INDUSTRIAL FINANCE IN A MIXED ECONOMY

G. L. MEHTA

1972

Published by
THE A. D. SHROFF MEMORIAL TRUST
235, Dr. D. N. ROAD,
BOMBAY-1.

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OBJECTIVES

(i) Publication of one or more books is English, Hindi, and regional languages annually on some of the great builders of Indian economy aimed primarily at educating the younger generation in high standards of building the national economy as practised by those great entrepreneurs and placing the example of their lives for emulation by India's youth.

(ii) Organising one or more memorial lectures annually on subjects which were of interest to the late Mr. A. D. Shroff, namely, banking, insurance, and industrial finance, the subjects to be chosen in rotation, and the lectures to be delivered by persons eminent in these fields.

(iii) Awarding annual scholarship or scholarships to outstanding student or students in the field of management.

(iv) Instituting a prize to be known as The A. D. Shroff Memorial Prize for the student standing first in Banking at the Sydenham College of Commerce, Bombay.

(v) Doing all such acts, matters and things as are incidental or conducive to the attainment of the above aims or objects or any one or more of them; and

(vi) Without prejudice to the above charitable objects or any of them, the TRUSTEES shall have the power to spend, utilise and apply the net income and profits of the TRUST FUND for the TRUST FUND for the charitable object of education or such other objects of general public utility not involving the carrying on of any activity for profit as the Trustees may think proper, it being the intention of the SETTLOR that the income and/or corpus of the Trust Fund shall be utilised for all or any of the aforesaid charitable objects without any distinction as to caste, creed, or religion.

INTRODUCTION

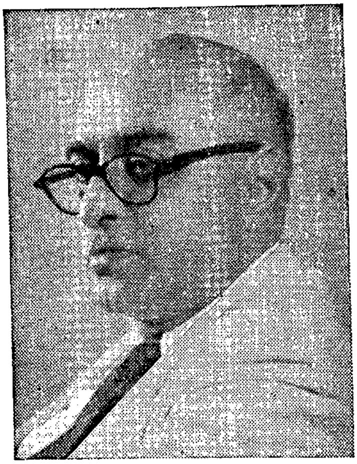
The annual lectures delivered under the auspices of The A. D. Shroff Memorial Trust are subsequently published in book form for distribution to educational institutions and the public at large. These books have been well received both in India and abroad, for their informative contents and constructive suggestions regarding the problems facing India.

This book incorporates the text of the lecture delivered by Mr. G. L. Mehta on "Industrial Finance in a Mixed Economy" on 14th March 1972. It bears witness to Mr. Mehta's vision and keen insight into the basic principles of the subject, which enabled him to make, as the Chairman of the Industrial Credit and Investment Corporation of India Limited, an outstanding contribution in the field of industrial finance. Under his stewardship, ICICI has become a model institution of its kind. This lecture dealing with the need for financial discipline in the public sector, the concept of the joint sector and new horizons in industrial finance—deserves serious study by governmental authorities and the general public. In his own inimitable style, Mr. Mehta has given a penetrating analysis in a most readable form.

The Board of Trustees hope that this book, like the others in the Series, will help the growth of sound economic thinking which is so indispensable for the rapid development and progress of our country.

N. A. Palkhivala
Chairman

Bombay, 14th April 1972.



A. D. SHROFF

(1899 - 1965)

A. D. Shroff's achievements in the field of business, industry and finance were many and varied. A large number of enterprises owe their origin and development to him. As an economist, his predictions have proved right over the years. Through the Forum of Free Enterprise, which he founded in 1956, as a non-political, educative organisation, he sought to educate the public on economic affairs. It was his firm conviction that a well-informed citizenry is the foundation of an enduring democracy.

