FINANCE AND INDUSTRY IN INDIA

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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By

A. D. Shroff*

During the last 20 to 25 years, the industrial structure of the country has undergone a very great change. Particularly since we attained Independence, the increasing interest taken by our Government in bringing about rapid and widespread industrial development has created a number of new problems, which could not have been forseen before that period. But Pandit Madan Mohan Malaviya's foresight has proved remarkably true in that if we wish to develop a large industrial structure in the country, an essential prerequisite for that is extensive banking facilities. These are not only banking facilities to which we have been accustomed in the past, but also specialised financial agencies which would cater to the varied financial requirements of industries in the country. One weakness in our economic structure to which I have not ceased referring as a student of economic problems is that we have not yet built up scientifically organised statistics. Till very recently, those who were entrusted with the job of compiling statistics on various aspects of our life did not think that statistics to be useful should be up-to-date. Somehow or other, there was a lingering belief that statistics like whisky improves with age! Unfortunately, for people who do and have to do some thinking on our economic problems, they are at many stages baffled for a proper diagnosis of some of our problems because of the lack of adequate, authentic and up-to-date statistics. Although during the last ten years some improvement has occurred, it is not what we should like to have. However, I should like to congratulate the Reserve Bank of India on the work it has been doing for the last few years in its Reserach Department in compiling statistics of a very authentic character on many economic

* This booklet by Mr. Shroff, eminent economist and industrialist and Founder-President of the Forum of Free Enterprise, is based on Sir Vithal Chandavarkar Memorial Lectures delivered by him at the Indian Institute of Sciences, Bangalore, on March 29 and 30, 1963.

problems of the country and particularly on monetary and financial problems.

Joint-stock enterprises in this country have been growing at a rapid pace. There are about 25,500 companies registered in India. But it is interesting to note that a little more than 85% of the joint-stock companies in India, about 22,500, are still small companies in the sense that they have a paid-up capital of not more than Rs. 5 lakhs. It is in a sense reflective of the poverty of the country. Perhaps it would take a generation or two before we develop our economy on a broader basis.

The statistics which are compiled by the Research Department of the Reserve Bank of India, therefore, proceed on "sample basis". About 750 to 1,000 joint-stock companies come under the review of this research work. These 1,000 companies represent anything between 50% to 75% of the total paid-up capital of all the companies registered in India. Therefore, in that sense, these statistics are fairly indicative of what is happening to our joint-stock enterprises. There were days when I used to go to bank managers asking for credit facilities of Rs. 20 to 25 lakhs even for fairsized companies, and the bank managers used to perspire. Things have changed and today I am called upon to provide credit for individual units in various industries which run into anything between Rs. 2 to 20 crores. The size of operations of our industries, the magnitude of the capital involved in the starting and running of the industries, the nature of the financial requirements due to very important and vital changes in the financial set-up of the country, the fiscal poicy of the Government of India to a certain extent, and the ideology of the Government have all contributed to bring about a radical change in the financial requirements of our industrial enterprises.

In the first place, the size of operations has grown beyond recognition, if we compare it with what happened 20 to 25 years ago. A company like the Tata Iron & Steel Company, which is the largest joint-stock enterprise in India, would require working capital of the magnitude of Rs. 20 to 25 crores at any given time and excepting the State Bank of India there is no other bank which can handle this type of credit facilities. There are a number of other big engineering and other concerns. Fertilisers, for instance, have financial requirements of such a magnitude. Particularly during the last few years, they became a real headache to our banks. Some of the figures which have been recently compiled by the Reserve Bank of India as to the requirements of industries in recent years, and the source of finance, might give you some picture of the position prevalent for the last few years.

A joint-stock industrial enterprise needs two types of finance. First it requires what is termed as Fixed Capital. To start with, it must have sufficient money of its own to buy plant and machinery to put up factory and buildings and at least some spare money as a part of the initial working capital. Once it gets going, in order to buy raw materials, to pay regularly the wages and salaries of the staff, to buy stores and also to provide for the finished products which cannot be delivered and paid for immediately, it needs working capital which is supplied by our banks. The banks in India are known as commercial banks which means that they provide working capital required both by our trade and industry. One of the legacies we inherited from our long association with the Britishers in India is that we built up our banking structure on the lines of British banks. The British banks are essentially commercial banks, the main concept being that since the bulk of the resources of banks is obtained from public in the form of deposits which are repayable on demand, banks cannot afford to lock up those deposits for long-term loans and, therefore, they must confine themselves to short-term lending, i.e., supplying working capital for industries, or for what are called trade bills to allow trade to be carried on a short-term basis.

