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P.D. Ojha and V.V. Bhatt

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V.V. Bhatt

A Decade of Performance of Industrial Development Bank of India

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PATTERN OF INCOME DISTRIBUTION IN INDIA : 1953-55 TO 1963-65

By P. D. OJHA and V. V. BHATT*
Reserve Bank of India
and
Economic Development Institute, World Bank

SUMMARY. An attempt is made in this paper to estimate the income distribution pattern in India during 1963-65 by using broadly the same methodology as was used earlier to estimate the pattern during the period 1953-55[1,2] with some modifications as are called for in the light of the available data.

1. Methodology and estimation procedures

In the earlier studies, 'household' was taken as an income-recipient unit. For this purpose, per capita expenditure brackets as given by the National Sample Survey (NSS) were converted into per household expenditure brackets. This procedure is not analytically sound as household size varies with expenditure brackets. The error involved is unlikely to be large. However, for the sake of accuracy, since the NSS data are given in the form of per capita expenditure brackets, 'individual' is taken as the income-recipient unit for this study.

The estimates are made for two periods; period I covers years 1953-54 and 1954-55, while period II refers to years 1963-64 and 1964-65. The NSS data are available in the published form only up 1964-65. Since year to year fluctuations in the NSS data do not seem to be plausible, years have been grouped in such a way as to give a reliable picture.

The 1951 Census figures are taken for population and the population estimates for 1953-54 and 1954-55 are made on the basis of an annual growth rate of 2 per cent. The 1963-64 and 1964-65 population estimates are derived from the observed annual growth rate of 2.3 per cent during 1961-71 on the basis of census estimates.

The breakdown of the total population into rural and urban population is estimated on the basis of the urban population proportions as presented in

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[1]P. D. Ojha and V. V. Bhatt—Pattern of Income Distribution in an Under-Developed Economy : A Case Study of India : *American Economic Review*, September 1964 and December 1965.

[2]P. D. Ojha and V. V. Bhatt—Distribution of Income in the Indian Economy : 1953-54 to 1956-57—*Reserve Bank of India Bulletin*, September 1962.

the Ministry of Labour and Employment Study.[3] For the years 1963-64 and 1964-65 the urban population is estimated on the basis of the rate of growth observed during 1961-71. Rural population is derived as a residual by subtracting urban population from total population.

The urban and rural saving estimates are based on the Reserve Bank studies.[4,5] It is assumed that the top expenditure bracket is responsible for the total net saving and the brackets saving by some groups are offset by dissaving by the other groups.[6] It is difficult to imagine continuous dissaving by any one group taken as a whole year after year. Anyway, in the absence of any reliable data, this assumption is made as a working hypothesis.

2. Changes in the Pattern of Income Distribution Some Broad Results

Income distribution patterns during the two periods are shown in Tables 1, 2, 3, and 4. The broad conclusions that emerge from these estimates are the following:

TABLE 1. DISTRIBUTION OF PERSONAL INCOME (BY INCOME GROUP OF INDIVIDUALS)
(per cent)

income group (decile)	period I			period II		
	rural	urban	all-India	rural	urban	all-India
1st	4	2	3	3	2	2
2nd	4	3	4	4	4	3
3rd	5	4	5	6	4	5
4th	5	5	5	7	5	6
5th	8	6	6	8	6	6
6th	8	7	8	9	7	7
7th	10	7	9	10	8	9
8th	11	11	11	11	10	10
9th	15	16	14	18	12	13
10th	30	39	35	24	42	39
total	100	100	100	100	100	100
coefficient of concentration	0.343	0.401	0.376	0.324	0.459	0.382

Note Period I refers to years 1953-54 and 1954-55 and Period II refers to years 1963-64 and 1964-65.

[3]Government of India, Ministry of Labour and Employment, *National Employment Service, Unemployment in Urban Area*, New Delhi, March 1959, p. 12.