George Woods, former President of the World Bank, paid the following tributes to A. D. Shroff :

> " In every age and in every society men must express anew their faith in the infinite possibilities of the human individual when he has freedom to develop his creative talents. For this is in large part how the message of freedom is passed from generation to generation. A. D. Shroff spoke eloquently in a great tradition, and thanks to him we can be sure that other great men of India will continue to speak this message in the unknown context of our future problems. "

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INDUSTRIAL FINANCE IN A MIXED ECONOMY

By

G. L. MEHTA

I am grateful for the invitation to deliver the A. D. Shroff Memorial Address. Although I do not profess to be a financial expert, I accepted this invitation not only because of my association with the Industrial Credit and Investment Corporation for thirteen years but also because of my association with the late A. D. Shroff who was a contemporary of mine fifty years ago at the Elphinstone College in Bombay and the London School of Economics. Shroff had a remarkable grasp of financial problems and knew their technical as well as practical aspects. He had a constructive outlook and could view economic problems as a whole as well as in detail. He was keenly interested in the industrial development of the country and assisted in promotion of several ventures by his counsel and personal interest. It was an education to listen to his speeches for he had that rare lucidity of expression which comes of clarity of thinking and a complete grasp of the subject. He spoke with conviction as well as with precision and was never casual or superficial. He was forth-

Mr. G. L. Mehta is a pioneer in the field of industrial finance in India. At present Special Adviser to the Industrial Credit and Investment Corporation of India, till 1971 he was its chairman. A former Ambassador to U.S.A., Mr. Mehta has been active in business and industry as also public life in India.

right and fearless in his criticisms but he had no rancour or malice.

Shroff was a member of the delegation to the Bretton Woods Conference of 1944 which was led by Sir Jeremy Raisman (then Finance Member) and which included, among others, Chintaman Deshmukh and Shanmukham Chetty. It was this conference which led to the establishment of the International Bank for Reconstruction and Development (the "World Bank") and the International Monetary Fund. Shroff was also Chairman of a Committee appointed by the Reserve Bank in 1953 for studying problems of finance for private industry which presented a valuable report.

Shroff was one of the authors of what came to be known as the Bombay Plan although in his later years, be became a strong critic of Government's planning. Whether one agreed with his view on "free enterprise" and "socialism" or not, it has to be recognised that he was dedicated to the cause of India's economic development and believed in economic strength and viability to give content to political independence.

The Industrial Credit and Investment Corporation of India owes a particular debt to him because he was a Member of the Steering Committee which brought that institution into being. As one of the founding Directors of the Corporation he helped in its formation and relinquished office in 1958. I had the good fortune of enjoying Shroff's goodwill and friendship over the years although our paths were different. I, therefore, considered it my duty to accept the invitation to speak on an occasion to commemorate Shroff's contribution to our economic development.

The concept of a mixed economy has been accepted as a policy in our country. The Prime Minister made this clear in her speeches during the election campaign last year. Thus, the private sector is an integral part of the national economy. In a book entitled, *Twentieth Century Socialism*, written by British socialists and published over a decade ago, the authors state: "The private sector of a socialist economy is not there merely on sufferance to be tolerated on grounds of political expediency with the Sword of Damocles hanging over it in perpetual threat. On the contrary, has a legitimate and, indeed, a necessary function to perform. Within the limits of equality, there must be opportunities for people to spend as they wish, to own, to initiate and experiment; they must be able to form associations to further their economic interest. In all these areas, the individual must have a chance to act without waiting for the approval of the State." And they go on to observe that "the reason why a socialist economy requires a private sector is because socialists place a value on individual freedom."

In a developing country, it is not enough to start new industries. The main problem is one of building up institutions and ancillary facilities. As regards the physical infrastructure, since the needs are tangible they get emphasised much more openly. On the other hand, the institutional lacunae which face a developing country are not as visible and there is a tendency, therefore, to understate their require-ments.

If industry is to be built up, it is necessary to have an active capital market. Such a capital market comprises not merely stock exchanges but also an institutional structure which provides funds to industry, both long-term and short-term.

In India, the development of banking system began early. Apart from the exchange banks which were the appurtenance of British presence in India, a locally-owned banking system came into being in the organised sector. In addition, India had always had a large traditional indigenous sector in banking, covering indigenous bankers and money lenders. It is this structure which continued to grow, and which has taken care of industry's short-term working capital requirements.