As an industry grows up, provided that the tax laws of the country permit wise and prudent management, it builds up internal resources. A wise and prudent management when it makes a profit of Rs. 100 at the end of the year, after meeting its taxation liabilities, does not believe in distributing all the balance in the form of dividends to shareholders. A prudent industrial management will set aside every year out of the balance of its profits something in the shape of reserves which would enable the industry in course of time to expand the firm's capacity, to keep its plant in modern condition and also to provide for the lean times which industries go through in business cycles. I have selected two periods of 1951–55 and 1956–60, because they are two Five-year Plan periods, for considering this aspect.

In the first period of 1951–55, internal resources showed that about Rs. 274 crores were built up by these 1,000 joint-stock companies operating in India by following the prudent policy of conserving a part of the profits that they made, so that, this plouging back of profits over a period of years would enable them to expand their capacities. In the period 1956–60, this figure went up to Rs. 504 crores, because by that time the general capacity of the industry had grown and a large number of industrial concerns were in operation, and also the profitability in a large number of industries had increased. Apart from these internal resources built by these industries, there were resources like the paid-up capital of the companies, borrowing from banks and other places, and what was outstanding as trade dues. In the first period, they amounted to Rs. 168 crores, and in the second period they rose to Rs. 611 crores. These figures are indicative of the sources of obtaining finance for our industries. But we should particularly note some of the trends which have developed during the 10 years.

One most important trend is that the borrowings of our industries have been rising at a very rapid rate. Whereas 17 per cent of the total resources of our industries in the period 1951–55 were obtained from borrowing through banks, in the second period, the percentage rose to as high as 28.7. This trend is very significant. While it is true that during first and second five-Year Plan periods, capital formation in the country was growing at a very rapid pace, still the requirements of industries were growing much faster than capital formation. As a result, our joint-stock industrial enterprises have had to depend to a larger extent than ever before on the banks. This is not a very healthy trend. One of the sound principles of industrial finance is that an industrial company should, as far as possible, have for its paid-up capital and internal resources anything between 50 to 75 per cent of the money of the capital employed in the business, and that it should, as it grows, lean less and less on banks for meeting its financial requirements. One impediment to the attainment of this objective is the fiscal policy of the Government.

The taxation policy tends to take away from industries an increasing proportion of their profits. Then it creates a situation when industries are compelled to lean heavily on banks to obtain their requirements. As a matter of fact, the controversy on the Super Profits Tax was very largely based on this fact. The most important and deleterious consequence of measures like super profit tax to the development of industries would be to cause a very severe strain on the liquidity of our industries by calling upon them to part with anything between 65 to 80 per cent of their annual profits in the shape of total direct taxation. That means, the industries will be left with very little, both to provide for modernisation of their existing plant and for the expansion of their existing capacities. So fiscal policy has a very important bearing on industrial finance. I trust that the authorities in Delhi will pay sufficient thought to this taxation aspect which seriously affects the running and expansion of industries on a sound basis.

These aspects attain greater significance in the conditions prevailing in India for the last five years in particular. Owing to the very serious depletion of the foreign exchange resources of the country, any industrial enterprise has to fall back on some of the international financial agencies which have been created after the Second World War to obtain the necessary foreign exchange to buy plant and machinery from abroad on a long-term basis. India still has not attained that stage of economic self-sufficiency, so that it can start industries on the basis of obtaining its plant and machinery from within the country. The sheer necessity to obtain plant and machinery for the different types of industries is making us dependent for many years to come on foreign suppliers. They are not prepared to accept rupees but desire to be paid in their own currencies. We have to arrange for the supply of this foreign currency through various international agencies like the World Bank or AID Agencies or the Export-Import Bank, etc. When we go to these world agencies for obtaining long-term capital, in terms of foreign currencies, one thing they insist on is the production of what is technically called a flow chart. A flow chart means that if we want to start an industry today which will cost, say, a crore of rupees as initial capital for plant and machinery, building, etc., and if the foreign exchange component of that is Rs. 50 lakhs, the borrowing of Rs. 50 lakhs would depend upon our satisfying these international agencies, that during the course of the subsequent ten, twelve or fifteen years, by running the industry efficiently, we will have built up sufficient cash resources internally within the industry, which would enable us to pay back the loan by instalments. The flow chart is very closely scrutinised by the international agencies. If the fiscal policies of the country result in disturbing this flow chart by causing a serious strain on the cash resources of our industries, particularly of industries which have been started during the last ten years, with the aid of international agencies, it is going to create a very serious problem as regards India's credit abroad. If the borrowers in our country fail to meet, on the due dates, instalment payments in redemption of the foreign loans, it is vitally going to affect India's capacity to borrow further abroad.

