Weekly Notes

Small Industry Loans

TO the many facilities already given to small-scale industries. Government is adding a new one from July 1, 1960. On that day, the scheme for guaranteeing loans to small-scale industrial establishments monies into operation—initially on an experimental basis, for two years. The scheme is restricted for the present to 22 districts spread over fifteen Slates and the Union territory of Delhi, and it applies to industrial establishments which satisfy the Government definition of a small scale industrial unit, that is to say, a unit with an investment of not more than Rs 5 lakhs in fixed capital assets.

The professed -objective of the scheme is to enlarge institutional lending to small industries 'by granting a degree of protection to the lending institutions against possible losses in respect of such advances'. Curiously enough, the press communique does not give any details about the manner in which the losses arc to be shared between lending institutions and the Government of India. Apparently, the Reserve Hank — which, by the way, is to administer the scheme as agent of Government -has decided that since the guarantee is envisaged as an incentive to lending institutions, it is a matter which others need not be concerned with. This unnecessary secrecy makes it difficult to compare the present scheme with similar arrangements existing in. say, Japan, or to form any opinion on the adequacy of the guarantee in the current state of institutional financing of small industries. The scheme provides Tor a sharing rather than a transfer of risks; and the decision to accede to or reject a particular loan will still have to he made by the lending institution. Whether in that context the incentive provided is a reasonable one or not is a matter on which the public cannot form a judgment, thanks to the secrecy about the terms and conditions of the guarantee.

The scheme is open not to all lenders but only to specified institutions. The institutions selected are: the State Bank of India and its subsidiaries; 49 Commercial Ranks; 22' State Co-operative Banks; all Skate Financial Corporations and the Madras Industrial Investment Corporation Ltd. For those that have been left out, the sop of deriving benefits through a participation loan is offered. They can obtain the guarantee if a 'selected credit institution' participates in the loan to the extent of not less than 25 per cent of the loan amount; and in such cases, the guarantee organisation will deal only with the selected institution. With the system of branch-banking we have in India, participation loans bold no attraction to the larger institutions—save that of a covert increase in their lending rales. Hut that is unlikely to offset the distrust that exists between big and small banks. Like the. inclusion, in the scheme, of Co-operative Hanks - which have done, and are likely to do, precious little in respect of industrial financing the incorporation of the American type of participation loans can only be viewed as a device for softening the lines of discrimination. What benefits an 'experimental' scheme can derive from such frills is again a matter that passes understanding.

All this notwithstanding. the guarantee scheme represents a worthwhile innovation. It marks a departure from the tendency to treat small industries as relief rather than business propositions. On the one hand, it provides an opportunity to these industries to reduce their dependence on money-lenders, traders and so forth; and, on the other, it makes it possible for credit institutions to attach less weight to the traditional considerations of security than to the operational efficiency and growth prospects of small enterprises. If these opportunities are grasped, the sector of small industries will not be the only one to benefit.

Banking Trends In 1959

B BANKING, as has been pointed out in this journal" on previous oecasions, is far from being integrated into the structure of planning, to which the Indian economy is committed. On the threshold of the Third Plan, under which banks will have to play a greater part as purveyors of credit to sustain the envisaged industrial upsurge, ft is gratifying to note that the Reserve Bank has asked them to set up a study group to assess 'their specific role for a successful implementation of the Plan'. In the recently published Trend and Progress of Banking in India', the Reserve Bank has offered the necessary co-operation and help towards establishing such a study group. It is to be hoped that the banks will respond to the gesture in earnestness and endeavour to integrate bank credit into the planning structure.

With the removal of certain rigidities in the working of the Refinance Corporation, which largely accounted for the reluctance of banks to take advantage of refinance facilities, the stage is now set for integrated industrial advance. Of the total increase of Rs. 104 crores in bank credit in the year ended October 1959. a sum of Rs 61 crores was extended to commerce and Rs 20 crores to industries. As a percentage of the total amount, industrial advances declined to 45 per cent in 1959 from 48 pel cent in 1958 while commercial advances, on the other hand, increased to 40 per cent from 38 per cent in the previous year. The Report does not envisage any continued uptrend in the proportion of industrial advance in the next few-years. H says, "As industries develop and start production, "the marketing of their products also creates a demand for credit from the commercial sector". The truth of the statement is, of course, evident but the conclusion that industrial advances will not experience an upward trend appears to be rather doubtful in a market almost insulated by tight import control. In the face of near-scarcity conditions in respect of many manufactured commodities due to import restrictions, a decline in the stock with industries and a simultaneous rise in commercial stock piling de not point to healthy economic development. On the contrary, they betray a strong speculative tendency. It is rather strange to; find the Reserve Bank providing theoretical justification for contrary trends in industrial and commercial advances of banks in-