INTRODUCTION

A HISTORICAL PERSPECTIVE ON INDUSTRIAL FINANCE IN INDIA

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INTRODUCTION

The modern industrial development is affected by multiplicity of factors. They are approximated into two categories:- (a) Internal factors and (b) External factors. Internal factors are those factors which are within the control of management. They are for instance, one's own source of finance, land, labour, capital and quality of entrepreneurship (i.e. technical, managerial and administrative know-how of organizers). External factors are those factors which are beyond the control of the management. They are like availability and sources of finance, efficiency of the money and capital market, availability of infra-structure facilities, natural resources, industrial policies and plans of the government, product demand in products competitive markets, tastes and preferences of consumers, impact of international business environment, change in technology and economic-political stability, etc. All these factors are interrelated. Among these factors, availability of finance is a prime factor. It determines the enhancement of industrial capacity and its expansion. It is so because, although finance in isolation of other factors cannot solve any problem of industrial development, it certainly helps to acquire the components or ingredients which, if used in a judicious and balanced way, enhance industrial development. Hence, availability of finance at the right spur of moment in the required quantum and on reasonable terms as well constitute a significant factor in promoting industrial development.

Industry, whether in large, medium or small scale, both in the public sector and private sector, requires finance at three different stages: at the initial stage of industry, during its development and, finally, while determining its diversification or further growth. To start a new industry one requires seed base capital in order to meet different expenses, such as fabrication and erection work of industrial shed, purchase of machinery, equipment, etc. Then an entrepreneur requires working capital to procure raw materials, transportation services, packaging material etc. In a later stage, he requires an ample and adequate capital or finance to execute R & D (Research and Development) activities at various stages in the industry. This requirement can be met with the industrial finance that can be raised through two channels: internal finance and external finance. The internal finance is undoubtedly an important source of finance, external finance plays simultaneously a vital role in industrial development.

Looking to the vitality of external finance in industrial development, the Government of India has explored from time to time various sources to raise finance. To its core, it has established financial institutions step by step to provide adequate finance to Indian industries for development and growth. If the Government had neither sponsored nor supported the establishment of different financial institutions, the entire process of industrialization would have been reduced to stagnancy. Inadequacy of financial resources on the other hand, results into deterrent to industrial growth. In such circumstances it has to resort to conservative steps like encouraging unhealthy caution and diffidence. As a result, industry is obliged to operate within constrains and narrow jurisdictions. It may reduce a rapid progress to a crawl. Accordingly, for smooth growth with drive and flexibility, industry must get adequate finance.

In these terms, 'finance' turns out to be one of the powerful variables that affects the process and the extent of industrialization particularly in a developing country like India. It acts as a catalytic agent. As such, the programme of rapid industrialization is likely to be bogged down if finance is grossly inadequate.

* INDUSTRIAL FINANCE IN VIEW OF STRATEGIES OF INDUSTRIAL DEVELOPMENT:

It is indeed true that, the situation in respect of industrial finance in India has undergone a sea-change. The Industrial Commission (1916-18) was the first to report that lack of finance was the main impediment or bottleneck to pull down industrial development in India. Following it, the Financial Commission (1953) reported that in the early days of industrialization, while neither enterprise was plentiful nor capital was so, the managing agents provided for both of them to foster industrial development. Therefore during the pre-independence period, the impediments to industrial development in India were partly financial and partly those related to business enterprise, like deficiency in industrial leadership. As a result of this diffidence in industrial sector almost ninety percent of the industrial development in India depend entirely upon the managing agency system. It works for the establishment, promotion, financing and management of industrial concerns. But owing to dominant nature and monopolistic tendencies of managing agents, bottlenecks in infrastructural facilities and absence of the proper industrial policy and systematic planning and programme, India inherits a weak, uneven and imbalanced industrial structural base at the time of Independence.

Immediately after independence, the Government of India implemented the Five Years Plans and corresponding industrial policy resolutions from time to time in the interest of rapid industrialization. At the same time, in order to facilitate the implementation of the industrial policies and the execution of the plan objective, the Government took several significant steps towards creating a network of financial institutions such as IFCI, IDBI, ICICI and SFCs as and when the need arose. These institutions are supposed to provide medium and long term financial assistance to the industries, in accordance with the priorities and programmes of rapid industrialization as specified in the plans and policies (Government of India, 1969[d]). As a result, the industrial structure in India has undergone a marked change due to varying pattern of priorities and objectives under the Five Year Plans and the corresponding industrial policy resolutions. It has as well changed structure of the industrial finance in the passage of time. This is what this research proposes to study in details. This forms the core of the proposed study.