It has to be recognised that in the last ten or fifteen years, in spite of many weaknesses in our Planning which I have always described as a "Planless Planning", industries have been developing in our country. With the development of industries, financial requirements are also growing. Since our banks are commercial banks, and have not been organised and operated with a view to supply long-term capital for industries, a number of new special agencies have been created within the country. We are fortunate that the international agencies which have been created, particularly with the aid of the United States of America, have been helpful to us in sympathetically considering our requirements of long-term capital. In 1948, the Government of India, on the advice of a number of people, particularly the industrialists of our country, started for the first time what is called an "INDUSTRIAL FINANCE CORPORATION". The capital of this corporation is held largely by the Government of India, Reserve Bank and a number of scheduled Banks. This Finance Corporation, during the course of its existence, has rendered great service to industry and to a very large extent filled the vacuum for the supply of long-term capital. The only trouble is that it is very largely a Government institution and, therefore, is subject to certain procedures and ways of working which do not make for expeditious disposal of applications. The submission of a proposal to the Industrial Finance Corporation takes a long time. The trouble with our industries and business is that conditions are changing so rapidly that what appears to be a sound and profitable proposition today becomes uneconomic if it is not implemented within a reasonable period of time. But even with all the weaknesses which have been revealed in the working of the Industrial Finance Corporation and as a result of constant pressure of criticism, things are improving a little in recent years. The Corporation has helped a large number of industries substantially. The only weakness here is that the largest part of the aid is given to industries in the co-operative sector. Of the total of Rs. 164 crores of loans which have been sanctioned by the Industrial Finance Corporation, the largest individual sector that has benefited is the co-operative sector, and particularly the Sugar Co-operative sector, to the extent of nearly Rs. 38 crores. A number of industries like Cotton Textiles, Rayon, Paper Chemicals, Cement, Mechanical Engineering, Electrical Engineering, Automobiles and Tractors have all received the attention of the Corporation. One main feature in the operation of the Industrial Finance Corporation is that, unlike the commercial banks, it is able to give loans to industries on as long-term a basis as 25 years. Till recently, even the rates of interest on these loans were extremely reasonable. The only limitation of the Corporation is that it will not give more than a crore of rupees to any one industrial unit except with the Guarantee of the Central Government. A time has come when the Government will have to revise the charter of the Industrial Finance Corporation in extending this limit of loans granted to individual units. The size of operation all round is expanding and the cost of plant and machinery are going up year by year. Therefore, it becomes an imperative necessity that if the Corporation has to be more useful and more serviceable to the development of industries in the country, the limits of its loan operations should be expanded at this stage.

Another unique agency in our country is the Industrial Credit and Investment Corporation of India, commonly called ICICI. It is an institution in which I am very proud to have played an active part at its initiation. It is entirely due to the initiative of the World Bank. The World Bank, on its study of our development problems, realised that if the Private Sector had to play its part in the development of industry, additional financial facilities should be made available. With that end in view, it sent out a mission to India in 1953. The basis of its proposal was that a new financial agency should be created in India with the co-operation of the Private Sector in Great Britain and the United States of America. The Private Sector in India was to contribute the bulk of the capital and the Government of India was also brought in as a contributor of a long-term loan to this Corporation. Ultimately, the ICICI started with a paid-up capital of five crores of rupees of which ten per cent was contributed by four big industrial firms of the United States of America, 20% by the leading British Insurance Companies and a pool of what are called the Exchange Banks of the United Kingdom, and 70% collected in India mainly through big industrial houses, scheduled banks, and insurance companies. The World Bank, on its own said that since India is developing, foreign exchange difficulties were bound to arise and, therefore, the World Bank would start by giving an initial revolving credit of 10 million dollars. It was extremely valuable in those days because we were getting very short of foreign exchange. Since the commencement of this institution, the World Bank has been generous enough to raise its revolving credit from 10 million dollars to 30 million dollars. Particularly during the last four years when the Government of India has been facing the biggest problem it has faced so far on foreign exchange for allocation to the Private Sector for the purchase of plant and machinery abroad, this generous asistance by the World Bank through the ICICI has enabled a number of industrial projects to be implemented. The ICICI has a distinctive quality, viz., it is entirely a Private Sector organisation. It is run by the Private Sector. It has its own shareholders, and directors are elected by the shareholders. The Government, of course, has given Rs. 7½ crores free of interest and has a representative on the Board. I worked on this Board for five years. I cannot think of a greater measure of autonomy in running an organisation of this character than the ICICI enjoys today.