[4]Estimates of saving and Investment in the Indian Economy-1950-51 to 1962-63, *Reserve Bank of India Bulletin*, March 1965.

[5]Reserve Bank of India, *Report on Currency and Finance*, 1972-73.

[6]National Council of Applied Economic Research, *Urban Income and Saving*: New Delhi, 1962.

TABLE 2. DISTRIBUTION OF DISPOSABLE INCOME (BY INCOME GROUP OF INDIVIDUALS)
(per cent)

income group (decile)	period I			period I		
	rural	urban	all-India	rural	urban	all-India
1st	4	3	3	3	2	3
2nd	4	4	4	4	4	4
3rd	5	4	5	6	4	5
4th	5	5	5	7	5	6
5th	8	5	5	9	6	6
6th	8	8	8	9	7	7
7th	10	8	9	10	7	9
8th	12	11	11	12	11	12
9th	15	15	16	17	13	13
10th	29	37	34	23	41	35
total	100	100	100	100	100	100
coefficient of concentration	0.341	0.392	0.371	0.319	0.448	0.375

Note : Period I refers to years 1953-54 and 1954-55 and Period II refers to years 1963-64 and 1964-65

TABLE 3. DISTRIBUTION OF CONSUMPTION EXPENDITURE (BY INCOME GROUP OF INDIVIDUALS)
(per cent)

income group (decile)	period I			period II		
	rural	urban	all-India	rural	urban	all-India
1st	4	3	5	5	3	5
2nd	4	4	5	4	5	5
3rd	5	5	5	6	5	5
4th	6	5	5	7	6	6
5th	8	7	7	9	7	7
6th	8	8	8	9	8	9
7th	10	10	10	11	10	10
8th	11	11	10	11	11	12
9th	16	15	15	16	16	14
10th	28	32	30	22	29	27
total	100	100	100	100	100	100
coefficient of concentration	0.331	0.366	0.354	0.311	0.361	0.338

Note : Period I refers to years 1953-54 and 1954-55 and Period II refers to years 1963-64 and 1964-65.

(1) The urban pattern is more unequal than the rural pattern; the concentration ratios for the two periods were 0.343 and 0.324 for the rural sector as against 0.401 and 0.459 in the urban sector.

TABLE 4. PATTERN OF INCOME DISTRIBUTION IN INDIA ; CHANGES IN CONCENTRATION COEFFICIENT BETWEEN PERIOD I AND PERIOD II

	period I			period II		
	consumption expenditure	personal disposable income	personal income	consumption expenditure	personal disposable income	personal income
rural sector	0.331	0.341	0.343	0.311	0.319	0.324
urban sector	0.366	0.392	0.401	0.361	0.448	0.459
all-India	0.354	0.371	0.376	0.338	0.375	0.382

Note : Period I refers to years 1953-54 and 1954-55 and Period II refers to years 1963-64 and 1964-65.

(2) There has been a reduction in income inequality in the rural area in period II as compared to period I, while urban inequality seems to have increased somewhat.

(3) The overall income distribution, as a result, became more unequal in period II than in period I; the concentration ratio with regard to personal income increased from 0.376 to 0.382. The pattern of change with regard to disposable income was also similar.

(4) The share of the top decile in *personal income* rose from 35 percent in period I to 39 percent in period II. However, its share in disposable income rose from 34 percent to over 35 percent; this probably indicates the effectiveness of tax measures in reducing inequality to some extent.

(5) The share of the bottom ten percent in personal income declined in period II as compared to period I but its share in disposable income and consumption remained the same in both the periods.

(6) The shares of bottom 30 percent and next 50 per cent in personal income declined in period II as compared to period I whole that of top 20 per cent increased. In view of the margin of error involved in the basic data, income distribution does not appear to have changed during this period of a decade or so.

Of course, the number of households below the poverty line, defined in various ways seems to have increased in absolute magnitude though the proportion of such households in the total seems to have remained the same.[7,8,9]

[7]V. M. Dandekar and N. Rath, Poverty in India, *Economic and Political Weekly*, January 2 and 9, 1971, Bombay.