⁕ INDUSTRIAL FINANCE IN INDIA: AN OVERVIEW:

The field of research was by and large confined to so far describing and analyzing the role of the managing agency as a dominant agency for providing finance in the industrial sector, the role of Commercial Bank in providing term finance to industry and urgent need to evolve a network of specialized institutions to cater to the financial needs of industry, etc. in accordance with the scenario detailed above. It has now become more broadbased and diversified. Various kinds of research have been undertaken on the industrial finance by individuals, different working groups and institutions, in universities and research institutions. Since they help us to evolve an overview of the development in the industrial finance in India, we present a synoptic view of the various contributors. In the Indian context, it is traceable in two phases viz. Pre-Independence period and Post-Independence period.

✧ Pre-Independence Period:

In the pre-Independence era, the literature concerning the nature and problems of industrial finance received least attention. It is mainly because the industrial development was limited to few industries and few areas only. During this period, the three main aspects were common in various literature studies on Industrial Financing:- (i) The role of managing agency system as a dominant source of industrial finance. (ii) Conservative attitude of the Indian commercial banks since they were based on the British model of commercial banking, in providing term finance to industry. It explores its comparative studies with commercial banking systems in other countries with a view to exploring the possibilities of adopting a mixed banking system in India. (iii) Descriptive literature often of text-book type. It focuses on structural gaps in Indian capital market, such as non-existence of new issue houses, underwriters and Investment

Bankers, etc. It also discovers preference patterns of Indian investors in favour of assets like land, house property, gold or at the most Government securities.

(I). The Industrial Commission (1916-18) and the Banking Enquiry Committee (1931) escorted a new dimension when they highlighted lack of industrial finance dis-propelled rapid industrial growth and advocated for setting up financial Institutions in India. Number of studies have been carried out on this line exploring its various facets. In this respect P.P. Pillai's articles, "Financing of Indian Industry" observes that, any attempt to sketch the present position and the prospects of Indian industries demands to consider the quantity of capital and its availability to industry. John Matthai's paper, "Industrial Finance" stresses on the urgent need to mobilize capital resources in the country, to develop general banking facilities, to set up special banks to finance industries and to create a special machinery for underwriting and company promotion business. It would serve as an important means to resolve problems of industrial finance in India.

V.K.R.V. Rao's articles, "Some Reflections on the problem of Industrial finance in India" examines that the Indian banking was conspicuous for its failure to assist the industrial development in the country. Nor did there exist in the country an organized capital market and their place. Both these were, however insufficiently, by the Managing Agency System which is India's unique contribution to the institutional developments of industrial finance.

Naba Gopal Das (1934) assesses the problem of industrial finance in India in its historical and analytical aspects. His studies presents how in the course of history conditions in India could promote healthy development of saving and investment and its growing relations to industry and trade. It also analyzes how far the agencies of the money market could or could not promote development of industries in India, either by themselves or in conjunctions with other factors.

(II). During the thirties, the studies conducted by Vera Anstey, Buchanan, Grant (1937), N. Das (1936) and others pose a general and descriptive character. Problems of industrial finance are discussed within the institutional framework that prevailed then in India. It was pioneering works of P.S. Lokanathan, S.K. Basu and Samant & Mulky that laid the real foundation for further research.

P.S. Lokanathan (1935) discovers that in the early stage of industrialization, the managing agents rendered indispensable financial services to the industries. He points out its defects. Owing to heavy reliance on managing agents, industrial finance tended to render adverse effects. Sound companies even operated under agent's control. The result was that they sunk due to their speculative activities. He points out certain characteristic defects of the system stooped finance, "instead of being the servant of industry tended to become its master with injurious consequences". He suggests to establish banks to meet the financial requirements of industrial concerns.

S.K. Basu's (1939) study on industrial finance presents by and large, a comparative analysis of structure, organization and activities of specialized institutions for industrial finance in India and those in Germany, Britain and Japan and suggests that suitable machinery be established to resolve problems of term financing in Indian industries.

A work by Samant and Mulky's (1937) is in a sense, an extension of Lokanathan's study. However, it renders treatment various facets of industrial finance more comprehensive by and with greater research content. Later in 1947, Mulky carried out individually an extensive research into the working of the new capital issue market. His study relates to capital structure of 600 companies and concludes that in the filed of advancement of industries, services of managing agents could not be minimized. Despite under developed nature of capital market in India, managing agents played a vital role in promotion together with raising capital of industries.

R.C. Cooper (1947) needs a special reference. In his study, he tries to critically examine various problems connected with the financing of joint stock companies at different stages of their existence. Specifically, it includes a study of capital structure, cost of promotion and marketing of securities as well as progress in respect of underwriting facilities.

These studies represent the core of research on industrial finance during the pre-independence period to generate a shift in industrial finance in India after its independence.

