

A Study on the Role of Financial Institution in the Industrial Development of Bihar

Dr. Kundan Kumar

Guest Faculty, Dept of Commerce, Marwari College, Tilka Manjhi Bhagalpur University, Bhagalpur, Bihar-812007, India.

ARTICLE DETAILS

Article History

Published Online: 14 Oct 2019

Keywords

Innovation, Financial Institutions, SSIs, Advertising, Business Sectors

ABSTRACT

Bihar is situated in the eastern region of India. Food handling, dairy, sugar, fabricating and medical care are a portion of the quickly developing ventures in the state. The state has arranged activities for the advancement of different areas, for example, training and the travel industry. The state appreciates a one of a kind area explicit preferred position in view of its nearness to the tremendous business sectors of eastern and northern India. The state has a huge base of practical modern work, making it an ideal objective for a wide scope of enterprises. The exploration paper expects to investigate the part of budgetary organizations in the advancement and improvement of SSIs has uncovered that these establishments have dispatched a few plans to give them advertising help, innovation up-degree, send out advancement uphold, and so forth other than giving them monetary help. The fundamental reason for the examination is to break down the function of financial institutions in advancing and delivering money related help to little scope part. The current investigation is essentially founded on the essential just as optional information distributed in yearly reports.

1. Introduction

The development of business enterprise advancement and improvement in the previous hardly any many years has gone far in Bihar, especially in the territory of Patna and abutting territories. The two governments and different modern advancement and backing organizations are putting forth impressive attempts to encourage the cycle of development of new business visionaries for setting up ventures in little scope part. It is accepted that these endeavours have had a positive effect on the development of these undertakings in the State just as in the district. There are today countless associations like, National Institute of Small Industry Extension Training (NISJET) and the Bihar State Finance Corporation Ltd. who has been effectively engaged with business improvement exercises in the area. Their endeavours have been upheld by the BIADA as a rule and financial institutions like Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI) and different business banks specifically. The current paper in such manner is an endeavour to analyze the part of money related foundations in advancing little scope and small businesses as far as development of business people, undertakings and its commitment to State Domestic Products.

List of 7 financial institutions India established for economic development:-

- Finance Corporation of India
- National Industrial Development Corporation
- Industrial Credit and Investment Corporation of India
- Industrial Development Bank of India
- Unit Trust of India
- Life Insurance Corporation
- State Financial Corporation of India

2. Literature Review

Gopinath, 2007 The year 1991, was a huge year for Indian economy when strategy creators declared the financial changes for development of Indian economy. Improving the adequacy and proficiency of the budgetary framework, the

principle point of monetary division changes was to overhaul the productivity of assets, money related soundness.

Aghion et al. (2005) dissected the function of innovative ability after progression period for the interstate businesses and give solid steady proof with respect to modern execution through credit accessibility.

Calderon and Liu (2003) inspected the information of 109 modern nations and give the proof identified with a positive connection between money related turn of events and financial development.

Lan et al. (2015) gave a solid positive relationship over the long haul just as in short run between domestic sparing and financial development during the time-frame 2001-2015 in Taiwan.

Gupta et al., (2008) zeroed in on how the association impact of state money related structure and industry attributes impact industry development.

Ranjan & Zinglas (2008) observationally explored the relationship among monetary area advancement, budgetary structure and mechanical development in India after financial changes period. There was positive effect of budgetary segment advancement and mechanical development; though negative effect was recorded by the monetary structure and modern development.

Baltagi, (2007), find that exchange and budgetary transparency are measurably huge determinants of banking improvement in their examination by utilizing dynamic board information procedures. Subsequently, shut economies can profit more by opening up both their exchange and capital records. Moreover, they don't discover any proof to recommend that opening up one without the other could have negative effect on monetary area advancement.

Jain (1973) in his examination of nationalized banks and nation credit in Bhilwara District in Rajasthan found that there was enormous deferral in getting ready of advance applications and debasement in these foundations.

3. Research Objectives

- To understand the need in Specialised Financial Institutions
- To analyze the role of Financial Institutions in the Industrial development of Bihar

4. Methodology

The current investigation secured the time-frame of 1991-2015 in India to test the adequacy of money related advancement on mechanical development in Bihar. Estimation of mechanical yield is utilized as an intermediary of modern development, though remarkable credit of the modern area is utilized to quantify the budgetary turn of events. All the information utilized in the examination has been taken from Reserve Bank of India. The compound yearly pace of development has been determined by utilizing the Semi-log Model.