The ICICI, apart from its lending facilities, has rendered one great service to the industries of India and particularly to the Private Sector. It has a set-up of a very fine organisation of qualified men to study and scrutinise the projects which are submitted to this organisation for financial assistance. It has set up a certain high standard from the very begining in regard to the management of enterprises which are floated under the sponsorship of the ICICI. The procedures it follows are sufficiently elaborate, but being run under the Private Sector, there is no delay which is generally associated with Governmental departments. Therefore, its customers are very hapy in dealing with ICICI for two important reasons. One is that they have to comply with a very high standard of conduct and, secondly, that it gets quick decisions. This organisation deserves to be developed much more because it is rendering a very great and important service to the industrial development of our country.

Apart from giving long-term loans, it was specifically provided in the original charter of the ICICI that it was to render service which was badly needed in the country, viz., the underwriting of capital issues of new companies. In the highly industrialised countries of the West and in Japan, there are large financial houses which specialise in what is technically called underwriting capital issues. Once they are satisfied, on a close scrutiny, about the soundness of the project which is submitted to them, they tell the sponsors of the new project, whether they need a hundred thousand pounds or five million pounds as share capital, that if the public does not subscribe to the shares they will be taken up by the underwriting houses. In the original charter of the ICICI, it is provided that it would provide this underwriting service. During the last 10 years, a number of industries which could never have seen the light of the day earlier were made posible because of the underwriting support given by the ICICI. In my experience of 40 years in this field, I have seen that there are a number of people with very bright and creative ideas. But these people are not known to the public and have no financial resources of their own. Unless they have the sponsorship of a powerful institution like the ICICI, these people will be frustrated in life not being able to achieve the very fine and deserving objectives they have in view. The ICICI, apart from undertaking this underwriting risk, has in recent years been doing another excellent type of work. Since the size of a modern enterprise is great and, therefore, the initial capital requirements are also on a large scale, the entire risk of underwriting the capital cannot be borne by any single institution. The ICICI, in recent years, has succeeded in interesting other financial institutions to share the risk with it. In that connection, the Life Insurance Corporation with its enormous funds has also started playing an important part in conjunction with the ICICI. With over Rs. 589 crores funds at its disposal, the L.I.C. is the largest in terms of financial resources in our country. It has invested so far about Rs. 125 crores of its funds in industrial issues. It is very important that the Life Insurance Corporation is today playing a useful part in sharing with the ICICI and other institutions the major risk of new industrial floatations.

Apart from the Industrial Finance Corporation and the ICICI, the Government has started another institution called the National Industrial Development Corporation. It was started definitely with the objective of helping development of new major industries and in helping the Cotton Textiles and the Jute Industry in rehabilitating and modernising their units. Another type of finance that it has undertaken is to start supporting the machine tools industry. This is one industry in which the Government has granted a number of licences but very few licences are being implemented. The difficulty of starting a machine tool industry is extremely great. This industry does not pay immediate returns. The only thing is, that if properly organised and if initial difficulties are properly overcome, this industry is bound to pay. But then we have the heavy hand of the fiscal authorities coming down upon the industry only at the stage when after years of initial difficulties it starts making some money.

There is another new type of specialised financial agency which is in operation for the last few years in India. It is called the Refinance Corporation. It was also started on the initiative of our American friends. A large part of the credit for stabilising the food situation in India must go to the piece of legislation of the United States which is popularly known as PL 480. Under this law, the United States Government is authorised by the Congress to make available to needy countries of the world substantial quantities of foodgrains and other agricultural products on a long-term loan basis. Most of them are not repayable in dollars. As a result of the very substantial PL 480 loan which we have been able to obtain from the United States Government during the last several years, the Government of India has at its disposal many crores of rupees. Foodgrains are supplied by the United States Government to our Government without any initial payment. The United States Government gets only a sort of a new type of Government