The structure available for providing long-term finance to industry was, however, limited till India became independent. To some extent this was a function, as also a consequence, of the slow pace of development of industry in the country. Since the Government in pre-independence days logically followed a free trade policy and protection to industry was given on a discriminatory basis, the risks of investment in industry were large, and few institutions were willing to take up the risks. For example, funds arising in the insurance sector were invested predominantly in Government securities rather than industrial securities mainly because of the risks involved in the latter. At the same time, because there were not enough institutions providing finance for industry, the growth of industry was necessarily slow.

Even in such a condition, two aspects of the emerging capital market were clearly evident. The Bombay stock exchange was founded in 1870 and provided an active basis for the floatation of new securities. Moreover, what might be termed as "larger houses" today had built up, in the form of managing agencies, a system which enabled them to raise long-term capital on the market. Nevertheless, it cannot be denied that the risks of investment in industry were quite high.

The need for finance was clearly seen even in those days and several proposals were mooted for setting up specialised long-term finance institutions for industry. The Central Banking Inquiry Committee (1931) particularly made this suggestion in their final report. But, their recommendations were overtaken by political events, namely, provincial autonomy in 1935 and outbreak of the Second World War in 1939.

Gradually, over the last twenty-five years since independence, India has built up a fairly comprehensive structure for providing finance to industry. This comprises both long-term finance institutions and commercial banks to provide working capital needs. Besides, there are various organisations like State industrial development corporations which are engaged in promotion of industry as also consultants who now provide services in the form of feasibility reports and other related aspects of industrial ventures. It is necessary to examine this structure in order to assess its role in the kind of economy which is evolving.

At the apex of the industrial finance structure is the Industrial Development Bank of India (IDBI) set up in 1964. Following the Canadian precedent, it has been constituted as a wholly owned subsidiary of the Reserve Bank of India, the central banking authority in the country. The functions of IDBI are fairly wideranging in that it provides not only direct finance but also indirect finance to industry through its refinance facilities and through financing of other finance institutions. Moreover, it has undertaken other types of financing such as, for example, financing of exports.

At the all-India level there are two finance institutions, the Industrial Finance Corporation of India (IFCI) and the Industrial Credit and Investment Corporation of India Limited (ICICI). The IFCI is the older of the two institutions and 50 per cent of its share capital is at present held by IDBI. Its major operations have been in the field of financing co-operatives, particularly in the sugar industry as also guaranteeing of deferred credits when the first foreign exchange crisis overtook the country. The ICICI has been far more concerned with underwriting and with foreign currency loans.

At the State level, there are statutory bodies like the State finance corporations and corporations set up under the Companies Act such as State industrial development corporations which have been established to do promotional work. The State finance corporations provide funds to both joint-stock companies and non joint-stock enterprises. After an initial period of slackness, they have begun to operate at a reasonable pace since the mid-sixties.

The State industrial development corporations are a response to the increasing desire of State Governments to play a more active role in the promotion of industry within their borders. Being organised as limited companies, these Corporations have broad charters for operation and are flexible in their approach to financing problems. An indication of their importance is available from the fact that a large number of licences in industries like automobile tyre manufacture, beer manufacture and mini steel plants have been taken out by these corporations.

At the State level, an innovation which has become more widespread is the starting of corporations to encourage development of industries outside the metropolitan towns. The State of Maharashtra was a pioneer in this respect by setting up The State Industrial and Investment Corporation of Maharashtra (SICOM) to finance industries outside the Bombay/Poona belt. SICOM has been successful in placing places like Nasik, Aurangabad and Nagpur on the industrial map of Maharashtra. It is an example which is now being copied by many other States.

At the small industries level, there are two different sets of attempts to provide finance to small industries. At one level, the National Small Industries Corporation (NSIC) supplies machinery, both local and imported, on hire-purchase basis. At the same time, for several years the Reserve Bank has been encouraging banks to provide finance to small industries. In 1960, the Reserve Bank took up, as agent to the Government of India, the function of providing guarantees for loans made to small industries. In a more active way, the State Bank pioneered the function of providing loans to small industry, and still retains its primacy in this function.

Nationalisation of banks gave an impetus to the fulfilment of this objective. Banks are encouraged to provide increasing resources not only to small industries but also to other neglected sectors in the economy like agriculture. The total amout of loans provided by banks to small industry were Rs. 493 crores last March and should now be much in excess of Rs. 500 crores.