5. Need for specialized financial institutions

It was hard for industry all in all to get adequate long haul assets in capital business sectors. There were no different establishments to gracefully long haul fund to industry. Generally just transient account could be profited from business banks. SFIs were built up to guarantee that industry get adequate long haul reserves and in the ideal divisions as per arranged needs.

Challenges confronted by businesses which include the following:-

- Small and medium scale concerns
- New concerns arrangement by new enterprising gatherings
- Specific enterprises, for example, cotton and jute which requires subsidize for modernization
- Concerns associated with advancement and new mechanical turns of events
- concerns requiring remarkably a lot of money with a long incubation development period
- Concerns in reverse districts SFIs were set up to meet the drawn out money related necessity of such worries on financial and social ground.

All in all it very well may be said that the hole between the interest for and flexibly of mechanical account is looked to be filled through term advances by improvement money related foundations. Because of this job they have been called hole fillers.

6. Importance of financial institutions

The significance of SFIs might be credited to the accompanying:

- They comprise a significant wellspring of long haul account to Industry. Over some undefined time frame, there has been a consistent development in the quantity of mechanical units helped, and in the measure of credit endorsed and circulated by SFIs.
- SFIs have assumed a significant function in the advancement of (a) Small scope industry, and (b) Projects in reverse territories.
- They have helped new and little business people in setting up industry.

- Through their activities including endorsing of and direct Subscription to the issue of offers and debentures, they have been significant parts in the capital market. These tasks favourably affect the capacity of mechanical worries to raise assets from capital market.
- These organizations have improved the distribution of assets to industry and along these lines, have helped in better utilization of the accessible assets for the monetary advancement of the nation.
- SFIs have been a wellspring of specialized and administrative exhortation to the business. They have additionally helped in recognizable proof, assessment and execution of new venture ventures.
- These foundations have been useful in the foundation of concerns which required extra-commonly a lot of account for their ventures with a long incubation period.

7. role of SIDBI in industrial financing in the context of Bihar

SIDBI and Micro Credit SIDBI dispatched a significant task, "SIDBI Foundation for Micro Credit" in January 1999 as a proactive advance to encourage quickened and methodical development of the miniature account segment in India. It is imagined to rise as the zenith distributor for miniature account in India giving a total scope of money related and non-monetary administrations, for example, advance assets, award backing, value and foundation building backing to the retailing Micro Finance Institutions (MFIs) in order to encourage their improvement into monetarily maintainable elements, other than building up an organization of specialist co-ops for the part. While it is endeavouring to quicken the credit stream to the Micro account area it is working in close association with the Micro Finance Institutions in the nation. SFMC is likewise ready to assume a huge function in supporting fitting approaches and guidelines and to go about as a stage for trade of data over the segment.

There has been an expanded progression of credit to SSI division since its beginning of SIDBI from 1990-91 to 1997-98. Nonetheless, the yearly development of payment of assets is fluctuating from year to year. The most reduced negative development of - 4.50% has been seen in the year 1996-97 as against the most elevated development of 26.87% in 1994-95. The yearly normal development pace of dispensing during the period from 1990-91 to 1997-98 works out to be 6.76%. The most upsetting pattern that is watched is the expanding hole between the endorsed sum and payment. SIDBI helped in modernisation of mechanical ventures and foundation ventures in the Eastern Region of India for example Bihar, additionally continue and execute business of giving credit and different offices to advancement of agro-cultivation, therapeutic and sericulture manor, hydroponics, poultry, dairy and creature farming turn of events. Establishment of IT Park at Bhagalpur and a suitable financing plan for IT enterprises. Setting up an end-all strategy for the advancement of the travel industry and especially leaving on a major private area experience the travel industry venture.