[8]P. D. Ojha, A Configuration of Indian Poverty, *Reserve Bank of India Bulletin*, January 1970, Bombay.

[9]B. S. Minhas, Rural Poverty, Land Redistribution and Development, *Indian Economic Review* April 1970, Delhi.

A decade of performance of Industrial Development Bank of India

By V. V. BHATT

THE Industrial Development Bank of India (IDBI) was set up in July 1964, as a wholly owned subsidiary of the Reserve Bank of India (RBI), in terms of the Industrial Development Bank of India Act 1964, to (*a*) co-ordinate the activities of the other financial institutions (including commercial banks), (*b*) supplement their resources, (*c*) plan and promote industries of key significance to the industrial structure and (*d*) adopt and enforce a system of priorities in promoting further industrial growth.

A decade has elapsed since this institution was set up. This is too short a period in the life of a development bank. But even in this brief span, the Bank has established itself as an apex development bank. Its attention till the middle of 1970 was concentrated on strengthening its organisational framework, establishing viable links with the other financial institutions, providing financial assistance to the strategic sectors of industry, and co-ordinating and supplementing the activities of the other term-financing institutions—tasks which are basic for the evolution of an all-India apex development bank. Having attained a degree of maturity in its functioning, the IDBI, with the change in its top management after June 1970, entered into a new phase of its career—a phase of innovative activity in a variety of fields, particularly related to initiating and promoting industrialisation over a wide front in the light of the country's development objectives.

Dr Bhatt is on the staff of Economic Development Institute, World Bank, Washington D.C.

I—Institutional set-up prior to IDBI

As a result of the deliberate and purposive efforts made by the Reserve Bank of India and the Government, a fairly wide network of financial institutions had emerged, prior to the setting up of IDBI, to cater to the requirements of term finance of the industrial sector. The Industrial Finance Corporation of India (IFCI) was the first all-India financial institution set up in 1948 to provide term finance to medium and large sized industrial projects. This was followed by the setting up, at the State level, of State Financial Corporations (SFCs), one in each State, to meet the needs of small and medium sectors of industry. The Industrial Credit and Investment Corporation of India (ICICI) was set up in 1955 with foreign participation under the aegis of the World Bank. The Life Insurance Corporation of India (LIC), set up in 1956 as a result of nationalisation of the existing life insurance companies, also provided industrial concerns with risk capital as well as loan assistance. Commercial banks too were induced by the Reserve Bank to engage to a limited extent in the field of term financing of industries; this

Table I : Assistance—Sanctions and disbursements

(Rs crores)

Sr. No.	Scheme	Sanctions (Effective)				Utilisation			
		First Five Year Period (1964-69)		Second Five Year Period (1969-74)		First Five Year Period (1964-69)		Second Five Year Period (1969-74)	
		Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
1.	Direct Assistance (including underwriting and direct subscription)	108.5	40.6	230.8	32.2	87.5	37.7	114.8	23.2
2.	Refiance of industrial loans	82.1	30.7	140.1	19.6	84.4	36.4	110.4	22.3
3.	Rediscounting of Bills ..	37.3	14.0	224.0	31.3	32.1	13.8	189.4	38.3
4.	Subscription to Shares and Bonds of Financial Institutions	23.9	9.0	25.3	3.5	23.8	10.3	23.9	4.8
	Total of 1 to 4 ..	251.8	94.3	620.6	86.6	227.8	98.2	438.6	88.6
5.	Exports (including refinance)	15.3	5.7	96.3	13.4	4.1	1.8	56.3	11.4
	Total of 1 to 5 ..	267.1	100.0	716.5	100.0	231.9	100.0	494.9	100.0
6.	Guarantees (including for exports)	24.8	—	3.7	—	—	—	—	—

SOURCE : IDBI — Annual Report, 1974.

