CHAPTER - 2

PUBLIC ENTERPRISES AND FINANCIAL INSTITUTIONS : ROLE IN INDUSTRIALIZATION OF BACKWARD REGIONS

INTRODUCTION :

One of the major planks of our economic policy as enunciated in different Five Year Plans and the corresponding Industrial Policy Resolutions had been the industrialization in industrially backward regions and thereby to correct the imbalance prevailing among different regions of the country. For this purpose government has introduced a policy of industrial dispersal. The main thrust of the policy is to encourage industrial dispersal to new centres in industrially backward regions away from the existing centres. The philosophy of the government policy is to rely on direct investment in less developed regions and thereby to improve employment opportunities and purchasing power.

In order to facilitate the policy of industrial dispersal the government has used variety of instruments like location of public enterprises, industrial licensing, special schemes like concessional finance, investment subsidy, transport-subsidy, sales tax concessions, infrastructural development, etc.,Since Central Public Enterprises represent the most powerful instrument in the hands of the Central government, this chapter proposes to study its efficacy and direction. Secondly this chapter also seeks to examine the extent to which All India Financial Institutions have been successful in reducing regional disparities through promotion of industrialization in backward states.

I PUBLIC ENTERPRISES

PUBLIC ENTERPRISES : INDIAN EXPERIENCE

On the eve of independence, India had a population of 370 million consisting of mostly illiterate mass. The agricultural and industrial sectors were in primitive stages of development and the per capita income was estimated at Rs. 200. At this stage it is the public enterprise which has to lay the foundation upon which the structure of a dynamic and diversified economy is to be erected. Before the commencement of planning in India, the public sector activities were confined to sectors like railways, ports, communications, broadcasting, irrigation and power and a few other departmental and industrial undertakings. Since the commencement of Five Year Plan and the declaration of Industrial Policy Resolutions, Public Sector has covered a vast and varied range of activities. It now occupies a dominant position in the basic industries and capital goods industries. Not only that it plays a vital role in the development of industrially lagging regions suffering from the inheritance constraints. The investment in public enterprises has grown appreciably over the years. From a meagre investment of Rs 29 crores in just five enterprises as on March 31, 1951, the investment amounted to Rs 2140 crores in 73 enterprises at the end of the Third Five Year Plan, to Rs 18150 crores in 179 enterprises at the commencement of the Sixth Five Year Plan and to Rs 99,315 crores in 244 enterprises at the end of the Seventh Plan (i.e. as on 31-3-1990).

Such a rapid expansion in public sector has not occured all of a sudden in an accidental manner. It has been supported by a definite long term social and economic philosophy spelt out in various policy resolutions and different Five Year Plan documents. Under free market economy, there is an invisible control exercised by the market forces of demand and supply. However, it is found that this invisible control if left to itself, cannot serve the social interest unless it is supplemented by the visible control exercised by the state. Therefore, the visible control exercised by the state in the form of public sector enterprises is inevitable to remove defects of the free enterprises economy.

ROLE IN INDUSTRIALIZATION OF BACKWARD REGIONS :

Industrial backwardness is altogether a different category which has nothing to do with environmental constraints. It is largely a matter of history and cannot be straightaway linked with an index of local potential or human endeavour. A variety of instruments have been used to translate the programmes for industrial dispersal into action through the Five Year Plans and corresponding Industrial Policy Resolutions.

The real approach in the direction of promotion of industrial development in the backward regions started from the Third Five Year Plan. The Third Plan emphasised two major points:

(a) Importance of location decisions in the public sector and

(b) Licensing policy as instrument for promotion of industrial dispersal.

The Third Plan also put forward the concept of large projects as nuclei for regional growth.

The broad conclusions that emerges is that the government has always envinced an interest in encouraging industrialization in backward areas through directing public sector enterprises in industrially backward areas.

The National Committee on Development of Backward Areas, set up by the Planning Commission, states in its various reports that the task of raising pillars of economic infrastructure in the country has been entrusted to the public sector for the reason of its greater reliability, very large investment required and the longer gestation period of the projects crucial for economic development. Further, it adds that public sector enterprises being the pace setters have come forward to assume a special role in bringing about progressive reduction in regional inequalities and promoting balanced growth. It is, therefore, one of the aims of the national planning to ensure that facilities like power, water supply and transport are steadily made available to areas which are at present industrially lagging, or where there is greater need of providing opportunities of employment, provided that the location is otherwise suitable.

