

FINANCING
of
POST-WAR INDUSTRY

A Study in Institutional Developments of Industrial Finance

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PREFACE

In this small book an attempt has been made to study in somewhat detail some of the most outstanding developments in the financing of post-war industry. Among these developments the British F. C. I. and I. C. F. C., the Canadian Industrial Development Bank and the Industrial Finance Department of the Commonwealth Bank of Australia have attracted a considerable measure of attention. In the following pages will be found a comparative review of the structure, organisation and activities of these specialist institutions. Against the background of these institutions working abroad, the Industrial Finance Corporation of India, which has just been established, has been critically studied. Lessons have been drawn from the experience of the foreign institutions which have now been functioning for some years; and suggestions have been offered as to the methods of finance the Indian Corporation should adopt, the forms in which it should furnish its assistance, the procedure it should follow in dealing with applications for assistance and the departments it should establish for its successful functioning.

The materials for the work have been gathered from original and authoritative sources. Most of the materials are not available in India and have been obtained direct from England, Canada and Australia. My thanks are particularly due to the authorities

of the Finance Corporation for Industry Ltd., the Industrial and Commercial Finance Corporation Ltd., the Industrial Development Bank of Canada and the Industrial Finance Department of the Commonwealth Bank of Australia. They have not only provided me with the Annual Reports, Balance Sheets and Profit and Loss Accounts of the respective institutions together with all the available literature relating to them but have also replied to my detailed queries. Without their kind and courteous assistance, it would not have been possible for me to undertake this survey of post-war developments of industrial financing. I am also indebted to Dr. Benoy K. Sarkar, at present Head of the Department of Economics, Calcutta University for helping me to secure some of the necessary documents from Australia.

SAROJ KUMAR BASU.

The University,
Calcutta, 2nd October, 1948.

CHAPTER I

INTRODUCTORY

The late nineteen twenties may be said to constitute an important landmark in the institutional developments of industrial finance. The war of 1914-18 had shattered the economic position of a large number of countries in Europe in a manner in which no war had done before. At the end of the war, they were faced with the tremendous task of economic reconstruction. An urgent problem was the provision of long-term industrial finance that was needed for the reorganisation, modernisation and expansion of the old industries as well as for the starting of new ones. The type of machinery that was generally chosen for solving this problem of long-term industrial finance was the mortgage bank. The mortgage bank granting long-term amortisation loans on first mortgages of property and issuing bonds to raise the necessary funds to finance these loans had proved to be eminently successful for financing long-term operations in various spheres. The device of the mortgage bank made an instant appeal to these countries and the machinery was adapted to furnish long-term loans to industry. Beginning in 1924, industrial mortgage banks, authorised to issue mortgage bonds and grant long-term loans to industrial undertakings upon first mortgages of industrial real property, factories, buildings, machinery, plant, etc., were set up in several countries of Central and South Eastern Europe. The largest of these industrial mortgage banks were the Industrial Mortgage Bank of Finland Ltd., the National Hungarian Industrial Mortgage Institute Ltd., and the Provincial Mortgage Bank of Saxony.

(Sachische Landespfandbriefanstalt). Besides these three, the National Economic Bank of Poland, though not a mortgage bank specifically designed for financing industries alone, should also be mentioned. It was established in 1924 by a special law for assisting the economic reconstruction of the new state of Poland. These constituted the first experiments in industrial mortgage banking to have been ever made. The pioneer of all industrial banking was the French Credit Mobilier established by the Péreire brothers in 1852 ; and the Industrial Bank of Japan, founded in 1902 more or less on the lines of the Credit Mobilier, had hitherto been the most important institutional development of industrial finance, and in the pre-war days had been the only model before countries anxious to set up special machineries for the long-term financing of their industries. In the years after World War I these industrial mortgage banks constituting useful and interesting experiments in industrial financing supplied suitable new models. A detailed study, the first of its kind, of the structure, organisation and activities of all these specialist institution for industrial financing was undertaken by me in my book, *Industrial Finance in India* published in 1939. It is not intended here to cover the same ground once again ; and those of my readers who are interested may refer to that volume.

Another chapter in the institutional developments of industrial finance opens in the post-depression period. The financial problems of small and middle-sized industry were thrown into bold relief during the world Depression and attempts came to be made in several countries to set up special machineries for providing medium and long-term finance to such industries. The institutions that were established during

this period were in many respects a sharp contrast to the financial machineries evolved in the post-war years of 1924-28. The industrial mortgage banks of the earlier period never combined issue and under-writing business with that of mortgage lending ; nor did they ever make it their business to provide initial capital to industrial concerns by subscribing to their shares. They were pure mortgage banks and did not even accept deposits, short or long-term. The tendency was definitely to keep the Institutions confined strictly to mortgage lending and away from investment trust business. A tendency, though not very pronounced, to mix up long-term lending business with that of issue and underwriting and even of holding was discernible in some of the developments in the post-depression period. The British "Credit for Industry Ltd", established in 1934, was no doubt a lending rather than an investment institution. Its business was to grant medium and long-term loans, to be repaid over an agreed period at an agreed rate, against mortgages on real or heritable property or in the form of debentures in limited liability companies. It was never intended to take up shares in any borrowing concern.¹ But several other specialist institutions started about that time are found to have combined underwriting and holding business with that of mortgage lending. The Industrial Credit Company of Ireland was an instance of such intermixture of functions. Another instance is furnished by the *Netherlands Company for Industrial Financing* where in addition to the granting of term credits there was also participation in the share

¹ *Money for Industry*, a brief review of the functions of the C.F.I. Ltd. Regis House, London. See the author's *Industrial Finance in India* (Second Ed.) pp. 59-60.

capital of industrial enterprises. The Belgian *Societe Nationale de Credit a l'industrie* empowered to issue bonds of five years maturity was expressly allowed to receive time deposits.¹ The influence of the Japanese Industrial Bank and its prototype, the Credit Mobilier, is obvious. But even in the case of the Japanese Institution participation in or subscription to the share capital of industrial companies did not constitute an important line of its business and it could be undertaken only with the sanction of the Minister of Finance.²

An altogether new phase in the institutional developments of industrial finance is to be witnessed in the years after World-War II. The tendency to combine the business of term-lending with that of underwriting which was witnessed in the post-depression period has become more pronounced and in addition, in several important cases, participation in the share capital of industrial enterprises has been expressly provided for. Beginning in 1944 some very interesting developments have taken place in the financing of post-war industry in Great Britain and the Dominions.

The most outstanding of these developments are the Industrial Development Bank of Canada established in 1944; the Finance Corporation for Industry Limited and the Industrial and Commercial Finance Corporation Ltd. set up in Great Britain in 1945; the Industrial Finance Department of the Commonwealth Bank of Australia opened in 1946; and the last but not least, the Industrial Finance Corporation of India established in 1948. It will be worth while to undertake a comprehensive as well as a comparative study

¹ *Report of the Financial Committee on Agricultural Credit Medium-term Credit to Industry* (League of Nations).

² See my book *Industrial Finance in India*, 2nd Ed., p. 265.

of the structure and organisation and financial methods of these specialist institutions. Such a study will give us a good idea of the shape that the special machinery devised for the provision of post-war industrial finance is taking in different countries. It will be found that the underlying objective of these institutions, though differing in scope, methods and organisation, has, in every case, been to provide financial accommodation for industrial enterprises for which such accommodation is not readily available through the channels of ordinary banking and the stock exchange or is of a type which no banks would furnish.

CHAPTER II

THE INDUSTRIAL AND COMMERCIAL FINANCE CORPORATION LTD. OF GREAT BRITAIN

Of the special machineries that have recently been set up for providing the long-term financial needs of post-war industry, the two British Institutions, the Industrial and Commercial Finance Corporation and the Finance Corporation of Industry, have attracted the greatest measure of attention. Born of two different ideas, these two institutions were established at the instance of Sir John Anderson, then Chancellor of the Exchequer, and Dr. Dalton, then President of the Board of Trade, to meet the post-war capital needs of British industry. The Industrial and Commercial Finance Corporation, the *I. C. F. C.* as it is generally called, is the product of the prevailing belief in the existence of the "Macmillan gap", that is, in the field of financial requirements lying in between the short-term facilities ordinarily furnished by the banks and the long-term facilities available to the larger established businesses through the medium of the stock exchange or the issuing house. Whether there was a "gap" in 1931 when the Committee reported may or may not be true. Even if the gap had existed, its actual extent may also be disputed. But there are reasons to believe that a version of the Macmillan gap existed in 1945, in the sense that there was an inadequacy of funds in this particular sector of the investment field. This inadequacy was considerably aggravated by current conditions. As a result of high personal taxation, increasing rates of income

tax, sur-tax and death duties, the resources of direct private investors in the field of small business had been greatly reduced. Owing to the E. P. T. the small and growing companies were finding it impossible to plough back into the business sufficient profits to finance the capital expenditure which they had to incur to continue their growth or even to consolidate the position already gained. The rise in prices had further made the requirements larger. The recognition by the Government of this 1945 version of the Macmillan "gap" and of the necessity to close it at least to some extent led to the establishment of the Industrial and Commercial Finance Corporation.¹ It was incorporated on 20th July 1945 and really started operations in September 1945.

Capital Structure :

The resources of the Corporation were provided by a consortium of the Bank of England and the joint stock banks of Great Britain. Of its share capital of £15 million the Bank of England took up £500,000 as a "token subscription" and the balance was subscribed by the clearing and the Scottish banks roughly in proportion to their deposit liabilities. In addition to its share capital the Company has borrowing powers of £30 million which will be utilised by means of loans and advances from the member banks pro rata to their shareholdings. The total resources at the command of the Corporation thus amount to £45 million. Although started with Government approval, the Corporation is neither financed by the Government nor is it subject to departmental control. In no sense does it receive Government assistance

¹ See Article by J. H. Lawrie, General-Manager, I.C.F.C. in the *Banker*, August 1944, entitled "Financing the Small Business. The I.C.F.C. At Work." Reprint kindly forwarded to the present writer.

or subsidy. It operates as an independent organisation controlled by its own board of directors,* none of whom is nominated by the Government, and is conducted on a strictly commercial basis.¹

Objects :

The object of the I. C. F. C. is to provide finance for small and medium-sized industrial and commercial businesses where existing facilities provided by banking institutions and the stock exchange are not readily or easily available. The Corporation may also extend its facilities to new enterprises whose functions and prospects are commercially sound. It is intended to provide industrial finance at the smaller end of the scale, that is, as the Chairman, Lord Piercy, observed in the course of his statement at the first Annual General Meeting,² "to supply capital to concerns which find it necessary to raise capital for development from outside sources, concerns, more precisely, whose requirements fall within the limits of of £5,000 and £200,000". It is clear that the Corporation has been designed to remove the difficulties which face smaller and medium-sized businesses in raising their requirements of capital, even when the security offered is perfectly sound—particularly long-dated capital in amounts not sufficiently large for a public issue,—difficulties again to which

* The Board of directors (1947) consists of Lord Piercy (*Chairman*), Lord Blackford, Mr. W. H. Fraser, Lord Gladstone Gordon, Earl of Limerick, Mr. Hugh Roberts, Mr. Skinner and Sir Horace Wilson. The *General Manager* is Mr. J. H. Lawrie.

¹ Article entitled "Finance for Small and Medium-sized Companies" in the *Accountant*, 29th June, 1946.

² The Chairman's Statement at the First Annual General Meeting of the I. C. F. C. Ltd., held 5th November, 1946.

pointed attention was drawn by the Macmillan Committee in their report.¹

The I. C. F. C. caters for the financial needs of mainly *private limited companies* engaged in manufacture but it does not confine its facilities to them alone. In fact it does not intend to exclude any type of business, industrial or commercial, from its scope.² But it does not consider it to be a part of its function to engage in refinancing operations, that is, in providing funds simply to enable new owners to acquire existing business. Such an arrangement may, however, be entertained, when it forms a subsidiary part of a larger expansion policy. Although the policy of the Corporation is mainly to provide additional finance for established and progressive enterprises, it will not deny the use of its facilities to new undertakings whose functions and prospects are commercially sound.³

Generally speaking, the facilities provided by the Corporation are intended to augment and not to replace existing finance. The same principle of augmentation applies also to new undertakings and the Corporation will not be prepared to advance more than a reasonable proportion of the total finance required. The proprietors of any enterprise assisted by the Corporation are expected to have a substantial financial stake in their business.

The 'objects' clause of the memorandum of association has given wide scope to the Corporation. Broadly speaking, it is prepared to furnish credits in amounts ranging from

¹ Para. 404, *Report of the Committee on Finance and Industry*, 1931.

² The Chairman's Statement, First Annual General Meeting, I.C.F.C. Ltd.

³ Art. in the *Accountant* 29 June, 1946. Reprint kindly forwarded to the writer by the I. C. F. C.

£5000 to £200,000 to any industrial or commercial concern operating in Great Britain which puts forward a sound proposal.

Methods of Finance :

Flexibility is the characteristic feature of the Corporation's policy. Every case that is considered by its officials is looked on not just from the standpoint of what will suit the Corporation. "The prime factors are the type of finance the applicant really requires and the best way of providing him with it".¹ The merits and special requirements of each case have settled the methods of finance to be adopted by the Corporation. Thus the financial facilities provided by the Corporation have taken a number of different forms such as

- (1) debentures and secured loans ;
- (2) unsecured loans ;
- (3) redeemable preference shares ;
- (4) non-redeemable preference shares ;
- (5) participating preference shares ; and
- (6) ordinary shares.

Broadly speaking, capital needs of companies fall into two distinct categories. New capital may be required to cover the cost of fixed assets and working capital in an expansion or conversion scheme ; and the proprietors of the business expect to be able to repay the advance out of profits in 10 or 20 years. Such cases are usually met by a fixed loan in the form of debentures or unsecured notes redeemable by annual instalments over a period, or by redeemable preference shares. When there is a considerable degree of risk in the new finance, as in the case of a Company which is a war-

¹ Art. by Mr. Lawrie, General Manager, I. C. F. C. in the *Banker*, *op., cit.*

time mushroom growth with a problem really of conversion, rather than of reconversion, the appropriate method of finance is participating preference shares.¹

In the second place, when the reconstruction or expansion of the undertaking requires capital of a permanent nature, this is met by non-redeemable preference shares accompanied possibly by a proportion of ordinary shares.² The Corporation in such cases really provides "risk" capital. To this category belong the capital needs of new companies and those that expect eventually to become public companies but are not yet ready for this step. If a company is likely to go to the public at a later date, the type of finance furnished by the Corporation is so designed that it can be repaid when the public issue takes place.

For intermediate cases falling in between the two main types, a combined arrangement tailored to the needs of the situation is usually made.

If the balance-sheet and prospects of a company, anxious to build a new factory or instal new machinery, do not justify an unsecured loan, it will not be to the interests of the company or the Corporation to take a charge over its fixed as well as floating assets. The company will certainly require additional working capital to finance the increased turn-over resulting from the acquisition of fixed assets; and in the event of the Corporation having a prior charge over all its assets, the banker, who is the proper person to whom applications for such capital should be addressed, would not lend it anything. In such circumstances, the Corporation makes its contribution partly on mortgage on the fixed assets

¹ Art. by Mr. J. H. Lawrie, General Manager, I. C. F. C. in the *Banker*, August, 1946.

² Art. in the *Accountant*, 29 June, 1946. Reprint kindly forwarded to the writer.

and partly in preference shares. The floating assets are left free as security for the bank and are calculated to strengthen the position of the company from the banker's point of view. This is the policy which has frequently been used in conjunction with several of the banks and has come to be known as the "I. C. F. C. Sandwich". When it appears to be undesirable to saddle the undertaking with a mortgage to the Corporation as well as a floating charge to the banks, the whole of the I. C. F. C. contribution may take the form of share capital. In the peculiar circumstances of these cases an investment will only be justified, if there is a prospect of reward commensurate with the risk. An issue to the Corporation of participating preference shares or perhaps a large block of preference shares with a sprinkling of ordinary shares is likely to assure such a reward.

Liaison Department :

The Corporation deals in long and medium-term loans and has sometimes even a shareholding which is a substantial proportion of the total capital of its industrial customer. In such circumstances, it is essential that it should keep in close touch with the customer company's activities. With that end in view a Liaison Department has been started. The officials of the Department travel about the country visiting the several customers, discussing business problems and difficulties which may face them, advising them, giving them the benefit of their and the Corporation's wide contacts, and watching on behalf of the Corporation for danger signals that may indicate the probability of business losses or other troubles.

The Liaison Department may also furnish very valuable advice to that special category of businesses which were small

family concerns before the War but which had grown big during it. In war-time they had hardly any financial or sales problems; they were nurtured by progress payments and steadily fed by orders from the Ministry of Supply. Such businesses on their part are often eager to receive advice from the Corporation's Liaison Department.