activity of the commercial banks was facilitated by the provision of refinance by the Refinance Corporation for Industry Ltd (RCI), which was set up under the Reserve Bank auspices in 1958. There were also State-owned Industrial Development Corporations (SIDCs) in a few States, which though operating primarily as development agencies, also provided finance to industry mainly by way of participation in share capital. In the small scale sector, the National Small Industries Corporation Ltd was set up at an all-India level in 1955, which, besides providing term finance, also imported machinery for sale on hire purchase basis to small sector industries. The Unit Trust of India (UTI) was set up under the Reserve Bank auspices in February 1964 for mobilizing saving through an attractive financial instrument and channeling it into productive investment through UTI's subscription to shares and debentures of industrial units.

II—Rationale for the establishment of IDBI

This institutional framework had doubtless served, with a fair degree of success, to meet the growing financial needs of industrial growth. However, it was felt that the totality of its contribution was not adequate in terms of magnitude as well as the range and pattern of financing for rapid and diversified growth. Further, this framework lacked an effective mechanism to coordinate and integrate the functioning of the diverse institutions in the field. In the words of the then Finance Minister, "where a long-term view is necessary and a certain amount of risk has to be taken, the existing institutions tend, by reason of their statutory obligations and traditions, to be conservative, and cannot in any case be very helpful."[1]

1 Extract from the speech of the Finance Minister while introducing the IDBI bill in the Lok Sabha on April 30, 1964.

There was thus need for a co-ordinating machinery, which could establish working relationship with the other institutions and build a pattern of inter-institutional co-operation that can facilitate the evolution of a rational and cohesive structure of financial institutions, adapted to the changing needs of the emerging industrial structure with its growing complexity of inter-relationships. Further, a central development institution was essential to provide dynamic leadership in the task of promoting a widely diffused and diversified, yet viable, process of industrialization. Such then was the rationale for the establishment of the IDBI in July 1964 as an apex development bank under the Reserve Bank auspices.

To facilitate the performance of its vital functions, the IDBI, unlike other financial institutions, is not hampered by any statutory inhibitions and rigidities. The IDBI Act provides understandably for a considerable measure of operational flexibility. The Bank has been empowered to finance *all* types of industrial concerns engaged in the manufacture and processing of goods, mining, transport, generation and distribution of power in *both* the public and the private sectors and *irrespective* of the forms of their organization. There are no restrictions as regards the nature and type of security that may be accepted from industrial concerns. Nor are there any maximum or minimum limits prescribed either for assistance to a concern or for the size of the concern itself.

III —IDBI: A subsidiary of the Reserve Bank

The IDBI was set up as a wholly owned subsidiary of the Reserve Bank with a common Board of Directors for a variety of reasons. The IDBI is in a sense a lender of the last resort and its role with regard to term finance is in some respects akin to that of the Reserve Bank in the field of short term finance. Secondly, with the passage of time, the operations of the IDBI were expected to assume considerable dimensions which would require to be regulated within the framework of proper monetary and credit management. There was also a need to co-ordinate the national credit policy with the pace and pattern of investment activity—a task which falls within the proper sphere of responsibility of the Reserve Bank. This arrangement has the advantage of bringing together, under one unified set up, the entire range of financial and credit institutions; it is only thus that a unified and integrated approach in the field of the financial system can be evolved. Thirdly, the Reserve Bank had for a long time been helping the Central and State Governments in evolving an appropriate structure of financial institutions and had, in particular, played a dynamic role in setting up a complex of institutions.

