

An Emperical Study on the Financing Pattern of DBs and Its Impact on the Development of North-east Region

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Introduction

The creation of first development bank (db) i.e. Industrial Finance Corporation of India in early 1948 heralded new vistas for the industrial development of independent India. Indeed there was a strong-felt of need for such intermediaries for rapid industrial development. After IFCI, a number of similar institutions came into force like Industrial Credit and Investment corporation of India (ICICI) in 1955, Industrial Development Bank of India (IDBI) in 1964, Small Industries Development Bank of India (SIDBI) in 1990 and Industrial Investment Bank of India (IIBI) in 1972 and many other state level financial institutions. All these institutions were created with the character of gap filler to the provision of term finance to Indian industry. Specifically the national- level development banks (dbs) were created to provide the much-needed long-term financial assistance to Indian industries. The dearth of long-term finance is the main bottleneck in the process of industrialisation. And these dbs have been playing a yeoman's role to supplement the required finance to the industrial sector of India. The main objectives of such banks are to infuse term finance to the industry in various forms and to provide expertise in form of managerial and technical assistance and through other promotional activities. The most important work is to assist the process of development and the criterion of success is the extent to which it helps the process of development of resources. However, besides providing term finance another important complementary objective of these banks is to develop the backward area and to minimise the regional disparities. In this front, it is expected that dbs have been playing the required role of catalyst, inducing growth in the desired directions.

At present there are five national level dbs i.e. IFCI, ICICI, IDBI, SIDBI and IIBI operating in the field of industrial term finance business. At the all India level the amount of finance provided by these institutions through term finance is almost 90 percent of the total assistance provided by the all-financial institutions (AFIs). Thus it is also expected that these institutions are playing a pivotal role in providing required term finance to the northeast region. Since this region is the most backward in India special attention from every quarters are required. Being the premier institutions in India, dbs have enormous responsibility to remove the regional disparities by provision of adequate finance and expertise.

Objective

On the above backdrop, an attempt has been made in this paper to study the financing pattern of the dbs like IFCI, ICICI, IDBI and SIDBI and their impact on the growth of the state domestic product of the northeastern states. (IIBI has not been included because of its negligible presence in this region). For this analysis simple regression technique has been applied. The period of study has been taken from 1986-87 to 1997-98. However the cumulative figures for sanctions and disbursements of dbs up to March 1998 have been referred for the analysis.

Financing Pattern

Annexure 1 to 3 provide the pattern of assistance sanctioned and disbursed by the development banks (dbs) to different states of North-East region. Among all the financial institutions the four development banks (dbs), IFCI, ICICI, IDBI and SIDBI, have been playing vital role in industrial financing. It is revealed from Annex - 1 that the share of these four dbs in total financing of all financial institutions is more than 90%. This signifies their supremacy over other institutions engaged in this field. So it is also expected that in northeast region, these dbs also have been actively engaged in industrial financing.

In comparison to the all India total Rs. 338028.0 cr. sanctions and Rs. 221123.7 cr. of disbursement by these dbs the share of Northeast region is only 0.6 percent in both sanctions as well as in disbursement. This paltry share of 0.6 percent i.e. Rs. 1434 cr. of disbursement truly reflects the step motherly attitude of dbs to this region in their financing pattern. Most shocking fact is that over the years their shares have been declined from 1.3 percent in total disbursements during 1986-87 to 0.4 percent during 1994-95 to 1997-98.

Annex-2 depicts the per capita amount of assistance sanctioned and disbursed till March 1998 by the individual development bank to the seven states of northeast region under this study. The per capita average sanctions and disbursements to all states in India by individual development bank is much higher than the per capita corresponding figures of different states of northeast region. Among the dbs IDBI sanctioned highest per capita amount (i.e. Rs. 1520) where ICICI disbursed highest per capita amount (Rs. 1040). But looking at the figures of per capita amount to northeast states IDBI's sanction figures are from Rs. 87 for Tripura to Rs. 364.4 for Meghalaya and ICICI's disbursement figure hovers between Rs. 3.2 for Tripura and only Rs. 1110.0 for Assam. Among all the states Tripura is the most neglected having per capita sanction of Rs. 168 and disbursement of Rs. 133.1. On the whole it corroborates the same fact for the amount of financing as found in the first Annexure.