It is the policy of the Corporation to provide finance at a moderate cost. No fixed scale is applied to interest rates which vary with the securities available and the inherent soundness and prospects of the business. Secured loans have recently been negotiated at 4 to 4½% and unsecured loans and preference shares at slightly higher rates. The Corporation's objective is to give the small business as good a rate as the larger one. If in any case a smaller company has had to pay a higher rate, it is so, not because the company is small but because its earnings record is bad.

For expenses a small fee is charged ranging from ½ to 1% on the amount provided by the Corporation. The legal costs of both the Corporation and the applying Company are borne by the latter when business results. If, by arrangement with the applicant, a professional firm is employed to investigate the accounts, the fees are paid by the borrowing concern. In all other cases the Corporation's own expenses are borne by it.

Stages through which an Application for Financial Assistance passes :

All applications for financial assistance from industrial customers of the Corporation have to pass through three distinct stages before they are finally approved or rejected.

Proposals may be submitted through the applicant's bankers, through accountants or solicitors or direct to the Cor-

poration. Intending borrowers are generally requested to submit their proposals in writing. Every proposal should contain a clear statement of the amount required and the purposes for which it is required. Information has also to be given regarding the existing capitalisation of the business, its financial records and prospects. The applicant should send also copies of balance-sheets and profit and loss accounts and where possible for at least two pre-war years. In the case of a new undertaking the Corporation should be informed of the amount of money the promoters themselves intend to provide.

The stages through which an application passes are as follows :—

(1) Preliminary Examination—the “ Examiners ” are responsible for sifting the “ possible ” from the “ impossible ’ and for working on the former until there is a good prima facie case for a loan or investment.

(2) Proposed arrangement (terms and conditions)—“ Controllers.” Both the Examiners and Controllers obtain help and guidance from the various departments of the Corporation, such as the technical investigation, accounting and market research departments according to the circumstances of the individual case.

(3) Finally, the Directors for approval or otherwise. Investigations are carried on by visiting the works of the applying company and survey is also made of the background conditions of the industry. When the terms of assistance have been finally negotiated, the necessary agreement is drawn up by the legal department. The various departments of the Corporation engaged in the actual scrutiny of the proposal in its different aspects are:

(a) Examination Dept. (b) Accounts Dept. (c) Liaison Dept. (*i.e.* technical investigation) (d) Economic Intelligence

Dept. (*i.e.* market research) and finally (e) Legal Dept.¹

The staff which stood at forty in 1946 is being built up and at the present moment consists of—

- (1) People having investment and financial experience of various kinds ;
- (2) Investigating cost accountants ;
- (3) Engineers and other technically qualified persons *e.g.* building experts ;
- (4) Economists ;
- (5) Lawyers.²

The Corporation is anxious to ensure that the business it assists does not simply maintain its strength but increases it and that repayment of the advances leaves it soundly established. Therefore the policy of ploughing back a proportion of the profits after meeting reasonable dividends, director's fees and sinking fund payments is encouraged by the Corporation even in cases where it holds participating dividend rights.

By the end of the first accounting period (20th July 1945 to 30th September 1946) the Corporation had called up £1½ million of its £15 million capital and also begun to call up the loan facilities which the shareholder banks had undertaken to provide. During this period total advances made by the Corporation amounted to £5,071,000. In the first Annual General Meeting held on November 5, 1946 an interesting analysis of the volume of business was given by the Chairman. By the 30th of September £1.6 million had been completed, £2.4 million was in process of completion, while £1 million was in a slightly earlier stage of tying up ; the actual sum paid out was a little below £1,250,000.

¹ Source : Letter to the writer from the General Manager, I. C. F. C. dated 4th August, 1948 in reply to his queries.

² *Ibid.*

There were 840 applications having definite outline. Of these 703 were conclusively dealt with; and 133 cases or about 20% were granted facilities. Of the 703 cases again about 60% were "screened off" and 40% were left to be dealt with by the Loan-Department. For various reasons 20% of these were not proceeded with and facilities were granted to the remainder.¹

The classification of the advances (1945-46) by "size" is given below:—

Amount	No. of cases	% of Total	Aggregate Amount £ '000	% of Total
£ 5,000—£ 10,000	35	26.3	259.8	5.1
£ 10,001—£ 20,000	32	24.1	305.2	10.0
£ 20,001—£ 50,000	38	28.6	1432.9	28.3
£ 50,001—£ 100,000	19	14.3	1449.8	28.6
£ 100,001—£ 200,000	9	6.7	1423.3	28.0
	133	100.0	5,071	100.0

The industrial classification of the advances shows the large variety of industries financed by the Corporation. Mechanical Engineering including agricultural machinery, machine prime movers, printing and paper making machinery, textile machinery, cooking, heating and ventilating machinery etc. absorbed nearly £1,259,000 or 24.8% of the total advances. Other industries to be assisted were agriculture, iron and steel, cement, lime, bricks, chemicals, electrical engineering, ship-building, cutlery, hand tools, watches, textile, leather, clothing, food, drink, scientific instruments

¹ *The Financial Times*, London, Tuesday, 5th November, 1946.

etc. Transport, distribution, laundering, dyeing and other services also figure as important items in a long list.¹

The balance-sheet at 30th September 1946 reveals that the assistance furnished by the Corporation took the form of debentures and secured loans, unsecured loans, redeemable preference and participating preference shares, non-redeemable preference and participating preference shares and ordinary shares.² The particular situation of the customers was taken into account and facilities which would just suit their cases were devised. In this period 40% of the advances took the form of share holdings. It reflected the fact that the requirements of a large number of the customers were what could be properly termed 'Capital.' It was associated with another feature. The Corporation was frequently asked to provide resources for new developments or new enterprises involving considerable risks; or to provide resources which constituted a substantial part of the total funds. In such cases the Corporation preferred to stipulate for some part of the equity, either in ordinary shares or by way of a participation attaching to the preference shares. Such rights attached to 20% of the total funds provided by the Corporation.³

The flow of applications continued during the second accounting year ending on September 30, 1947 but at a lower level. They numbered 88 this year. The total net amount of proposals approved by the Directors increased by about £ 6 million and the net amount paid out in advances and investments by over £ 4½ million. The exact figures as shown in the balance-sheet are as follows :—

¹ The Chairman's Statement at the First Annual General Meeting of the I. C. F. C. held on November 5, 1946.

² Balance sheet of the I. C. F. C. Ltd., as at 30th September, 1946.

³ The Chairman's Statement at the Second Annual General Meeting of the shareholders held on 4th November, 1947.

Advances and Investments :

On contracts completed	£ 8,769,241
On contracts in course of completion	£ 1,731,334

Total confirmed advances and investments . . . £ 10,500,575

These were made up, as in the first year, of debentures and secured loans, unsecured loans, redeemable preference and participating preference shares, non-redeemable preference and participating preference shares and ordinary shares. Deducting £ 4,784, 517, not then taken up, from the total as given above, the net total amount taken up amounted to £ 5,716,058.¹

The proportion which was in investments in shares fell from 40% of the previous period to 35.6%, that which was in loans rose from under 60% to 64.4%, and secured loans declined from 37% to 33.8%. In investments the part carrying an equity interest was about 12% of the aggregate outstandings as compared with nearly 20% of 1946.²

The analysis of the new business by size for 1947 is given below :—

Amount	No. of cases	% of Total	Aggregate Amount	% of Total
£ 5,000—£ 10,000	7	8.0	49.0	0.8
£ 10,001—£ 20,000	14	15.9	219.3	3.5
£ 20,001—£ 50,000	30	34.1	1,081.5	17.5
£ 50,001—£ 100,000	18	20.4	1,340.6	21.7
£ 100,001 and upwards	19	21.6	3,491.4	56.5
	<hr/>	<hr/>	<hr/>	<hr/>
	88	100.0	6,181.8	100.0

¹ Balance sheet of the I.C.F.C. Ltd. as at 30th September, 1947.

² Statement by the Chairman, Lord Piercy, at the Second Annual General Meeting, 4th November, 1947.

From the above table it is clear the proportion of the number of cases upto £ 50,000 fell from 79% of the whole to 58%. The proportion of transactions above £ 100,000 rose to 21·6% from only 7% of the whole. It does not, however, reflect any change in the policy of the Corporation. The Chairman has assured us that the Corporation's special concern is for applications for small amounts from £ 5,000 upwards. Possibly creditworthy small borrowers came less readily to the Corporation during the second year as they had done at the outset.

As in the first, so in the second year of the Corporation's operation, quite a large variety of industries were recipients of its aid. Mechanical engineering again absorbed by far the largest single proportion of the total of the approved advances *viz.*, 19·6%. Distribution was second in the list, its share being 11·2% while electrical engineering was third, its share being 8·0%.

The Corporation is engaged in a business in which reserves are essential. But it has had no opportunity yet to build up reserves ; During the first accounting period a loss of £ 29,175 is revealed. During the second period a profit of £ 23,965 before providing for bad and doubtful debts, is found. For many years to come possibly it will not be able to build up reserves. The weakness of the Corporation lies in this direction. Its resources will be locked up in the industrial enterprises which have received its assistance for periods ranging from two to twenty years. That is a pretty long time especially in view of the fact that the boom conditions which industry is experiencing at the present times may be reversed during the next ten or fifteen years. The Corporation has adopted some important safeguards against the

prevailing uncertain economic conditions. In the first place, in the selection of its business it has applied prudence to the best of its lights ; and secondly, it has kept itself in close and continuous contact with its customers from the very beginning through an expertly staffed Liaison Department.¹

Another danger to which the Corporation may find itself exposed has been stressed by the *Economist*. It may become the proverbial "dustbin" into which all the undesirable businesses will be dumped.² But the fears are unfounded, as Lord Piercy has assured us that it is no part of the Corporation's policy to carry financial lame ducks but help ducks that can swim.

The Corporation has further been accused of adopting an unduly conservative policy. "It has outbanked the bankers," so runs the slogan. But the insinuation is unjust not only to the Corporation but to the bankers as well. The fact is that it has been the Corporation's endeavour to combine with prudence a maximum of usefulness according to its lights, the object being to increase the accessibility of permanent or quasi-permanent capital to eligible borrowers.

The Corporation is intended to supplement, and not supplant, the activities of the banks and of other institutions. There can be no question of competition between the Corporation and the banks. The relationship is rather one of co-operation. This co-operation will be in the interests of the customers as well as of the Corporation and of the banks

¹ Statement by the Chairman, Lord Piercy, in the Second Annual-General Meeting.

² *The Economist*, January 20, 1945, p. 83.

themselves. Applications for assistance have steadily flowed in during the first two years of its working. These will increase with the increasing tempo of re-stocking, reconversion and restoration of physical equipment. It seems certain that there will be a lasting demand for the facilities provided by the Corporation.

CHAPTER III

THE FINANCE CORPORATION FOR INDUSTRY LTD.

The second and larger British institution is the outcome of "a more ambitious and potentially more significant idea." The purpose of the *Finance Corporation for Industry Ltd.*, in the words of Sir John Anderson, is the provision of temporary or longer-period finance for industrial businesses of the country with a view to their quick rehabilitation and development in the national interest, thereby assisting in the maintenance and increase of employment."¹ As the I.C.F.C. is concerned with small and medium-sized industries, the F.C.P.'s main interest is in large-scale industries. The types of business envisaged are those which show prospects of financial success but cannot be immediately financed through normal channels (e.g. the banks) or by capital issue.²

It resembles the B.I.D. in the sense that it will take no initiative in the reorganisation of industry. Its primary objective is to provide finance. But it is really a much more ambitious version of the B.I.D. in that the emphasis has been shifted from salvage to development. "It will seek out its own spheres of activity and not wait till the corpses were brought in." It is also to be distinguished in one important respect from the *Credit for Industry Ltd.* (1934), as it has not been debarred, in the process of financing, from parti-

¹ Sir John Anderson's speech in the House of Commons, dated 23rd January, 1945.

² Source: Letter from the Finance Corporation for Industry Ltd. to the writer dated 27th February, 1948.

icipating in the equity of the business it assists. Assistance is furnished not only in the form of liened fixed interest loans but also by way of subscription to the initial share capital.

Any impression that the Corporation will be competitive with existing sources for the provision of capital will be wholly erroneous. As in the case of the I.C.F.C., it is merely intended to supplement, and not replace, the existing channels through which industrial finance is procured. In fact there have been several instances where the Directors have declined business on the ground that in their view the applicants should attempt to find the money through the usual channels. The Corporation will particularly operate when the circumstances make normal banking accommodation inappropriate, where through some temporary cause, a market issue cannot be made or where the amount required, or the extent and character of the necessary enquiries put the operation for a time outside the scope of a normal capital issue market.¹

The F.C.I. is wholly owned by consortiums of insurance companies, trust companies and the Bank of England in the proportions of 40, 30 and 30% respectively. The authorised capital amounts to £25 million divided into 2,500,000 shares of £10 each, the issued and called up capital being only 2% or £500,000. The object of retaining a large reserve of un-called capital is twofold: first, to enable the Corporation to work at fine rates, and secondly, to afford a very good cover for the borrowings from the banks by which the business of the Corporation will be chiefly financed. The bulk of its resources are provided by the exercise of its borrowing powers amounting to four times the amount of capital *i.e.* £100

¹ Statement issued to the Press on January 23, 1945. Copy kindly forwarded to the writer by the authorities of the F. C. I. Ltd.

million. This will be chiefly provided by deposits from clearing and Scottish banks. It will not itself accept any deposits from the public.

The Corporation will conduct its business on the broadest possible basis consistent with proper commercial prudence. Subject to that, its charges for accommodation for its clients would be on the most reasonable scale to cover expenses, to accumulate an adequate reserve and to provide for a reasonable rate of dividend on the paid-up capital. The Chairman of the Corporation at the Second Annual General Meeting stressed the fact that the Corporation was not a philanthropic institution with an obligation to finance projects without any reference to the ultimate financial result. With such enormous resources at its disposal, any attempt to make it function on philanthropic lines would constitute a grave threat to British industry rather than being a source of advantage.¹ But it is not suggested for a moment that the Corporation has been formed to earn extravagant profits. It is essential that adequate reserves be built up. The shareholders are also entitled to expect a reasonable rate of return in due course upon the capital at risk.

The F.C.I. made a disappointingly slow start. Though partly due to the difficulties of initial organisation at an experimental stage, it was mainly attributable to the slow progress of reconversion in a large variety of industries and the repercussions of the Government's nationalisation programme.² The spectre of uncertainty must have held back from it a great deal of prospective business. The basic industries were expected to be the best customers of the

¹ Note of Chairman's speech at the Second Annual Meeting held on 13th August, 1947.

² *The Economist*, July 15, 1946, p. 978.

Corporation. But the process of nationalisation deprived it of a considerable volume of its activities; and the business came almost wholly from other sources, the Steel Industry being alone of the basic industries to have so far made use of the Corporation's facilities.¹ During the first accounting period the total credit provided for by the Corporation was no more than £254,000.²

At that time it was committed to make further advances or participations totalling £1,080,000. Even then the combined amount was very small relatively to the enormous resources at the command of the Corporation.

The slow start cannot, however, be regarded as any real guide to the Corporation's future. During the subsequent accounting periods the business of the Corporation has steadily increased. In the balance-sheet as at 31st March, 1947, the Corporation's investments (at cost) stood at £1,862,051 which was made up of as follows³:

Debentures and Secured Loans	..	£1,213,600
Unsecured Loans	..	£ 525,000
Redeemable Preference Shares	..	£ 95,917
Ordinary Shares	..	£ 27,534

On 31st March, 1948, the investments stood at £4,737,801 made up of⁴:

Debentures and Secured Loans at cost		
less amount written off	..	£2,489,350
Unsecured Loans, at cost	..	£2,125,000
Redeemable Preference Shares at cost	..	£ 95,917
Ordinary Shares, at cost	..	£ 27,534

¹ *The Economist*, July 15, 1946, p. 978. Also the *Eastern Economist*, July 26, 1946, pp. 151-52.

² Speech of the Chairman, F.C.I. Ltd., Second Annual General Meeting.

³ *Balance-Sheet 31st March 1947, F.C.I. Ltd.*

⁴ *Balance-Sheet 31st March 1948, F.C.I. Ltd.*

The figures indicate the advances that were actually made by the Corporation but they represent only a small fraction of the amounts which the Institution had entered into engagements to provide. In this connection the authorities of the F.C.I. have stressed the time-lag between the conclusion of agreements and the utilisation of the facilities for which they provide. This time-lag has been mainly due to the uncertainties and delays in obtaining supplies of the materials and equipment required for carrying out the approved projects. The reallocation of steel served to aggravate these uncertainties and delays still further. The conditions, however, are likely to improve in the coming years.