In addition to all this the role of two other institutions in providing finance to industry needs to be noticed. Firstly, the Life Insurance Corporation is a permanent investor of funds, and is in search of investment opportunities to utilise its increasing resources. It provides finance not only to newer industries for expansion projects but also carries on market operations. While until about five years ago, about 20 per cent of its funds were invested in industrial securities, in more recent times this proportion has come down, being now about 15 per cent. This is partly because LIC now provides increasing funds for economic infrastructural and welfare activities like water supply, electrification and housing.

A second institution at the all-India level is the Unit Trust of India which invests in marketable securities. Started over seven years ago, its funds already exceed Rs. 100 crores. Operated with caution UTI has been an important buyer of debentures on the capital market and has been responsible for financing a large number of new issues of debentures.

It would be evident from this brief survey that almost all the organisations concerned with mobilising or distributing finance are now increasingly with the Government or under Government control. Despite this, the existence of a diversity of institutions at the Central level and because of the role of State level institutions, it could be said that finance is not wholly governed by monolithic considerations but is subject to diverse pulls which, in the end, wind up in a working and workable system. There are various factors in such workability which I would like to point out.

There is, in the first place, increasing recognition of the important role that finance plays in the development of an economy. This is evident in the large growth of institutions to provide finance in various sectors like agriculture, housing, electricity distribution, besides industry. In other words, finance function is looked upon as a function separate from the function of management of an enterprise.

The most clear evidence of this aspect is the increasing routing of public sector enterprises to banks and finance institutions for their financial needs. While Government control of public sector enterprise has to be made on broad social policy objectives, it is for the finance institutions to provide a supervision over the running of the enterprises and to subject them to the discipline of efficient management. A finance institution has specialised knowledge in this area and it is desirable that, through the provision of funds by finance institutions to public sector enterprises, this specialised knowledge is brought to bear on the operations of public sector enterprises.

Moreover, Government has been concerned with broadening the industrial base in the country; this is being done in diverse ways: the provision of finance for small entrepreneurs has been made a priority objective for finance institutions and increasingly funds are being provided to these enterprises. After all, the process of industrial development requires the broader participation of a large number of individuals in entrepreneurial activities and it is necessary that financial impediments which hamper small enterprises should be removed by special measures for the small sector.

Further, the Government desires that financial institutions should promote some social objectives particularly in the area of broadening the management structure of enterprises. The growth of industrial enterprises in recent years has been due in no small measure to provision of finance by various finance institutions, many of them obtaining their funds from the Government. With a view to diversify control over management, the Government has now stipulated that a part of the rupee funds provided by finance institutions would be convertible into shares at the option of the finance institutions. While there was initial hestitation regarding the implications and consequences of this clause, industrialists are gradually being reconciled to this stipulation. I can say with confidence that the manner in which finance institutions have approached this problem has to a considerable extent reassured industrialists.

Apart from providing finance to small industries, finance institutions are also seeking to play an important role in promoting industry in backward areas. The Government has provided a list of districts which are deemed to be backward and has provided several incentives for industry set up in these districts. Finance institutions have now announced concessional terms of finance in respect of rate of interest, margin of security and period of repayment for loans to industries set up in such areas. ICICI has also brought out a brochure which lists incentives, at the Central and State Government level as also those provided by finance institutions, which are now being provided for industry in backward areas.

Finally, the Government has been actively interested in promoting what has come to be called the "joint sector". There is no precise definition yet made of the "joint sector" and various proportions of Government holding of shares in such enterprises now obtain. Whatever the porportions, the essential point in the joint sector is co-operation between the Government, private enterprise and the public in the financing and setting up of industries. The success of such an idea would, in the last resort, depend upon the ability to work out smooth relationships between the Government and the mangement unit. There have been some notable examples of successful operation of joint ventures such as Oil India, Indian Explosives and Gujarat State Fertilizer Corporation. Given our experience of public sector enterprises and the fact that the role of the State in industrial development will continue to increase the joint sector offers a *via media* for the active participation of private enterprise and the public in developmental process.

