

**Mr. Speaker:** The question is:

Page 1, line 1, for "Fourteenth" substitute "Fifteenth".

*The motion was adopted.*

**Mr. Speaker:** The question is:

"That the Enacting Formula, as amended, stand part of the Bill."

*The motion was adopted.*

*The Enacting Formula, as amended, was added to the Bill.*

*The Title was added to the Bill.*

**Shri Bhakt Darshan:** I beg to move:

"That the Bill, as amended, be passed."

**Mr. Speaker:** The question is:

"That the Bill, as amended, be passed."

*The motion was adopted.*

12.58 hrs.

#### INDUSTRIAL DEVELOPMENT BANK OF INDIA BILL

**The Minister of Finance (Shri T. T. Krishnamachari):** Mr. Speaker, Sir, I beg to move:

"That the Bill to establish the Industrial Development Bank of India for providing credit and other facilities for the development of industry and for matters connected therewith and further to amend certain enactments, be taken into consideration."

I do not propose to inflict a long speech on the House. In September, 1963, soon after I took as Finance Minister, I referred to the need for creating a new institution of this kind, as it appeared to me that the arrangements for financing industrial enterprises were quite inadequate in relation to the prospective growth of our economy, or the demand for capital

for new enterprises or for the modernisation and expansion of the existing ones, I am glad that it has now been possible for me to present to the House for its consideration a constructive proposal designed to achieve the object which I have mentioned.

The problem of finding adequate resources for the development of industry is by no means new. It has, on the other hand, been with us for quite some time. I think that it will be fair statement to make that this problem has not yet been satisfactorily solved. Hon. Members who are interested in this subject may recall that in 1931, when the Central Banking Enquiry Committee reported, there was a prolonged and interesting debate on the question whether Indian banks, acting singly or in groups, should be encouraged to take an active part in the promotion of new industrial undertakings, if necessary by subscribing initially to the share capital and by arranging for the subsequent disposal of the shares among other investors or members of the general public. In the minority report of the Indian Central Banking Enquiry Committee, there was also a recommendation to the effect that an Indian Industrial Bank should be established, notwithstanding the views that have been expressed by some of the foreign experts who had been called upon to advise that Committee

13.00 hrs.

In the circumstances which existed about thirty years ago, no action could be taken on these recommendations, but since 1948, we have established a number of specialised agencies, like the Industrial Finance Corporation, the ICICI, the Refinance Corporation for Industry and the National Industrial Development Corporation. These institutions have tried to some extent to serve the needs of Indian industry, but their contribution has been somewhat limited. I think I am right in saying that the total amount of the loans disbursed by these institutions and outstanding at the present time is

[Shri T. T. Krishnamachari]

less than Rs. 200 crores. Hon. Members will agree that an investment of this order will not by any means be sufficient for realising the targets of industrial production or growth in the current and succeeding five-year plans.

I think that it would be useful if I give the House one or two figures to illustrate the gap which exists today between the demand for and the supply of industrial credit. The extent of the investment on industrial and mineral development in the Third Five Year Plan was expected to be of the order of Rs. 1800 crores in the public sector and Rs. 1335 crores in the private sector, including in the latter case about Rs. 150 crores for the modernisation of plant, particularly in the jute and cotton textile industries. In view of increased costs and prices, these estimates have already turned out to be incorrect. The outlay in the public sector will now have to be about Rs. 500 crores more, if the physical targets are to be achieved; and there may be a proportionate or even greater increase in the capital outlays in the private sector.

Apart from the fact that the estimates indicate the existence of a real gap, it is, I feel, common knowledge now that in certain vital and strategic sectors, industrial development has been stagnant and unsatisfactory. One instance which I should like to mention, as the gravity of this problem is not perhaps adequately recognised, is that of the electricity industry. It has been obvious for some time that supply of electrical power and other energy resources will have to be very much greater and should, if possible, be in excess of the estimated demand according to the forecasts, as in a developing economy targets are very quickly realised and passed. In fact, Sir, our thinking in this respect is sometimes arithmetical whereas in actual fact the demand curve rises in geometrical progression. In the case of fertilisers and alloy or special

steels, which are other examples, the development on the whole has been unsatisfactory in the past. In certain other sectors, such as the wide range of petro-chemical industries which we are now in a position to start, and other useful consumer goods industries in which State Governments or other authorities should, I think, take an interest, substantial investment will be necessary in the next few years.

The existing institutions are clearly not equipped and, perhaps, were not intended to carry the additional burden of financing industrial expansion or growth in these or in other directions. The capital resources of the existing institutions are relatively meagre. The statutory limitations within which they have to operate, and the requirements as to the assets or securities against which they can lend are somewhat rigid. Major projects involving very large amounts can hardly be handled, and basic industries providing what has come to be known as the infrastructure for further growth cannot very often be financed. Where a long-term view is necessary and a certain amount of risk has to be taken, the existing institutions tend, by reason of their statutory obligations and traditions, to be conservative, and cannot in any case be very helpful.