Methods of Finance :

The Institute proceeds empirically in regard to the form in which its assistance is given. As in the case of the I.C.F.C., the peculiar needs of every customer have determined the form in which the accommodation is provided. Negotiations are conducted by correspondence and interview between executive officials of the Corporation and representatives of the Company concerned. The ultimate decision, except in those cases which clearly fall outside the purview of the Corporation, rests with the Board of Directors.¹ An important consideration for the Board is whether the project which is seeking assistance would, by modernisation, expansion or development of a new industry, contribute towards the objective for which the Corporation was formed. If the Board is satisfied on this point and there are reasons

¹ Letter to the writer from the authorities of the Finance Corporation for Industry Ltd., dated 11th August, 1948.

to believe that there are prospects of financial success, the money is provided on terms as little burdensome as possible during the developmental period. It usually takes the form of an advance at a "fine" rate of interest. When the advance is made, the permanent capital structure of the Company is taken into careful consideration and the security received by the Corporation has often attached to it conversion rights into preference shares, redeemable or non-redeemable, and even ordinary shares. As permanent investment is not the policy of the Corporation, such an arrangement paves the way for the liquidation of the loan. At the same time the Corporation is afforded an opportunity to obtain a reward commensurate with the risk undertaken by it.¹ If the reward actually materialises, it will enable the Corporation to create reserves in addition to current profits. As more loans are taken up, these profits will increase and out of these two sources reserves will progressively accumulate. The importance of reserves can hardly be overstressed in the case of an institution like the F.C.I.

There have been two classes of transactions. In one the Corporation has acted alone; in the other it has been associated with one or more Issuing Houses of the city. This is reminiscent of the practice of the German banks to work in syndicates and will help to distribute the risks of investment fairly widely. The financing of the Steel Company of Wales Ltd. furnishes the most outstanding example of this co-operation. After the end of the War, when the task of modernising the Tinsplate Industry of Britain was undertaken, it was found to be a colossal job. It involved the provision of new

¹ Speech of the Chairman at the Third Annual General Meeting of the Finance Corporation for Industry Ltd., held on 22nd July, 1948.

capital to the extent of £60 million. It was not simply the magnitude of the task but there was the question of the period that must elapse before the permanent capitalisation of the Company would be established. It was accomplished by a remarkable co-operation between the F.C.I. and the largest group of issuing houses to be ever brought together and indirectly by the banks.¹

The staff of the Corporation, in marked contrast to that of the I.C.F.C., is relatively small and outside consultants are employed when necessary for the investigation of any detailed and technical aspects of a case.²

Surprisingly enough, at a very early stage of the Corporation's history, a receiver had to be appointed in respect of a loan of £210,000, subsequently increased to £230,000. But the loan was of an exceptional character. The Corporation was invited to assist the Company on the grounds of its high national importance. Its participation was based upon a Government contract which was, however, cancelled later on. A sum of £90,000 has had to be written off in this connection. It is mainly on account of this ill-fated transaction that the Profit and Loss Accounts have been showing some deficits.

It is perhaps too early to express a positive opinion as to whether the Corporation is destined to become a part of the permanent mechanism of the City of London. According to its Chairman, Viscount Bruce, its activities to date have justified the view that it was necessary to provide a mechanism for mobilising the credit resources of the city in order to finance schemes of post-war modernisation and

¹ Speech of the Chairman at the Second Annual General Meeting of the F.C.I., August, 1947.

² Letter to the writer from the F.C.I. Ltd., dated 11th August, 1948.

re-equipment which could not be handled appropriately through the normal financial channels. The financing of the Steel Company of Wales referred to above together with many smaller proposals which the Corporation has handled appears to indicate that it has a significant rôle to play.¹ The recent working of the Corporation confirms the view that it is destined to provide an essential element in the general financial structure of the country's economy.

Indeed it can look forward to playing quite a useful part in the rehabilitation and maintenance of British industries. Industrial developments have been taking place throughout the world. As a result of these developments, the markets for the simpler forms of manufactures which Britain has supplied in the past are likely to be considerably reduced. To replace these markets, British industry will have to keep ahead of its rivals in specialisation, modernisation, utilisation of science and the application of modern technique. All this will call for an adequate and continuous flow of new capital. It is in the provision of this capital that the F.C.I. can play a valuable part.²

¹ Speech of the Chairman, the Rt. Hon. Viscount Bruce of Melbourne at the Second Annual General Meeting.

² *Ibid.* Cp. also the Chairman's speech at the Third Annual General Meeting held on 22nd July, 1948.

CHAPTER IV

THE INDUSTRIAL DEVELOPMENT BANK OF CANADA

The Industrial Development Bank of Canada was established under the authority of the Industrial Development Bank Act approved on August 15, 1944. It commenced operations on November 1, 1944. Sec. 12(2) Act required the Bank of Canada to subscribe for the authorized capital of £25,000,000 of which £10,000,000 was paid up in accordance with the provisions of the Act when it came into force. Towards the end of the first fiscal year (30th September, 1946) when the loans authorized by the Institution tended to approach the paid-up capital, the Bank of Canada was called upon to pay for 50,000 additional shares of its subscription and the paid-up capital of the Institution was increased to £15,000,000 on September 30, 1946. Towards the end of the 1947 fiscal year it appeared again that the Development Bank's outstanding loans and investments other than Dominion Government Securities would again reach the amount of its capital now raised to £15,000,000. Further, in connection with loans and investments already authorised, the Bank was committed to disburse a sum considerably in excess of the amount of its paid-up capital. Accordingly the Bank of Canada was again called upon to pay for the remaining 100,000 shares of its subscription, thus bringing the paid-up capital of the Bank to its full authorized amount of £25,000,000 on September 30,

1947.¹ The Bank has also been empowered under the Act to issue debentures upto three times its paid-up capital plus reserve. Under Sec. 25(a) of the Act, capital funds not currently required for business purposes have been invested in securities of the Government of Canada.

There is a large variety of lending organisations to which business men in Canada can always turn for financial assistance in starting or expanding industrial enterprises. But in some cases circumstances may not make such assistance possible. When an enterprise needs capital but not large enough to warrant a public issue of securities or when an otherwise acceptable project requires a loan of longer term than a chartered bank may be prepared to grant, the Industrial Development Bank will be prepared to extend its facilities to the enterprise, provided it is demonstrably sound and can be expected to pay back borrowings from earnings over a reasonable period. Its purpose is to extend financial assistance to sound industrial concerns which are unable to obtain their requirements from other sources on reasonable terms and conditions. It is intended to supplement rather than to compete with the activities of the chartered banks and other lending organisations, and to operate chiefly in the medium and long-term field.² The enterprises eligible under the Act for assistance are those which are engaged in the business of the manufacturing, processing or refrigeration of any goods, or the building of ships, or of the generating or distributing of electricity. Credit will be provided only in cases where a

¹ Annual Reports of the I. D. B. to the Minister of Finance for the fiscal years 1945, 1946 and 1947.

² *I. D. B., What it is and How it Operates*—a pamphlet published by the Bank and kindly forwarded to the present writer by its authorities.

reasonable amount of money has been invested by persons other than the Bank in the business concerned.¹

In considering applications for financial assistance, attention is paid not only to the existing value of buildings, machinery and equipment on which security may be taken but also to the ability to repay a loan from prospective earnings or other sources. The Bank is legally empowered to take any kind or form of security including liens on goods, wares and merchandise as under Sec. 88 of the Bank Act. Mortgages on land and buildings may be taken. Chattel mortgages on machinery and equipment may also be accepted where they may be legally taken. Financial assistance provided by the Bank is usually on a medium or long-term basis. The length of term depends on the Bank's estimates of prospects in the industry as a whole and on its judgment of the applying firm's situation as a borrower.² The credits authorised by the Bank during the first year of its operation were for an average term of five years. It does not ordinarily lend money for what are commonly known as working capital purposes. By virtue of its Act, it cannot lend to primary producers nor like the British I.C.F.C. to trades or services.

Methods of Finance :

The methods used by the Industrial Development Bank in extending financial aid vary in accordance with the circumstances. In the great majority of cases, the Bank makes direct loans but it has powers to share in, or guarantee, loans made by chartered banks. The Bank may also under-

¹ I. D. B.—*What it is and How it operates op. cit.*

² Source: Art. by Mr. J. A. Macdonald of the Industrial Research Division of the Bank in the *Dalhousie Quarterly Review*.

write or purchase securities issued by the borrower. Every effort is made to arrange financing suitable to the needs and interest of the borrower. But as already noted, it is always a matter of principle with the Bank to insist upon the investment in the business concerned of a reasonable amount of money by persons other than the Bank. In this particular respect the resemblance with the British F.C.I. is very close.

There is one very attractive feature in the Bank's method of disbursement. A business man may arrange in advance with the Bank for the financing of his project. He decides to erect a plant to be completed in a few months' time and the Bank will advance funds only to meet actual expenditure as work on the plant progresses. The borrower thus pays interest only on the portion of the credit which is actually outstanding and is thus able to make large savings. The rate of interest is 5% per annum. The terms of repayment are tailored to suit the individual needs of each business. Thus payments of principal have been arranged on a monthly, quarterly, semi-annual or annual basis. As an alternative, equal payments of both interest and principal are permissible. But the Bank's policy has generally been to encourage borrowers to repay their loans as quickly as possible in order that their finances may be placed upon a sound basis to meet possibly less favourable operating conditions.¹

Procedure for Dealing with Applications for Finance :

The Bank's procedure in dealing with applications for assistance is as follows :—An application may be made in person or in writing to any of its offices located in various

¹ Article by J. A. Macdonald in the *Dalhousie Quarterly Review*, MS. copy kindly forwarded to the present writer.

parts of the country, at Montreal, Vancouver, Winnipeg and Toronto. The Bank's policy in establishing offices is determined by the number of applications for credit which it receives from various parts of the country; otherwise the expenses of such offices would be high in relation to the volume of business done. Apart from the expense ratio, there is the difficulty of retaining the services of the type of men required by the Bank at such points unless they are kept fully occupied.

The business of the Bank is a highly specialized undertaking. It has on its staff men who had previously occupied senior positions with commercial banks or trust companies. Besides experienced bankers, the Bank has on its staff experienced industrial engineers, lawyers, chartered accountants, insurance experts and qualified economists. When an application is received, these officers are entrusted with the task of examining it. If the preliminary data are satisfactory, a visit is made to the applicant's place of business where the investigation is carried on. The form of security to be held by the Bank and the terms of repayment of loans which are arranged to suit individual cases are then decided upon. Periodic visits to the customers' plant are regularly made so that personal contact, as through the Liaison Department of the British I.C.F.C., may be maintained and any problem that may have arisen in the course of the operations may be usefully discussed. Thus through this continuous contact, the I.D.B. has been able to assist a number of its customers in financial, engineering, accounting and insurance matters.¹

¹ Annual Report of the Industrial Development Bank, Canada, September 30, 1946.

The applicant has to furnish the following list of documents and information¹ :—

In cases of incorporated companies (1) Letters of Incorporation, (2) Minute Book and (3) Borrowing Bye-laws.

In cases of partnerships, full names of partners and their occupations together with the partnership agreement.

In the case of both—(1) Title to land, (2) Plan of Survey showing boundaries of land and location of buildings, (3) Tax Receipts, (4) Prior encumbrances—copy of any mortgage, lien or charge against the applicant's property and statement from creditor showing principal and interest, (5) Machinery and equipment, listing the items by quantity, general description, serial number if any, and make, and listing also any chattel mortgages, liens or conditional sale agreements which affect the borrower's machinery and equipment, (6) Fire insurance policies covering property to be mortgaged which will be required as collateral security and finally (7) Life insurance policies.

If there are any contracts or agreements concerning the relationship of the borrowing company with either private industries or other companies who will become parties to the Bank's intending loan contract with the company, these documents should also be made ready.

In the application form the following information have to be furnished (1) Name of the Firm, (2) Nature of business, date when established, number of employees now, (3) Principal products, now, pre-war, post-war. (4) Amount

¹ The relevant papers have been kindly forwarded by the authorities of the Bank.

of finance requested, purpose for which the finance is required—if for capital investments, nature of assets to be acquired and approximate dates of expenditure of funds, security offered and proposed terms of payment, (5) Names and addresses of regular bankers with instructions to give the I.D.B. full information on request, (6) Name and address of the bank to which the applicant is indebted at the time of application together with the amount of the loan and the nature of the security furnished, (7) Audited Balance-sheets and Profit and Loss statements covering, if possible, the last seven fiscal years of operations, and (8) Amount of contingent liabilities, unsecured guarantees and endorsements, if any, and pending litigation.

Business Operations :

During the first year of its operations, commencing on November 1st, 1944 when the Bank proceeded cautiously, it received 485 applications for credit from enterprises that could be classified as “industrial” within the meaning of the Act. Of these 97 applications were authorised by the Bank, representing a total authorised amount of \$4,150,050. One hundred and sixty were rejected as unjustifiable risks while 228 were withdrawn during the preliminary examination, presumably because credit had been obtained from other sources, or because the applicants had abandoned the idea of going ahead with their programmes.

The credits which the Bank authorised were for an average term of five years and were widely distributed among various types of industrial enterprises as well as by provinces:—

Classification of Loans and Investments
30th September, 1945.

BY INDUSTRIAL ENTERPRISES :

	Authorized	Outstanding
1. Food and Beverages	\$342,500	\$ 75,989
2. Textiles and Apparel	\$793,250	\$279,210
3. Lumber and Wood Products ..	\$325,300	\$146,922
4. Iron, Steel and Metal Products ..	\$316,000	\$ 62,804
5. Machinery and Equipment	\$539,000	\$106,106
6. Stone, Clay and Glass Products ..	\$341,000	\$ 80,992
7. Refrigeration	\$316,000	\$ 50,000
8. Other	\$225,000	\$ 69,729
TOTAL	\$3,198,050	\$871,752

The average size of the authorized credits on the books of the Bank as at September 30th, 1945 was £39,976.

By Size	Number Authorized	Amount Authorized
\$ 5,000 and under	9	\$ 37,800
\$ 5,001 to \$ 25,000	34	\$550,500
\$ 25,001 to \$ 50,000	17	\$667,750
\$ 50,001 to \$100,000	14	\$1,052,000
\$100,001 to \$200,000	6	\$890,000
Over \$200,000
TOTAL	80	\$3,198,050

All credits authorized by the Bank during the year bore interest at the rate of 5% per annum.

The small number of authorisations in relation to the number of applications is to be explained by the failure on the part of the borrowers to understand clearly the function

the Bank was expected to perform and consequently the type of application which it could favourably consider. Some of the withdrawals were also undoubtedly influenced by the continued scarcities of labour and materials and delays in acquiring various kinds of plant and machinery which had adverse effects on reconversion and expansion plans.¹

In the second and third years of the Bank's operations, the number of applications which were refused or withdrawn considerably decreased, as will be evident from the figures given below :—

	1945	1946	1947
Authorized	97	169	177
Refused	160	103	97
Withdrawn	228	105	113
	485	377	387
TOTAL	485	377	387

The explanation is possibly that the borrowers were having a clearer understanding of the nature of the Bank's functions and consequently of the type of application it would entertain. Thus though there were fewer applications, they were more of the type which the Bank could favourably consider.²

As in the first year, so in the second and the third, the Bank lent its assistance to various categories of industrial enterprises. The following lists represent a good cross section of the varied types of industrial activity in Canada.

¹ Annual Report of the I.D.B. to the Minister of Finance for the fiscal year 1945. Also Mr. J. A. Macdonald,—Research Division I. D. Bank.

² *Ibid* for the fiscal year 1947.

Classification of Loans, Investments and Guarantees by Industrial Enterprises September 30, 1946 and 1947.