✧ Post-Independence Period:

The post-independence period, marked a growth of specialized financial institutions and increasing availability of data of corporate finance. Consequently, the focus of subsequent studies shifted from old issues like role of managing agents, commercial banks, business savings, capital formations, etc. to the role of financial institutions in strengthening the capital market in India. Economists like R.K. Nigam, H.K. Mazmudar, K.C. Shah, M.S. Joshi, etc., focused their research on various aspects of corporate finance, business savings and profitability. Whereas those like, V.R. Cirvante, George Rosen, L.M. Simha, M.M. Mehta, N.L. Nadda, NCAER, L.C. Gupta, K.S. Sharma and T.V. Sethuraman, etc., concentrated their work on the Indian capital market and specialised financial institutions operating in it.

(a). 1947 to 1960: Reshaping Industrial Finance:

The research conducted between 1947 and 1960 constitutes observations of individual researchers as well as research institutes. M.M. Mehta (1948) views the capital investment to go in tune with a rate of profit. J.A. Schumpeter (1949) views that financial institutions have a vital role to play in reducing regional disparities in industrial development. M.M. Mehta's brief survey (1954) reveals that under the impact of the British managing agency, the Indian counterpart evolved a system in which few industrialists could exercise dominant influence and dictate over major part of the sector. V.R. Cirvante's analysis (1956) observes that in absence of organized capital market, a little scope is allowed to freeflow of loanable funds. George Rosen (1958) provides a hypothesis for empirical research on certain significant aspects of finance. He observes that if level of saving is to be increased and if saving is to be channelised into investment in industry, mechanism of capital market may prove a crucial intermediary element in the process of growth. H.K. Mazmudar concentrates his study (1959) on business savings and its determinants to estimate the magnitude in both corporate and non-corporate sector.

L.M. Simha's study (1960) gives a useful introduction to the Indian capital market. S.S. Srivastava (1960) observes that auto-financing evolved out of reinvestment of earnings, in full or parts, may strengthen the financial stability of industrial units, provided it is handled in judicious manner.

K.C. Shah (1960) studies financial trends in five industries like cotton textile, jute textile, cement, paper and iron during 1935 to 1955 and discusses factors concerning saving and investment that affect growth of corporate sector in India. R.L. Sabarwal's research paper (1960) seeks to explore sources of finance for the development of private sector in India. These sources range from self-financing to corporate savings, managing agents, excess profit tax, refund, etc.

On the other hand, in the line of institutional studies, NCAER (1959) observes that a managing agency may play a vital role as institution to affect growth of the private sector in India. It also views that financial corporation may provide for risk capital which may augment industrial growth under their management. Society for social and economic studies (1959) inquires into finance to medium and small scale industries with their capital requirements, their sources and suggest ways to meet their financial needs in view of expansion and development as envisaged in the Second Five Year Plan and the plans subsequent to it.

The studies of the first decade of independence, thus, focus on the role of managing agency, flow and source of finance against its need for industrial expansion and growth, the financial trends in India and the structure of financial market in India.

(b). 1961 to 1970: Creating a Viable Option:

During the second decade, 1960-70, the researches conducted project efforts in the direction of creating a viable options to managing agencies in industrial finance. George Rosen (1962) seeks to work out a theory of structure and development of capital and explores the role of financial institutions like banks, insurance companies and special financial institutions in shaping the growth in private organized sector in India. George Rosen has two research papers titled, "Factors in the Development of capital Market" and "Bank Policies and Finance to Industries" (1962) that present a view of the development of the Indian capital market in the context of international scene. He considers for his purpose the cases of number of countries and their economic and social contexts. R.K. Lele (1962) focuses on the role of specialized institutional finance in view of new industrial units, their replacements or existing ones and in their efforts to modernize, diverse and expand.

Since productivity remains a vital outcome of industrial finance, economists like S. Dutta (1962), Ghose (1962) and Ahuja (1963) conduct inquiry posing different views and trends in labour productivity. S. Dutta spells out trends, while Ghose examines relationship between wages and productivity. Ahuja, while, goes little ahead to study productivity in association with capital intensity and technical change.

The Indian capital market fell to varied strains and underwent a characteristic change its structure. The studies that concerned this aspect of industrial finance include those by N.L. Nadda (1965), R.C. Mehta (1965), M.S. Joshi (1965), R.G. Nayak (1965), R.S. Rungta (1966), V.T. Dehejia (1968). Nadda analyzes the strains that exerted impact on the capital market and brought about change in its structure. He evaluates their adequacy and strength in the light of economic development in India. Mehta conducts studies with historical and analytical point of view and enumerates changes in economic set up in the post-war period; the extent of rural and urban savings and its utilization, factors affecting the investment, monetary fiscal and legal, the climate for foreign capital investment in India and also study different institutional framework of capital market, direct finance of industries by government in view of long-term finance for rural investment. M.S. Joshi examines the role of financial intermediaries in providing finance to large-scale industries in the private sector and their contribution. He views their vigour and growth as pre-requisite to speed up development of the Indian economy. Nayak, on the other hand, traces out history and functional role of specialized institutions that paved the ground for setting up industrial development bank in India. Rungta plays upon different tunes and presents a retrospect of promotion and finance of Indian companies before 1950. He goes back to the mid of the 18^{th} century to study capital investment in traditional trades and handicraft industries forming a vital part of the inland trade of the country.

