

REPORT OF THE WORKING GROUP

**STATE
FINANCIAL
CORPORATIONS**

RESERVE BANK OF INDIA

REPORT OF WORKING GROUP
ON
STATE FINANCIAL CORPORATIONS



RESERVE BANK OF INDIA

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FOREWORD

The Industrial Policy Resolution, 1948, marked, as it were, the beginning of an era in the economic development of free India. It signified the adoption by Government of a positive policy of rapid industrialisation. Almost simultaneously, Government set up the Industrial Finance Corporation of India to assist industrial concerns by providing term finance and other measures of financial assistance. The operations of this institution were, however, statutorily confined to public limited companies and industrial co-operatives, and were likely to extend more to the comparatively large scale enterprises, and to leave out of their scope the wide field covered by proprietary and partnership undertakings which are also relatively small scale. The need was, therefore, felt for similar term lending institutions at the State level to finance the considerable sector of industry comprising the medium-small and small scale industrial units. Accordingly, legislation was promoted by the Government of India after considering the views of State Governments, and the State Financial Corporations Act, 1951, came into force on the 1st August, 1952. At present, there are fourteen Corporations set up in terms of this Act in all the major States except Madras where the Madras Industrial Investment Corporation incorporated under the Companies Act has been functioning since 1949.

While assistance provided to industry by State Financial Corporations appears to be gaining some momentum in the last few years, their performance generally has been below expectations, considering the size of investment in the private industrial sector contemplated under the Plans. In view of this, it was recommended by the Eighth Annual Conference of representatives of State Financial Corporations in November, 1961 that the Reserve Bank might set up a Working Group to review the working of State Financial Corporations, and suggest ways and means of improving their usefulness for accelerating the development of industries. The Working Group met, after some informal preparatory work in the Bank bearing on its scope of inquiry, for the first time in June, 1962. The Draft Report of the Group was placed for informal discussion before the Tenth Annual Conference in Bangalore in January, 1964 after which the final Report was submitted to the Reserve Bank of India on February 6, 1964.

The Bank wishes to take this opportunity to express its gratitude to the institutions which consented to make the services of their members available to the Working Group. The Bank also desires to record its appreciation of the co-operation extended to it by State Financial Corporations and development banks abroad by answering the detailed questionnaires issued by the Group. To the members of the Group the Bank owes its thanks for their labours in the preparation of this

comprehensive and valuable study. The views expressed in the Report are those of the members of the Working Group in their personal capacity, and do not commit in any manner the institutions which they represent.

Reserve Bank of India,
Central Office, Bombay.

B. K. MADAN
Deputy Governor

CONTENTS

	PAGE
FOREWORD	v
CHAPTER I. Introductory	1
CHAPTER II. Genesis and present structure of term lending institutions [(1) Recommendations of the Indian Central Banking Enquiry Committee and the U.K. Committee on Finance and Trade—p. 7; (2) War and immediate post-war problems of industrial reconstruction in Europe—p. 8; (3) IFC and the beginning of the idea of SFCs—p. 9; (4) The setting up of SFCs—p. 11; (5) Special features of the statute of SFCs as a variant of development banks—p. 11; (6) Major amendments to SFCs Act—p. 12; and (7) Other term lending institutions in India and their co-ordination with SFCs—p. 14; (8) Appendix: Summary position of sources of funds and financial assistance granted by development banks to industry—p. 24]	25
CHAPTER III. Resources of SFCs—their sources of supply and cost [(1) Introductory—p. 25; (2) Share capital—p. 25; (3) Acceptance of deposits by State Financial Corporations—p. 29; (4) Borrowings, including issues of bonds—p. 32; (5) Reserve Fund and Other Reserves—p. 45; and (6) Concluding observations—p. 49; (7) Appendix: Periodwise breakdown of loans of SFCs and MIIC—outstandings and sanctions—as on 31st March, 1962—p. 54]	55
CHAPTER IV. Deployment of resources [(1) Investments—p. 55:—(a) Investments in, or underwriting of, debentures—p. 59; (b) Equity financing—p. 59; (c) Cash balances—p. 60; (2) Loans and advances—p. 62:—(a) Applications received and sanctioned, etc.—p. 62; (b) Application form—p. 67; (c) Security—p. 68; (d) Valuation of assets—p. 70; (e) Appraisal—p. 73; (f) Lending Rates—p. 80; and (g) Charges other than interest—p. 82]	82

- CHAPTER V. Deployment of resources (continued)—Loans and Advances
 [(1) Breakdown of loans by constitution of industrial concern—p. 86; (2) Breakdown by size of industrial concern—p. 87; (3) Purposewise breakdown of loans—p. 90; (4) Grant of loans for working capital—p. 106; (5) Present position regarding loans on an agency basis—p. 109; (6) Loans and advances by State Financial Corporations in participation with other financial institutions—p. 115; and (7) Business other than that of loans and advances—p. 121; Appendix: Industrywise breakdown of loans and advances—p. 125]
- CHAPTER VI. Working Results, Fiscal Concessions, Management, etc.
 [(1) Working results & fiscal concessions in various countries, (2) Audit & Inspection by Government auditors and Reserve Bank—p. 140; (3) Management of State Financial Corporations up to February 1951—p. 146; (4) Appendix I: Fiscal concessions and small-scale development banks in some foreign countries—p. 158; (5) Appendix II: Particulars of Managing Directors of State Financial Corporations—p. 160; (6) Appendix III: Particulars of dates of constitution, composition and functions of Executive and Advisory Committees—p. 163]
- CHAPTER VII. Summary of Recommendations and Suggestions 16
- QUESTIONNAIRES:
- I. For State Financial Corporations 17
 II. For Chambers of Commerce, individuals, etc. ... 17
 III. For Foreign Development Banks 18
- NOTE: *In this Report, amounts are expressed in units of the lakhs or crores of Indian Rupees. A lakh stands for a hundred thousand (1,00,000); a crore stands for a hundred (1,00,00,000). One Indian Rupee = 15s. 6d. or Rs. 13 Sterling and Rs. 4.762 = \$1 U.S.A.*