In the world of the then Finance Minister: "The Reserve Bank, I think, is today the institution, which can most appropriately guide a development bank of this kind. The Reserve Bank is, and I hope it will continue to be, free from the pressure of political or other influences. It is in a position to take purely objective view of our needs. I have no doubt that under the auspices and with the assistance of the Reserve Bank, the Development Bank will be able to discharge its fairly onerous burdens satisfactorily."[2]

It was therefore deemed desirable to have an institution legally separate from the Reserve Bank but yet closely associated with it to guide, supervise and undertake the entire range of activities relating to industrial finance. Indeed, this close association of the IDBI with the Reserve Bank has helped the IDBI to a significant extent in overcoming the problems of organisation and personnel, facilitating its refinancing, rediscounting and other operations with the banks and the SFCs and evolving a structure of policies appropriate to the emerging monetary and economic situation. This feature of the evolving pattern and structure of the financial institutions in India has added a

2 *Ibid.*

Table II : Assistance sanctioned (effective) to units in specified backward districts

(Rs crores)

	First Five-Year Period (1964-69)			Second Five-Year Period (1969-74)		
	Total	Specified backward districts	Per cent	Total	Specified backward districts	Per cent
Direct Assistance@	108.5	14.4	13.3	230.7	104.0	45.1
Refinance	82.1	16.0	19.5	140.1	40.8	29.1
Bills Rediscounting	37.3	5.2	13.9	224.0	35.6	15.9
Total	227.9	35.6	15.6	594.8	180.4	30.3

@ Excluding guarantee assistance SOURCE : IDBI Annual Report, 1974

Table III : Refinance assistance to small-scale industry

(Effective sanctions in Rs crores)

	First Five-Year Period (1964-69)		Second Five-Year Period (1969-74)	
	No.	Amount	No.	Amount
1. Total Refinance	837	82.1	9,016	14.1
2. Refinance to small-scale industry and small-road transport operators	247	3.3	8,491	90.9
3. Percentage share of 2 in 1 ..	29.5	4.0	94.2	64.9

SOURCE : IDBI Annual Report, 1974

new dimension to the theory and practice of central banking.

IV—IDBI : Role as an apex Development Bank

The IDBI has devised a variety of mechanisms for performing its role as an apex development bank. Such a function involves for the IDBI granting of substantial assistance and even the assumption of leadership role in some cases. It has been assisting directly and otherwise industrial projects in new fields—projects which because of technological compulsions are of a large size and require substantial capital investment. In such cases, it has assumed a leadership role. For example, such a role has been played so far by the IDBI in connection with eight major fertilizer projects, four petro-chemical projects, two aluminium projects, two alloy steel projects, four paper projects, five tire projects and two cement projects.

This function has been relevant not merely for large projects. It has assumed this function also for small projects introducing new technology under the leadership of new technician entrepreneurs. For example, the IDBI has assisted such projects in fields like textiles, electronics and light engineering.

The role of a co-ordinator at an all-India level is being performed through the machinery of a monthly Inter-Institutional Meeting comprising, under the IDBI leadership, LIC, UTI, IFCI and ICICI. It is at these meetings that

broad policies in the field of project financing are discussed and co-ordinated and action taken with regard to financial and technical assistance on a consortium basis for large as well as medium projects.

For a number of small and medium projects all over the country, the IDBI performs its two roles—purveyor of supplementary resources and co-ordinator—through its scheme of refinancing assistance and bills rediscounting assistance to the commercial banks and the SFCs. These schemes have enabled the IDBI to facilitate industrialization in a large number of States and backward areas.

In the field of medium and long-term export financing, the IDBI again has been playing these two roles through its scheme of refinancing banks' assistance as well as direct participation in export financing with the banks. The IDBI has assumed the leadership role in this field by inducing, through appropriate mechanisms, the banks and export houses to remain in live and close touch with the IDBI.[3]

The IDBI is instrumental in strengthening the financial structure of the SFCs as well as the other term lending institutions through its subscription to their bonds and shares. To meet the special assistance requirements of "sick" enterprises the IDBI took the initiative in setting up in 1971 the Industrial Reconstruction Corporation of India (IRCI).