	Authorised		Outstanding	
	1946	1947	1946	1947
1. Food and Beverages ..	14.1	12.1	16.0	11.7
2. Primary Textiles ..	7.5	3.4	7.5	3.6
3. Finished Textile Products ..	3.6	5.6	5.0	6.9
4. Pulp and Paper Products ..	3.1	17.5	1.9	16.3
5. Primary Lumber Products ..	5.4	4.1	4.3	4.3
6. Furniture and Wooden ware ..	8.7	7.3	6.0	9.2
7. Agricultural and Industrial Machinery ..	9.7	6.5	7.0	8.6
8. Automotive Equipment ..	3.7	2.1	3.9	2.7
9. Miscellaneous Metal Products	14.1	7.2	13.7	9.4
10. Builders' Supplies ..	7.9	4.0	12.2	5.4
11. Ceramics, Glass and Plastic Products ..	2.3	1.0	3.2	.4
12. Chemical Products ..	2.3	14.9	3.5	4.5
13. Refrigeration ..	6.8	6.5	7.4	7.1
14. Other ..	9.5	7.8	6.8	10.0

The number and amount of authorized credits classified by size :—

	Net Number		Net Amount Authorized	
	1946	1947	1946	1947
\$ 5,000 and under ..	26	33	\$ 94,347	\$ 103,930
\$ 5,001 to \$ 25,000 ..	84	140	\$ 1,097,659	\$ 1,869,749
\$ 25,001 to \$ 50,000 ..	39	58	\$ 1,456,251	\$ 2,052,539
\$ 50,001 to \$100,000 ..	30	53	\$ 2,199,929	\$ 3,883,744
\$100,001 to \$200,000 ..	21	25	\$ 3,098,486	\$ 3,521,575
Over \$200,000 ..	5	13	\$ 1,450,000	\$ 8,326,500
TOTAL ..	205	322	\$ 9,396,673	\$19,758,037

It will be seen that the largest number of authorized credits has been in all the three years in the \$5,001—\$25,000 category, being 34 in 1945, 84 in 1946 and 140 in 1947.

It must be emphasised that an Institution of the type of the Industrial Development Bank has to operate in a field where risks are greater than average and where operating costs tend to be high relatively to the retained volume of business. As in the case of the British institutions, the Canadian I. D. B. has operated under conditions of general shortages of labour, equipment and materials. Most industrial enterprises under these circumstances could not carry out their reconversion or post-war expansion programmes. Even under such conditions the Bank has served a useful purpose and gathered valuable experience which will stand it in good stead when it is called upon to function on a larger scale. The volume of business has been steadily increasing in more recent years. From the character and diverse nature of the applications received by the Bank, Mr. Towers, its President, believes that there is not only a need for such an institution in Canada but that it is also likely to operate on a self-supporting basis.¹ In the coming years there will be many special problems of industrial finance of the kind that the Bank has been designed to tackle and the evidence indicates that it will continue to provide a useful service.²

¹ Annual Report of the I.D.B. for the fiscal year 1946, p. 11.

² Annual Report of the I.D.B. for the fiscal year 1947, p. 16.

CHAPTER V.

INDUSTRIAL FINANCE DEPARTMENT OF THE COMMONWEALTH BANK OF AUSTRALIA

Like the Macmillan Committee in England, the Royal Commission on Australian Monetary and Banking Systems stressed the difficulties of small industrial concerns in obtaining their requirements of long-term capital. The Commission had particularly in mind the cases of borrowers of limited means in secondary industries which were capable of expansion and deserving of encouragement in the public interest. Bank advances are not easily available for any purpose of this kind and are also unsuitable in most cases. The expansion of such industries by ploughing back profits into the business is out of the question for in the initial stages such profits are not likely to be sufficient for the purpose. The requirements of the borrowers are not large enough to justify a public issue of shares and in most cases a public issue, if made, would be unsuccessful. In the circumstances the Commission recognised the need of establishing a suitable machinery which would provide fixed and long-term loan facilities ranging from a period of three to ten years at appropriate rates of interest.¹ Such facilities, the Commission believed, could be furnished by a new Institution specially established for the purpose or by the adaptation of an already existing institution. Such an institution should have at its command the services of technical advisers, first, to examine the prospects of the business seeking financial assistance and

¹ Report of the Royal Commission on Monetary and Banking Systems in Australia, 1937, p. 222.

secondly, to advise the proprietors, if the aid was furnished, on such matters as factory lay-out, methods of manufacturing, costing and marketing. As the industries envisaged by the Commission were those which would be aided as a matter of national or local policy, the Commonwealth or the State Government was considered by them to be the appropriate body to set up the necessary machinery. Accordingly the Commission recommended that with the assistance of the Commonwealth Bank, the Governments should investigate the problem of establishing such a machinery to cater for the financial needs of the small concerns in secondary industries.¹

No new institution was, however, established. To give effect to this recommendation of the Commission, an Industrial Finance Department was created within the Commonwealth Bank of Australia on 2nd January 1946 under the provisions (Part X) of the Commonwealth Bank Act, 1945. The accounts and transactions of the Industrial Finance Department have been kept separate and distinct from those of the other departments of the Commonwealth Bank. As the operations of the Industrial Finance Department are of a specialised nature, and, to a certain extent, somewhat experimental, such segregation has been considered necessary to enable the accounts of the Bank to reflect a true picture of these operations.²

As a special machinery for providing long-term industrial finance, the Australian experiment is unique and

¹ Report of the Royal Commission on Australian Monetary and Banking Systems, 1937, p. 526.

² P. S. J. Wilson—University of Canberra, the *Eastern Economist* November 29, 1946.

offers a remarkable contrast to the institutions we have studied before. While the Bank of England participated partially in the share capital of the I.C.F.C. and the F.C.I. and the Bank of Canada entirely owned the Industrial Development Bank, which was in fact its subsidiary, the Central Bank of Australia opened a special Department of its own to perform the same functions. It is an interesting innovation in the domain of industrial banking and the progress of the experiment will be carefully watched not only within Australia but also outside it. There is no other Central Bank which has taken a more direct part in the provision of industrial finance.

The Industrial Finance Department has been placed under a General Manager who, under the Act, is appointed by the Governor-General and will hold office for a period not exceeding seven years but will be eligible for re-appointment.¹ As the Department is an integral part of the Commonwealth Bank, the Governor of the Bank will be ultimately responsible for its operations. Subject to this, management has been vested in the General Manager. The General Manager is envisaged as "a man thoroughly equipped with a knowledge of industry and finance, capable of developing a specialised technique of industrial banking."²

It has been laid down in the Act that the capital of the I. F. D. will be £ 4 million, transferred from the special reserve account of the Note Issue Department and of the sum of another £2 million transferred from the general resources of the Commonwealth Bank.³ The I. F. D. was

¹ Sec. 93 (1) *The Commonwealth Bank Act*, 1945.

² J. S. G. Wilson in the *Eastern Economist*, November 29, 1946.

³ Sec 97.

established with an initial capital of £2 million, half of which was transferred from the Note Issue Department and half from other funds of the Bank.

The capital funds may be supplemented by advances from two sources. The Treasurer may make advances to the Bank for the purposes of the I. F. D. of such amounts and subject to such terms as may be agreed upon between himself and the Bank. He may also borrow money, under the Commonwealth Inscribed Stock Act 1911-43, for the purpose of relending the proceeds to the I. F. D. The Commonwealth Bank has to pay to the Treasury half-yearly, out of the funds of the I.F.D., interest on such advances.¹

The I. F. D. may also obtain advances direct from the Bank of such amount and subject to such terms and conditions as may be determined by the Governor, but the total amount of such advances not repaid shall not at any time exceed £1 million. The Commonwealth Savings Bank may also make advances to the Bank for use in the I. F. D, the amount and the terms to be determined by the Governor.²

Functions of the Industrial Finance Department :

The functions of the Industrial Finance Department were outlined in Sec. 95 of the *Commonwealth Bank Act, 1945* as follows :

(1) To provide finance for the establishment and development of "industrial" undertakings ; and particularly small undertakings ;

(2) To assist in the establishment and development of "industrial undertakings" ; and

¹ Sec. 98. *The Commonwealth Bank Act, 1945.*

² Sec. 99.

(3) To provide advice on the operations of industrial undertakings with a view to promoting the efficient organisation and conduct thereof.¹

The Commonwealth Bank may further provide financial assistance through the Industrial Finance Department either by way of a loan or by direct investment in an undertaking (by purchasing, or otherwise acquiring shares and securities).²

Since the inception of the Department, its principal function has been the provision of assistance for the development and expansion of industrial undertakings, particularly where small undertakings* are concerned, for which financial accommodation is not ordinarily available through banking or other channels.³ The term "industrial" covers a large field and the financing of any type of business is considered.⁴

Financial Methods :

Financial assistance provided by the Department is made available in one or more of the following forms, as best suited to the needs of the particular case : (1) overdraft (2) fixed loan (mortgage or debenture) (3) hire-purchase finance (4) subscription of capital to a company (5) underwriting the issue of shares by a company or sharing in an undertaking, and (6) by such other means as may be appropriate to the particular case. Accommodation is made avail-

¹ Sec. 95. *The Commonwealth Bank Act, 1945.*

² Sec. 96.

* In announcing the establishment of the I. F. D. the Governor of the Commonwealth Bank had, however, spoken of both large and small industrial undertakings.

³ Report of the Commonwealth Bank of Australia for the year ending June 30, 1946 p. 11.

⁴ Source : Letter from Mr. Armstrong, General Manager, I. F. D., dated July 5, 1948.

able by means of an ordinary overdraft advance at the current rate of interest on the day to day balance of the account, the rate of interest being the Bank's general overdraft rate of $4\frac{1}{2}\%$ per annum. A fixed loan, usually for the erection of buildings on free hold property, is arranged whereby regular fixed repayments are made covering both principal and interest throughout the period of the loan.¹ The usual method of financing the acquisition of industrial equipment such as machinery, tractors, buses, trucks etc. is through hire purchase agreements. As a general rule, the maximum terms on which the I. F. D. considers providing such type of finance is 80% of the net cash price of industrial plant (*i.e.* cost price minus usual discounts) at a flat rate of 4% per annum, repayable in twenty four equal monthly instalments.

As finance is necessary for both production and distribution, the Department often judiciously combines overdraft and hire purchase accommodation to finance successively the manufacturer, the distributor, the retailer and the individual buyer. Thus finance from one single source lubricates every link in the long chain from the producer to the ultimate consumer and facilitates smoothness of operations between the various interests.² The Department also considers subscription to or underwriting of the share capital of a Company.

It has been recognised that the activities of the Industrial Finance Department are of a specialised nature and the standards usually associated with bank loans will be inapplicable to loans furnished by it. Inability to provide full

¹ Source : Letter from Mr. Armstrong, General Manager, Commonwealth Bank of Australia, Industrial Finance Dept., dated Sydney, 5th July, 1948.

² Report of the Commonwealth Bank of Australia June 30, 1946.

security based on normal banking standards will not necessarily exclude an undertaking from the purview of the Department. If the Department is satisfied that with some measure of assistance the undertaking has every prospect of success, it will not hesitate to extend its aid. The Department has no rigid formula and handles each proposal on its merits. Proposals which are economically desirable and commercially justifiable are entertained. But as a general rule, as in the case of the British and Canadian Institutions, the Department insists upon the proprietors having a reasonable equity in the undertaking. Subject to this condition and provided the proprietors' character, capacity and prospects prove to be satisfactory, every possibility is explored to shape the proposals in such a form that financial assistance can be rendered.¹ The Department has on its staff not only persons "adequately experienced in the financing, organisation and conduct of industrial undertakings" but also production engineers qualified cost accountants whose expert advice is made available free of cost to borrowers.² The Department also consults from time to time industrial experts, particularly with regard to industries requiring specialised knowledge, and in respect of technical matters has already utilised to a great extent the services of the Secondary Industries Commission in the Post-War Reconstruction Department.

Business Operations :

In the first six months of the Department's operations upto June 30, 1946, 1033 applications had been approved for

¹ J. S. G. Wilson, University of Canberra, *The Eastern Economist*, November 29, 1946.

² Letter from Mr. Armstrong, General Manager, Industrial Finance Department, dated 5th July 1948.

advances of all types amounting to a total of £1,571,615. The actual amount of loans, advances, shares and debentures and other amounts stood at £834,469 on 30th June 1946. The flow of applications for financial assistance has continued to increase and in the opinion of the authorities, the establishment of the Department has been amply justified by events.¹ Since the inception of the Department down to 31st March 1948, it has approved 13182 applications covering advances totalling £10,922,482 and borrowers have availed of £7,059,641. The whole of the initial capital granted to the Department has been made available and the borrowing provisions have also been utilised to provide this finance to industry.²

The Central Administrative Authority is the General Managers' Department which is housed in the Commonwealth Bank's Head Office at Sydney, while branch departments for direct dealing with the public have been established in each of the State Capital Cities, Sydney, Melbourne, Adelaide, Brisbane and Perth, under managements separate from those of the other activities of the Bank. Industrial Finance Department facilities are also available at Hobart (Capital of Tasmania) and all the other 350 Branches of the Commonwealth Bank.

¹ Report and Balance Sheets, Commonwealth Bank of Australia and Commonwealth Savings Bank of Australia as at 30th June 1946, pp. 11-12 and June 30, 1947 p. 13.

² Letter from Mr. Armstrong, General Manager of the Industrial Finance Dept. *op. cit.*

CHAPTER VI

THE INDUSTRIAL FINANCE CORPORATION OF INDIA

The question of establishing a Special Institution for providing long-term industrial finance in India has been before the country for the last three decades. Towards the close of the First Great War it came to be strongly recognised that in any programme of achieving a rapid industrialisation of the country, the first step should be the provision of adequate financial facilities for its industries. The Indian Industrial Commission which was appointed about this time gave great prominence, in their Report published in 1918, to this problem of financial facilities for Indian industries and stressed for the first time the desirability of setting up "industrial banks" for financing them. In 1924 the External Capital Committee also recommended the formation of specialist institutions for tackling the problem of industrial finance in India. The attention of the Central and Provincial Banking Enquiry Committies was sharply drawn to the subject and the idea of establishing "industrial banks" which originated with the Industrial Commission was resuscitated. A number of Provincial Banking Enquiry Committies made recommendations for setting up "industrial banks" on purely provincial lines. Following them the Central Banking Enquiry Committee decided in favour of the establishment of Provincial Industrial Corporations, though not ruling out entirely the formation of an All-India Industrial Corporation under certain conditions. But the reports of these Commit-

tees and Commissions had been resting in utter oblivion among the dust and cobwebs of the upper shelves of the Secretariat and no action, except a half-hearted attempt in one or two provinces, had been taken on their recommendations.

Towards the end of the Second World War, once again, attention came to be focussed on the problem of industrial finance in India. The problem indeed assumed not only a peculiar importance but also an altogether new aspect. Re-conversion of industry from a war-time to a peace-time basis, re-equipment of industries by effecting replacements and arrears in plant repairs, modernisation, extension and re-organisation of whole industries, planned development of industries to assist in the attainment of a high level of stable employment—all these factors tended to bring to the foreground the question of establishing a special Institution for the adequate provision of financial facilities. After the inauguration of the Independent Dominion of India, the question came to acquire a new significance and urgency. In their statement on Industrial Policy issued by the Government of India on April 21, 1945 with reference to their plans for the future industrial development of the country, it had been revealed that the question of promoting an Industrial Investment Corporation or some such institution was under careful examination. The decision was subsequently reached in the General Purposes Committee appointed by the Planning and Development Department that the subject should be examined by the Finance Ministry in consultation with the

¹ Report of the Indian Central Banking Enquiry Committee Vol. I Part I pp. 301-4.

Reserve Bank of India. In implementing the decision the Reserve Bank of India framed a Bill for establishing an Industrial Finance Corporation to provide medium and long-term credit to industrial undertakings in India where recourse to commercial banks and capital issue channels was considered inappropriate. As we have seen before, similar consideration for financing post-war industrial reconstruction had already impelled a number of countries to establish such special financial machineries. Canada had established the Industrial Development Bank ; Great Britain, the F. C. I. and the I. C. F. C., and Australia, the Industrial Finance Department of the Commonwealth Bank. These post-war developments in the field of industrial finance made a profound appeal to the framers of the legislation and the Indian Institution was sought to be modelled on similar lines. It will be interesting to examine the structure, organisation and proposed functions of the Indian Institution in the context of these other post-war experiments in industrial banking. The review of the activities of the foreign institutions that has been made before will also help us to draw lessons, if any, in respect of policies and financial methods to be adopted by our Institution.

The Bill for the establishment of the I. F. C. was intended to be introduced in the Legislative Assembly by Sir Archibald Rowlands in the Budget Session of 1946 but it could not be done on account of the heavy legislative programme. It was brought in during the autumn session of the same year but could not be proceeded with owing to the pressure of legislative business as well as the impending constitutional changes. The Bill, "an orphaned and abandoned child", was subsequently adopted by the Hon. Sri R. K. Shanmukham

Chetty, Finance Minister of free India, but not before it had been "suitably treated" and "reformed".¹

The Act establishing the Industrial Finance Corporation of India received the assent of the Governor-General on 27th March 1948. The Corporation has been established "for the purpose of making medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is unpracticable".² An "industrial concern" under the Act has been defined to mean any *public limited Company* or co-operative society incorporated by an Act of the Legislature and registered in India and engaged in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power.