The states in which the public sector enterprises are located by the Union government are the direct beneficiaries with manifold gain in terms of removal of regional imbalances, expansion of employment opportunities, balanced growth of small scale and ancillary industries, resources mobilization, development of infrastructural facilities, etc., Any study of the benefits to the economy flowing from such public sector enterprises remains incomplete until these benefits to the state economy are not taken into account.

Industrialization plays an important role in minimising regional imbalance and in reviving industrial growth to lead the economy to the take-off stage. In order to remove regional inequalities and to encourage balanced regional industrial growth of different states, the government has been deliberately directing the investments to relatively underdeveloped and economically backward areas and locating manufacturing units of the public sector enterprises on a selective basis.

Expansion of employment opportunities in the backward areas is another dimension of the balanced regional development through setting up of public enterprises.

Tables 2.1, 2.2 and 2.3 need to be considered to examine whether the establishment of central public enterprises has resulted in correction of regional disparity in industrial development.

From these data one can conclude that the states which have been on the top in terms of gross investment have remained on the top with respect to employment generation till 1990. For instance, till 1990 Bihar, Madhya Pradesh, West Bengal, Maharashtra, Karnataka, Uttar Pradesh, Gujarat, Tamil Nadu and Andhra Pradesh have dominated both investment and employment opportunities offered under the public sector projects. However, many of these states like Maharashtra, West Bengal, Tamil Nadu, Gujarat and Karnataka are by tradition industrially developed states. Hence, it reveals that even in the location of central public enterprises, traditionally industrially developed states enjoy prominance. Further a close look at the Table : 2.1 is convincing enough to accept the above conclusion because during 1974-75 Maharashtra ranked nineth in terms of Gross Investment but during and after 1985 it occupied the top position. While industrially backward states like Orissa which ranked fourth during 1974-75 in terms of Gross Investment it occupied seventh position during and after 1988. States like Andhra Pradesh and Uttar Pradesh have exhibited improving trend in terms of Gross Investment during the period of analysis. Punjab, Haryana, Rajashtan, Kerala, Himachal Pradesh and Jammu and Kashmir, all of them together, hardly claim 5%

share in terms of both, Gross Investment and Employment generation. From the analysis based on the Table : 2.1 and 2.2 it is important to note that the central public sector enterprises have played an important role in the industrial development of Bihar, which is the most industrially backward state, as in terms of both Gross Investment and employment generation and as a result it dominated the top position till the end of the Seventh Five Year Plan.

The another fact emerging from the above analysis is that even in the states which are fairly well developed, there are pockets and areas which have not been able to keep pace with the progress achieved elsewhere in the state. But on the whole the government of India should concentrate the resources preferably in the development of industrially lagging states. Thereafter priority should be given to the development of the underdeveloped pockets of developed regions. This is because trickling down effects of other well-developed neighbouring areas are at least available to these underdeveloped pockets of the developed states; whereas backward areas in underdeveloped states do not get such advantage.

From the table 2.4 it is inferred that industrially developed states command less share in terms of employment and gross investment. But this is illusory because only eight states are included in the list of industrially developed states while about twenty other states and Union Territories are included in the category of the backward states. Further, the striking fact is that the share of industrially developed states (i.e. Gujarat, Haryana, Maharashtra, Punjab, Tamil Nadu, West Bengal and Delhi) has been rising abundantly in terms of Gross Investment, where as the share of industrially backward states and Union Territories has remained almost stable. For instance, in 1980 the share in terms of Gross Investment of the industrially developed states which stood at 35.1% increased to 41.86% in 1990, while in case of backward states it was 51.7% in 1986 and 52.22% in 1990. Almost similar trend is observed in terms of employment generated by the Central Public enterprises. For instance, the share of the industrially developed states in terms of employment which was 43.9% in 1986 mounted to 46.42% in 1990; whereas the share of industrially backward states and Union Territories was 51.9% in 1980 which remained little higher i.e. at 52.02 % in 1990.

This analysis strongly favours our conclusion drawn on the basis of the Table : 2.1 and 2.2 that in the location of central public sector enterprises, industrially developed states have been favoured by the government to which Bihar is an exception.

Further in order to make analysis more plausible Rank Correlation (Rank (r)) between gross investment and employment has been worked out for four years in the following table : 2.5.