Finance is a service industry and the basis and volume of its growth must depend upon the requirements of the economy. In order, therefore, to analyse the prospects of industrial finance in the coming years, it is necessary to go into the rate of growth of industry and the form such growth will take in future.

We are endeavouring to bring about a structural transformation in economy. Despite the green revolution, the ability of agriculture to support even the existing level of population dependent upon it is limited. The growth of agriculture has, to some extent, relieved the absolute shortage of foodgrains in the economy. But its impact on expansion of employment, and ensuring a more equitable distribution of income is limited and is likely to remain so in the foreseeable future. The lag in agriculture in our country as compared to economically advanced countries is much smaller than that in industry. Industrial growth has, therefore, to take place, and at a pace much faster than in agriculture, so that the burden on agriculture for providing livelihood to our increasing population is relieved and the employment problem is adequately tackled. The rate of growth of industry, now that agriculture seems to have got out of its stagnation, has to be much faster if this structural transformation is to be brought about.

There are various forces and factors which influence the shape and pace of industrial growth. For instance, since planning began, there has been an increasing emphasis on Government ownership of industry. Starting almost from scratch, the Government today owns perhaps more than half of the total industrial sector in the country. There have been problems in the management of public sector enterprises—but we have to recognise that the trend towards increasing public ownership and setting up of industry is likely to continue.

Besides, and this is often missed by many commentators—there is likely to be a much faster growth of small industries in the coming years. This sector has necessarily to remain private and, to that extent, the balance between public and private sectors would not be upset radically during the next few years. The growth of small industry is due to a recognition of the vital need to increase employment opportunities at as rapid a rate as possible. It is also recognised that the formidable task of industrialisation of an economy as large as ours cannot be carried out by setting up a few gigantic projects in the public sector. It is well known that an increasing proportion of additional supplies of funds is being provided to foster the growth of small industry.

Besides, we have to go into the prospects of what may be called medium and large sized industrial sector. Almost half of this sector comprises what are called the 73 large houses in the country The remaining half, if they continue to grow at the pace set during the last twenty years, would soon come into the category of these large houses. In this sector, as a result of recent Government hesitations and ambivalence, progress seems to have slowed down during the last three or four years. Yet, as the experience of the last twenty years shows, this has been the most dynamic element in our economy and it would be difficult to slow down its rate of growth without hurting the economy. On the other hand, as recent legislation on monopoly control has shown, the sector cannot possibly continue to grow on the basis of its existing organisational pattern.

It is this section of the economy where the ambivalence in Government policy is most clearly visible. Apparently, there are urgent tasks in the economy some of which can be carried out only within this sector. At the same time, the Government does not seem to relish the prospects of growth of large houses in this sector. The only way this situation can be changed is by a diversification of the ownership base of industries in this category and, in consequence permit the growth of this sector in the coming years. Such diversification in the ownership base can come about by wider public participation in the share capital of these enterprises as also as a result of recent policy decisions like convertibility of loans taken from finance institutions and the setting up of units in the joint sector.

In order that the process of growth may be accelerated it is necessary that the Government clearly defines its policy in this matter. The present ambivalence has led to industrial stagnation which a country like ours can ill afford. Even without Government intervention, as for example the ownership pattern of TISCO shows, industry can no longer be the preserve of a few individuals. The history of growth of industry in other countries shows that a broad and diversified industrial structure can be supported only by a broader ownership of industry. Even if a free rein were to be given to industry to expand, a certain dilution of ownership is bound to arise. The intervention measures which the Government has taken have only helped to hasten this process and to expedite this transition.

While the ownership of the industrial structure is likely to be broadened, it is unavoidable that the main sources of finance in the economy must remain with the Government. Almost the whole institutional structure for providing finance, as I mentioned earlier, is owned by the Government; this covers not only banks and finance institutions but also life insurance and provident funds. The only sources of finance which remain within the private sector are private savings and corporate savings. As the corporate sector grows, the flow of corporate savings will continue to increase—but not at the same rate as needed to finance the likely growth of industry which would take place during the next twenty-five years. At the same time, taxation rates and the recent trend towards imposing ceilings on salaries and on other forms of wealth and income go to show that private savings, other than contractual savings like those for provident funds and life insurance, are not likely to become a major source of finance in the coming years.