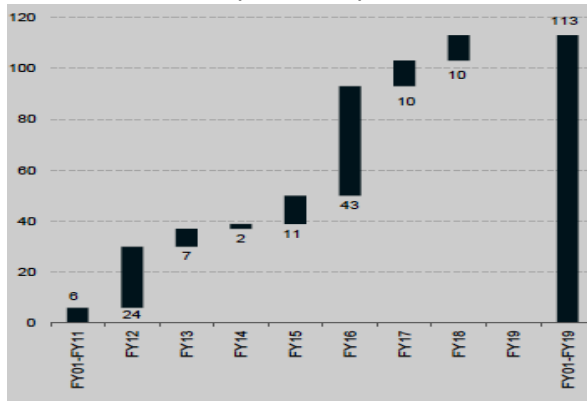
8. Data Presentation

Figure 8.1 Investment intentions in terms of IEMs filed

Year	Number	Proposed investments (US\$ million)
2016	19	898.99
2017	7	72.77
2018	9	1,122.25
2019(As of Feb 19)	3	42.92

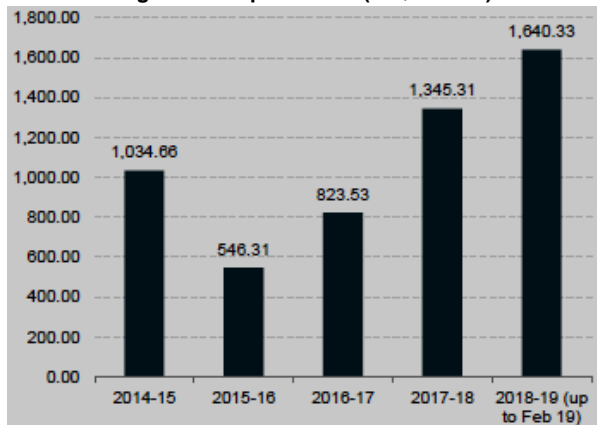
Source: IBEF Report, May 2020

Figure 8.2 FDI* Inflows in Bihar in April 2000 –December 2018 (US\$ million)



Source: IBEF Report, May 2020

Figure 8.3 Export Trend (US\$ million)



Source: IBEF Report, May 2020

Table 8.1: Statistics related to Outstanding Loans and Industrial Production in Bihar (US \$ million)

Year	Outstanding Loans	Industrial Production
1990-91	1045.66	2705.64
1991-92	1101.87	2991.96
1992-93	1612.87	3686.14
1993-94	1627.13	4257.44
1994-95	2063.71	5179.87
1995-96	2469.34	6705.14
1996-97	2596.09	7418.08
1997-98	3246.05	8363.36
1998-99	2282.10	7837.71
1999-00	2537.82	8979.38
2000-01	2579.54	9269.02
2001-02	2692.19	9624.57
2002-03	2633.92	11305.61
2003-04	2897.76	12874.01
2004-05	3346.34	16725.61
2005-06	3515.07	19083.55
2006-07	4285.89	24085.48
2007-08	4539.96	27757.09
2008-09	5364.19	32727.98
2009-10	6630.10	37330.36
2010-11	8256.38	46762.17
2011-12	9243.82	57036.69
2012-13	10722.47	60259.45
2013-14	12220.94	65552.51
2014-15	11521.95	68838.12
CAGR	10.27	14.43

Source: RBI

Table 8.2: Credit Flow and Growth of SSI units in Bihar

Year	No. of SSI Units	Commercial Bank		BSFCL (Rs. in lakh)
		Total Credit (Rs. in crores)	Per Capita Credit (Rs.)	
2008-09	12805 (47.8)	2118.0	852	615
2009-10	18367 (48.98)	2307.3	912	227
2010-11	20035 (56.50)	2739.9	1065	1062
2011-12	21514 (55.40)	2994.0	1144	932
2012-13	23132 (54.11)	3759.8	1411	3360
2013-14	23637 (53.47)	8098.1	2988	2472
2014-15	-	7913.2	2870	2170

Source: CMIE

Table 8.3: Total Credit Flow from Commercial Banks to Industries located in Patna

Year	Per Capita Credit			Total Credit		
	Patna	Bihar Total	share of Patna	Patna	Bihar Total	Share of Patna
2009-2010	912	5448	16.74	2307.3	3179.9	72.56
2010-2011	1065	6432	16.56	2739.9	3774.5	72.59
2011-2012	1144	6667	17.16	2994.0	4046.7	73.99
2012-2013	1411	7593	18.58	3759.8	4932.8	76.22
2013-2014	2988	11697	25.55	8098.1	9735.6	83.18
2014-2015	2870	12391	23.16	7913.2	9822.8	80.56
Total	-	-	-	29930.3	38433.7	77.88