Annex-3 provides information regarding the assistance sanctioned and disbursed by dbs to all the seven NE states over the period of 12 years. Over the years up to 1998 IDBI has sanctioned the highest amount of Rs. 832.8 crore followed by ICICI, IFCI, and SIDBI. On the disbursement side IFCI, ICICI, and SIDBI follow IDBI. However the IFCI has disbursed 0.9 percent of total finance to these states and at the lowest ICICI has disbursed 0.4 percent of its total assistance. It also reveals that IDBI's pattern of financing has been drastically fallen from 1.6 percent in first four years to 0.2 percent in the last four years and similar trend is also found for other dbs.

Annex-4 provides the time series data of assistance disbursed by dbs to individual states. High inconsistency is found in this data which is depicted through the coefficient of variation (C.V.). The figure of more than 50.0 percent C.V. for all the states indicates erratic disbursements. Among all the

states, Assam being the biggest and comparatively industrially advanced in this region, has got the largest chunk of the total investment. Almost 70 percent of the funds have been flown to this state.

The most plausible reason of such trends observed in the above four Annexures can be identified to the lack of infrastructure facilities in these states. As rightly observed by the former RBI Governor Dr. C.R. Ranganathan, the overall development of backward regions was hindered due to the lack of adequate public and private investments in these areas. He found it was not financial incentives but improvement of infrastructure that would help the states get investments — be it domestic or foreign. In most of these areas agricultural activities predominate with low productivity and low income and the phenomenon discourages them to go for more financing. Besides, geographical constraints, lack of local government's initiatives, fragile law and order situations in many states, lack of demand due to poor economic status of the tribal people etc. are also some of the reasons of such a trend. On the whole the four Annexures provide a very grim picture in the pattern of assistance provided by banks to this region. Very negligible amount has been provided for the industrial development of these states and further the share of these states has fallen significantly over the years.

Impact of Assistance Provided by banks on the Formation of State Domestic Product

The impact of state finance on the formation of state domestic product is a well-established fact. Similarly the contribution of bank finance to the same needs no mention. Finance from development banks is also expected to have some impact on the formation of domestic product. Amount of assistance disbursed by banks in previous year (i.e. $t-1$) is thus assumed to have some bearing on the current year's (i.e. t) domestic product. The disbursement figures of banks for the years 1985-86 to 1993-94 (Annex-4) to different states have been considered as the independent variables (x) and the Net Domestic Products at current prices (Annex-5) for 1986-87 to 1994-95 have been considered as dependent variables (y). Table 1 provides the regression output of such impact study. It is found that the test is statistically significant for Assam, Meghalaya, Mizoram and Nagaland. However, except Assam, for all other states the X coefficients have been negative. The negative impact for these states are also statistically significant with a R^2 value if more than 0.39. Looking into the Annexure 4 it is found that the disbursement figures for these states are very erratic with high C.V. Thus a constant positive impact of assistance is missing in these states. Further the scanty presence of industries in these states also deters the recycling of fund. Whatever fund has been pumped by these banks to these states produced negative return i.e. it has not been used fruitfully to generate additional income. So far as other three states Arunachal Pradesh, Manipur and Tripura are concerned, the R^2 are not significant. However, the X coefficients being the negative figure give a similar idea as of the above. Only for Assam the test gives a positive X coefficient with high R^2 value of 0.65.

This is most probably due to the fact that Assam is comparatively economically advanced state (because of its tea and oil resources) and the assistance provided by banks are going to the industrial sector which is not so badly shaped. Because of the fact that Assam is considered virtually the gateway to other states of this region and is a trade center for them, the demand for different products is enormous. This has kept the industries of Assam alive.