V—Promotional function of the IDBI

The years 1970-71 and 1971-72 represented a landmark in the evolving role and functions of the IDBI. This was a period of consolidation as well as exploration. As a part of consolidation, its structural-functional set-up was streamlined and its methods and criteria sharpened. Exploration was with regard to its promotional function—a new function pregnant with great possibilities.

The IDBI under its Statute was expected to play an active promotional role for facilitating a widely diffused process of viable industrialization. This function was taken up by the IDBI in 1970 after it attained a degree of maturity in the field of development finance. For this purpose, it was essential for the IDBI set up to develop live and intimate contact with the economic situation and potentialities in the different regions and States of the country. As a first step, therefore, the IDBI opened three regional offices—one each in the Eastern Region (Calcutta), Southern Region (Madras) and the Northern Region (New Delhi). Further, it has by now opened a branch office for practically each State.

The second major step related to the identification of project ideas in backward areas. The IDBI has been keenly aware of the limitations of financial and fiscal incentives in promoting industrial development in backward areas. It has been recognized that it would be essential to undertake considerable amount of project work for this purpose. This work comprises (*a*) identification of project ideas, (*b*) preparation of preliminary feasibility studies, (*c*) search for management and entrepreneurial talents, (*d*) preparation of detailed project reports, (*e*) managerial, technical and financial assistance for project implementation, (*f*) critical evaluation of the project from the national point of view, and (*g*) finally project supervision.

Accordingly, the IDBI with the assistance of other term-lending institutions initiated surveys of backward States in 1970 for the purpose of identifying specific project ideas in the light of natural and other resources, demand conditions and infrastructural facilities as would emerge over a period of next five to ten years. So far eighteen such surveys have been completed; these relate to all States/Union territories demarcated as backward by the Planning Commission. All the project ideas thus identified as well as others suggested

[3] See IDBI Annual Reports 1971 and 1972.

Table IV : Sources and uses of funds

(Rs crores)

	First five years	Second five years	Since inception upto end of June, 1974
Sources			
1. Increase in paid-up capital	20.00 (7.7)	30.00 (5.2)	50.00 (6.1)
2. Increase in reserves/surplus	10.30 (3.9)	19.15 (3.3)	29.45 (3.5)
3. Borrowings	151.27 (58.3)	236.32 (40.7)	387.59 (46.9)
4. Repayments by borrowers, sale/redemption of investments —			
(a) Direct assistance	2.53 (1.0)	54.27 (9.3)	56.80 (6.9)
(b) Indirect assistance	69.61 (26.8)	205.14 (35.3)	274.75 (33.2)
5. Others	5.90 (2.3)	21.47 (3.7)	27.37 (3.4)
6. Cash and liquid resources	—	14.58 (2.5)	—
Total	259.61 (100.0)	580.93 (100.0)	825.96 (100.0)
Uses			
1. Disbursement of assistance —			
(a) Direct assistance	87.53 (33.7)	150.63 (25.9)	238.16 (28.8)
(b) Indirect assistance	149.64 (57.7)	378.99 (65.2)	528.63 (64.0)
2. Repayment of borrowings from Government ..	—	31.73 (5.5)	31.73 (3.8)
3. Others	7.86 (3.0)	5.80 (1.0)	13.66 (1.7)
4. Cash and liquid resources	14.58 (5.6)	13.78 (2.4)	13.78 (1.7)
Total	259.61 (100.0)	580.93 (100.0)	825.96 (100.0)

SOURCE : **IDBI Annual Report**, 1974.

by a variety of other institutions are compiled, processed and published in the form of a Hand Book.

Several of these ideas have been discussed with the respective State Governments. Of these, 48 projects involving capital cost of Rs 171.5 crores are in the process of implementation and 15 projects with a cost of Rs 284.9 crores are being processed by the financial institutions for assistance. For crystallizing the other ideas into concrete schemes, the financial institutions have commissioned feasibility studies for 17 different projects in Eastern India.