V.T. Dehejia (1968) conducts his research in the current context of diversification in Indian industry during the planned development period. He dwells on problems of industrial finance with special focus on domestic saving in relation to investment needs. He observes that paucity of domestic saving is one of the constraints over attaining desired level of investment. He, therefore, proposes for concentrated attempts to raise domestic saving and channeling it to industrial investment in order to meet planned economic priorities.

K.S. Sharma (1969) conducts an equally extensive studies on the conditions that affect the capital market. Considering the demand side, he studies dependency of government and local functionaries and joint stock companies on the capital market. As well considering the supply side, he views the composition and volume of resources of financial institutions and their operations in the light of mobilizing saving, exploring the methods of improving the existing system and broading the base of the market. He also views the impact of abolition of managing agents goes in favour of industrial finance. P.S. Lokanathan (1969) dwells on a similar subject of problems and conditions in relation to industrial finance in India that remained unchanged in the time following the second world war. He views the year 1947 as a benchmark in the history of industrial finance in India.

The Dutta committee of 1969 focuses on institutional finance such as that rendered by IDBI, ICICI and IFCI in the form of term lending finance to industrial sectors. The committee views that it shoulders three fourth of the assistance. The Pande and Wanchoo Working Group set up by the planning commission in 1968-69 carried the objective of reducing industrial disparities in backward areas. It worked out criteria to identify backward areas and suggest fiscal and financial incentives to encourage industrial investment in backward areas. The group recognizes the efforts of IDBI to initiate sustained process of industrial development in backward areas through various measures like refinance at concessional rates of interest and liberalized bill discounting schemes.

An extensive study by L.C. Gupta (1969) views the growth of institutional finance with its changing structure with wide change in socio-political situations in India. Its chief concern remains financial arrangements for the corporate sector of private industry. It notes that size of the corporate enterprise exercises significant influence on the corporate accessibility to sources of finance. The present study seeks to explore this significant aspect. V.V. Bhatt's study (1970) recognizes that financial institutions have to play a positive role as regards to (a) identification of new projects (b) their selection in the light of the plan and (c) efficient management of industrial enterprises. It also recognizes that they have to provide entrepreneurial and managerial guidance to accelerate the growth rate.

Sethuraman's study (1970) inquires into working of various financial agencies set up to assist industries with special focus on state owned agencies. It suggests, in the light of past performance, the ways to implement the existing machinery. Saxena (1970), whereas, concentrates his study on development banks which carry out fundamentally financial approach and provide financial assistance to medium and large scale industries. Radheshyam Rungta in his study (1970) on "Trends in Corporate Financing in India 1851-1900" highlights the early historical background of company finance and share markets in India.

Some other economists like Sastry (1966), Krishna Raj & Mehta (1968) and Dadi (1970) join the band of Dutta, Ghose and

Ahuja to consider productivity, its trends in view of wage rate and relative share of workers in the manufacturing industry.

In this way, it is viewed that the studies conducted during the second phase value the role of financial intermediaries and financial institutions to pose a viable option to managing agents of pre-independence era. They view that they supply finance to affect effective replacement, modernization and expansion of existing industries. The capital market in India remains the second point of focus for them.

(c). 1971 to 1980: Institutional Finance Vs Productivity, Evaluating Performance:

The third decade since India's independence marks a time of awareness and wide reasoning on the performance of institutional finance in the interest of achieving total factor productivity; Hence, the total span of research conducted during this period may be put under three heads: (a) performance related studies (b) productivity related studies and (c) finance and its patterns.

Large number of economists of the time focused their attention on the performance of industrial finance as conducted through finance intermediaries and institutions, both government and non-government. The debate opens with Ex-Governor of RBI, Mr. Jaganathan who pointed out in 1971 a need for dynamic role of financial institutions in the context of the current phase of development. Then followed the studies by number of economists. They include P.N. Singh (1974), Krishnamurty & D.U. Sastry (1975), Maheshwari (1975), S. Kumara Sundaram (1976), Prasad (1976), Machiraju (1976), H.S. Pareek (1978), Goyal (1979), K.V.S. Menon (1979), Chitale (1980), M.Y. Khan (1980), Upadhyaya (1980) and the like. All of them attempt to analyze and evaluate the performance of financial institutions ranging from the RBI to IDBI and banks from varied perspectives on the issue of development. These perspectives include those like (a) the role played by them to cater to needs (Jaganathan, P.N. Singh, H.S. Pareek, Goyal, Chitate, Upadhyaya), (b) the pattern of distributing finance and investment decisions and their rationalization (Krishnamurty and D.U. Sastry, Maheshwari, S. Kumara Sundaram, Prasad, Machiraju, K.V.S. Menon and M.Y. Khan).