Table : 2.5 Rank Correlation (Rank (r)) between share of Gross Investment and share of employment :

Year	Rank (r)
1980	0.9167
1985-86	0.8922
1988-89	0.7843
1989-90	0.8750

This table 2.5 reveals that gross investment and employment are positively and significantly related contineously during the years 1980, 1985-86, 1988-89 and 1989-90. This implies that investment and employment are not contradictory criteria.

In case of capital per worker (i.e. Capital Intensity) (Table : 2.6) Andhra Pradesh, Assam, Gujarat, Haryana, Himachal Pradesh, Kerala, Maharashtra, Orissa, Tamil Nadu and Uttar Pradesh were above the All-India average during the years taken for analysis. States like Bihar, Karnataka and West Bengal were below the All-India average for the same years. Further Punjab was on top of the list during 1979-80 and thence stooped below the All-India average till the year 1990. Similarly, Rajashtan and Madhya Pradesh also remained above the All-India average during 1979-80 and thence they failed to maintain this level and regressed below the All-India average till 1990. The capital per worker was very less in Jammu and Kashmir. It remained well below the All-India average till the commencement of the Seventh Five Year Plan and after it its position started improving. This is reflected from its status above the All-India average during 1988-89 and 1989-90. Not only that it also remained on the top of the list in terms of capital intensity during 1989-90. This analysis reveals following facts :

1. States like Gujarat, Maharashtra, Tamil Nadu and Haryana are industrially affluent states enjoying location of high capital intensive central public sector enterprises. Whereas industrially lagging states like Rajasthan and Madhya Pradesh have been unable to take advantage of the location policy after 1979-80. However, industrially backward states like Assam and Orissa have been favoured by the government for the location of the public sector enterprises for the simple reason that they have rich resources.

2. Analogous to the above, Bihar continues to account for the highest number of employees in the central public enterprises mainly because of the collieries, steel plants and other mineral based projects. These are not only capital intensive but also have a high potential for employment. This is also because of its richness in terms of the natural resources.

3. This implies that the government of India has failed to maintain consistency so far as input proportions are concerned.

4. This equally implies that the central government has failed to demagnetize the position of the industrially developed states even in case of policy of location of central public enterprises and resource redistribution scheme.

However, the nature of investment in public sector enterprises is such that a precise measurement of the total benefit derived by state economies is very difficult. The bulk of the investment in the public sector enterprises is concentrated in the infrastructure and basic industries where multiplier effects are more significant than their direct contribution through the linkage effect. Though there is no accurate estimate as regards indirect employment generated by the central government investments it can be assumed that each person employed directly by these companies may generate employment for five other persons providing them livelihood indirectly. But it is dubious that the ripple effect of substantial investments in backward districts in the past, in many cases had not been adequate mainly because such investments did not have effective linkages with local resources. The government, therefore, proposes to encourage investment by public and private sectors which will meet these criteria and would also promote a network of spread out ancillaries.

on the whole it is quite clear that the government also has acted like private entrepreneur so far as the location of public sector enterprises is concerned. For instance, in Bihar inflow of capital is the highest because Bihar is much richer in the natural resources like minerals, steels etc. while in other cases, industrially developed states like Maharashtra, West-Bengal, Tamil Nadu and Gujarat are in commanding position. Thus no evidence is available to contradict the hypothesis that the decision regarding the location of central public enterprises is based either on the availability of natural resources in the states or investment decisions regard to public enterprises are political in nature rather than being based on considerations of regional balance and equity which are not political in nature as well as which are planned goals.

II CONCESSIONAL FINANCE :

INTRODUCTION

Removal of regional imbalances by industrialization in industrially backward areas has been one of the cardinal aims of the government policy makers and planners. In this process, industrial finance has to play a crucial role. The first recognization of a definite link between economic development and financial institutions is given by Schumpeter, who states, "capital is nothing but the lever by which the entrepreneur subjects to his control the concrete goods which he needs, nothing but a means of diverting the factors of production to new uses, or of dictating a new direction to producer" (1). A few attempts have been made by researchers to prove that financial institutions do play a positive role to reduce regional disparities in industrial development. Bhattacharya (1981) in his study concentrates only on the Industrial Development Bank of India (IDBI). He analyses objectives of IDBI, its claims and achievements with regards to the development of industries in the backward regions (2). Tandon (1983) analyses the role of All-India term lending financial institutions including IDBI, IFCI and ICICI in fostering industrial development in backward regions. He observes wide disparity in the flow of assistance to backward areas (3). Sharma (1986) seeks to evaluate the role of the financial institutions such as IDBI, IFCI, ICICI and State level agencies like SFCs and SIDCs in the light of the objectives of regional industrial development. This study analyses at the micro level the flow of assistance of IDBI to a few districts of Andhra Pradesh (4). A study by Malhotra (1991) reviews regional development policies and evaluates the performance of various development banks in industrial promotion in the backward areas of Haryana (5).

