However, the reality shows that the relationship may give negative and significant results, if the financial institutions are guided by the market forces of commercial viability and profitability to ensure their safety and liquidity prior to providing industrial assistance to the industries. Thus, the real and the anticipated situations given above reflect that the selected financial institutions have failed to generate balanced growth pattern of industrial development in India.

4. Accordingly, at the state or region level, we find very little support to the credence that production function or the level of technology is equal for different states or regions of India. The results actually show the opposite picture that there is a considerable variation in the levels of technological options available. It reflects that the Governments industrial policy and its plans strategies have not generated adequate environment for balanced regional industrial development. They also remained incapable to counter inherent structural drawbacks that hampered industrial development in the backward states of India.

5. The share of industrial assistance disbursed by the financial institutions among different states and regions of India does not

always grow with their respective share of net value added and productive capital during the period of analysis.

6. The outcome of the analysis reflects that, the relation between net value added and disbursal of finance is highly significant and positive. However, this relationship between them might be negative and significant, if the objectives of financing to affect balanced regional growth pattern of industrialization in regions or states, developing as well as those industrially lagging behind, are realized through correct implementation.

   Secondly, the positive relationship between the net capital formation and disbursals of finance implies that the balance growth pattern of industrialization is associated with a high rate of capital formation in different industries in all regions or states of India. However, the relationship between them ought to be negative and significant, if the financial institutions grant industrial assistance in different forms and for different purposes. They do not directly add to the volume of real capital formation, though they form a major sources of finance in the growth of industrial development. In line with it, the relationship between outstanding loans and disbursals of finance would have to be actually negative and significant, if the financial institutions pursued the market forces of commercial viability and profitability to ensure their safety and liquidity before providing industrial assistance to the industries of all regions of India. Thus, the real and the anticipated situations given above reveal that the selected financial institutions have failed to ensure balanced and adequate quantum of industrial assistance equally among all states or regions of India irrespective whether they are industrially affluent, industrially developing or industrially lagging ones. This analysis further leads to contend that industrial assistance disbursed by the selected financial institutions failed to generate a balanced regional industrial development in India.

Persistence of imbalanced structure based growth pattern of industrial development in different regions of India that is generated by the industrial assistance disbursed by financial institutions are consequence of the following factors:

1. The financial institutions provide industrial assistance to industries in different forms and for different purposes. But they have failed to evolve a system by which proper utilization of finance for the purpose may be monitored. The facts remains that the finance received by entrepreneurs was not always utilized for the purpose. It was diverted to some other purposes.

2. The modern industrial development is affected by multiplicity of internal and external factors that may be beyond the control of the management. All these factors are interrelated. Among these factors, availability of finance is a prime factor for the enhancement of industrial performance. The industrial assistance granted by financial institutions to industries does not always exert influence on their overall performance. Because the fact remains that the industrial finance is just one of the many factors to affect industrial performance.

3. Prior to decision of providing industrial assistance to the industries, the financial institutions are found to be guided by market forces of commercial viability and profitability to ensure their safety and liquidity rather than being based on planned goals of balanced structural base growth pattern of industrial development. Therefore, the result of such modes of financing activities of financial institutions moving on caution and safety concerns would allow more and more flow of finance to industries with high value added or high profitability or high status in terms of capital intensity. This in turn, it hampered the balanced industrial development.

4. A notable shortcoming on the part of the financial institutions is that, the assistance disbursed by the financial institutions has increased at a lower rate than their sanctions. This reveals that there is a wide gap in the assistance sanctioned and their disbursements by financial institutions. Hence, the widening gap between the two indicates that the financial institutions have failed to mobilize sufficient amount of financial resources to industries in time when the acute needs of finance arose. These delayed the industrial development. The fact remains that it is the procedure delays and innumerable formalities are responsible for slow pace of disbursements of assistance.

5. A part of the industrial assistance is increased due to the inflationary increase in the supply of money. These real and anticipated situations of inflationary pressure may generate low volume of fixed capital formation in the different industries of India. This in turn, it led to slow down industrial development.

6. The concerns like safety and liquidity affect. The industrial finance to concentrate in few hands under the pretext of projects like expansion, diversification, etc. So it has failed to satisfy wide base of industrial entrepreneurs.
7. The profit earning motives of financial institutions have led to concentrate their operation on the direct market purchase of shares rather than providing underwriting facilities or providing initial capital. This has bottlenecked the prime objective of industrial growth in the wake of increasing commercial motives.

8. The financial institutions, too, prefer to lend to industries that are located in areas that are free of bottlenecks like inadequate infrastructure and the initiative of the state or the region. The considerations like high net value added and profitability have prevented them to divert finance to deprived states and regions. Therefore, the emerging picture of imbalanced regional industrial development is not unexpected phenomena.

9. The financial institutions are functioning under a severe resource constraint for the problem of low recovery of their advances. They did not yet devise a system to ensure recovery of advances during the period of analysis. Off late in 1993-94, it is known to have a system like it. But it is too late to ensure efficient motoring of industrial finance.