Productivity related studies, on the other hand, concerned issues such as labour productivity, capital productivity, investment priorities, preferences and patterns adopted by industries in sectors like private limited, public sector, agro-based company, cotton and jute industry, rolling mills and cottage industry including artisans. These studies were conducted through methods like ratio analysis (Chatterjee, 1973), comparative analysis of trends (Mukherjee, 1975). The economist who threw light on various aspects and problems related to productivity include Singh and Lakshminarayan (1975), Oommen (1975), Jani and Jaiswal (1975), Banerji (1975), V.V. Bhatt (1980).

The third area of industrial finance that earned attention from economists of the time was structure and pattern of finance. V.D. Lall (1971) and V.G. Kulkarni (1971) project, an overall study on various companies, private or major groups based on their annual reports, whereas V.V. Bhatt (1972) assess the policies and the policy instrument in view of the divergence between anticipated and actual outcome to form projections for next five years in relation to investment, output, export, import and gross return to capital. Bishwanath Golder (1975) examines the impact of technological progress on output. R.N. Lal's (1977) study attempts to measure the capital formation in relation to physical commodity flow and financial flow. E.S. Srinivas (1977) struggles to work out answer to three basic questions relating to financial structure and economic development such as: whether there occur any structural changes, quantitative and qualitative, whether they affect financial structure, assets, institutions and markets, and how to analyze and explain them. Inderjit Singh & Gupta (1977) present a micro study of small artisans in view of the pattern and problems of finance, while M.Y. Khan (1978) examines the role of new issues of capital in the financing of corporate enterprises. Chaudhari Sudip (1979) explores his research to analyze finance in view of the growth of transnational corporations in India to find out the relative distributions of foreign and domestic sources.

Besides, widely diverse researches by individuals, some committees also contributed to shape a definite view on industrial finance. They were the Tondon committee (1975) and the Chore committee (1979). They evaluated the bank credit to industries and concluded that it was in excess to their genuine productive needs. They furthermore suggested a scientific approach to evaluate short term credit needs. of the corporate sector.

In this way, the decade contributed significantly in shaping definite pattern of thinking to evolve methods of analysis and evaluation by which the performance of industrial finance may be evaluated in the light of total factor productivity. Further, it devised a way of assessing the role of institutional finance in affecting productivity on the pattern of equal and just distribution.

(d). 1980 to 1990: Institutional Finance: Reviewing the Role for Productivity and Social Commitment:

Once India set its viable option for industrial finance in term lending financial institutions operating on national and regional level, the question was to see whether these institutions rendered through its role efficacy in meeting the objectives of planned development with just and equal distribution of finance among regions, both developed and backward. It was required to see whether the concessional schemes and incentives offered to boost up industrial development in derived areas rendered results upto the expectations set in the policy. Hence, the studies conducted during this period first reviewed the role of financial institutions like IDBI, IFCI, ICICI and also state level institutions like GSFC and GIIC in Gujarat, APSFC in Andhra Pradesh, those in Punjab and Haryana and Assam Financial Corporation in the North Eastern regions. Those who presented a comprehensive study and indepth analysis on this aspect include Bhattacharya (1981), M.Y. Khan (1982), B.B. Tandon (1983), H. Sadhak (1986), Sikidar (1985), Sharma (1986), B.M. Jani (1986), Sen Gupta (1987), Bansal (1988) and T. Satyanarayan (1989).

Another area of interest for the economists of the time was the structure and pattern of industrial finance, its distribution strategy and its impact on productivity and overall growth in just and equal way. Attached to it, the economists were curious to assess whether the distribution remained just and logical to affect uniform growth in all regions of India, or whether it generated disparities in backward regions and sectors of production despite they were put on the category of government notified ones. This further resulted in the feeling of deprivation and distrust that industries in these areas and sectors suffer from. This fact acquired the attention of research studies by Programme Evaluation Organisation (1981) and by individuals like J.C. Sandesara (1982), Bishwanath Golder (1983), Goldsmith (1983), V.D. Lall (1983), Satya Sundaram (1984), Singh (1985), Panda and Sahu (1985), Kaveri (1985), Sadhak (1987), Samir Joshi (1987), Sahoo (1988), P.K. Jain (1988), Vashist and Kundy (1990).