Therefore, this section of the chapter deals in greater detail, with the efficacy of the All - India Financial Institutions to achieve the broad national objective of correction of regional disparities in the industrial development. So far, following concessions and incentives are offered by the Central and the State Governments under the Five Year Plans to improve and expand the level of industrialization in the industrially lagging regions :

(A) Central Government Incentives :

(i) Investment subsidy

(ii) Concessional Finance Scheme and

(iii) Transport subsidy scheme

(B) State Government Incentives :

(i) Investment subsidy

(ii) Sales-Tax concessions

(iii) Octroi concessions

(iv) Power Tariff concessions

(v) Subsidy on Water Supply and

(vi) Subsidy on Land Shed

The core aspect of this study is to analyse the concessional finance scheme in greater detail. Other incentives are not within the purview of this study, hence not considered for the analysis.

GENESIS OF CONCESSIONAL FINANCE SCHEME :

Till 1969, the need to promote industrial development in backward areas was always recognised but never pursued seriously. Further policy instruments and planning provisions designed for this purpose were not systematically institutionalized till then. This evinced half-hearted and timid efforts on the part of government. It was for the first time that the government made a modest initiative under the auspices of National Development Council. The matter was discussed at the Development Council held on September 13, 1968. It was decided that two working groups should be organised to find out the solution. In pursuance of this decision Planning Commission ultimately incepted two Working Groups :

[I] PANDE WORKING GROUP :

The issue within the purview of this group was the identification of industrially backward States and Union Territories on the basis of following criteria :

(1) Total per capita income,

(2) Per capita income from industry and mining,

(3) Number of workers in registered factories,

(4) Per capita annual consumption of electricity,

(5) Length of surfaced roads in relation to :

(a) Population and (b) the area of the State,

(6) Railway Mileage in relation to :

(a) Population and (b) the area of the State.

On the basis of the above mentioned criteria, the Pande Working Group recommended that the following industrially backward States and Union Territories should be considered for special incentives to develop themselves industrially :

1. Andhra Pradesh 2. Assam 3. Bihar 4. Jammu & Kashmir 5. Madhya Pradesh 6. Nagaland 7. Sikkim 8. Rajasthan and 9. Uttar Pradesh.

Union Territories : All other territories except Chandigarh, Delhi and Pondichery.

Subsequently Meghalaya, Himachal Pradesh and Union Territory of Pondichery were added to the list.

The Pande Working Group has also recommended following criteria or indicators of backwardness for identification of backward districts in backward State/Union Territoriess:

(a) Districts should be outside a radius of about 50 miles from larger cities and large industrial projects :

(b) Poverty of the people as indicated by low per capita income starting from the lowest to 25 percent below the state average;

(c) High density of population in relation to utilization of productive resources and employment opportunities as indicated by :

(i) Low percentage of population engaged in secondary and tertiary activities (25 percent below the state average may be considered as backward);

(ii) Low percentage of factory employment (25 percent below the state average may be considered as backward);

(iii) Non - and / or under-utilization of economic and natural resources like minerals, forests etc.;

(iv) adequate availability of electric power or likelihood of its availability within a year or two;

(v) availability of transport and communication facilities or likelihood of their availablity within a year or two, and

(vi) adequate availability of water or likelihood of its availability within a year or two

The Pande Working Group suggested very careful application of these criteria It is of the opinion that each industrially backward State or Union Territory may be required to furnish the data of three to six such districts in view of the criteria recommended for identification of backward district. According to this during the Fourth Plan some 20 to 30 districts were finally selected for grant of special incentives.