The search for potential entrepreneurs is also engaging the attention of the IDBI and it has suggested suitable entrepreneurial/managerial training programmes for potential entrepreneurs in some States. Further, the IDBI is in touch with the SIDCs in some States as well as some business houses for undertaking the implementation and

management of some identified project ideas in the joint sector and providing on the job training to potential managers who could take over the management function after a stated period of time.

The IDBI on its own cannot undertake all the different tasks related to project work. A new move hence was initiated to bring together State-level financial institutions like SFC, SIDC SIIC, the "lead" banks in the States, State Government Industries Department and the term-lending institutions like the IFCI, the ICICI and the ARC under the leadership of the IDBI to form an *Inter-Institutional Group*. This Group is expected to take decisions with regard to appropriate arrangements for undertaking the following functions: (*a*) identification and discussion of project ideas; (*b*) preparation of preliminary feasibility studies of identified project ideas; (*c*) search for entrepreneurial talent and provision of appropriate training to potential entrepreneurs and managers; (*d*) preparation of detailed project reports and (*e*) provision of technical and financial assistance on a consortium basis to projects that are ripe for implementation. So far, such groups have been formed in 16 States

To facilitate this work, the idea of setting up a jointly sponsored and financed Technical Consultancy Service Centre (TCSC) for each State by the Inter-Institutional Group evolved as a logical extension of the Inter-Institutional Group idea. The functions of the Group would be performed by this Technical Consultancy Service Centre. Surveys of industrial possibilities and identification of project ideas cannot be a once for all affair; it has to be a continuous process that can be initiated by the setting up of a TCSC. A refresher course in entrepreneurial and managerial training can be devised in the light of the character of the potential entrepreneurs and managers in each State

Table V: IDBI assistance (sanctions): Shares of various sectors/groups July 1964—June 1974

(Proportion per cent)

	Direct Assistance	Direct + Refinance	Direct + Refinance + Bills Rediscounting
1. Private sector	55.1	—	—
2. Public sector	3.1	—	—
3. Joint sector	38.4	—	—
4. Co-operative sector	3.4	—	—
5. New technician oriented enterprises ..	1.1	—	—
6. Large business houses	34.3	22.4	28.2
7. Units in specified backward districts ..	34.9	31.2	26.2
8. Small scale	—	16.0	—
9. Medium scale	22.9	36.0	—
10. Large scale	77.1	48.0	—
Total	100.0	100.0	100.0

SOURCE : **IDBI Annual Report, 1974.**

and this work as well as the work of project studies can be undertaken by a research institute sponsored by the Inter-Institutional Group.

These ideas were discussed in some of the States that sought IDBI's advice in this matter at seminars organised by the IDBI. As a result, this process has been initiated in Kerala, Bihar and North Eastern India and once these experiments promise to be successful, it may be possible to initiate action on these lines in other States.

The work of detailed project-making is complex in a number of industry fields and it may not be possible for TCSCs or the technical staff of the institutions to undertake such work on their own. Besides, this work involves the development of design skills that are rare in this country as most of the major projects have been designed so far with the assistance of foreign technical know-how.

From both these points of view—viz, (*a*) facilitating the work of the institutions in the field of preparation of detailed project reports and (*b*) the active promotion of such skills in the country, it would be necessary to encourage private consultancy services in this field and associate them with the promotional task of the development banks. For this purpose, the IDBI, in consultation with the other term-lending institutions, has prepared a list of available technical consultancy services in the country and has made it available to all State-level institutions including "lead" banks so that they may be able to avail of the benefit of these technical consultancy services.

This will facilitate the work of these institutions in the field of preparation of preliminary feasibility studies and detailed project reports as well as in the task of project supervision. The IDBI also maintains a list of professional managerial personnel from various institutions/organizations who are prepared to assist new projects in backward areas. This is done with a view to locating suitable talents for specific jobs with regard to projects that are identified and are likely to be assisted by the financial institutions. The IDBI collects on a regular basis information from Research Laboratories in respect of new processes/products developed by them and this information is being circulated to entrepreneurs through the State-level IIGs.