Security plus rupee credit against the supply of these grains. The grains and foodstuffs are gradually sold by the Government of India, and the rupees thus obtained are called the counterpart funds. These Counterpart Funds, till very recently, were held by the State Bank of India. The United States Government has decided on certain lines for the use of these Counterpart Funds. One of the things it wanted the Government of India to do was that Rs. 26 crores out of the Counterpart Funds are to be given to a new financial agency called the Refinance Corporation of India. The capital of the Corporation is relatively small, and it is held largely by the Reserve Bank and the scheduled banks of the country. But with these large funds which are held at the disposal of the Refinance Corporation, it lends these funds to the scheduled banks of the country against which corresponding loans of 7 to 10 years are given by the scheduled banks to the industries. It has been a very helpful agency. Unfortunately, in the initial years, this did not work very efficiently. But, recently there has been a very encouraging report that during the recent financial year the Refinance Corporation had lent about Rs. 13.25 crores to the scheduled banks bringing the total outstanding to Rs. 24.71 crores in reimbursement of the loans given by these banks to the Private Sector industries.

I referred earlier to the international agencies. The most important of these agencies is the World Bank or what is called the International Bank for Reconstruction and Development. I happened to be one of the delegates of India in 1944 when the Constitution of the World Bank was discussed. We from India naturally felt that in the constitution of the World Bank greater emphasis should be laid on development rather than on reconstruction. Our pleading did not quite succeed in 1944. However, during the last ten years, the World Bank has been lending very substantial amounts of money to India. India is proud of being the only country in the world where the largest single loan is given to any individual private industry and that is the Tata Iron & Steel Company. As a matter of fact, India should be very proud that of all the borrowers of the World Bank, India is the biggest because it shows that we enjoy such high credit. Two great Americans made this possible. One is Mr. Eugene Black, the former President of the World Bank. During the tenure of his office, he always pleaded for the maximum assistance that could be given to India. He was the author of what we now call "Aid India Club". The other gentleman, who succeeded Mr. Black, is Mr. George Woods. There is no American who understands India's economic problems as well as Mr. George Woods does. During his frequent visits to India during the last 10 or 12 years, he has been able not only to assist the Private Sector, but even the Government of India by his advice on financial matters. This is a great service of unique type. These two gentlemen deserve our great gratitude for the assistance they have rendered both to the Private Sector and to the Public Sector in India.

Of all the loans disbursed by the World Bank since its inception, 11.34% has come to India. This is a very significant proportion for any one country to take from an international organisation like the World Bank. The figure comes so far to $ 847 million. By any standard, this is a very substantial figure. Of course, the large bulk of this has gone to the Public Sector. It is laid down in the charter of the World Bank that it cannot entertain any loan proposal unless it is sponsored by the country from which it emanates, which means that every loan proposed must first be approved by the Government of the country. This approval under the present conditions in India is absolutely imperative. Since the World Bank loan is given in terms of foreign currencies and since foreign exchange is completely controlled by the Government of our country, the repayments, which have to be made by instalments over a period of years, must be in terms of foreign currencies made available by the Government.

After some years of experience, the terms at which it was giving loans to developing countries were found not quite adequate for the purposes of development in those countries. For instance, the loans were restricted to a maximum period of 25 years and, secondly, the rate of interest charged had to be a commercial rate because the World Bank also obtains its finances by raising loans not only from the United States of America but in other countries, such as Switzerland and West Germany. The World Bank realised that the bulk of interest charged and the amortisation that had to be provided during the period of repayment constituted an increasing burden on the developing countries. Therefore, under its own sponsorship it started another organisation called IDA (International Development Association). IDA has been started with a view to seeing that loans are given to the developing countries for a period as long as 50 years. The loans are also given free of interest. Only a service charge of 3/4 per cent is made. From this new organisation, which was started very recently, India has been able to obtain a little over $ 300 million. All that money or the very large bulk of it has gone to the Public Sector.

The U.S. Government, which has been the largest international lender, realised in 1961 that it had a multiplicity of agencies for lending money to developing countries in the world. Therefore, it decided to amalgamate all the agencies and started a new organisation called the AID (Agency for International Development). This agency amalgamates particularly the Development Loan Fund. The Development Loan Fund was the department of the United States Treasury which used to dispose on a government-to-government basis substantial amounts of loan to the borrowing countries. Then this Development Loan Fund had to be supported by a number of technical agencies, and in the actual working both the United States Government and the borrowing countries found that the procedure was very elaborate and caused undue delays in the disbursement of the loans which were actually authorised by the United States Government. Now that these agencies are amalgamated under AID, the loan applications are very expeditiously disposed of and monies are also expeditiously disbursed to countries. One important thing under AID is that all its loans in future will have to be repaid only in rupees.