Capital Structure :

The authorised capital of the Corporation has been fixed at Rs. 10 crores, divided into 20,000 fully paid up shares of Rs. 5,000 each. In the first instance, 10,000 shares of the total value of Rs. 5 crores are being issued and the remainder will be issued from time to time with the sanction of the Central Government as and when the Corporation will consider it necessary. In the original Bill of 1946, the share capital of the Corporation was fixed at Rs. 5 crores divided into 2,000 shares of Rs. 25,000 each which was to be fully paid up. The Select Committee raised the capital to the present figure of

¹ The Hon. Shri R. K. Shanmukham Chetty speaking on the motion to refer the Industrial Finance Corporation Bill to a Select Committee. *Legislative Assembly Debates Vol. I.* No. 5, 21 November 1947.

² Preamble to the *Industrial Finance Corporation Act, 1948.*

Rs. 10 crores and reduced the face value of the shares. The increase in the capital is calculated to raise the lending capacity of the Corporation while the reduction in the face value of the shares has made them less unwieldy and more easily marketable. Of the capital issued in the first instance the Central Government and the Reserve Bank are each subscribing for 2,000 shares ; scheduled banks will subscribe for 2,500 shares, insurance companies, investment trusts and other similar financial institutions for 2,500 shares, and co-operative banks for 1000 shares. The capital structure of the Indian Corporation is to be distinguished from that of the British F.C.I. and I.C.F.C. as well as of the Canadian I.D.B. in the sense that it is not wholly owned by the Central Bank like the latter nor independent of State-ownership and control like the former. The Central Bank, as in these cases, has no doubt an interest in the share capital of the Indian Corporation but the State in addition is a part shareholder. If the British institutions had been conceived and started under the auspices of the Labour Government, it is difficult to say whether their capital structure would not have assumed a different complexion. As it is, with the nationalisation of the Bank of England, the State may be said to have acquired an interest in the share capital of the two British Corporations. The Indian Institution under the Act will be owned by the Central Government and the Reserve Bank, consortiums of scheduled banks, investment trusts and insurance companies and co-operative banks in the proportions of 40, 50 and 10 per cent. respectively. With the nationalisation of the Reserve Bank of India which has just been effected and the nationalisation of the Imperial Bank of India which is likely to be accomplished in the near future, the share hold-

ing of the Government will amount to 51 or 52%.¹ It will also be noticed that the framers of the Bill establishing the Indian Industrial Finance Corporation were very much influenced by the British precedents. But they have not chosen to model the Indian Institution exclusively on one of them. Thus in the capital structure features have been borrowed partly from the F.C.I. and partly from the I.C.F.C. In respect of shareholdings by joint stock banks the Indian Institution follows the I.C.F.C. but it resembles the F.C.I. in that institutional investors like insurance companies have been included as shareholders.

It has been laid down that no institution shall be allotted more than 10% of the shares reserved for the class of institutions to which it belongs. If any of the shares remain unallotted, they shall be subscribed for by the Reserve Bank and the Central Government in such proportions as may be agreed on between them. The shares acquired by the Reserve Bank and the Central Government in this manner may be disposed of to scheduled banks, insurance companies, investment trusts or co-operative banks to which the shares of the Corporation are transferable in accordance with regulations.² The shares of the Corporation, it should be mentioned, are not transferable except to the Reserve Bank, the Central Government, any scheduled bank, any insurance company, any investment trust or any other like financial institution or any co-operative bank.

The capital structure of the I.F.C. has been the subject of comment and unfavourable criticisms from many quarters. In Indian Parliament there was much heated discussion over

¹ The Hon. Shri R. K. Shanmukham Chetty, Minister of Finance. *Legislative Assembly Debates*, Vol. I No. 10 dated 10th February, 1948.

² Sec. 4 (3)—(7). *The Industrial Finance Corporation Act, 1948.*

the question whether the Corporation should be a wholly state-owned institution. Recent experiments in this sphere have nowhere contemplated complete state ownership. The F.C.I. and the I.C.F.C. have supplied the main inspiration for the formation of the Indian I.F.C. but the Socialist Government in Britain have not yet subjected them to state-ownership. In every case, however, the close co-operation with the central and commercial banks has been unequivocally stressed. The central bank has its finger on the economic pulse of the country and commercial banks having intimate and continuous relations with their customers are the best references for their solvency and credit worthiness. We are not suggesting for a moment, however, that we are not in favour of the state-owned institution. Special institutions for financing industries have invariably been started under the auspices of the State and in many instances in the past the State had subscribed either wholly or in part to their capital. Among the industrial mortgage banks started in the nineteen twenties, the Saxon Mortgage Bank was wholly owned by the State while the National Hungarian Industrial Mortgage Institute was partly so owned. As already noted, the Government is expected to own more than 51% of the share capital of the I.F.C. It has been further provided that the Central Government may acquire the shares held by shareholders other than itself and the Reserve Bank, if it so decides at any time, by paying an amount equal to the paid up value of the shares together with a premium calculated at the rate of 1% of the paid up value for every year from the date of issue to the date of acquisition, subject to a maximum of 10%.¹ For all practical purposes the Corporation is

¹ Sec. 36. *The Industrial Finance Corporation Act, 1948.*

a state-owned and state controlled Institution and is remarkable in that while retaining state-ownership, it appears to be an admirable technical device for facilitating the employment of the resources not only of the insurance and trust companies but also of the large banks in the medium and long-term financing of industry without any risk to the depositors.

The capital structure of the Corporation has been criticised in some quarters as affording no opportunity to private individuals to become its shareholders.¹ But individual shareholders are not necessary for this type of institution. Neither in the British nor in the Canadian experiment, there is any provision for allotting shares to private individuals. It has been contended that the distribution of the Corporation's shares on the widest possible basis and reduction of the denomination of the shares coupled with the limitation of individual shareholdings would have made the Finance Corporation a truly public institution and free from the risk of being exploited by a particular group or section for its own interests. But similar provisions did not prevent in the case of the Reserve Bank of India the concentration of shares in the hands of a small number of persons and that in a particular province. It was well on its way to lose its status of a public institution.² The aim of the legislation establishing the Corporation has been deliberately to restrict the shareholdings to institutional investors as against individual investors. The constitution has been framed in such a manner that the Corporation will not become the monopolistic concern of any group of individuals. Effective control over the Institution has been sought to be secured in various ways, by the composition of the Board and by pro-

¹ Art. by D. R. Samant in *The Commerce*, 15th February, 1947, p. 296.

² See the present writer's *Recent Banking Developments*, pp. 60-61.

viding that the Government can issue directions to the Board on questions of policy about which it shall be the sole judge. The device of restricting the shareholdings to some special categories of investors will enable the State to bring to its service under its control the experience gained by private captains of industry.¹

The adequacy of the capital structure in the context of the need for a large-scale and rapid industrial development of the country has also been questioned. It has been argued that even with the use of its borrowing powers, the resources of the Corporation will be very meagre and totally inadequate for securing the rapid industrialisation of the country. "It will have a paltry amount of Rs. 50 crores where hundreds of crores are required." But this attitude entirely misconceives the functions of the Corporation. It is never intended that the Corporation will pour out its funds for every category of industry or for every type of its needs. The State will be responsible for financing a considerable amount of industrialisation. The Corporation is designed to assist certain categories of industry only when they are unable to raise additional capital in the open market, capital which is vital for their expansion, modernisation or reorganisation. Normally all the requirements of capital are expected to be raised from the market and those of current finance from the commercial banks. A centralised Corporation of the type of the I.F.C., commanding 40 or 50 crores of rupees as its resources, can well finance industries which have got a capital of Rs. 700 or Rs. 800 crores.²

¹ The Hon. R. K. Shanmukham Chetty, *Legislative Assembly Debates*, Vol. I, No. 5, November 1, 1947 and Vol. I, No. 10, February 10, 1948.

² The Hon. Shri R. K. Shanmukham Chetty, *Legislative Assembly Debates*, Vol. I, No. 5, p. 481.

Government Guarantee :

It has been provided that the shares of the Corporation will be guaranteed by the Central Government as to both repayment of principal and payment of the annual dividend at such minimum rate as may be fixed by the Government by notifications in the Gazette at the time of issuing the shares.¹ In the same manner the bonds and debentures of the Corporation will be guaranteed by the Central Government in respect of the repayment of principal and payment of interest at such rate as may be fixed by the Central Government on the recommendation of the Board at the time of the issue of those bonds and debentures. The Central Banking Enquiry Committee had recommended a guarantee of interest on the bonds to be issued by the future Finance Corporation but it was a limited guarantee in that the guarantee was to be applicable to the first issue of the bonds or to a certain period of the currency of the bond issue. Such a limited guarantee has various drawbacks and the Government has been well advised not to limit the guarantee in this manner. These bonds and debentures may be issued and sold by the Corporation for the purpose of raising its working capital. But the total amount of bonds and debentures issued and outstanding and of the contingent liabilities of the Corporation in the form of guarantees given by it or underwriting agreements should not at any time exceed five times the amount of the paid-up share capital and reserve fund of the Corporation.² In the case of almost every kind of financial institution which is empowered to issue

¹ Sec. 5. *The Industrial Finance Corporation Act, 1948.*

² Sec. 21 (1).

bonds, limitations have invariably been placed upon the bond issues. As a result of custom or of law either the maximum bond issue is limited to a certain figure or the ratio between outstanding bonds and owned capital is fixed. The underlying idea in providing for such limitations is the prevention of excessive issue of bonds and the guarantee of the security of the bond holder. In the case of commercial banks the risks of depositors are likely to increase fast with every diminution in the ratio between capital and deposits. In the case of such institutions with every increase in the proportion of bonds issued to capital, the element of safety will grow smaller. But it does not follow that the ratio has to be fixed at much too low a figure. That would stand in the way of the Institution obtaining sufficient funds to fulfil its functions. The Central Banking Enquiry Committee guided entirely by the opinion of Dr. Jeidels, one of the "Foreign Experts" who were assisting the deliberations of the Committee, had recommended the adoption of the ratio of 2 : 1. In this respect the attitude of the Banking Committee was unnecessarily conservative. A higher proportion would not only be not unsound but even necessary. In my book *Industrial Finance in India* it was suggested that the bond issues should be limited to five times the amount of share capital plus reserves. It is very satisfactory to note that the suggestion has been adopted by the Government.

Deposits as a Source of Funds :

Besides share capital and bond issues, the Corporation will have another source of funds. It has been empowered to accept deposits from the public repayable after the expiry of a period which shall not be less than five years from the

date of the making of the deposit. But the total amount of such deposits has been limited to Rs. 10 crores at any time.¹ In this respect the framers of the Act appear to have been influenced by the views of the Indian Central Banking Enquiry Committee who favoured the idea of the Provincial Corporations proposed by them receiving long-term deposits. This is no doubt an encroachment on the domains of commercial banking and as such, mortgage institutes, whether industrial or otherwise, have generally been prohibited from receiving deposits. The British F.C.I. which has supplied the model for the Indian Corporation does not accept any deposits from the public. The Japanese Industrial Bank received deposits on current, fixed and savings accounts but it was a mixed institution. It will be recalled that some industrial financing institutions started in the post-depression period were empowered to accept deposits. The Indian Institution, as we shall presently see, is not a pure industrial mortgage bank; and as the deposits are pretty long-term, and there has also been placed an upper limit on the amount, competition is not likely to be very keen with the existing commercial banks. As such, the provision will enable the Corporation to augment its resources to a considerable extent.

Scope of the Corporation :

The object of the Act establishing the Corporation has a restricted scope. It is not intended to meet the financial requirements of basic and nationalised industries but only to provide finance for the needs of private industry.¹ "The

¹ Sec. 22. *The Industrial Finance Corporation Act, 1948.*

¹ The Hon. Sri R. K. Shanmukham Chetty, *Legislative Assembly Debates*, November 20, 1947, p. 384.

object is to set up a Corporation for the purpose of financing large-scale industries in our country".¹ Basic industries have thus been excluded from its purview and in this respect it constitutes an important departure from the line of business of the British F.C.I. It will be recalled that the basic industries were expected to become its best customers. The steel industry had actually utilised its facilities. It is owing to the process of nationalisation that its business actually came from other sources. The exclusion of nationalised industries from its purview is understandable. But we do not find any reason why basic industries should not be allowed to obtain the facilities of the Corporation at the present moment when they are not yet nationalised. Many writers have failed to grasp the limited scope of the Corporation in this respect and have made irrelevant suggestions that the Corporation should assign the highest priority to basic industries.² Basic industries are simply not included within its scope. As regards private industry again, the Corporation will be interested only in *public limited companies* and co-operative societies incorporated by an Act of the Legislature. Neither the Canadian Industrial Development Bank nor the British I.C.F.C. has excluded partnerships or private limited companies. In fact the British I.C.F.C. is particularly interested in private limited companies though its assistance is not confined to them alone. Partnerships and private limited companies have been excluded possibly because the Corporation will chiefly finance large-scale undertakings but these types of industrial concerns are likely to need most the assistance of the Corporation. The Hon. Finance

¹ *Ibid.*

² Article by Mr. N. A. Sarma in *The Commerce*, December 6, 1947, p. 1018.

Minister expressed his concern for the financial needs of small-scale industries and promised to persuade the provinces to set up industrial finance corporations for small industries. But he had not a word for medium-sized industry. The financial problems of medium-sized industry in India are as acute as those of the smaller sized industry. In their anxiety to ensure that the Corporation should encourage industrial ventures to be started by public corporations, the sponsors of the legislation have ignored entirely the potentialities of partnerships and private limited companies in a scheme of industrialisation of the country.

Business transactions :

The Corporation has been authorised to carry on and transact the following kinds of business¹ :—

- (1) Guaranteeing, on such terms and conditions as may be agreed upon, loans raised by industrial concerns which—
 - (a) are repayable within a period not exceeding 25 years ;
 - (b) are floated in the public market ;
- (2) underwriting the issue of stock, shares, bonds or debentures by industrial concerns ;
- (3) receiving in consideration of the services mentioned in (1) and (2) above such commission as may be agreed upon ;
- (4) retaining as part of its assets any stock, shares, bonds or debentures which it may have to take up in fulfilment of its underwriting liabilities, so that it disposes

¹ Sec. 23.

of the stock, shares, bonds or debentures so acquired as early as practicable and in any case within a period of seven years from the date of such acquisition ;

- (5) granting loans or advances to, or subscribing to debentures, of industrial concerns, repayable within a period not exceeding 25 years from the date on which these are granted or subscribed to, as the case may be.

No accommodation, however, shall be given under (1) and (5) above unless it is secured by a sufficient pledge, mortgage, hypothecation or assignment of Government or other securities, stocks, shares, or secured debentures, bullion, movable or immovable property or other tangible assets in the manner prescribed by regulations.

The Corporation, further, shall not enter into any arrangement under (1) and (5) above with a single industrial concern for an amount equivalent in the aggregate to more than 10% of the paid-up share capital of the Corporation but in no case exceeding Rs. 50 lakhs.¹ The underlying object of putting such a limit on the accommodation that the Corporation may provide is to ensure diversification of the risks of investment.

Prohibited Business :

The Corporation has, however, been prohibited from (1) accepting deposits except as provided under the Act and (2) subscribing directly to the shares or stock of any company having limited liability.²

¹ Sec. 24. *The Industrial Finance Act, 1948.*

² Sec. 26.

Although such prohibition does not affect the right of the Corporation to acquire any shares, bonds or debentures of a company having limited liability in fulfilment of any underwriting agreement entered into by the Corporation, yet it is calculated not only to restrict considerably the scope and serviceability of the Corporation but also to prevent it from pursuing sound methods of finance.

From the above outline of business permitted to the Corporation, it is clear that the Corporation has been authorised to combine mortgage lending with the business of underwriting. It will be an issue house, underwriting the issue of shares and debentures of limited liability companies as well as a lending institution, guaranteeing and granting liened long-term loans. It has not been patterned after the industrial mortgage banks that were established in the nineteen twenties but has been closely modelled on the lines of the recently established British and Canadian financial machineries. But though so modelled, it has made important departures in respect of the forms in which its assistance will be furnished and in respect of the financial methods that will be pursued. Whereas the British F.C.I. and I.C.F.C., the Canadian I.D.B. and even the Industrial Finance Department of the Commonwealth Bank of Australia have been empowered to purchase and hold shares issued by the borrowing concerns, the Indian counterpart has been entirely debarred from this type of business. The business of mortgage lending has been mixed up with underwriting but the holding business has been entirely prohibited.