We are creating this new institution, Sir, mainly for overcoming these limitations. We are envisaging the new Industrial Development Bank as a central co-ordinating agency, which ultimately will be concerned, directly or indirectly, with all problems or questions relating to the long and medium term financing of industry, and will be in a position, if necessary, to adopt and enforce a system of priorities in promoting future industrial growth. The new institution will have an authorised capital of Rs. 50 crores, which may, if necessary, be increased to Rs. 100 crores. It will have much greater freedom in regard to its policies or day-to-day operations than the existing industrial financing agencies, and it will be in a position

to supplement the capital or other resources of these existing agencies, or to refinance their loans, or to grant direct loans to specified projects, or to finance the export of capital goods by the newly emerging engineering or other industries. The Industrial Development Bank, apart from discharging any or all these functions, as circumstances may require, will be in a position to undertake special investigations for proving the commercial feasibility of any important proposals, and it will be able to help in providing technical assistance to various authorities or undertakings interested in industrial development.

In framing the relevant provisions of the Bill, we have tried, Sir, to the extent possible, to benefit from the experience of other countries like Canada, West Germany, Italy and Japan which have established similar institutions. We have borrowed some useful ideas from these and other sources, but in the ultimate analysis, an institution of this kind will have to be judged by its ability to discharge the responsibilities, which, in the circumstances of our own country, are likely to be entrusted to it. I should like to invite the attention of the House in particular to one or two provisions of the Bill from this point of view.

We propose to establish, by amending the Reserve Bank of India Act suitably for this purpose, an Industrial Credit (Long-term Operations) Fund. This new fund, like the National Agricultural Credit (Long-term Operations Fund) which the House authorised and accepted in 1955, will be created on the books of the Reserve Bank of India and will be fed by allocations from out of the annual profits of the Reserve Bank. The Fund is intended to be used for supplementing the resources which the Industrial Development Bank may be able to raise in the normal course, for financing the activities of the established agencies which are concerned with the provision of industrial credit, and, to the extent necessary, for financing the Development Bank's own programmes.

We propose, Sir, to create, in addition, a Development/Assistance Fund. This fund will be credited from time to time with amounts which may be allocated for this purpose by the Central Government. But it will be placed at the disposal of the Industrial Development Bank, and will be used by that bank for financing certain essential industries, which, on purely commercial considerations or in the light of the standards or criteria which are normally adopted by credit institutions, may not be able to obtain any financial assistance. We are hoping, through the creation of the Development/Assistance Fund, to bring into existence, over a period of years, a number of enterprises which may be of vital or strategic importance to the country, but which an ordinary banker or a commercial institution, interested only in increasing or maximising profits, may not be willing, or may not be able, to finance.

We are proposing, through another clause in this Bill and through appropriate amendments to section 17 of the Reserve Bank of India Act, that certain kinds of usance bills maturing within a period of five years, which may be floated or created for financing industrial enterprises, may be discounted by the Industrial Development Bank, on behalf of the industrial enterprises themselves or on behalf of the banks which may be financing them. We are also providing for the rediscounting of these bills, if necessary, by the Industrial Development Bank of India at the Reserve Bank. This is an altogether new concession or facility, which will add, on the whole, to the quantum of resources available for industrial development.

Sir, I do not think that I will be justified in taking any further time for dealing with the other provisions of the Bill. The notes on clauses explain these provisions in greater detail. I should like, however, to say a few words, before I conclude, about the constitution and management of the proposed new institution.

[Shri T. T. Krishnamachari]

The House will appreciate that the responsibilities which are proposed to be entrusted to the new institution will be onerous and heavy. It is, in a sense, a lender of the last resort, for all periods other than purely short-term periods, and for all or practically all purposes, as far as industrial enterprises are concerned. We have considered it desirable, in these circumstances, to provide for the ownership and management of the new institution being vested in the Reserve Bank of India. We have a precedent for doing this. The Canadian Industrial Development Bank, I understand, is a wholly-owned subsidiary of the Canadian Central Bank. Apart from this precedent, however, the Reserve Bank, I think, is today the institution, which can most appropriately guide a development bank of this kind. The Reserve Bank is, and I hope it will continue to be, free from the pressure of political or other influences. It is in a position to take purely objective view of our needs. I have no doubt that under the auspices and with the assistance of the Reserve Bank, the Development Bank will be able to discharge its fairly onerous burdens satisfactorily.

I said, Sir, at the beginning of this speech that the provision of adequate financial resources is urgently necessary in the interest of rapid industrial development. I do not want to imply that finance is the only bottleneck or that the other problems which may exist or which arise in future are not important. We have tried in the past to deal with some of the other difficulties and, as the House is aware, some action has already been taken in the direction of decontrolling certain items, increasing the limit of the exemptions under the Industries (Development and Regulation) Act and under the Capital Issues (Control) Act, and simplifying the procedure for licensing of new units. The other day we presented to the House a report on the measures which we are considering for facilitating the more rapid utilisation of external aid. I hope

that these and other measures which we have taken or which we may be taking from time to time will help the genuine entrepreneur or industrialist. We are trying through this Bill to ensure that the necessary financial resources will be available to him and to all those who are interested in promoting desirable industrial development and are prepared to work hard for it. I hope that given the proper atmosphere, our aspirations regarding industrial growth will in a large measure be fulfilled.