All these studies showed curiosity about the issues such as stimulation and mobilization of capital market and whether its performance moved in the direction of achieving total factor productivity. They also exhibit special interest in assessing the impact of incentives, subsidies and concessional finance floated by the government as schemes for deprived regions and sectors of industrial production to see whether desired results were achieved. The picture that evolves through them is not a pleasing one. Through them, problems are highlighted, disparity is condemned and lack of uniform approach is regretted.

(e). 1991 to 1999: Industrial Finance: New Trends and Strategies, but Evaluation Continues:

Efforts to affect industrial finance in the right direction continue, despite weaknesses, inefficiencies, problems and hurdles. Efforts continue and will continue until the target of equal and just industrial development is achieved. Schemes and strategies that are tried out and found inapt are left behind. New strategies are conceived, devised and tried out in the direction of achieving planned goals. The period of 1991 to 1999 is remarkable in this respect. New concepts got evolved out of researches conducted during this time, although they continued following the line of institutional finance. Global trends continued to usher in the thinking of the day to evolve new shapes of industrial finance.

The studies conducted by economists like Dikshit (1996), Ansari (1998), Prakash Salvi (1999), Dangwal (1999) seek to analyze the role played by development banks, banks, government agencies and national and regional finance institutions in affecting finance for industrial development. Whereas economists like Rao and Venkeitramaiah (1991), Rant & Swain (1992), Samir Joshi (1995) and Ram Dawar (1996) seek to analyze trends in industrial finance operating through various schemes like credits by banks, concessional finance, incentives, subsidies, debt finance, hire purchase scheme and the like with specific attention to financial behaviour of industries in response to them.

There were other economists who focused on trends in productivity with specific reference to (a) its decline in sixties (Mathur, 1991), (b) growth revival during 1980s based on better productivity performance (Ahluwalia, 1991), (c) methodology and problems of estimating total factor productivity (Balakrishna and Pushpangaden, 1994; Ahluwalia, 1994; Dholakia B.H. & Dholakia R.H., 1994,) (d) the magnitude of return to scale and elasticity of labour productivity (M. Upender, 1996), (e) productivity as one of the important economic indicators (B.R. Chaudhuri, 1996), (f) productivity trends and statistical estimation of production function (Baghel & Pendse, 1996).

Along the line, the global trends continue to usher in the thinking pattern of Indian economists of the time. The reason was that the Indian economy came under the widespread influence of global trends like liberalization. The studies to explore this current include one by Golder (1993) who analyzes the problems encountered in indigenisation of foreign technology in India. Agarwal (1996), on the other hand, seeks to explain the concept of financial liberalization. Neogi and Ghosh (1998) seek to review the impact of liberalization on the performance of selected Indian industries with performance indicators like growth of value added, capital intensity, labour productivity and total factor productivity. They put forth their observations in the interface of inter-temporal changes in efficiency from 1989 to 1994.

From the above, it becomes quite clear that a synoptic view of the contributions made by literature studies in the specific area of our interest shows that most of the studies in the industrial finance sought to assess the role of managing agency, commercial banks and various financial institutions in providing purpose wise financial assistance to industries for rapid industrialization. However, they were too general, descriptive and very specific. Some studies were conducted to analyze and examine the changes in structure of industrial finance, term lending financial institutions, capital markets and industrial development. Whereas, some other studies tried to examine the role of development Banks in a planned economy and its successful participation in reducing regional disparities through the promotion of industrialization in backward states, in accordance with various policies adopted by the Government to reduce regional imbalances in India. Moreover, some studies attempted to evaluate the efficacy of development banks and to assess the impact of incentives, subsidies, concessional finance and institutional finance on the small scale industries, the notified backward districts and on the developing districts in India.

In the field of industrial productivity, a number of studies have been conducted to analyze the trends in labour and capital productivity of the manufacturing industries over a period of time and also to examine the relationship between the wages and productivity of labour and the rise in productivity with capital intensity and technical change. Some studies attempted to examine the problems of measuring the total factor productivity of Indian manufacturing industries over a period of time by using a single and double deflation methods. Further, some other studies tried to examine the variations in the levels of productivities through the concept of total productivity rather than partial factor productivity.

Despite of all the above mentioned studies on industrial finance and productivity, one may define industrial finance as the activity concerned not only with the raising of funds but with administering these funds as well. Hence, any conclusion would sound illogical when there are aspects or areas still neglected and unexplored. They pertain to the research on industrial finance. Therefore this study seeks to examine and analyze the industrial policy resolutions introduced by the government of India from time to time and sources of finance and changing structure of the industrial finance that operate with the changing pattern of industrial development or industrial structure in India. In its essence, this study addresses to a key question, as to what role the various five year plans and corresponding Industrial Policy Resolution of India have been playing to foster industrial growth. Thereby, this study also tries to evaluate the efficacy of industrial policy and plans which are implemented by the Government of India from time to time. In brief, the main thrust of this study is to explain and analyze the relationship between industrial finance and the industrial performance of the Indian industries.