The financial facilities to be provided by the I.F.C. cannot, therefore, assume the same varied forms as those of the British I.C.F.C. and F.C.I. It will be recalled that besides

debentures, secured and unsecured loans, assistance has been furnished by these two institutions in the form of preference shares, redeemable, non-redeemable and participating, and even ordinary shares, thereby adapting the methods of finance to the needs and merits of each particular case. As the Indian Institution has been constituted, financial assistance provided by it cannot be tailored to the requirements of each particular industrial customer. Where an industrial undertaking requires permanent capital for its reconstruction and expansion, the appropriate method of finance for the I.F.C. would be the taking up of non-redeemable preference shares accompanied perhaps by a proportion of ordinary shares. Again, when the undertaking needs several years for its development and the proprietors are unable to repay the advance during the developmental stage and expect to do so out of profits in 10 or 15 years, the method of financing through redeemable preference shares with or without cumulative dividends would be proper. If the risk in financing is considerable, participating preference shares may be chosen. For intermediate cases, a combined arrangement would be suitable. In certain cases the I.F.C. may attach to the security received for its loans conversion rights into preference and/or ordinary shares. Such a method would pave the way for the liquidation of the loan without making the Corporation a permanent investor. But under its constitution, the I.F.C. will be debarred from pursuing such sound methods of finance.

The general ban on the purchase and holding of shares will be prejudicial to the interests of the industrial customers of the Corporation from another standpoint. When a loan is granted by the I.F.C. to a Company, it will be secured by

a pledge or mortgage of its assets. The Company will certainly require additional working capital to finance the increased turn-over. It will have to seek such capital from its banker. If the Corporation, however, has already a prior charge over its fixed as well as floating assets, the company will be unable to furnish the necessary security to the banker without which the accommodation will not be provided. The appropriate arrangement in such cases would be for the I.F.C. to provide its assistance partly on mortgage on the fixed assets, leaving the floating assets free and partly in preference shares. There may arise many cases when it will not be desirable to saddle the industrial company with a mortgage to the Corporation as well as a floating charge to the banks. In such cases the whole of the assistance furnished by the Corporation should be in the form of subscription to the share capital.

It has been officially stated that the object of the Corporation is to assist industrial concerns in obtaining capital and not to act as a holding company or an investment trust. It has been clearly shown before how the I.F.C. can subscribe to the share capital of industrial companies without being a permanent investor but obtaining at the same time a reward for the risk undertaken. Why, again, should it be undesirable for such a public financial institution to develop into a holding company? It has been rightly observed that the concentration of economic control in the hands of a private economic group may be undesirable but not necessarily so when it is in the hands of a public economic authority.¹ In the light of the foregoing analysis it will be not only desirable but also essential for the proper functioning of the Corporation that

¹ Art. by D. R. Samant entitled "Proposed Industrial Finance Corporation" in *The Commerce*, 15th February, 1947.

the Act should be suitably amended so as to allow it to subscribe to and hold for a time the shares and stocks of an industrial company. The provision relating to the compulsory disposal of shares acquired by the Corporation as a result of its underwriting liabilities, within a period of seven years is also likely to prove very often a source of embarrassment to the Corporation. One cardinal principle of industrial financing that the Indian Corporation should follow is that whatever be the method of financing, by way of loans or of subscription to shares, the owners of industrial concerns to be assisted must provide a portion of the capital themselves.

Types of Business to be assisted :

During the passage of the Industrial Finance Corporation Bill in the Indian Parliament, there was a good deal of controversy over the types of business which the Corporation would be authorised to help. The assistance to be furnished by the Corporation has been confined to industrial concerns engaged in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power. The Bill even when retouched by the Select Committee did not envisage any other form of power except electricity and as such inevitably aroused criticisms.¹ The expression "any other form of power" was added as a result of an amendment moved in Parliament by Mr. K. Santhanam, so that the assistance of the Corporation might not be confined to electricity but could be extended to gas companies and perhaps in course of time to atomic power.² The clause before the amendment resembled the

¹ Prof. K. Shah, *Legislative Assembly Debates*, 21 November, 1947.

² *Legislative Assembly Debates*, 10th February, 1947, p. 347.

corresponding section in the Canadian Industrial Development Bank Act except that assistance for "the building of ships" was expressly provided for in the Canadian legislation. But the Finance Minister pointed out in the course of the debates that the expression "goods" in the Indian Bill covered shipbuilding concerns which would certainly have the benefit of the Corporation. The controversy was particularly focussed on the question whether the Corporation would be authorised to furnish its assistance to "services like shipping or other transport services."¹ It will be recalled that the British I.C.F.C. rendered its aid to the services. Transport, distribution, laundering, dying and other services figured in the list of the businesses assisted by it. But the Indian Corporation, it has been stated in Parliament, will not be allowed to extend its facilities to a shipping company running a service.² In this respect it appears to have followed the Canadian Industrial Development Bank which cannot lend to trades or services.

Working in Syndicates :

The Indian I.F.C. should also develop the practice of working in syndicates with other issue houses and banks in its financial operations. It is well known how the German credit banks distributed the risks of investment by working in syndicates. The Japanese Industrial Bank often worked in close co-operation with other financial institutions. The British I.C.F.C. has pursued some of its financial methods in conjunction with several other banks. It will also be re-

¹ *Legislative Assembly Debates*, 21 November, 1947, p. 459.

² *Legislature Assembly Debates*, 10th February, 1948.

called that the financing of the Steel Company of Wales Ltd. was accomplished by the F.C.I. in close association with some important issue houses. Such syndicate operations will not only help the diversification of the risks of investment but also solve the problem of financing large requirements.

To safeguard the interests of the Corporation when it undertakes to provide its facilities to an industrial concern and to ensure that the facilities are put to the best use, the Corporation has been authorised to impose necessary conditions. One of the conditions imposed by the Corporation may be the appointment of one of its Directors on the Board of Directors of the Company receiving the aid. This reminds one of the practice of German banks sending their representatives to the Boards of the industrial companies assisted by them. But the best safeguard would be the establishment of a Liaison Department more or less on the lines of the British I.C.F.C. It would enable the I.F.C. to maintain the closest possible contact with the activities of the customer company. The Liaison Department would not only give timely warnings to the Corporation whenever there are symptoms of danger but would also help the companies themselves by its skilled advice and experience.

Suggested procedure for dealing with applications for assistance :

Besides the Liaison or Technical Investigation Department, the I.F.C. will have to build up various other departments such as the Examination Department, the Accounts Department, the Economic Intelligence Department and the Legal Department. Its staff like that of similar institutions

elsewhere should be highly specialised and technical, and should consist of experienced bankers and financiers, cost accountants, industrial engineers, insurance experts, qualified economists and lawyers. Applications for assistance will be subjected to the scrutiny of these various departments and the services of the highly specialised staff will be utilised to sift the undesirable from the desirable. The final approval will rest with the Directors. The plant and equipment of the applying Company will have to be investigated at the factory and a survey would have to be made of the background and history of the business. If necessary, outside experts may have to be consulted.

If the application is granted, the matter will not even end there. Close and continuous contact with the customer company should be maintained through the Liaison Department. At the time of an application, the industrial concern must furnish information relating to the nature of the business, the date of its establishment, the number of employees, the principal products, pre-war, war-time and post-war, locality and type of sales, merchandising methods and volume of unfilled orders booked.

It must state the amount of finance requested, the purpose for which it is required, the security offered and the proposed terms of repayment. If the finance applied for is required for capital investments, the nature of the assets to be acquired and the approximate dates of the expenditure of the funds should be given. If new buildings are involved, particulars as to size, type of construction and cost should be furnished. If it is a case of new equipment, cost of each item should be given. In either case the basis of cost, whether a firm price or merely an estimate, should be advised. The

names and addresses of regular bankers should be furnished and they should be instructed to give full information to the I.F.C. on request. If the applicant is indebted to any bank, the name and address of the bank together with the amount of the debt and the security offered should be stated. Audited balance sheets and profit and loss accounts covering, if possible, the last five years of fiscal operations should be attached. If the business has not been in operation for that length of time, statements since inception should be furnished. If the business is to be newly formed, a pro forma statement of assets and liabilities as they are expected to be at the commencement of operations should be provided. An operating forecast in any case after giving effect to the proposed financing may also be demanded of the customer. It will serve to give an idea of what the management reasonably expects the earning power and hence ability to pay obligations to be. The following documents also will have to be furnished : (1) the memorandum of association, (2) survey plans showing boundaries of owned land and location of buildings, (3) tax receipts, (4) statements relating to existing mortgage or liens, if any, on fixed assets whether land, building, machinery and equipment, (5) lists of items of present machinery showing make, type and serial numbers, (6) fire insurance policies etc.

Safeguards :

The rights of the I.F.C. in the case of default by a customer company have been well safeguarded. In such circumstances the Corporation has been empowered to take over the management of the concern and to sell and realise the property pledged, mortgaged, hypothecated or assigned

to it. It is usual for such institutions to be surrounded with special privileges and safeguards. The industrial mortgage banks established in the inter-war period were endowed with the right to take drastic proceedings against delinquent borrowers. Their records were frequently regarded to constitute indisputable evidence and the courts had to give their decisions swiftly and summarily. The Hungarian Industrial-Mortgage Institute had the right to be appointed "sequestri curator."¹

Sweeping powers have been granted to the Corporation to press for repayment of any loan or advance that it may have granted to an industrial customer before the agreed period.² In cases where the industrial concern has failed to comply with the terms of its contract with the Corporation, where it has furnished false or misleading information on any material particular, where the mortgaged property has not been kept insured or has depreciated in value by more than 20% and further security to the Corporation has not been furnished, where machinery or other equipment forming part of the security or otherwise is removed from the premises of the business without permission, and finally where for any reason it is necessary in the opinion of the Board to protect the interests of the Corporation, the latter may by notice require full repayment at once. If the industrial concern, however, fails to comply with the demand for immediate repayment, any officer of the Corporation who may be authorised in this behalf by the Board may apply to the District Judge for an order for the sale of the mortgaged property or for transferring the management of the industrial concern to the

¹ See my *Industrial Finance in India*, 2nd Edn., pp. 295-296.

² Sec. 29. *The Industrial Finance Corporation Act*, 1948.

Corporation, or for an ad-interim injunction where it is apprehended that machinery and equipment are being surreptitiously removed from the premises of the industrial concern. The Judge shall in such cases pass an ad-interim order of attachment or an ad-interim injunction as the case may be. If no cause is shown on or before a date specified by the Judge, he shall forthwith make the order absolute and direct the sale of the attached property or transfer the management of the business to the Corporation or confirm the injunction. If cause is shown, the Judge will proceed to investigate the claim of the Corporation and give his decision accordingly.¹

Disposal of Profits :

It is essential that such institutions should build up an adequate reserve fund. The Corporation must be run on strictly business lines. The authorities of the Industrial Mortgage Bank of Saxony stressed the fact that it was not a welfare institution and no attempt is being made to-day to run the British F.C.I. as a philanthropic institution. At the same time, it must be made clear that the Corporation is not intended to earn extravagant profits. It has been expressly provided that the Corporation shall establish a reserve fund. After making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided for by bankers, the Corporation may out of its net annual profits declare a dividend. But so long as the Reserve fund is less than the paid up share capital of the Corporation and until all sums paid by the Government by way of guarantee

¹ Sec 30.

on principal and interest of the Corporation's share capital and debenture issues have been repaid, the rate of dividend must not exceed the rate guaranteed by the Government on the Corporation's share capital. Under no circumstances, however, any such rate of dividend shall exceed the rate of 5% per annum. When the reserve fund has become equal to the share capital of the Corporation, and it is found that there is a surplus in the net profits after the declaration of the dividend at the rate of 5%, the surplus shall be paid to the Government.¹

Management :

The general superintendence and direction of the affairs and business of the Corporation have been entrusted to a Board of Directors which with the assistance of an Executive Committee and a Managing Director may exercise all powers and do all acts and things which may be exercised or done by the Corporation. The Board in discharging its functions shall act on business principles and pay due regard to the interests of trade, industry and the general public. But sweeping restrictions have been imposed on the Board and controlling powers have been placed in the hands of the Government.

In the discharge of its functions, the Board shall be guided by such instructions on questions of policy as may be given to it by the Central Government. If any dispute arises between the Central Government and the Corporation as to whether a question is or is not a question of policy, the decision of the Central Government shall be final. The Government has been empowered to supersede the Board if

¹ Sec. 32.

the Board fails to carry out the instructions on the questions of policy laid down by it.¹

The Corporation may appoint from time to time one or more Advisory Committees with a view to assist it in the efficient discharge of its functions and particularly for the purpose of securing that those functions are exercised with due regard to the circumstances, conditions prevailing in, and requirements of particular areas.

The Board of Directors is to consist of the following :—

- (1) Three directors nominated by the Central Government ;
- (2) Two directors nominated by the Central Board of the Reserve Bank ;
- (3) Two directors elected by the scheduled banks who are shareholders of the Corporation ;
- (4) Two directors elected by the shareholders of the Corporation other than the Central Government, the Reserve Bank, the scheduled banks and Co-operative banks ;
- (5) Two directors elected by the Co-operative banks, who are shareholders of the Corporation ;
- (6) One Managing director appointed by the Central Government after considering the recommendation of the Board.

On the first constitution of the Board, the directors referred to in (3), (4) and (5) have been appointed by the Government for one year, while the Managing director, who was Secretary, Reserve Bank of India, has been appointed on the recommendation of the Central Board.

¹ Sec. 6 (1)—(5).

Normally an elected director will hold office for four years and a nominated director during the pleasure of the Central Government. Directors are allowed to become directors of private industrial concerns or financial Institutions. But as a safeguard it has been provided that no director shall vote on any matter concerning an industrial concern in which he is directly or indirectly interested.¹

Organization :

It has been provided that the I.F.C. will establish its head office in Delhi and offices in Bombay, Calcutta, Kanpur and Madras, and may with the previous sanction of the Central Government establish offices or agencies in other places in India. The Corporation's policy in establishing offices should be determined by the number of applications for credit which it will receive from various parts of the country. An office of the I.F.C. should be established in a region only if the volume of business there warrants such a step. It will be unwise and impractical to locate branches and offices in areas wherefrom few applications originate. The expenses of such offices would be high relatively to the volume of business done. It would also not be possible to retain the services of the type of men required by the Corporation at such points unless they could be kept fully occupied.

It might seem that the four branches of the Indian Institution would give an inadequate coverage to the whole of India. But representatives of the Corporation would visit the plants of the respective borrowers, and when an officer makes a trip to points at some distance from the branches, the public, as in the case of the Canadian Bank, may be apprised in

¹ Sec 17 (4).

advance through the press, so that interested parties may have an opportunity to discuss their problems.

Conclusion :

The Industrial Finance Corporation is a new experiment in our country. We have been talking of specialised institutions for the long-term financing of our industries for quite a long time. In the past so called "industrial banks" were no doubt started but these institutions were neither 'industrial' nor 'banks'. Their sponsors understood very little the basic principles of industrial financing. At last steps have now been taken for the first time to form a specialised machinery for the financing of post-war industry on scientific and modern lines and under the auspices of the State. The I.F.C. has been born at a very opportune moment. It has been ushered into India when the country is pulsating with the new life that freedom has given it. Never before was there a greater need for an institution like the I.F.C. to assist in the rapid and planned industrial development of the country. The eyes of all India are turned towards the Institution. Its progress, its activities, its financial methods will be watched with keen interest.

The Institution, it must be emphasised, is not a bank. The standards usually associated with bank loans will be inapplicable to the credit facilities provided by the Corporation. The mere fact that an industrial concern is unable to furnish security on normal banking standards will not necessarily exclude it from the purview of the Corporation. Although the staff will include a few experienced bankers, no attempt should be made to run it on the lines of a commercial bank. The expert advice of economists, industrial

engineers, cost accountants and lawyers who must also constitute the staff should be constantly sought.

The type of financing in which the Corporation will be engaged will inevitably expose it to risks greater than average and certainly greater than those incurred by commercial banks. However capable the management may be, they must expect to have an appreciable loss experience over a period of years. The building up of a reserve fund is essential but it will be particularly difficult to accumulate an adequate reserve for many years to come. It must also be borne in mind that the I.F.C. will begin operations at a period which is characterised by continued shortage of labour and materials for construction and manufacturing purposes and delays in acquiring machinery and equipment for carrying out approved projects. In these circumstances the Corporation will be faced with a number of cases where applications will be withdrawn and credits outstanding will have to be cancelled ; and the pace at which its assistance will be availed of may slow down. But with the easing of the raw materials position and increased facilities for obtaining deliveries of plant and equipment, the Corporation will have greater opportunities of furnishing its valuable aid to the industries of the country. There will be many special financial problems for India's post-war industry of the kind which the Corporation has been designed to meet. It will provide an excellent mechanism for mobilising the resources of the Indian money and capital markets to finance schemes of post-war reorganisation and modernisation which cannot be handled through the ordinary channels. There has long been a serious gap in the financial structure of our national economy. This gap the Corporation is destined to fill.

The
INDUSTRIAL FINANCE CORPORATION ACT,
1948

APPENDIX

The Industrial Finance Corporation Act, 1948

Received the assent of the Governor-General on the 27th March, 1948 and is published in the *Gazette of India*, Extraordinary, Part IV, dated the 27th March, 1948.