Mr. Eugene Black, the great President of the World Bank, who retired some time ago, from his experience found that if developing countries had to be really helped, then this piling up of amortisation charges in terms of foreign currencies created an additional impediment in the way of development. He, therefore, persuaded the Government of the United States to have this new agency under him. The borrowing countries, with the repaying of the loans in terms of local currencies, have also benefitted significantly. Although this agency was started as recently as November 1961, India has been able to obtain Rs. 511 crores of assistance so far, of which Rs. 162 crores have gone to the Public Sector and the balance to the Private Sector.

Although we have been receiving very substantial aid from abroad for the development of our economy, for the last four years in particular, it was found that all the aid that came from abroad resulted in increasing the installed industrial capacity of the country. Our industrial capacity should expand. But if we have to have the full benefit of the increased industrial capacity, we shoud also be in a position to work that capacity to the maximum possible extent. Since India has not yet attained that economic self-sufficiency, in order to run our industries to the maximum capacity, we are still dependent on foreign countries for the supply of certain essential raw materials and components and spare parts for the machinery. Hence, what is called the need for "maintenance imports" becomes more and more imperative. Efforts are being made by all developing countries, including ourselves, to persuade foreign friends to see that the form in which these loans are given is not a form which is "tied" in every individual case to a specified project, and that at least some portions of the aid which is given by the United States, Great Britain, West Germany, France and Australia, Canada and Japan be in the shape of what is called "Untied Loans". In other words, some portion of the aid should be a sort of a blank cheque placed at the disposal of the Government of India, which would and could be disposed of in the procuring of essential raw materials, components and spare parts to enable the industry to work at the maximum capacity. The United States Government sanctioned a substantial amount of about 240 million dollars from the AID to be utilised for the purose of "maintenance imports". Unfortunately, our balance of trade for the last several years is persistently revealing a deficit position. In spite of drastic curtailment of imports in the last few years, in 1962–63 we still had a debit balance of Rs. 432.86 crores. All the efforts that are being made to promote exports from the country have not resulted in making any substantial difference to our balance of trade. Incidentally, efforts for promotion of exports are not yieliding results very largely due to the fiscal and other economic policies pursued by our Government. India which at one time was considered a *low-cost economy* has, during the last ten years, developed into a *high-cost economy*. Not many years ago, we were proud that India produced the cheapest steel in the world. During the last five or six years, the position has radically changed and today we are one of the most expensive producers of steel. If you examine the reasons for that, you will and that they lie in the way raw matrials are available in our country; in the increasing labour cost and the multiplicity of excise duties. All these are resulting in adding to the cost structure with the result that our industries in recent years are becoming less and less competitive in world markets.

Another fallacy which unfortunately Delhi has been indulging in for some years in spite of advice from various quarters is "Let us go on increasing our installed capacity and we will have to rely less on foreign supplies." Unless we reach a state of complete self-sufficiency, we cannot run our industry without getting any credit and recurring supplies of essential raw materials. For instance, we have no sulphur. We have set up a number of sulphuric acid plants. Sulphuric acid is a very important raw material for a number of other industries. Unless we have means to buy sulphur from abroad, we cannot produce sulphuric acid. Similarly, we do not produce alloy and special steel. We cannot, therefore, run a machine-tool industry without imports. We cannot produce cables without copper and other things. Therefore, so long as we are away from complete economic self-sufficiency, every increase in installed capacity increases the burden of import costs.

Besides these important international agencies which have been extremely helpful to us in the last few years, there are some others which were started but, unfortunately, have not been of much use to us. There is an organisation called the International Finance Corporation. The charter of the World Bank did not permit it to lend to private parties without the guarantee of the Government of the country. It was felt that there were a number of eligible borrowers in the developing countries who should get loans straightway from the lending authorities without bringing in their Government in the picture. With that end in view, the International Finance Corporation was started in the U.S.A. Unfortunately, its operations have not been of an extensive character because it was strictly on commercial lines and, therefore, so far as I know it has been able to make only two loans to two parties in India.

In the Commonwealth itself, there is an organisation called the Commonwealth Development Finance Corporation.

This is a helpful organisation which works so far as India is concerned in collaboration with the ICICI. It has made some useful loans for some of the important projects in India. Its chairman was recently on a survey of economic conditions in India. I feel after a discussion with him that there are fair prospects for India obtaining substantial assistance from this organisation in future.