Epilogue

In the post-independent period of India, financial institutions have been playing a yeoman's role in reshaping the industrial structure which was badly damaged during the colonial rule. Among all these financial institutions development banks occupy the vital position by providing the much needed term-finance to the industries. They have contributed a lot to the development of a strong industrial base in India. But as the above analysis reflects this position does not hold true so far as the north-east region is concerned. Since inception only 1420.0 cr of assistance has been disbursed by these dbs in this region. This amount constitutes only 0.6 percent of the total assistance provided by all these dbs to different states and union territories. The meager amount of assistance has not been addressing to the felt need of this region. Further the inconsistency in the sanction and disbursement amount which is reflected by the high degree of co-efficient of variation shows an unhealthy trend of use of financial assistance and indirectly the retarded growth of industrial activities. The impact of such type of trend and pattern of financing has negatively felt on the formation of net domestic product. So it is felt that in the northeast region the dbs have not been playing the desired role in the right direction. Thus it is necessary for these dbs to think some common strategies with special focus to the development of much needed infrastructure in this region. and also to establish more entrepreneurship training center for the development of indigenous technology.

Table 1
Regression Output

Northeast States	Regression Equations $y = a + bx$	't' Values	Significant at 5% ^{**} /10% ^{***}	R ²
Arunachal Pradesh	$Y = 824.19 - 239.84 (x)$	1.17	Not Significant	.17
Assamy	$Y = 3257.06 + 98.97 (X)$	3.60	* .65	
Manpur	$Y = 1037.56 - 82.29(X)$	1.14	Not significant	.16
Maghalaya	$Y = 1147.37 - 58.92 (X)$	2.42	* .46	
Mizoram	$Y = 519.23 - 53.87 (X)$	2.43	* .46	
Nagaland	$Y = 947 - 114.26 (X)$	2.13	**	39
Tripura	$Y = 1057.48 - 72.73 (X)$.75	Not Significant	.07

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Annexure-1
State-wise Assistance Sanctioned and Disbursed by DFIs*
 (in Rs. Crore)

Year States		1986-87	1990-91	1994-95	Cumulative	Upto	(4) as %
		to 1989-90	to 1993-94	to 1997-98	Upto Mar. 1998	Mar. 1998 by AFIS	of (5)
		(1)	(2)	(3)	(4)	(5)	(6)
Arunachal	SAN	4.9	6.4	48.9	69.8	75.9	91.9
Pradesh	DIS	3.2	4.5	7.1	24.9	29.6	84.1
Assam	SAN	349.2	278.1	822.7	1760.9	2020.1	87.1
	DIS	177.1	346.3	471.0	1122.6	1346.3	83.4
Manipur	SAN	35.1	8.0	33.8	75.8	146.8	51.6
	DIS	20.3	11.7	26.1	64.4	69.8	92.3
Meghalaya	SAN	49.2	17.8	21.3	113.8	123.6	91.2
	DIS	38.3	16.8	17.8	97.5	97.5	100.0
Mizoram	SAN	18.8	6.5	1.8	34.6	52.7	65.6
	DIS	16.1	6.5	1.7	31.2	44.7	69.8
Nagaland	SAN	9.8	10.9	54.2	61.5	88.1	
	DIS	16.4	9.1	13.6	50.2	58.3	86.1
Tripura	SAN	22.0	5.8	13.9	52.1	60.6	86.0
	DIS	11.0	5.9	13.0	42.6	51.8	82.2
Total to NE States	SAN	493.3	374.2	955.1	2161.2	2541.2	85.0
	DIS	282.3	400.8	550.3	1414	1697.5	85.0
All States	SAN	34366.0	73653.4	200595.7	338028.0	356884.6	94.7
	DIS	21836.4	49737.2		221123.7	242703.3	91.1
NE States to total	SAN	1.4	.4	.5	.6	.7	
	DIS	1.3	.8	.4	.6	.7	

*DFIs include IFClm ICICI, IDBI and SIDBI.

Source: IDBI Report on Development Banking various issues.