Act No. XV of 1948

An Act to establish the Industrial Finance Corporation of India.

WHEREAS it is expedient to establish an Industrial Finance Corporation for the purpose of making medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable :

It is hereby enacted as follows :—

1. *Short title, extent and commencement.*—(1) This Act may be called the Industrial Finance Corporation Act, 1948.

(2) It extends to all the Provinces of India and shall extend to such acceding States as shall by their Instrument of Accession accept the subject-matter of this Act as a matter with respect to which the Dominion Legislature may make laws for such States.

(3) It shall come into force on such date as the Central Government may, by notification in the official Gazette, appoint.

2. *Interpretation.*—In this Act, unless there is anything repugnant in the subject or context,—

(a) "Board" means the Board of Directors of the Corporation ;

(b) "Corporation" means the Industrial Finance Corporation of India established by this Act ;

(c) "industrial concern" means any public limited company or co-operative society incorporated by an Act of the Legislature or under any law for the time being in force and registered in India and engaged in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power ;

(d) "prescribed" means prescribed by rules or regulations made under this Act ;

(e) "Reserve Bank" means the Reserve Bank of India ;

(f) "scheduled bank" means a bank for the time being included in the Second Schedule to the Reserve Bank of India Act, 1934 (II of 1934) ;

- (g) "underwriting" means contracting, with or without conditions, to subscribe for stocks, shares, bonds or debentures of an industrial concern with a view to the resale of the whole or any part thereof.

3. *Establishment and incorporation of Corporation.*—(1) A Corporation to be called the Industrial Finance Corporation of India shall be established for the purposes of this Act.

(2) The Corporation shall be a body corporate by the name of the Industrial Finance Corporation of India, having perpetual succession and a common seal, with power, subject to the provisions of this Act, to acquire and hold property, both movable and immovable, and shall by the said name sue and be sued.

4. *Share capital and shareholders.*—(1) The authorised capital of the Corporation shall be ten crores of rupees divided into twenty thousand fully paid up shares of five thousand rupees each of which ten thousand shares of the total value of five crores of rupees shall be issued in the first instance, and the remaining shares may be issued with the sanction of the Central Government from time to time as and when the Corporation may deem fit.

(2) Of the capital issued in the first instance, the Central Government and the Reserve Bank shall each subscribe for two thousand shares.

(3) On application made before such date as may be notified by the Central Government in the official Gazette in this behalf, scheduled banks may subscribe for two thousand five hundred shares, and insurance companies, investments trusts and other like financial institutions for two thousand five hundred shares, and co-operative banks for one thousand shares of the Corporation :

Provided that no institution shall be allotted more than ten per cent. of the shares reserved for the class of institutions to which it belongs.

(4) The allotment of shares to the applicants mentioned in sub-section (3) shall be made by the Board in accordance with the regulations made in this behalf.

(5) If any shares referred to in sub-section (3) remain unallotted, they shall be subscribed for by the Central Government and the Reserve Bank in such proportion as may be agreed on between them :

Provided that the Central Government and the Reserve Bank may dispose of the shares subscribed for by them in pursuance of this sub-section to any scheduled bank, insurance company, investment trust or other like financial institution or any co-operative bank to which shares of the Corporation may be transferred under sub-section (7).

(6) If and when the remaining shares or any part thereof are issued, the Central Government and the Reserve Bank shall, and the institutions referred to in sub-section (3) of this section may, subscribe for such shares in the same proportion as for the first issue, and the provisions of sub-sections (4) and (5) of this section shall also apply to such shares.

(7) Shares of the Corporation shall not be transferable except to the Central Government, the Reserve Bank, any scheduled bank, any insurance company, any investment trust or any other like financial institution or any co-operative bank in accordance with the regulations made in this behalf.

5. *Guarantee by Central Government.*—The shares of the Corporation shall be guaranteed by the Central Government as to the repayment of the principal and the payment of the annual dividend at such minimum rate as may be fixed by the Central Government by notification published in the official Gazette at the time of issuing the shares.

6. *Management.*—(1) The general superintendence and direction of the affairs and business of the Corporation shall be entrusted to a Board of Directors which, with the assistance of an Executive Committee and a Managing Director, may exercise all powers and do all acts and things which may be exercised or done by the Corporation.

(2) The Board in discharging its functions shall act on business principles due regard being had by it to the interests of industry, commerce and the general public.

(3) In the discharge of its said functions, the Board shall be guided by such instructions on questions of policy as may be given to it by the Central Government.

(4) If any dispute arises between the Central Government and the Board as to whether a question is or is not a question of policy, the decision of the Central Government shall be final.

(5) If the Board fails to carry out the instructions on the question of policy laid down by the Central Government, the Central Government shall have the power to supersede the Board and appoint a new Board in its place to function until a properly constituted Board is set up. The decision of the Central Government as to the grounds for superseding the Board shall not be questioned in any Court of law.

7. *Powers of Executive Committee.*—(1) Subject to such general or special directions as the Board may from time to time give, the Executive Committee shall be competent to deal with any matter within the competence of the Board.

(2) The minutes of every meeting of the Executive Committee shall be laid before the Board at its next following meeting.

8. *Advisory Committee.*—The Corporation may from time to time appoint one or more Advisory Committee or Committees for the purpose of assisting the Corporation in the efficient discharge of its functions and in particular for the purpose of securing that those functions are exercised with due regard to the circumstances, conditions prevailing in and requirements of particular area.

9. *Managing Director.*—The Managing Director shall—

(a) be a whole time officer of the Corporation ;

- (b) perform such duties as the Board may, by regulations entrust or delegate to him ;
- (c) hold office for four years and be eligible for re-appointment ;
- (d) receive such salary and allowances as the Board, with the approval of the Central Government, may determine.

10. *Board of Directors.*—The Board of Directors shall consist of the following, namely :—

- (a) three Directors nominated by the Central Government ;
- (b) two Directors nominated by the Central Board of the Reserve Bank ;
- (c) two Directors elected in the prescribed manner by the scheduled banks who are shareholders of the Corporation ;
- (d) two Directors elected in the prescribed manner by the shareholders of the Corporation, other than the Central Government, the Reserve Bank, the scheduled banks and co-operative banks ;
- (e) two Directors elected in the prescribed manner by the co-operative banks who are shareholders of the Corporation ;
- (f) one Managing Director appointed by the Central Government after consideration of the recommendation—
 - (i) in the case of the first appointment, of the Central Board of the Reserve Bank ;
 - (ii) in the case of subsequent appointments, of the Board :

Provided that on the first constitution of the Board the Directors referred to in clauses (c), (d) and (e) shall be nominated by the Central Government to represent the classes of share-holders respectively specified in the said clauses, and Directors nominated under this proviso shall for the purposes of this Act be deemed to be elected Directors :

Provided further that all Directors of the Board first constituted other than the Managing Director shall retire at the end of the first year.

11. *Term of office and retirement of Directors.*—(1) A nominated Director shall hold office during the pleasure of the Central Government.

(2) An elected Director shall hold office for four years :

Provided that one out of the two directors elected to represent the shareholders referred to in each of the clauses (c), (d) and (e) of section 10 shall retire at the end of two years after the first election ; the directors so to retire shall be determined by lot :

Provided further that a Director shall be eligible for re-election for not more than two full consecutive terms after the rotation of elected Directors has begun.

(3) A casual vacancy in the office of an elected Director shall be filled by election and a Director so elected shall hold office for the unexpired portion of the term of his predecessor :

Provided that no casual vacancy occurring within three months of the

date of expiry of the normal term of office of an elected Director need be filled under this sub-section.

(4) Directors other than the Managing Director and not being servants of the Government, shall be paid such fees for attending meetings of the Board and if they are members thereof, of the Executive Committee, as may be prescribed.

(5) No act or proceeding of the Board shall be questioned on the ground merely of the existence of any vacancy in, or any defect in the constitution of, the Board.

12. *Disqualification.*—No person shall be a Director who—

- (a) is a salaried official of the Corporation other than a Managing Director ; or
- (b) is, or at any time has been, adjudicated insolvent or has suspended payment or has compounded with his creditors ; or
- (c) is found to be a lunatic or becomes of unsound mind ; or
- (d) is or has been convicted of any offence involving moral turpitude.

13. *Director's absence from three consecutive meetings.*—A person shall cease to be a Director if he absents himself from three consecutive meetings of the Board without leave of absence.

14. *Appointment of officers, advisers, etc.*—The Corporation may appoint such officers, advisers and employees as it considers necessary for the efficient performance of its functions.

15. *Chairman of the Board.*—(1) The Chairman of the Board shall be one of the Directors (not being the Managing Director) nominated in this behalf by the Central Government after considering, except in the case of the nomination of the first Chairman, the recommendation of the Board :

Provided that the nomination of the Chairman for any period (other than the first period) shall be made only after the vacancies in the office of Directors occurring by efflux of time in that period have been filled by nomination or election, as the case may be.

(2) The Chairman shall hold office for two years or until his successor is nominated :

Provided that a Chairman shall, so long as he remains a Director, be eligible for renomination as Chairman.

16. *Executive Committee.*—(1) The Executive Committee shall consist of the Managing Director (who shall be Chairman of the Committee), two Directors elected by the nominated Directors and two Directors elected by the elected Directors.

(2) A Director elected to be a member of the Executive Committee shall hold office as such for the rest of his term of office as Directors for which he is so elected.

17. *Meetings of Board and Committee.*—(1) Meetings of the Board and of the Executive Committee shall be held at such times and at such places as may be prescribed :

Provided that until regulations have been made in this behalf such meetings shall be convened by the Managing Director.

(2) To constitute a quorum at a meeting of—

(a) the Board, not less than five Directors shall be present, of whom notless than two shall be nominated Directors and at least one an elected Director ;

(b) the Executive Committee, not less than three members shall be present, of whom at least one shall be a nominated Director and one an elected Director.

(3) At a meeting of the Board or of the Executive Committee, each Director or member of the Committee, as the case may be, shall have one vote, and in the event of an equality of votes, the Chairman shall have a second or casting vote.

(4) No Director shall vote on any matter concerning an industrial concern in which he is directly or indirectly interested.

(5) If for any reason the Chairman is unable to be present at a meeting—

(a) of the Board, a Director (other than the Managing Director) authorised by the Chairman in writing in this behalf shall preside at that meeting and in default of such authorisation the Board may elect a Chairman to preside at that meeting ;

(b) of the Executive Committee, a member authorised in writing by the Managing Director shall preside at that meeting and in default of such authorisation the Executive Committee may elect a Chairman to preside at that meeting.

18. *Offices and agencies.*—The Corporation shall establish its head office in Delhi and offices in Bombay, Calcutta, Cawnpore and Madras, and may, with the previous sanction of the Central Government, establish offices or agencies in other places in India.

19. *Deposit Accounts.*—The Corporation may open Deposit Accounts with the Reserve Bank or with any agency of the Reserve Bank other than a Government Treasury.

20. *Investment of funds.*—The Corporation may invest its funds in the securities of the Central Government or of any Provincial Government.

21. *Borrowing powers.*—(1) The Corporation may issue and sell bonds and debentures carrying interest for the purpose of raising its working capital :

Provided that the total amount of bonds and debentures issued and outstanding and of the contingent liabilities of the Corporation in the form of guarantees given by it or underwriting agreements entered into by it shall not at any time exceed five times the amount of the paid up share capital and the reserve fund of the Corporation.

(2) Bonds and debentures of the Corporation shall be guaranteed by the Central Government as to the repayment of principal and the payment

of interest at such rates as may be fixed by the Central Government on the recommendation of the Board at the time the bonds and debentures are issued.

22. *Deposits with the Corporation.*—The Corporation may accept deposits from the public repayable after the expiry of a period which shall not be less than five years from the date of the making of the deposit, and on such other terms as it thinks fit :

Provided that the total amount of such deposits shall not at any time exceed ten crores of rupees.

23. *Business which the Corporation may transact.*—(1) The Corporation shall, subject to the provisions of this Act, be authorised to carry on and transact the following kinds of business, namely :—

- (a) guaranteeing, on such terms and conditions as may be agreed upon, loans raised by industrial concerns which—
 - (i) are repayable within a period not exceeding twenty-five years, and
 - (ii) are floated in the public market ;
- (b) underwriting the issue of stock, shares, bonds or debentures by industrial concerns ;
- (c) receiving in consideration of the services mentioned in clause (a) and (b) such commission as may be agreed upon :
- (d) retaining as part of its assets any stock, shares, bonds or debentures which it may have to take up in fulfilment of its underwriting liabilities, so however that it disposes of the stock, shares, bonds or debentures so acquired as early as practicable and in any case within a period of seven years from the date of such acquisition :
- (e) granting loans or advances to, or subscribing to debentures of, industrial concerns, repayable within a period not exceeding twenty-five years from the date on which they are granted or subscribed to, as the case may be ; and
- (f) generally, the doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

(2) No accommodation shall be given under sub-clauses (a) and (e), unless it is secured by a sufficient pledge, mortgage, hypothecation or assignment of Government or other securities, stocks, shares or secured debentures, bullion, movable or immovable property or other tangible assets in the manner prescribed by regulations.

24. *Limit of accommodation.*—The Corporation shall not enter into any arrangement under clauses (a) and (e) of sub-section (1) of section 23 with a single industrial concern for an amount equivalent in the aggregate to more than ten per cent. of the paid up share capital of the Corporation but in no case exceeding fifty lakhs of rupees.

25. *Power to impose conditions for accommodation.*—(1) In entering into any arrangement under section 23 with an industrial concern, the Corporation may impose such conditions as it may think necessary or expedient for protecting the interests of the Corporation, and securing that the accommodation granted by it is put to the best use by the industrial concern.

(2) Where one of the conditions imposed is that a Director shall be appointed by the Corporation on the Board of Directors of the industrial concern to protect the interests of the Corporation, such condition shall be valid notwithstanding anything contained in the Indian Companies Act, 1913 (VII of 1913), or any other law for the time being in force.

26. *Prohibited business.*—The Corporation shall not—

(a) accept deposits except as provided by this Act ;

(b) subscribe directly to the shares or stock of any company having limited liability :

Provided that nothing in clause (b) shall affect the right of the Corporation to acquire any shares, bonds or debentures of a company having limited liability in fulfilment of any underwriting agreement entered into by the Corporation.

27. *Loans in foreign currency.*—(1) The Corporation may, for the purpose of making loans or advances to industrial concerns requiring to be financed in foreign currency, borrow, with the previous consent of the Central Government, such currency through the International Bank for Reconstruction and Development or otherwise, and may pledge, mortgage, hypothecate or assign to the said Bank or other foreign lender all or any part of the security taken by the Corporation from the industrial concerns for the loans or advances granted in foreign currency.

(2) All loans and advances made to industrial concerns in foreign currency shall be repaid in the currency in which they are made or its equivalent in Indian currency at the rate of exchange prevailing at the time of repayment.

28. *Rights of Corporation in case of default.*—(1) Where any industrial concern which is under a liability to the Corporation under an agreement makes any default in repayment or otherwise fails to comply with the terms of its agreement with the Corporation, the Corporation shall have the right to take over the management of the concern, as well as the right to sell and realise the property pledged, mortgaged, hypothecated or assigned to the Corporation.

(2) Any transfer of property made by the Corporation in exercise of its powers of sale and realization under sub-section (1) shall vest in the transferee all rights in or to the property transferred as if the sale had been made by the owner of the property.

(3) The Corporation shall have the same rights and powers with respect to goods manufactured or produced wholly or partly from goods forming part of security held by it, as it had with respect to the original goods.

(4) Where the Corporation takes over the management of a concern under the provisions of sub-section (1), it shall be deemed to be the owner of such concern for purposes of suits by or against such concern and shall sue and be sued in the name of the owner of the concern.

29. *Power to call for repayment before agreed period.*—Notwithstanding any agreement to the contrary, the Corporation may, by notice require any industrial concern, to which it has granted any loan or advance, forthwith to discharge in full its liabilities to the Corporation—

- (a) if it appears to the Board that false or misleading information in any material particular was given in the application for the loan or advance ; or
- (b) if the industrial concern has failed to comply with the terms of its contract with the Corporation in the matter of the loan or advance ; or
- (c) if there is a reasonable apprehension that the industrial concern is unable to pay its debts or that proceedings for liquidation may be commenced in respect thereof ; or
- (d) if the property pledged, mortgaged, hypothecated or assigned to the Corporation as security for the loan or advance is not insured and kept insured by the industrial concern to the satisfaction of the Corporation ; or depreciates in value, in the opinion of the Board, by more than twenty per cent. and further security to the satisfaction of the Board is not given ; or
- (e) if, without the permission of the Board, machinery or other equipment, whether forming part of the security or otherwise, is removed from the premises of the industrial concern without being replaced ; or
- (f) if for any reason it is necessary in the opinion of the Board to protect the interests of the Corporation.