I mentioned earlier about PL 480. The operations of this law resulted in creating the Counterpart Funds which are now running to a substantial figure of over Rs. 575 crores. At an earlier stage, the American authorities in charge of PL 480 insisted that a certain portion of this must be set aside to support industries in the Private Sector, and as a result of that, the Refinance Corporation was started. Later on, under an amendment passed by the Congress, another important step was taken to make available in India a part of this rupee fund to Indian indutries, but on condition that loans will be given only to those industries or projects which had been started in collaboration with American nationals. So far a number of projects have been started by Indians in collaboration with Americans.

Apart from this, there is what is called the Export-Import Bank. This bank was started in America mainly with the objective of promoting export of American goods. They thought that it was a sensible course that in order to promote their exports they should encourage particularly developing countries to buy from America. If they bought from America, then naturally they should have extensive credit facilities made available to them. It is an interesting organisation in which both the American exporter as a private exporter and the American Government participate in financing purchase of American plant and machinery for developing countries. If you place an order with the International General Electric Company in America for about a million dollars of electric plant, the Export-Import Bank is prepared to find the money provided the International General Electric Company is prepared to bear this loan to the extent of 20 per cent, 80 per cent of the loan being found by the bank itself. This bank has been extremely useful to us and a number of projects in this country have been made possible during the last few years because of the assistance obtained from the Export-Import Bank.

There is another source open to us for getting foreign exchange for our industries, i.e., direct arrangement with foreign suppliers. It is possible to buy plant and machinery abroad, provided a person has an import licence from our Government and makes arrangements with the foreign suppliers on what is called the "Deferred payment". It is a very expensive project. For instance, a number of our concerns have been able to obtain this facility from West Germany by paying as much as $10\frac{1}{2}$ to 11 per cent on the moneys they have obtained there. A part of the cost is involved in a special type of insurance which West Germany has developed. The West German manufacturer is prepared to supply machinery on a credit basis, not much longer than 7 to 10 years, provided he obtains an insurance cover from an organisation called HERMES. This HERMES is an state-aided insurance organisation which supplies a special cover to the supplier of machinery in West Germany to the developing countries. But the cost of insurance is sometimes about 2 to $2\frac{1}{2}$ per cent of the cost of plant and machinery. With the chronic shortage of foreign exchange that we have in this country, if we have to get on with industrial development, taking a long-term view, some people prefer even to pay this high cost and get plant and machinery from West Germany.

Sometimes a foreigner is too willing to assist us but we are helpless to take advantage of this facility. The most recent experience is that the American Government has offered a loan of 35 million dollars to India for the rehabilitation and modernisation of our coal industry. But there is a condition that while America finds dollars or any other foreign currency for the purchase of necessary plant and machinery, India should find a counterpart in terms of rupees. Most of our coal companies have complained that as a result of the coal price policy followed by our Government, that industry, which generally handles a wasting asset, has not been allowed to build up by ploughing back out of its profits sufficient funds for the rehabilitation of the industry. Having had a low profitablity for a number of years in the past, the creditworthiness of the borrower in the Indian capital market has been substantially reduced, and, therefore, the coal industry is unable to utilise this generous assistance offered by the U.S.A.

Having dealt with the sources of international assistance in our economic development, let us review the home market again. After all, when you start an industry, you must have an initial capital. An estimate of an initial capital rests on the cost of the imported plant and machinery, what it costs to put up the factory and at least to have some money to be held as a sort of margin for raising working capital for the industry. The capital market in India during the last ten years has shown considerable fluctuation. A few figures will illustrate this. During the course of the First Five-Year Plan, between 1951–55, Indian Industries were able to raise Rs. 346 crores from the open market. Of this 69% of the money was raised in the form of equity shares or ordinary risk shares. Again, 16½% was raised in the form of debenture loans and the balance was by issue of new capital by the existing companies in the form of bonus shares. In 1956, in the first year of the Second Plan, before the notorious Budget, Indian industries were able to raise in one year Rs. 117 crores by way of capital. Mr. Krishnamachari's budget gave a big shock to the capital market of India and the next year industry was able to raise only Rs. 98 crores. In 1958, the capital market had not yet got over the shock and Indian industry could raise the capital of only Rs. 80 crores in that year. Then investors' confidence revived.