❋ Objectives of the Study:

The process of industrialization has been confronted with several constraints. Besides other hindrances like lack of infrastructural facilities, geographical location, lack of global marketing and technological information, etc., the finance occupies paramount importance. In the Five Year Plans and corresponding industrial policy resolution announced from time to time by the government of India, the growth of industries in each part of the country has been clearly spelt out. It goes in consistence with strategy appropriate measures and specific policy instruments which were indicated in the plans and policies. Consequently, industrial financing became a major issue or prime factor for industrial development at the micro and macro levels. The proposed study, therefore aims to work with broad objectives such as:

(I) To examine the efficacy of the Five Year Plans and corresponding industrial policy resolution statements introduced from time to time in the light of industrial development of the nation.

(II) To explore the sources of finance on one hand and to analyze the changing structure of the industrial finance with the passage of time and with the changing global scenario of the business world.

(III) To study the performance of industries in terms of various selected parameters.

❋ Scope of the Study:

The present study has basic concern with term lending financial institutions such as IFCI, IDBI, SIDBI, ICICI, IIBI, SFCs and SIDCs. It does not consider other sources of finance such as Managing Agency System, Commercial Bank, Industrial Securities Market, Insurance (LIC & GIC) and Investment Trust (UTI) and other financial intermediaries of India (Merchant Banks, Mutual Funds, Leasing Companies i.e. non-banking finance companies and venture capital companies) etc. Therefore, in the present study, the term, "lending financial institution" has been viewed in a very restrictive reference in the interest of making the study worth of value. Further more, it may be noted that this study covers only the term lending (medium and long-term lending) financing of small, medium and large scale organized manufacturing industries at the aggregate level. It does not consider the unorganized manufacturing industry and the financing of public sector enterprises for its purpose.

❋ Methodology:

The study dwells, for its purpose and analysis primarily on the data published by IDBI and CSO. Most of the relevant data have been collected from various sources such as, 1. "Report on Development Banking in India" published by IDBI, and 2. "Annual Survey of Industries Summary Results for Factory Sector" published by CSO. It takes data also from the various issues of "Economic Survey". Thus, a good deal of the data, on which this study relies, has been derived from reliable secondary sources.

The study also utilizes continuous time series data from 1979 to 1994 and also the cross section data of different years falling between 1979-80 and 1993-94. The years selected for comparative analysis are 1979-80, 1981-82, 1985-86, 1989-90, 1991-92 and 1993-94 for the simple reason that they mark the opening and closing year of the Fifth, Sixth and Seventh Five Year Plans for all practical purposes. The year of 1991-92 is selected, to observe the impact of new industrial policy of 1991 on the industrial growth and development. Further, because the data of Annual Survey of Industries (ASI) Summary Results for the factory sector are available upto 1993-94, the year is considered for the comparative analysis. Accordingly, the data on Industrial finance disbursed are taken from the Reports on the Development Banking in India Published by the IDBI.

The study seeks to probe into the area of growth pattern of industrial development through the various selected indicators or parameters. These indicators are number of factories, productive capital, total employees, total emoluments, net value added, profits, outstanding loans, value of output, total inputs and net capital formation. The study seeks to examine the performance of the various industries in terms of ratio analysis such as Labour Productivity (NVA/L), Capital Productivity (NVA/K), Capital Intensity (K/L), profitability, Debt Capital Ratio and Wages per worker. Accordingly, it tries to observe or examine the relationship at the aggregate level, between the industrial finance and performance of Indian industries (Performance of industries in terms of net value added over a period of time). For this study, relevant data are available to carry out the secondary survey.

This study covers a period of fifteen years from 1979-80 to 1993-94. The time span is determined on the ground of the availability of data for different variables used in this study. The fact is that the data of various issues of "Report on Development Banking in India" published by IDBI are available from 1979 onwards and the various issues of "Annual Survey of Industries (ASI) Summary Results for Factory Sector" are available upto 1994.

Further, the reason for limiting time span of study lies in the fact that in the context of economic planning, industrialization takes effect from 1956 onwards. So to provide term finance to industry, the major term lending financial institutions came into existence between 1948 to 1974, so naturally their impact lag on industrial development after its establishment and actual performance for quite some time, for atleast five years minimum.

Further, to make inference more clear and plausible statistical tools like trend analysis, ratio analysis, Regression analysis, co-efficient of co-relation and testing of hypothesis, etc. have been worked out for the period from 1979-80 to 1993-94.

