BANK NATIONALISATION AND CORPORATE FINANCING IN INDIA

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The present book is a slightly modified version of a Doctor's thesis submitted at the University of Calcutta. It studies the Private Corporate Sector in India, with particular emphasis on the sources from which this sector receives its finance. The author has shown that although the Private Corporate Sector still depends very largely on the Commercial banks, its share of total bank finance has been dwindling since the nationalisation of major Indian Commercial Banks. That is due to the Government policy of greater accommodation to the Public and Priority sectors in respect of bank finance, has resulted in stagnation in the Private Corporate Sector, which is noticeable in the field of consumable commodities.

The Government, the author has finally shown, seems to have realised the deleterious effects of its own policy and this is evident from the relaxation announced from time to time in the field of imports of industrial raw materials and technology used by the Private Corporate Sector, tax incentive in respect of hundred per cent export-oriented industrial units and the liberalisation of the Reserve Bank of India's credit policy etc.

Rs. 200

The author, Dr. N.N. Sarkar, has a distinguised academic carrier, obtaining First Class in the M. Com. Examination of the University of Calcutta in 1966. He is an Asstt. Professor of Commerce in the West Bengal State Educational Service. He has been teaching different commerce papers at the Under-Graduate as well as Post-Graduate levels (Deptt. of Business Management, Calcutta University) for two decades.

Preface

In the half century before Independence in 1947, India's per capita income was virtually stagnant, and at Independence, India's was a typical under-developed economy with most of the salient characteristics of such an economy.

After Independence, the national Government launched a programme of accelerated economic development through Five Year Plans. Accordingly, the Government announced its industrial policy in 1948 and modified the same in 1956, 1973, 1977 and 1980. The industrial policy of the Government of India, first announced in 1948 and subsequently revised more than once, has clearly defined the scope of the Private Sector (both corporate and non-corporate) in India's economy.

The Industrial Policy of 1948

(I) This Policy divided the industries into 4 broad categories. (A) Defence and Strategic industries including manufacture of arms and ammunition, the production and control of atomic energy and railway transport, which would be the exclusive monopoly of the State. (B) Development of basic and key industries including Iron and Steel, Coal, Aircraft manufacture and shipbuilding would be exclusively in the state sector and existing private ones would be owned and operated by the State after a 10-year period. (C) Twenty other important industries including heavy chemicals, sugar, cotton, woollen textiles, cement, paper, salt, machine tools etc. were to be run by private enterprise but under state regulations. (D) The residual industries were to be run by private sector under general but not day-to-day control of the state

The Policy of 1956

The adoption of a socialistic pattern of society as the national objective and the emphasis on industrialisation in the 2nd Plan led to the new Industrial Policy of 1956, whose main features were the following.

(I) Industries were divided into 3 categories (instead of 4 as in 1948 policy). (a) 17 industries whose further growth and development were to be exclusively government responsibility, (b) 12 industries to be progressively state-owned and private enterprises were to supplement state efforts, and (c) the remaining industries to be developed under private initiative and enterprise. (II) Exceptions might be made in this compartmentalisation at Government's discretion. (III) Special role of cottage and small scale industries recognised. (IV) Urgency of removing regional disparities in industrial development accepted. (V) Need for organising suitable technical managerial cadres to man the fast growing enterprises recognised.

The Policy of 1973

Keeping the policy statement of 1956 at the basis, a concept of "Joint Sector" (a sector where state financial aid for private enterprise would be so supplemented by adequate state representation in management) was evolved and included in a new policy statement in 1973.

The Policy of 1978

Uuder the Industrial Policy announced by the new Government in January, 1978, more emphasis was given to the development of small, cottage and tiny sectors with the object of solving the problem of poverty and unemployment in rural India through proper utilization of rural man-power and resources. Simultaneously, the Government accepted the role of large-scale industries involving huge investment and sophisticated technology to create a sound base of industrialisation. In general, the areas of large industries were indicated as (a) basic industries for providing infra-structure, e.g. steel, cement, oil refining etc., (b) capital goods industries for meeting the needs of basic and small scale industries, (c) highly technological industries which require large scale production and which are related to agricultural and small industry development e.g. fertilizer, pesticides and petrochemicals etc., (d) other industries which are not included in the sphere reserved for small scale sector but regarded as essential for economic development e.g., tools, organic and in-organic chemicals. (The S.S.I. list includes more than 800 items).