II. Wanchoo Working Group :

This group has recommended following fiscal incentives :

1. Grant of higher development rebate to industries located in backward areas;
2. Grant of exemption from income tax, including corporate tax, or 5 years after providing the development rebate;
3. Exemption from import duties on plant and machinery, components etc., imported by units set up in backward areas;
4. Exemption from excise duties for a period of 5 years.
5. Exemption from sales tax, both on raw materials and finished products to units set up in specifid backward areas for a period of 5 years, from the date of their going into production; and
6. Transport subsidy upto the distance of 400 miles should be considered normal and if beyond it the transportation cost for finished products should be subsidized for such backward areas which may be selected in Assam, Nagaland, Manipur, Tripura, NEFA, and Andamans. The transport subsidy should be equivalent to 50% of the cost of transportation in the case of backward areas in Jammu and Kashmir State.

Both the Pande Working Group and the Wanchoo Working Group submitted their reports in February 1969 and in April 1969 respectively. The above mentioned recommendations of the Pande and the Wanchoo Working Groups were considered in a meeting of the National Development Council scheduled in september 1969. The main decisions taken by the Council were inter-alia :

(1) Concessions to be offered by financial and credit institutions for financing industries in backward areas should be available to selected backward areas in all the States and Union Territories ;

(2) The criteria to be adopted for selection of industrially backward districts in the States and Union Territories may be settled by the Planning Commission in consultation with the financial institutions and the State governments in the light of the two sets of criteria recommended by the Working Groups on identification of the backward areas. Accordingly, Planning Commission held deliberations with Reserve Bank of India and other financial institutions like IDBI, IFCI, ICICI etc. for evolving a set of criteria for the purpose. In pursuance of this, Planning Commission subsequently gave guidelines, on the basis of the criteria given below, for the purpose of identifying districts which are to be considered industrially backward districts, and yet possess the minimum infrastructural facilities for industrial development.

These criteria were ·

(i) Per capita food-grains / Commercial crop production depending on whether the districts is pre-dominantly a producer of food-grains / cash crops (for inter-district comparison it was always necessary that conversion rates between foodgrains and commercial crops may be determined by the state government).

(ii) Ratio of population to agricultural workers.

(iii) Per capita industrial output (gross).

(iv) Number of employees in industries per lakh of population or alternatively number of persons engaged in secondary and tertiary activities per lakh of population.

(v) Per capita consumption of electricity.

(iv) Length of surfaced roads or railway mileage in relation to population.

It was also indicated that only those districts with indices well below the state average may be selected for suitable incentives from the financial institutions. The proposals along with the statistical data furnished by the States and Union Territories in respect of criteria adopted by them were considered from time to time in inter ministerial meetings held in the Planning Commission along with the representatives of Ministry of Industry and Department of Banking, and Ministry of Finance.

On this basis, so far more than 250 District have been selected as industrially backward to qualify for concessional finance facilities from All-India Term Lending Institution. However, while in most states all districts with indices below the state average were selected to qualify for concessional finance facilities, in a few states like, Assam, Himachal Pradesh, Jammu and Kashmir, West Bengal, Madhya Pradesh even some districts above the state average have also been selected as special cases for concessional finance facilities.

POLICIES AND PROGRAMMES OF ALL-INDIA FINANCIAL INSTITUTIONS :

Since independence, the industrial finance system has been institutionalized with more or less of permanent nature. The recommendations submitted by the Pande Working Group and the Wanchoo Working Group were considered by the Government of India, and thenceforth the guidelines were issued to the All-India Financial Institutions. Therefore, State level financial agencies like SIICs, SIDCs, SFCs etc. are excluded from the study.

During 1969-70, the IDBI, an apex Financial Institution, made a modest beginning in undertaking the departmental and promotional functions assigned to it under the statute and in line with the emphasis of the government on developing backward regions and encouraging small and new entrepreneurs. As the first step the IDBI initiated regional surveys in collaboration with RBI, IFCI and ICICI to identify industrial potential of the backward areas and also to assess the infrastructural facilities, supply of raw materials and market prospects which would be advantageous for development of industries located in such regions.

All India Financial Institutions announce their decision to extend assistance on concessional terms for setting up projects in less developed areas. Assistance is provided under the schemes of : 1. Direct Assistance and 2. Refinance to Industrial units in backward district/areas in various States specified by the Planning Commission for this purpose.

Projects in backward district/areas which would receive grant/subsidy from the Union Government would be eligible for the IDBI's concessions.