One significant feature of the broadening of the capital market in India during the last few years is the increasing interest taken by the small man. In a memorandum which was submitted to the Finance Minister in March 1963, by the Presidents of all the Stock Exchanges in India, it is pointed out, that 90% of the total money invested in the ordinary shares of industries in India is held by small people, representing individual holding of Rs. 10,000 or less. When you hear from Delhi all the stories of concentration of economic power and monopoly conditions prevailing in India, if you are a respecter of truth, you will disbelieve those stories.

From the statistics compiled by authorities in our country, the true picture emerging is that an increasing number of small men have started taking interest in the industrial development of the country. This is a very healthy feature. As a matter of fact, some years ago, a few of us approached the Government of India to promote and nurse this tendency by the creation of what is known in Western countries as a Unit Trust. Unit Trusts have been working in countries like the United Kingdom and the United States of America for the last many years, and have been able to accumulate very substantial amount of capital from the small man. The main idea of the Unit Trust is that the management of the trust starts with a capital of something like a hundred thousand rupees. This capital of hundred thousand rupees is split up into units of 10 rupees each. The original hundred thousand will be represented by the selection of fifteen or twenty industrial stocks with a good record of dividends throughout the period and every buyer of 10-rupee unit will have an interest in fifteen or twenty industries in the country. But it is possible to work Unit Trusts only on one recognised basis. Since the management has no interest in the capital of the Unit Trust and only earns a small fee, tax cannot be levied on the Unit Trust earnings. The tax collected is always from the man who would receive dividends from the Unit Trust. For the last six or seven years, we have tried very hard. Unfortunately, we have not been able to persuade our Treasury authorities to see the wisdom in starting it. Recently the Government has set up an investment trust. But private enterprise has not yet been allowed to set up unit trusts.

There is an increasing interest taken by the small man in new capital. As a matter of fact, in the first six months of 1962 we had an unique experience. Every issue of new capital, provided it was properly sponsored, attracted countrywide notice and in a number of cases these issues were heavily oversubscribed. The most spectacular case was in 1961 when the issue of a company started by an Indian and an American firm for the manufacture of synthetic rubber in India was over-subscribed 80 times. As a director of the company, I was interested in analysing the list of people who applied for the shares. I found that more than 80% of the subscriptions came from small people who wanted two to five thousand rupees worth of shares in that company. This is a healthy tendency whch needs to be nursed and developed. But this tendency can be nursed on the basis of the confidence of the small man in two things. Firstly, that his capital will be intact even if it does not appreciate, and, secondly, that he will earn a reasonable return on the money he has invested. An analysis was made by the Research Department of the Reserve Bank of India as to the extent to which the public of India participated during the lat few years in Government loans. In spite of best advice, both from within and without the country, our Government is trying to maintain and bolster up an artificial rate of interest on its borrowings with the consequence that investors, both large and small, have been diverting their attention from Government loans to industrial securities. So long as this tendency persists, it is good for industrial development that more and more money will flow into industrial securities.

Stock exchanges may be denounced as noisy places. But stock exchanges have been playing an important part in maintaining the liquidity of capital. Unless the stock exchange functions efficiently and makes it possible for investors to liquidate their capital whenever they want to, investors would be shy of putting their money into industries. The way the stock exchanges have behaved during the weeks following the 1963–64 and 64–65 Union budgets is a significant pointer as to what can be expected as a consequence of harsh fiscal measures. The confidence of the investor in the future of the industrial activity of the country has been rudely shaken. This confidence is to be restored by pursuing realistic fiscal and monetary policies. With all the enthusiasm in the world, private enterprise is keenly disappointed by the Government's fiscal and economic policies. Private enterprise has sufficiently been determined to go ahead with its job. We are no less patriotic than any other portion of the community. We are most anxious to see that India today will go on developing so that in the forseeable future we might be one of the important industrial countries of the world. But I have to sound a note of warning. With all the facilities which we have, with international agencies which are anxious to hep us, and a number of foreign enterpreneurs who during the last few years have come to India and are willing to collaborate with the Indian partners in going ahead with the job of industrial development of the country, if the latest theory of the new budget continues to impede the development of the country, the only party that would be responsible for this state of affairs will be the Government itself and nobody else.

In a survey of Industrial Finance, a reference to small companies is indispensable. Of about 25,500 companies registered in India, about 22,500 companies are small companies. They are having a capital of Rs. 5 lakhs or less. These small

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff

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Published by M. R. Pai for the Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by S. J. Patel, at Onlooker Press, (Prop. Hind Kitabs' Ltd.) Sassoon Dock, Colaba, Bombay-5.

10|October|1964