The Policy of 1980

In June, 1980, the Government announced that the policy resolution of 1956 would continue to be the basis of the new industrial policy. It recognised that accelerated industrial development was essential to support agriculture. To build up infra-structural facilities,—energy, transport and coal etc. would have to toned up. The new policy further emphasised the urgency to restore confidence in the ability of the public sector for generating surplus and employment while acknowledging the positive role the private sector had to play as outlined in the policy of 1956 within the 'set' targets and objectives of national plans and priorities.

It disfavoured the idea of separation between large and small scale industries and intended to pursue a policy of integrated industrial development to promote 'economic federalism'. The policy aimed at (i) setting up a few neuclus plants in each industrially backward district and develop ancillary and small scale industries breaking the artificial barrier between the two sectors of the economy, (ii) automatic growth of industries by discarding avoidable restrictions on full utilization of existing industrial capacity particularly the 'core' industries, which are of basic, critical and strategic importance for the growth of the economy, (iii) assist the setting up of 100% export-oriented industries and expansion of such existing industries to exploit the emerging export opportunities, (iv) simplification and rationalisation of the industrial licensing process so as to speed up growth of industries, and (v) building up of a 'Data bank' on the progress of various investment schemes to form the basis of future planning.

In spite of the Government's socialistic objectives as revealed in the Directive Principles of State Policy contained in the Constitution and subsequent policy declarations, the private sector has been assigned an important role in the development plans. Has the commercial banking system, with its major portion nationalised since 1969, fulfilled its responsibility in respect of the financing of the private corporate sector so as to enable the latter to play its allotted role in the country's economic development? This dissertation is an attempt to find an answer to this query. Data about the contribution of the corporate sector to total national income in India are not yet available. The entire private sector was responsible for about 60% and the private corporate sector was responsible for about 10% of the investment in the small-farm dominated economy of India. With a steady liberalisation in the attitude of the Government towards the private corporate sector, in future years this role is expected to increase.

I have tried to make my account as precise and complete as possible. Inadequacies, if any, in respect of such data are due to non-availability of certain types of vital information from any quarter, including the Reserve Bank of India. Practically no systematic efforts were made to study the sources and uses of funds of the private corporate sector, particularly before Independence. And even subsequent occasional studies of company finance by the Reserve Bank of India have not been sufficiently comprehensive and detailed.

Acknowledgement

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I alone am responsible for any errors that may remain in this work.

(N.N. SARKAR)

Abbreviations

CSO	=	Central Statistical Organisation.
ICICI	=	Industrial Credit & Investment Corporation of India.
IDBI	=	Industrial Development Bank of India.
IFCI	=	Industrial Finance Corporation of India.
LICI	=	Life Insurance Corporation of India.
UTI	=	Unit Trust of India.
N A.	=	Not Available.
IRCI	=	Industrial Reconstruction Corporation of India.
SFC	=	State Financial Corporation.
NIDC	=	National Industrial Development Corporation.
SIDC	=	State Industrial Development Corporation.
RCI	=	Refinance Corporation for Industry.
RBI	=	Reserve Bank of India.
EXIM	=	Export Import Bank of India.
MRTP	=	Monopoly & Restrictive Trade Practices Act.
FERA	=	Foreign Exchange Regulation Act.
GNP	=	Gross National Product.
NLR	=	Net Liquidity Ratio.
SLR	=	Statutory Liquidity Ratio.
CRR	=	Cash Reserve Ratio.
CGS	=	Credit Guarantee Scheme.
NI	=	National Income .

Notation and Currency Equivalents

1 crore = 100 lakhs = 10 million
1 billion = 1,000 million (U.S.)

	Rs.
Sterling £ 1=	16.4

	Rs
U.S. Dollar $ 1 =	9.6
Canadian dollar 1 =	7.7
German Mark 1 =	3 8
Australian dollar 1 =	9.3
Japanese Yen 100 =	3 68
New Zealand dollar 1 =	7.0
Indonesian Rupee 100 =	1.4
Kenyan Shillings 1 =	0 86
Iran rial 100 =	11.3
Sri Lanka rupee 1 =	0.45
Mauritius Re. 1 =	0 87
Pakistan Rupee 1 =	0 80
Brazil Cr. $ 1 =	0 05
Mexico Pesos 1 =	0.14
Peru Soles 1 =	0.01

Contents

List of Tables