Further it is to clarify that as far as the industrial sector is concerned, central statistical organization (CSO) brings out detailed industrywise and statewise information regarding major development indicators of the industries in the Annual Survey of Industries (ASI) Summary results for factory sector. The information for both the sectors is collected at the two-digit level. However, the limitation is that, the ASI summary results for factory sector do not provide information regarding industrial finance or assistance provided by term lending financial institutions to manufacturing industries from time to time. Therefore, in order to examine the cause and effect relationship between the industrial finance and the industrial performance (in terms of net value added) of the Indian manufacturing industries at the aggregate level, the availability of data on industrial finance or assistance to industries is essential.

IDBI brings out detailed industrywise and statewise data information regarding industrial finance or assistance in the Report on Development Banking in the India from various issues. Except IDBI and CSO there is no other source available from where data on industrial finance may be derived. Further, there is an absence of appropriate relationship or pertinent information regarding industrial finance or assistance to industries from the sources of finance and industrial development analysis. Hence, the relationship between industrial finance and industrial performance may be established and evaluated for the time span specified on the ground the framework that can be worked out on the basis of the data available.

❋ Scheme of the Study:

The study is conducted in three parts and presented in the scheme of chapterisation as detailed below:

Part I: INDUSTRIAL POLICY, PLAN AND DEVELOPMENT

Chapter – I reviews the evolution of industrial development in India since 1951, the setting up of the planning commission by the Government of India. For the purpose of meaningful review the period since 1951 has been divided in to four sub periods:

(1) High growth period: 1951-1965

(2) Low growth period: 1965-1981

(3) Industrial Recovery period: 1981-91

(4) Reform and Post Reform period: 1991 onwards

It examines the strategy of industrial evolution under various five year plans and the corresponding industrial policy resolutions.

Chapter – II evaluates the efficacy of industrial policy on industrial development with respect to strategies of industrial development of the nation. It further review (a) whether the policy succeeds in preventing concentration of corporate power in a few hands and (b) whether it reduces regional industrial disparities in pursuance of plan priorities. In order to evolve a better understanding of growth pattern of Indian industry and regional industrial disparities, the efficacies have been reviewed for the period under consideration. However, the data analysis focuses specifically on the industrial growth pattern during the period 1979-80 to 1993-94.

Part-II INDUSTRIAL FINANCE: SOURCES AND STRUCTURAL COMPOSITION.

Chapter – III explores the sources of finance and their structural composition. Correspondingly it also analyses the changing structure of the industrial finance with special reference to Institutional Finance. The study considers for its purpose the structural changes of industrial finance in view of the changing global scenario of business during the pre and post independence period.

Chapter – IV outlines a fresh look on sources of industrial finance in the context of recent structural changes in the area of venture capital technology finance and infrastructure finance. It also outlines financial sectoral reforms implemented by the government of India in a phased manner since 1991.

Part III INDUSTRIAL FINANCE: PERFORMANCE EVALUATION

Chapter – V presents an inquiry into an overall growth pattern and performance of Indian industry in the light of policy resolutions and the plan priorities. The inquiry is conducted industrywise and statewise using various indicators and ratios.

Chapter – VI evaluates the same phenomenon of overall industrial growth pattern in the light of industrial finance as bottleneck. On tne ground of the review, inquiries and evaluation under taken on the basis of the data-analysis, it further seeks to establish the relationship between the industrial finance and the industrial performance through various statistical techniques.

Part-I

INDUSTRIAL POLICY, PLAN AND DEVELOPMENT

Chapter-1

POLICY RESOLUTIONS, PLANNING AND STRATEGY

1 1 Industrial Development Strategy: The Pre-Independence Scenario.

1 2 Industrial Development Strategy: The Post-Independence Scenario.

1 2 1 Basic Framework of Industrial Policy

1 2.1.1 Industrial Policy Resolution of 1948

1 2.1.2 Industrial Policy Resolution of 1956

1.2.1.3 Some Amendments or Modification in the IPR of 1956.

1.2 1.3.1 IPR of 1973

1.2.1.3 2 IPR of 1977

1.2.1 3 3 IPR of 1980

1.2.1 3.4 IPR of 1991

1.2.1.3.5. Several Economic Instruments of Industrial Policy.

1.2.2 Analysis of the All IPRs & Related Policies in View of the Five Year Plan's Priorities.

1.2.2.1 Priorities of First Five Year Plan.

1.2.2.2 Priorities of Second Five Year Plan.

1.2 2.3 Priorities of Third Five Year Plan.

1.2 2.4 Priorities of Fourth Five Year Plan.

1.2 2.5 Priorities of Fifth Five Year Plan.

1 2.2.6 Priorities of Sixth Five Year Plan.

1 2.2 7 Priorities of Seventh Five Year Plan.

1 2.2.8 Priorities of Eighth & Ninth Five Year Plans. .

Conclusion