CONCESSIONS OFFERED UNDER VARIOUS SCHEMES :

1. Direct loans to industrial units in backward areas are disbursed at concessional rates of interest which would be two percent higher than the prevailing bank rate with a minimum of seven percent instead of the present normal rate of eight percent.
2. Extension of the initial grace period for repayment of loans from the normal period of three years to five years. Loan repayment period of 15-20 years and reduction in the commitment charges on the urban balance of loan.
3. In underwritting shares and debentures, the Institutions would charge a lower underwritting commission and may, in addition, subscribe relatively heavily to the share capital of projects in backward areas.
4. IDBI may also be prepared to bear initially the cost of consultancy services to prepare feasibility reports, subject to its reimbersement later when the projects reaches the stage of profitability. The commissions under the scheme would be generally available for projects where the total cost of projects does not exceed Rs.One Crore. The concessional finance for bigger projects would be on a selective basis.

5. In the sphere of refinance, the IDBI offers concessions and incentives to SFCs and banks to enable them to provide assistance to entrepreneurs in backward areas on softer terms.

6. During 1976-77, IDBI along with other term-lending institutions decided to provide direct concessional loan assistance upto Rs.2 crores for purpose and/ or installation of captive power generation/distribution systems to projects in the Northern Eastern Region and other areas in Himalayan Regions over and above the existing loan limit of Rs.2 crores and underwriting limit of Rs.1 crores for concessional assistance to projects in backward areas

RECENT POLICY DEVELOPMENT (i.e. Development after 1980) **:**

In order to spread the fruits of industrialization evenly and to encourage industrial growth in No Industry Districts (NID), the IDBI, the IFCI and the ICICI have devised a special package of incentives to accelerate the growth impulse in these areas. The package includes :

(a) Higher amount of assistance at concessional rate of interest up to certain limits;

(b) Interest-free assistance for development project - specific infrastructure : However such interest-free loans are limited to 20% of the project cost for development of project specific infrastructure,

(c) Relaxation in norms for debt-equity and promoters' contribution, that is higher debt-equity ratio and lower promoters' contribution : Thereby entrepreneurs are encouraged to borrow from institutions rather than to look for equity funds as a source of financing their business;

(d) Besides, the IDBI has decided to provide assistance to state-level institution for development of area-specific infrastructure.

(e) The IDBI has also initiated industrial potential surveys in selected "No Industry District" for identifying industrial opportunities preparation of detailed project profiles and identification of entrepreneurs in order to take up projects in these areas.

ESTABLISHMENT OF THE SIDBI :

Promotion and sustenance of small scale industries continued to be the central plank of the macro-economic reforms of the Government of India introduced after 1988. This was evident from the initiative taken by the IDBI in setting up the Small Industries Development Bank of India (SIDBI). The SIDBI commenced operations on April 2, 1990 - taking over the operation of the IDBI in respect of the small sector. It was setup as a wholly-owned subsidiary of the IDBI. It is the principal financial institution for promotion, financing and development of industry in the small, tiny and cottage sectors. Further, it has to coordinate the functions of other institutions engaged in similar activities.

The SIDBI operate various schemes of assistance comprising (1) refinance of term loans granted by SFCs/SIDCs/Banks and other eligible financial institutions, (2) discounting and rediscounting of bill (i.e. Bill Finance) arising out of the sale of machinery/capital equipment/components by manufacturers in the small scale sector It also provides equity type support to specific groups viz. women entrepreneurs, ex-servicemen, etc.

The SIDBI introduced two new schemes during 1992-93; (1) equipment finance scheme for providing direct finance to existing well-run small scale units taking up technology upgradation/modernization and (2) refinance for resettlement of voluntarily retired workers of NTC units.

During 1992-93, the SIDBI set up a venture capital fund exclusively for small scale units, with an initial corpus of Rs.10 crore.

During 1993-94 the SIDBI has approached a number of state governments in formulating a rural industrialization programme for different regions. As a part of its promotional and developmental role, the bank would function as a consultant in erecting the project and running it during the initial phase. At a later stage, it would also cater to needy units marketing assistance and refinance facilities. The States in the eastern region which the SIDBI has approached are Bihar, Orissa and Assam.