30. *Special provisions for enforcement of claims by the Corporation.*—

(1) Where by reason of the breach of any condition of an agreement between the Corporation and an industrial concern the Corporation becomes entitled to call for the immediate payment of any loan or advance granted by it, before the due date or where the due date has expired, and the industrial concern fails to repay such loan or advance, any officer of the Corporation generally or especially authorised by the Board in this behalf may apply to the District Judge within the local limits of whose jurisdiction the industrial concern carries on the whole or a substantial part of its business for one or more of the following reliefs, namely :—

- (a) for an order for the sale of the property pledged, mortgaged, hypothecated or assigned to the Corporation as security for the loan or advance ; or
- (b) for transferring the management of the industrial concern to the Corporation ; or

(c) for an *ad interim* injunction where there is apprehension of the machinery or the equipment being removed from the premises of the industrial concern without the permission of the Board.

(2) An application under sub-section (1) shall state the nature and extent of the liability of the industrial concern to the Corporation, the ground on which it is made and such other particulars as may be prescribed.

(3) When the application is for the reliefs mentioned in sub-clauses (a) and (c) of sub-section (1) the District Judge shall pass an *ad interim* order attaching the security or so much of the property of the industrial concern as would on being sold realise in his estimation an amount equivalent in value to the outstanding liability of the industrial concern to the Corporation together with the costs of the proceedings taken under this section with or without an *ad interim* injunction restraining the industrial concern from transferring or removing its machinery or equipment.

(4) Where the application is for the relief mentioned in sub-clause (b) of sub-section (1) the District Judge shall grant an *ad interim* injunction restraining the industrial concern from transferring or removing its machinery or equipment and issue a notice calling upon the industrial concern to show cause on a date to be specified in the notice why the management of the industrial concern should not be transferred to the Corporation.

(5) Before passing any order under sub-section (3) or sub-section (4), the District Judge may, if he thinks fit, examine the officer making the application.

(6) At the same time as he passes an order under sub-section (3), the District Judge shall issue to the industrial concern a notice accompanied by copies of the order, the application and the evidence, if any, recorded by him, calling upon it to show cause on a date to be specified in the notice why the *ad interim* order of attachment should not be made absolute or the injunction confirmed.

(7) If no cause is shown on or before the date specified in the notice under sub-sections (4) and (6), the District Judge shall forthwith make the *ad interim* order absolute and direct the sale of the attached property or transfer the management of the industrial concern to the Corporation or confirm the injunction.

(8) If cause is shown the District Judge shall proceed to investigate the claim of the Corporation and the provisions of the Code of Civil Procedure (V of 1908), shall as far as practicable apply to such proceedings.

(9) On an investigation made under sub-section (8) the District Judge shall pass an order—

(a) confirming the order of attachment and directing the sale of the attached property ; or

(b) varying the order of attachment so as to release a portion of the property from attachment and directing the sale of the remainder of the attached property ; or

- (c) releasing the property from attachment, if he is satisfied that it is not necessary in the interests of the Corporation; or
- (d) confirming or dissolving the injunction; or
- (e) transferring the management of the industrial concern to the Corporation or rejecting the claim made in this behalf:

Provided that when making any order under clause (c), the District Judge may make such further orders as he thinks necessary to protect the interests of the Corporation, and may apportion the costs of the proceedings in such manner as he thinks fit:

Provided further that unless the Corporation intimates to the District Judge that it will not appeal against any order releasing any property from attachment, such order shall not be given effect to until the expiry of the period fixed under sub-section (11) within which an appeal may be preferred, or if an appeal is preferred, unless the High Court otherwise directs, until the appeal is disposed of.

(10) An order of attachment or sale of property under this section shall be carried into effect as far as may be practicable in the manner provided in the Code of Civil Procedure (V of 1908) for the attachment or sale of property in execution of a decree, as if the Corporation were the decree-holder.

(11) Any party aggrieved by an order under sub-section (7) or sub-section (9) may, within thirty days from the date of the order, appeal to the High Court, and upon such appeal, the High Court may after hearing the parties pass such orders as it thinks proper.

(12) Nothing in this section shall be construed, where proceedings for liquidation in respect of the industrial concern have commenced before an application is made under sub-section (1) as giving to the Corporation any preference over the other creditors of the industrial concern not conferred on it by any other law.

(13) The functions of a District Judge under this section shall, in a Presidency-town, be exercised by the Chief Judge of the Small Cause Court.

31. *Act XVIII of 1891 to apply to the books of the Corporation.*—The Corporation shall be deemed to be a bank for the purposes of the Banker's Books Evidence Act, 1891 (XVIII of 1891).

32. *Disposal of profits.*—(1) The Corporation shall establish a reserve fund.

(2) After making provision for bad and doubtful debts, depreciation of assets and all other matters which are usually provided for by bankers, the Corporation may out of its net annual profits declare a dividend:

Provided that for so long as the reserve fund is less than the paid up share capital of the Corporation and until there has been repaid to the Central Government such sums, if any, as that Government may have paid under the guarantee given in pursuance of section 5 or under any guarantee given in pursuance of sub-section (2) of section 21, the rate of such dividend

shall not exceed the rate guaranteed by the Central Government under section 5 :

Provided further that under no circumstances shall any such dividend exceed the rate of five per cent. per annum and if in respect of any financial year after the reserve fund becomes equal to the share capital of the Corporation there is, after declaring a dividend at that rate any surplus in the net profits such surplus shall be paid to the Central Government.

33. *General meetings.*—(1) A general meeting (hereinafter referred to as the annual general meeting) shall be held annually at a place in India where there is an office of the Corporation within two months from the date on which the annual accounts of the Corporation are closed; and a general meeting may be convened by the Board at any other time.

(2) The share-holder present at the annual general meeting shall be entitled to discuss the annual accounts, the report of the Board on the working of the Corporation throughout the year and the auditors' report on the annual balance-sheet and accounts.

34. *Audit.*—(1) The affairs of the Corporation shall be audited by not less than two auditors qualified under section 144 of the Indian Companies Act, 1913 (VII of 1913), to act as auditors of companies who shall be appointed by the Central Government on such remuneration as the Central Government may fix, and such remuneration shall be paid by the Corporation.

(2) Every auditor shall be supplied with a copy of the annual balance-sheet of the Corporation, and it shall be his duty to examine it together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Corporation, and shall at all reasonable times have access to the books, accounts and other documents of the Corporation, and may in relation to such accounts examine any Director or officer of the Corporation.

(3) The auditors shall make a report to the share-holders upon the annual balance-sheet and accounts, and in every such report they shall state whether in their opinion the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Corporation, and in case they have called for any explanation or information from the Board whether it has been given and whether it is satisfactory.

(4) The Central Government may at any time issue directions to the auditors requiring them to report to it upon the adequacy of measures taken by the Corporation for the protection of its share-holders and creditors or upon the sufficiency of their procedure in auditing the affairs of the Corporation, and may at any time enlarge or extend the scope of the auditor direct that a different procedure in audit be adopted or direct that any other examination be made by the auditors if in its opinion the public interest so requires.

35. *Returns.*—(1) The Corporation shall furnish a statement in the prescribed form of its assets and liabilities as at the close of business on the last Friday of each month, or if that day is a public holiday under the Negotiable Instruments Act, 1881 (XXVI of 1881), as at the close of business on the preceding working day, to all shareholders within ten days from the date to which the statement relates.

(2) The Corporation shall furnish in the prescribed form to the Central Government and to the Reserve Bank at least once in every year or as frequently as the Central Government or the Reserve Bank may require a classification of its loans and investments and of loans guaranteed by it and underwriting agreements entered into by it.

(3) The Corporation shall furnish to the Central Government and the Reserve Bank within two months of the close of the financial year a statement in the prescribed form of its assets and liabilities as at the close of that year together with a profit and loss account for the year and a report of the working of the Corporation during the year, and copies of the said statement, account and report shall be published in the official Gazette and shall be laid before the Central Legislature.

36. *Acquisition of shares by the Central Government.*—In the event of the Central Government at any time deciding to acquire the shares held by shareholders other than the Central Government and the Reserve Bank the shareholders shall be paid for the shares so acquired an amount equal to the paid up value of the shares together with a premium calculated at the rate of one per cent. of the paid up value for every year from the date of issue to the date of acquisition, subject to a maximum of ten per cent.

37. *Liquidation of Corporation.*—No provision of law relating to the winding up of companies or corporations shall apply to the Corporation, and the Corporation shall not be placed in liquidation save by order of the Central Government and in such manner as it may direct.

38. *Indemnity of Directors.*—(1) Every Director shall be indemnified by the Corporation against all losses and expenses incurred by him in or about the discharge of his duties, except such as are caused by his own wilful act or default.

(2) A Director shall not be responsible for any other Director or for any officer or servant of the Corporation or for any loss or expense resulting to the Corporation by the insufficiency or deficiency of value of, or title to, any property or security acquired or taken on behalf of the Corporation, or by the wrongful act of any person under obligation to the Corporation, or by anything done in good faith in the execution of the duties of his office or in relation thereto.

39. *Declaration of fidelity and secrecy.*—Every Director, auditor, officer or servant of the Corporation shall, before entering upon his duties, make a declaration of fidelity and secrecy in the form set out in the Schedule.

40. *Provision relating to income-tax and super-tax.*—For the purposes

shall not exceed the rate guaranteed by the Central Government under section 5 :

Provided further that under no circumstances shall any such dividend exceed the rate of five per cent. per annum and if in respect of any financial year after the reserve fund becomes equal to the share capital of the Corporation there is, after declaring a dividend at that rate any surplus in the net profits such surplus shall be paid to the Central Government.

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(2) Every auditor shall be supplied with a copy of the annual balance-sheet of the Corporation, and it shall be his duty to examine it together with the accounts and vouchers relating thereto; and every auditor shall have a list delivered to him of all books kept by the Corporation, and shall at all reasonable times have access to the books, accounts and other documents of the Corporation, and may in relation to such accounts examine any Director or officer of the Corporation.

(3) The auditors shall make a report to the share-holders upon the annual balance-sheet and accounts, and in every such report they shall state whether in their opinion the balance-sheet is a full and fair balance-sheet containing all necessary particulars and properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Corporation, and in case they have called for any explanation or information from the Board whether it has been given and whether it is satisfactory.

(4) The Central Government may at any time issue directions to the auditors requiring them to report to it upon the adequacy of measures taken by the Corporation for the protection of its share-holders and creditors or upon the sufficiency of their procedure in auditing the affairs of the Corporation, and may at any time enlarge or extend the scope of the auditor direct that a different procedure in audit be adopted or direct that any other examination be made by the auditors if in its opinion the public interest so requires.

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(2) The Corporation shall furnish in the prescribed form to the Central Government and to the Reserve Bank at least once in every year or as frequently as the Central Government or the Reserve Bank may require a classification of its loans and investments and of loans guaranteed by it and underwriting agreements entered into by it.

(3) The Corporation shall furnish to the Central Government and the Reserve Bank within two months of the close of the financial year a statement in the prescribed form of its assets and liabilities as at the close of that year together with a profit and loss account for the year and a report of the working of the Corporation during the year, and copies of the said statement, account and report shall be published in the official Gazette and shall be laid before the Central Legislature.

36. *Acquisition of shares by the Central Government.*—In the event of the Central Government at any time deciding to acquire the shares held by share-holders other than the Central Government and the Reserve Bank the share-holders shall be paid for the shares so acquired an amount equal to the paid up value of the shares together with a premium calculated at the rate of one per cent. of the paid up value for every year from the date of issue to the date of acquisition, subject to a maximum of ten per cent.

37. *Liquidation of Corporation.*—No provision of law relating to the winding up of companies or corporations shall apply to the Corporation, and the Corporation shall not be placed in liquidation save by order of the Central Government and in such manner as it may direct.

38. *Indemnity of Directors.*—(1) Every Director shall be indemnified by the Corporation against all losses and expenses incurred by him in or about the discharge of his duties, except such as are caused by his own wilful act or default.

(2) A Director shall not be responsible for any other Director or for any officer or servant of the Corporation or for any loss or expense resulting to the Corporation by the insufficiency or deficiency of value of, or title to, any property or security acquired or taken on behalf of the Corporation, or by the wrongful act of any person under obligation to the Corporation, or by anything done in good faith in the execution of the duties of his office or in relation thereto.

39. *Declaration of fidelity and secrecy.*—Every Director, auditor, officer or servant of the Corporation shall, before entering upon his duties, make a declaration of fidelity and secrecy in the form set out in the Schedule.

40. *Provision relating to income-tax and super-tax.*—For the purposes

of the Indian Income-tax Act, 1922 (XI of 1922), the Corporation shall be deemed to be a company within the meaning of that Act and shall be liable to income-tax and super-tax accordingly on its income, profits and gains :

Provided that any sum paid by the Central Government under the guarantee given in pursuance of section 5 or under any guarantee given in pursuance of sub-section (2) of section 21 shall not be treated as the income, profits and gains of the Corporation, and any interest on debentures or bonds paid by the Corporation out of such sum shall not be treated as expenditure incurred by it :

Provided further that in the case of any share-holder, such portion of a dividend as has been paid out of any such sum advanced by the Central Government, shall be deemed to be his income from "interest on securities", declared to be income-tax free within the meaning of section 8 of the said Act.

41. *Offences.*—Whoever in any bill of lading, warehouse receipt or other instrument given to the Corporation whereby security is given or is purported to be given to the Corporation for any accommodation granted by it under this Act wilfully makes any false statement, or knowingly permits any false statement to be made, shall be punishable with imprisonment for a term which may extend to two years or with fine which may extend to two thousand rupees or with both.

(2) Whoever without the consent in writing of the Corporation uses the name of the Corporation in any prospectus or advertisement shall be punishable with imprisonment for a term which may extend to six months or with fine which may extend to one thousand rupees or with both.

(3) No Court shall take cognizance of any offence punishable under this Act otherwise than on a complaint in writing signed by an officer of the Corporation authorised by the Board in this behalf.

42. *Power of Central Government to make rules.*—The Central Government may make rules not inconsistent with the provisions of this Act, to give effect to the provisions of this Act, and where there is any inconsistency between the rules and the regulations made under this Act the rules shall prevail.

43. *Power of Board to make regulations.*—(1) The Board may, after consultation with the Reserve Bank and with the previous sanction of the Central Government, make regulations not inconsistent with this Act to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such regulations may provide for—

- (a) the holding and conduct of elections under this Act, including the final decision of doubts or disputes regarding the validity of elections :

- (b) the manner in which and the conditions subject to which the first allotment of shares of the Corporation shall be made ;
- (c) the manner in which and the conditions subject to which the shares of the Corporation may be held and transferred, and generally all matters relating to the rights and duties of shareholders ;
- (d) the manner in which general meetings shall be convened, the procedure to be followed thereat and the manner in which voting rights may be exercised ;
- (e) the calling of meetings of the Board and of the Executive Committee, fees for attending meetings thereof and the conduct of business thereat ;
- (f) the manner and terms of issue and redemption of bonds and debentures by the Corporation ;
- (g) the conditions which the Corporation may impose in granting loans or advances ;
- (h) the manner of determining the sufficiency of the security taken under sub-section (2) of section 23 ;
- (i) the manner and conditions subject to which the Corporation may borrow in foreign currency from foreign lenders ;
- (j) the forms of returns and statements required under this Act ;
- (k) the duties and conduct of officers and servants and agents of the Corporation ;
- (l) the disclosure of interest, direct or indirect, of a Director in any industrial concern ;
- (m) taking over the management of and managing an industrial concern committing a breach of its agreement with the Corporation ;
- (n) appointment of *ad hoc* committees for technical and other advice for purposes of this Act ; and
- (o) generally, the efficient conduct of the affairs of the Corporation.

(3) All regulations made under this section shall be published in the official Gazette and shall come into force on such publication and shall also be laid on the table of the Legislature.

THE SCHEDULE

(See section 39)

Declaration of Fidelity and Secrecy.

I....., do declare that I will faithfully, truly and to the best of my judgment, skill and ability, execute and perform the duties required of me as a Director, officer, employee or auditor (as the case may

be) of the Industrial Finance Corporation of India and which properly relate to any officer or position in the said Corporation held by me.

I further declare that I will not communicate or allow to be communicated to any person not legally entitled thereto any information relating to the affairs of the Corporation nor will I allow any such person to inspect or have access to any books or documents belonging to or in the possession of the Corporation and relating to the business of the Corporation.

Dated

Signed before me.

Signature

Signature

Designation