Annexure-2
State-wise per Capita Assistance Sanctioned and Disbursed by DFIs Upto March 1998
 (Rupees)

DFIs States		IFCI	ICICI	IDBI	SIDBI	TOTAL	AFIs
Arunachal Pradesh	S	360.8	34.8	233.6	64.6	693.8	754.5
	D	26.8	33.8	140.2	55.7	256.5	294.2
Assam	S	105.4	296.2	236.7	39.3	677.6	777.4
	D	106.1	111.0	202.5	30.9	450.5	518.1
Manipur	S	11.5	5.3	150.0	197.6	364.4	705.8
	D	10.1	5.3	126.4	164.4	306.2	335.6
Meghalaya	S	38.8	18.9	364.4	130.0	552.1	599.7
	D	36.4	18.9	302.8	113.5	471.6	473.1
Mizoram	S	-	-	321.3	82.9	404.2	615.7
	D	-	-	282.7	81.8	368.5	521.0
Nagaland	S	17.0	66.8	216.6	54.3	354.7	402.5
	D	15.7	66.8	201.6	52.4	336.5	381.5
Tripura	S	14.1	3.2	87.0	64.6	168.9	193.9
	D	6.4	3.2	64.3	59.2	133.1	165.7
All States	S	516.4	1201.4	1520.7	307.7	3546.2	4532.4
	D	322.7	1107.6	1040.5	239.1	2709.9	3094.8

Source: IDBI Report on Development Banking India various issues.

Annexure-3

Year DFIs		1986-87 to 1989-90	1990-91 to 1993-94	1994-99 to 1997-98	Cumulative upto March 1998	Cumulative upto March 1998 (Rs.Cr.)
IFCI	S	1.3	.3	.7	.7	327.6
	D	.9	.9	.9	.9	292.3
ICICI	S	1.1	.4	.7	.7	789.5
	D	.7	.8	.4	.4	270.5
IDBI	S	1.6	.4	.2	.6	832.8
	D	1.5	.7	.2	.7	704.0
SIDBI	S		.8	.7	.7	211.3
	D		.9	.6	.7	167.2
Total	S	1.4	.5	.5	.6	2161.2
	D	1.3	.8	.4	.6	1434.0

Source: Compiled from various issues of IDBI Report on Development Banking

Annexure-4
Assistance Disbursed by DFIs to Northeastern States During 1985-86 to 1997-98
(in Rs crore)

Year	Arunachal	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura
1985-86	1.86	39.91	2.61	6.6	2.34	4.29	1.12
1986-87	1.04	40.16	3.13	8.83	2.28	3.04	1.44
1987-88	0.99	34.28	4.86	6.6	4.15	3.05	2.87
1988-89	2.03	44.84	3.46	11.71	5.71	5.3	2.97
1989-90	0.87	57.57	2.64	11.2	3.99	4.27	3.73
1990-91	1.3	70.9	4.8	7.8	4.1	3.3	2.3
1991-92	1.1	113.5	4.4	4.6	1.8	2.2	1.9
1992-93	1.1	85.8	1.4	1.7	0.4	3.2	1
1993-94	1	76.1	1.1	2.4	0.2	0.4	0.7
1994-95	2.1	56.5	0.2	4.4	0.1	0.1	1.1
1995-96	1.5	106.2	2.3	2	0.4	2.2	3.4
1996-97	0.9	169	2.1	4.4	0.9	8.9	4.7
1997-98	3.7	81.8	1.5	6.6	0.3	2.4	3.8
COF'VAR	52.55	50.30	54.57	53.53	92.30	67.76	53.98
STDV	0.79	37.78	1.45	3.25	1.89	2.22	1.29
Mean	1.50	75.12	2.65	6.06	2.05	3.28	2.39

Source: IDBI Report on Development Banking, various issues

Annexure-5
Net Domestic Product of Northeastern States at Current Prices
(in Rs crore)

Year	Arunachal	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura
1986-87	267	5476	431	386	194	269	512
1987-88	284	5993	508	472	259	340	589
1988-89	335	6563	610	513	260	387	767
1989-90	366	7749	642	664	280	469	835
1990-91	460	9498	634	660	281	558	840
1991-92	572	10632	866	884	417	762	1030
1992-93	676	11543	958	979	478	842	1079
1993-94	815	13095	1046	1133	562	880	1244
1994-95	935	14489	1306	1258	597	940	1310

Source: Economic Survey, Government of India, 1992-93 and 1997-98.