

# UNIT TRUSTS - THE INDIAN EXPERIENCE

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## *Introduction*

The importance of unit trusts in the task of mobilisation of resources, particularly of the relatively small investors, was recognised as early as 1931 when the Indian Central Banking Enquiry Committee submitted its report. Stressing the need for setting up such institutions to fill in the gap in the institutional structure concerned with financial, industrial and other borrowers Manu Subedar rightly observed in the Minority Report<sup>1</sup> " . . . an immeasurable benefit to India is bound to grow from the establishment and proper working of unit trusts and the assistance which they will give to the investor in the creation of intermediate securities, which do not exist now, in providing a channel for investment in industrial and other fields where the primary investor would be too scared or too ignorant". The desirability of such institutions was reiterated in 1954 by the Shroff Committee. The Committee on Finance for the Private Sector, popularly known as the Shroff Committee, appointed by the Reserve Bank of India to suggest ways and means for the provision of finance for the private sector was of the view<sup>2</sup> that investment trusts of the 'unit type' are "suitable in India where in order to increase capital available for industries, small savings have to be drawn into the investment market". The Committee, therefore, recommended that<sup>3</sup> "steps should be taken both by the public and private sectors to encourage the formation of such institutions". However, despite these recommendations, unit trusts have been conspicuously absent from the Indian financial scene, although they have acquired tremendous popularity in the industrially advanced countries such as the U.S.A. and Japan<sup>4</sup>, presumably because the Indian

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1. Indian Central Banking Enquiry Committee, *Minority Report*, 1931, p. 325.
  2. Committee on Finance for the Private Sector in India (Shroff Committee), *Report*, 1954, p. 96.
  3. *Ibid*, p. 96.
  4. An account of the phenomenal growth of such companies in the U.S.A. is available in Weisenberger, A., *Investment Companies*, 1975. For a similar account in Japan please refer to Investment Trust Association, *Investment Trusts in Japan*, 1975, p. 196.