In the light of this analysis, it is essential that we frame our financial policy to provide for a rapid growth of industry in the economy. The basic structure for industrial finance, as set up at present, is comprehensive and should be adequate to meet the financial needs of industry. However, certain institutional aspects of provision of finance deserve consideration.

To begin with, there is need to re-think the policy regarding financing of the public sector as followed till recently. In the past, public sector units have been provided funds from budgetary resources; moreover, many public sector managers came from the Government cadres. The limitations of such an approach have become apparent: there is no independent factor, operating inherently in the system, to provide for adequate check and balance on the efficiency of management of public sector enterprises.

The Government has taken two steps to meet the situation. Firstly, the system of deputation from Government service for public sector management has been more or less brought to an end. Secondly, the Government is asking the public sector units to obtain funds from institutional resources—both the Industrial Development Bank of India and the Industrial Finance Corporation of India are now providing funds to public sector units.

Both these changes are desirable and need to be strengthened in the coming years. At present, it appears that only the existing units are asked to obtain supplementary finance from finance institutions. This is not enough, as the example of the Indian Drugs and Pharmaceuticals shows, even at the stage of project planning an independent appraisal of projects would help to avoid mistakes in such project planning. Consequently, all public sector units, both those in operation and those at the planning stage, should be encouraged to go to finance institutions which should make thorough appraisal and impose financial discipline.

Obviously, if this is to be done, the resources of finance institutions will need to be strengthened considerably. One way in which this can be done would be to allocate a portion of the provident fund monies to such institutions. Moreoever, it might be desirable to organise the Provident Fund Commissioner's organisation into an autonomous financing institution with requirements of investing a portion of its funds in Government securities and guidelines regarding the investment of the balance funds.

Coming to the small industry sector, the financial needs of this sector are likely to grow over the coming years. Financial organisations need to be set up for this purpose. We already have the State finance corporations, commercial banks and the National Small Industries Corporation to provide funds to small industry. However, the hire-purchase element in the structure, as a means of providing industrial finance, is weak in the system as it prevails today. As the machinery sector in the economy expands, it will need the support of hire-purchase finance in order to find increasing outlets for its output. A major source for such projects, besides Government industry, will be the small sector in the economy. While loan finance will continue to be made available by the present agencies on the existing criteria, it will be necessary to increase facilities for hire-purchase finance to further support small industry. I suggest that Government encourages banks and others to set up hire-purchase finance houses, if necessary in the joint sector, so as to broaden the scope of operation for this activity.

This leaves industry in the medium and large scale sector. The rate of growth of such industry has to be much faster than their own internal resources can support and they will continue to need finance from external resources. The institutional structure of providing such finance is reasonably comprehensive and what is needed can only be to frame adequate ground rules for its operation.

Convertibility has now been in operation for more than a year and except for occasional difficulties, has been operating smoothly; this is due to the understanding shown both by the finance institutions and by borrowers.

The joint sector concept is relatively new and one is not sure what form it will take as it develops. The joint sector involves a proportion of share capital to be held by Government or Government agencies; the balance of the share capital would be held by private industrial interests and the public. However, it is not in the balance in shareholding that the future of joint sector lies but in the evolving of a healthy working relationship between the Government and its industrial partner. This is still an unknown quantity and it will determine the success or otherwise of the joint sector concept. We have yet to unravel the complex relationship between Parliament, the Ministry concerned and the Boards of Directors and executives of public enterprises. A host of issues ranging from "accountability" to financial control, from adequate co-ordination to maintenance of initiative have to be satisfactorily dealt with.

There is one area in which there is need for fresh thinking, namely the use of provident funds for industrial investment. Just as life insurance funds are used for industrial investment, it is desirable that provident funds be increasingly ploughed back into industry in order to provide for a faster growth of industry. In the initial phase, it is suggested that provident funds might be invested in bonds of finance institutions so as to give them an indirect access to investment in industry. Later, it may be desirable to allow provident funds to be invested at least in debenture stock of first class companies. Besides the advantage of broadening the flow of funds to industry such a procedure would have the advantage of increasing the return on provident funds built up out of workers' contribution to them.