VI—Tasks ahead

The major tasks of the IDBI in the next few years would be related to the new initiatives it has taken since 1970 with regard to its promotional role and functions. This promotional function is of vital significance from the point of view of promoting a viable yet widely diffused process of industrialisation in the country, particularly in the backward areas and districts. For ensuring continuity of work relating to the various facets of the project cycle beginning from identification of project ideas, it would be essential to set up, under the auspices of the State-level IIGs, TCSC, on the pattern of Kerala, Bihar and North-Eastern India in the other States. Other institutional mechanisms like entrepreneurial training programme, development centre and area development corporation for intensive district development would be necessary and the concerned State Governments will have to be induced to set up these mechanisms with the active assistance of the State IIGs.[2]

The real problem is likely to be with regard to the management of identified projects. In view of the lack of experienced managerial personnel in several States—a lack that cannot be made good by mere public sector ownership—some way of harnessing the available talents for the purpose of project implementation and on the job training of potential entrepreneurs/managers would have to be found. Established business houses would need to be approached for the purpose to ensure effective management of identified projects in the joint sector and

2 See IDBI, Financial Institutions and Economic Development, Bombay, February 1972, pp. 69-91.

effective training of managerial personnel who could take over the management function from them within a stated period. Further, these houses should be induced to identify small scale project ideas in the fields that are ancillary to their own large projects and induce and assist new entrepreneurs to undertake them with the support of the financial institutions. Entrepreneurial/managerial talents are scarce and it would not be desirable to let the available talents lapse into activity; they need to be tapped and harnessed to attain the social objectives of activating latent talents in potential entrepreneurs/managers. Again, the business houses as well as the lead banks should be induced to make available managerial/technical talents with them for the purpose of identifying and implementing such project complexes in the districts as have perceptible impact on employment, living standards, nutrition and incomes. These project complexes should be related to traditional skills and occupations that can be upgraded with the assistance of managerial/technical talents from the modern sector without involving large capital or foreign exchange expenditure.

The IDBI's insistence in project financing is on (a) the economic viability of the project and (b) its sound management. It has been IDBI's experience so far that many projects, otherwise viable, fail to provide expected benefits simply because of lack of efficiency in management. Again, the search for entrepreneurs/managers for the new projects in backward areas or districts, identified by the IDBI, poses the same problem. To tackle this problem, the IDBI may have to set up, with the assistance of the other institutions in the field, a management consultancy service centre both at the *all-India* and State-levels. In any case, with the growing number of assisted projects and the complexity of the task of effective project supervision, it is necessary to initiate action with regard to the setting up of effective machinery for the purpose of in-depth study and supervision of difficult and complex projects that face or are likely to face some problems.

The structure and functioning of a development bank have to have a built-in capacity to respond to new challenges. Without such innovative ability, men as well as institutions decay and stagnate. This ability has to be deliberately nurtured by a dynamic management set-up and for this purpose it is essential to evolve a group within the IDBI and the Reserve Bank for a continuous review and appraisal of its functions. The research function within the IDBI needs to be strengthened for the purpose in co-operation with the Reserve Bank and particularly with its Economic Department/Department of Statistics. Finally, the IDBI should continue to function as an independent institution, immune from the shifting opportunistic pressures of competitive politics; it is essential, for this reason as well as for maintaining the integration and cohesiveness of the financial structure, that the IDBI should continue to remain within the Reserve Bank set-up. A vital institutional innovation introduced by a far-sighted Finance Minister should be carried forward and not tampered with for short-sighted political advantage.

THE WORLD BANK

Headquarters
1818 H Street, N.W.
Washington, D.C. 20433 U.S.A.

European Office
66, avenue d'Iéna
75116 Paris, France

Tokyo Office
Kokusai Building
1-1 Marunouchi 3-chome
Chiyoda-ku, Tokyo 100, Japan

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