FINANCING INDUSTRY

In the early 1950s, industry was a more familiar terrain for the Bank than agriculture. Indian commercial banks, and through them the Reserve Bank, already had some experience of financing the working capital requirements of industry. The problem of making long-term funds available to industry was comparatively a more recent one, but even here the Bank could draw upon the experience of development banking since the Macmillan Committee in the United Kingdom reported in favour of specialized term-lending institutions, and more particularly since the end of the second world war. Facilitating industrial investment also involved deepening the capital market. Here the Bank already had some expertise of its own, and access, besides, to the evolving practices of central banks and financial institutions all over the developed world.

For all these reasons, the sphere of industrial finance did not pose the same sort of challenges, nor give rise to the controversy, that accompanied the Bank's involvement in expanding the availability of agricultural credit. Progress in this realm was also relatively more continuous. The government took steps to establish a number of industrial development institutions in the first half of the 1950s. More preoccupied thereafter with the problems of financing its own investment plans, the government ceded initiative to the Bank, which consequently came to play an important role in helping to create a wide network of institutions to finance the longer-term credit needs of industry. Some of these institutions were born from within the Bank. In the case of others, the Bank played midwife, facilitating and coordinating the initiatives of central and state governments and international agencies to establish
development banking institutions. As well as contributing directly towards their finances, the Bank offered advice in the matter of raising resources, and helped coordinate investments of institutions such as the Life Insurance Corporation and commercial banks in them. In addition, it provided technical and managerial assistance to these bodies many of which started off on the strength of trained personnel from the Bank.

The main elements of the story of the Bank’s involvement in financing industry are narrated here in two chapters. The first chapter begins with a brief account of the work of the Committee on Finance for the Private Sector which the Bank constituted in consultation with the government. Popularly known as the Shroff Committee, its report marked an important stage in the evolution of ideas about increasing institutional financial support for the non-agricultural sector. The Bank’s contribution to setting up national industrial financing institutions such as the Refinance Corporation for Industry and the Industrial Development Bank of India, and the Unit Trust of India, is then discussed. The second chapter in this section deals with the Bank’s more important initiatives to meet the credit needs of small industries and exporters. It outlines the Bank’s role in facilitating the operations of industrial finance corporations in the states, promoting the supply of credit to small industrial borrowers, and expanding credit facilities for exporters.