In order to examine the efficacy of these measures, the tables 2-7 (A) and 2-7 (b) need to be considered These tables reveal following analytical facts ·

From 1969-70 to 1979-80 the industrially affluent states like Maharashtra, Gujarat, Tamil Nadu and West Bengal as well as except in 1969-70, Karnataka remained at the top position securing around 60% to 70% of loans sanctioned and disbursed by the All-India Financial Institutions. On the other hand, States like Assam, Himachal Pradesh, Jammu and Kashmir, Bihar, Haryana, Orissa etc. remained at the bottom with less than 15% borrowings, i.e. sanctions as well as disbursements from the All-India Financial Institutions. Except Haryana other states are traditionally industrially backward. The scheme to finance industrially backward states at a concessional rate was introduced in 1969. From a glance at the data of tables 2 7 (A) and 2 7 (B), it can be concluded that even a decade after the implementation of concessional finance scheme, industrially developed states were enjoying a dominating position, where as states declared as industrially backward by the Planning Commission of the Government of India, were unable to control higher share of concessional finance.

After 1981, the situation has changed to some extent. States like Madhya Pradesh, Uttar Pradesh and Andhra Pradesh started commanding more financial sanctions and disbursements from the All-India Financial Institutions from 1985. Further, all of them also diverted higher flow of finance for their backward areas. However, industrially, affluent states like Gujarat and Maharashtra continued enjoying higher levels of sanctions and disbursements of finance from the All-India Financial Institutions even after 1985 Further, industrially poor states like Assam, Orissa, Jammu and Kashmir, Himachal Pradesh, Bihar etc. have continued remaining at the bottom of list and all of them together shared hardly 10% to 15% of the total sanctions as well as disbursements made by the All-India Financial Institutions.

The status of rest of the states including Rajasthan and Punjab has remained almost the same after 1974-75. The industrially developed states like Tamil Nadu has enjoyed higher flow of finance even after 1985-86 notwithstanding in terms of finance - total and not finance given to the backward area of the state. The position of Kerala has started degraded since 1980 and no further improvement has been noted till 1991. Similarly, industrially developed states like West Bengal has the share in terms of industrial finance which has been falling since 1980 till 1991.

In brief, from the above analysis one can conclude that industrially backward states are unable to taste the fruits of economic development in the form of higher industrialization which were achieved elsewhere. It also implies that the policy of Economic Libralization, which was introduced after the Narsimham Committee Report in 1985 has acted contrary to the National goal of regional balance and equity. This reflects that inspite of stated objectives and policies the All-India Financial Institutions could not divert the financial resources from traditionally developed states to the states which are industrially lagging behind.

Thus there is no evidence to contradict the hypothesis that industrial finance from the government financial institutions like the private sector financial resources have also followed the market forces of commercial viability and profitability rather than being based on planned goals of regional balance and equity which are anti-market considerations.

Further in order to make analysis more precise and plausible a coefficient of correlation is worked out for different time periods using cross section data. This equation studies the relationship between value added and finance (sanction and disbursement).

Part - I of Table 2.8 indicates that the relation between the extent of industrialization as reflected by the value added and the sanctions of finance is highly positive and significant.Similarly, it is inferred from the results of the Part-II of Table 2.8 that the relation between the value added and the disbursals of finance is also highly positive and significant. Actually relationship between value added and disbursals of finance ought to be negative and significant if the objective of financing backward regions for industrial development are realised through correct implementation. The comparison between the real and the idyllic situation reveal that more and more flow of finance accrued to the states whose position in terms of value added is quite high.

TABLE 2.8 COEFFICIENT OF CORRELATION

PART - I

YEARS	X = Value added, Y = Finance (Sanction)	
	r	r^2
1969	0.9767	0.9539 **
1974-75	0.8876	0.7879 **
1979-80	0.8905	0.7930 **
1985-86	0.8570	0.7345 **
1987-88	0.8762	0.7677 **

COEFFICIENT OF CORRELATION

PART - II

YEARS	X = Value added, Y = Finance (Disbursement)	
	r	r^2
1969	0.9268	0.8589 **
1974-75	0.9044	0.8179 **
1979-80	0.9051	0.8192 **
1985-86	0.8345	0.6964 **
1987-88	0.8866	0.7860 **

** Indicate Significant at 1% Level.

Thus, despite of the different schemes implemented by the All-India Financial Institutions in the form of direct assistance at a concessional rate, underwritting shares and debentures at a lower commission, and other special packages of incentive in order to industrialize industrially backward areas and more precisely the No-Industry District, the underdeveloped pockets of the developed states which have been benefitted, and not the underdeveloped and backward states. Therefore, the results of table 2.8 strongly support the conclusion based on the analysis of data given in table 2.7.

FOOT NOTES

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