The role of finance institutions in the financing pattern will also need to be carefully analysed. It is likely that in future the shareholding by financial institutions will be used more fully to regulate the working of industry in the private sector. In such a situation, the role of the stock exchanges is also likely to undergo a change. So far, finance institutions have tried to develop the capital market by revolving their funds through sale of securities on the stock exchange. With the increasing tendency to save through contractual funds like unit trusts, the extent of direct investment in industrial securities is likely to be limited. Moreover, with the Unit Trust and Life Insurance Corporation appearing as long-term investors and the Government holding on to the portion of shares obtained by it through initial financing, the relative role of private individual as an investor is likely to decline.

If one looks at the growth of finance institutions and the functions they perform, it is found that they are undergoing a constant change over the years.

The International Bank for Reconstruction and Development (IBRD) was set up as an agency to finance reconstruction and development of various national economies. In the initial phases, it tried to give country loans in order to foster broad-based development. However, at an early stage it recognised the difficulties of this approach and changed its policy from area-financing to project-financing In the short spell of twenty-five years since the World Bank was set up, it has undergone many changes in its financing policy and practices. Starting with project-financing, particularly for industrial infrastructure and industry, it has now undertaken financing of components and materials (industrial loans) needed by industry. At the same time, development is a comprehensive process and the World Bank has felt the need to finance not only the industrial infrastructure and industry but also agriculture and social infrastructure like health, family planning, education and urbanisation in order to make its facilities available on a broader basis. It is this response to the changing needs of the developing economies which has kept the World Bank in the forefront as a development agency.

The Industrial Development Bank of India (IDBI) was set up initially with the expectation that it would provide refinance facilities to banks and provide direct finance to finance institutions and also for industrial projects. However, in a short period it has felt the need to foster export finance and hire-purchase credit (or deferred payment sales). The IDBI has thus become a major source in promotional finance regarding exports and hire-purchase activities. At the same time, it is now increasingly taking up the function of providing finance to public sector units.

Soon after its formation, the Industrial Finance Corporation (IFCI) took up actively the function of providing finance to co-operative units. More recently, the IFCI has become active not only in providing finance for rehabilitation of traditional industries like cotton and jute textiles, but also in underwriting share capital and in providing finance to public sector units.

The ICICI was set up initially to provide underwriting facilities and foreign currency loans. In recent years, it has diversified its operations to provide funds to industrial units for their deferred credit sales also to small units including proprietories and partnerships to meet their foreign currency requirements.

The Life Insurance Corporation (LIC) is increasingly going into financing of economic welfare activities and consequently its role as a provider of finance to industry is likely to go down in future. So also, banks are turning to other sectors like agriculture, and the provision of finance by them is likely to be larger to small industry and to export activities than to industry in the medium and large sector. Almost all finance institutions—banks, LIC, IDBI, IFCI and ICICI—are turning increasingly a portion of their resources to financing industries in backward regions and to that extent their financing of industry in other regions as a proportion of their total operations will diminish.

The operations of the State finance corporations have been regulated by the Reserve Bank and, to some extent, their freedom to undertake newer types of activities has been restricted. Where an institution cannot adjust to the changing needs, newer institutions come up to meet such needs, and this is what has happened to the State finance corporations. The State industrial development corporations have been set up to promote industries and to play a more active part in setting off industrial growth. It is likely that the State industrial develo-ment corporations will play a major role in the growth of medium and large industries in the coming years.

Since Independence, as I mentioned earlier, the structure for providing finance has broadened considerably. I am inclined to believe that for the existing needs of industry the structure is well adapted. However, both industry and industrial finance are likely to undergo major changes in their structure and operations over the coming years. The evolution of a joint sector and the development of backward regions are both likely to be primary influences in Government's industrial policies. At the same time, an increasing proportion of institutional resources will be diverted to this purpose. It is in this direction that the growth of a mixed economy in the country must be seen in future and industrial finance institutions will need to adapt themselves to the newer and larger requirements of the economy.