Source: CMIE

Table 8.4: Stationarity-Unit Root Test

	ADF		PP		DF-GLS	
	Level	First Difference	Level	First Difference	Level	First Difference
Log IG	0.4382	3.8328***	0.4372	3.9312***	0.4609	3.8009***
Log FD	0.5212	5.5935**	0.5078	5.5391***	0.3004	5.4883***

Source: Primary data

Table 8.5: Lag Selection

Lag	LogL	LR	FPE	AIC	SC	HQ
0	20.50026	NA	0.000539	-1.85003	-1.75045	-1.83059
1	78.70637	98.95039*	2.40E-06	-7.27064	-6.97192*	-7.21232
2	79.88535	1.768474	3.23E-06	-6.98854	-6.49067	-6.89135
3	85.26256	6.990374	2.93E-06	-7.126256	-6.42924	-6.99019
4	93.54518	9.110874	2.06E-06*	-7.554518*	-6.65836	-7.379578*
5	94.46857	0.831051	3.21E+06	-7.24686	-6.15155	-7.033042

Source: Primary data

- The improvement of the monetary area instigated to financial development by means of maker and customer.
- The effectively accessibility of credits initiated maker for greater speculation that prompts modern yield.
- The consequences of this investigation give the proof to upgrade money related framework that helps financial development through the divert of mechanical development in Bihar
- The since quite a while ago run flexibility of the budgetary improvement as for mechanical development under the method of ARDL strategy is uncovers the versatility of monetary advancement is 0.36 percent at slack 4, which demonstrates that 1 percent expansion in money related improvement will upgrade the modern development by 0.36 percent.
- The compound yearly development of mechanical creation was 14.43 percent. The CAGR of mechanical creation was a lot higher than remarkable advances during the contemplated period.
- More credit offices will likewise present new advances which improve the modern development.
- The patterns in exceptional advances and modern creation of the India during the time-frame 1990-91 to 2014-15.
- The outright measure of remarkable credits was 1045.66 million of every 1990-91 and expanded to 11521.95 cr. with a CAGR of 10.27 percent per annum. Nonetheless, modern creation expanded to 68838.12 cr. from 2705.65 million during the time span 1990-91 to 2014-15.
- Total stock fares from the state remained at US\$ 1,345.31 million during 2017-18. During 2018-19 (upto Feb19), the fares remained at US\$ 1640.33 million.
- Major things traded from the province of Bihar are oil based commodities, wild ox meat, different oats, rice (other than basmati), and so forth.

9. Conclusion

The since quite a while ago run relationship between budgetary turn of events and modern development has been

discover with the assistance of connection test approach. The consequences of connection test proposed that there is presence of since quite a while ago run connection between money related turn of events and mechanical development in India during considered period. The estimations of versatility over the long haul are factually huge. Nonetheless, extraordinary advance of the modern area has been expanding during study period, however the pace of development couldn't

surpassed development in mechanical yield. Study recommended that quick mechanical advancement in Bihar requires wide improvement in budgetary area improvement alongside redesigning offices framework, public vehicle, ability focuses and so on. The administration and strategy producers should zero in on these issues to build up the money related segment for animate the modern development in Bihar.

References

1. Ang, J.B., & Mckibbin, W.J. (2007). Financial liberalization, financial sector development and growth: Evidence from Malaysia, *Journal of Development Economics*, 84, 215-233
2. Calderón, C., & Liu, L. (2003). The direction of causality between financial development and economic growth. *Journal of Development Economics*, 72(1), 321-334.
3. Chandrasekhar, P. C. (1988). Aspects of growth and structural change in Indian industry. *Economic and Political Weekly*, 23(45-46-47).
4. Law, S.H., & Azman-Saini, W.N.W, The quality of institutions and financial development, MPRA Paper, No.12107, University Library of Munich, Germany.
5. Neusser, K., & Kugler, M. (1998). Manufacturing growth and financial development: Evidence from OECD countries. *Review of Economics and Statistics*, 80(4), 638-646.