Sir, I move.

**Mr. Speaker:** Motion moved:

"That the Bill to establish the Industrial Development Bank of India for providing credit and other facilities for the development of industry and for matters connected therewith and further to amend certain enactments, be taken into consideration."

**Shri Tridib Kumar Chaudhuri** (Bengaluru): Sir, I beg to move:—

"That the Bill be referred to a Select Committee consisting of 18 members, namely, Shri Ramchandra Vithal Bade, Shri C. R. Basappa, Shri P. R. Chakraverti, Shri N. C. Chatterjee, Shri Kashi Ram Gupta, Shri Harish Chandra Heda, Shri Hari Vishnu Kamath, Shri T. T. Krishnamachari, Shri Panampilli Govinda Menon, Shri K. L. More, Shri H. N. Mukerjee, Shri Purshottamdas R. Patel, Shri N. G. Ranga, Shri Era Sezhiyan, Shri Prakash Vir Shastri, Dr. L. M. Singhvi, Shri R. Uma-nath, and Shri Tridib Kumar Chaudhuri, with instructions to report by the last day of the first week of the next session." (9)

**Mr. Speaker:** Both the motion and the amendment are now before the House. Shri Gupta.

**Shri Indrajit Gupta** (Calcutta South West): Mr. Speaker, Sir, the hon. Finance Minister has just now explained to the House the reasons for bringing forward this Bill at this

stage. He has mainly confined himself to elaborating what is stated here in the statement of objects and reasons, namely, that the existing credit facilities for industrial development are totally inadequate in relation to the actual needs of the situation. He has also made one remark—he did not elaborate it though—that the motive behind this Bill is also to co-ordinate or to bring about a greater measure of centralisation and co-ordination between the different financial institutions which exist at present for the purpose of financing industrial development. These are the only two reasons that I could find in the remarks which he has made.

The difficulty that I had while listening to him was that the hon. Finance Minister talks repeatedly of industrial development but in the vacuum, as it were. Industrial development in our country has to be geared to certain objectives which have already been accepted by the nation, by the country, by this Parliament. I find it very surprising that comparison should be made and references should be made to Japan and Canada in this connection. The hon. Minister said that we are borrowing ideas from Japan, for example, where they have a development bank. I would suggest that this is not the way to look at this question, at all because the conditions of Japanese industrial development are totally different to our conditions. The state or level of development of the Japanese economy cannot be compared with ours. It was a mighty industrial power before the last world war and today it produces vast quantities of all the basic materials, like, steel, coal, machines and so on, which we are still struggling to lay the foundations for. As everybody knows, the Japanese economy is dominated by very big monopolies symbolising the concentration of economic power there. All the old monopoly houses which flourished in Japan before the war—and which were behind the imperialist war effort of Japan at that time—namely, Mitsui, Mitsubishi and so on, have

all come back to economic power in Japan. Who does not know it? Therefore it is no argument to say that we are borrowing an idea from Japan because there is a development bank there which has done well. We are working or operating in a totally different set of conditions of an underdeveloped economy of a country which is still struggling through a series of five-year plans to reach the take-off stage, as it were. Therefore, this analogy with Japan or with Canada, for that matter, which is also an industrially developed country is, I feel, totally out of place. These are not the arguments which can justify this Bill.

The real question is that a provision is being made here for enlarging the credit facilities available to those people whom the hon. Minister has referred to as genuine entrepreneurs to develop. I would have liked the Minister to tell us a little as to the criterion or basis for claiming continually in this country—he is not the first one to do it; the private sector through its various organs and spokesmen is continually raising this cry—that they have got inadequate credit facilities for development. What is the criterion by which we are to judge? How are we to know?

He has given some figures, of course. But there is a fallacy in his argument there, if I may say so, because he has tried to show to us that there is a gap between the availability of credit supply by these various financial institutions and the total investment planned or the target of the Plan. But why the total investment target should be met by credits from Government or semi-Government institutions is not clear to me. Certainly, it is not going to be met by them; only a portion of that can be met at the best of times. So, what is the criterion? In the private sector obviously—we have always been told—profitability or the return on capital is the test. That is the test which shows in the world of the private sector whether they are able, with the exist-

[Shri Indrajit Gupta]

ing level of credit facilities, to prosper or not. That is not my test, but that is the test which the private sector applies to itself.

I do not find any available evidence for this contention that credit facilities are inadequate or that credit supplies are drying up to such an extent that the development of industry, particularly in the private sector, is not able to earn an adequate return on its capital. Profitability is the law of the private sector. That must be the yardstick by which we have to test. I will come to that presently, but one other point I would like to make first, in passing, namely that the Mahalanobis Committee's Report has not yet been released to the public. It has been submitted to the Government and in the usual way in our democratic set-up—I do not know how—huge passages of it seem to have leaked out to the press.

**An Hon. Member:** It was placed on the Table yesterday.

**Shri Indrajit Gupta:** I am very sorry; I was absent from the House for a long time, but anyway that is good.

I am surprised to find that this Bill is being brought forward just at the moment when the Mahalanobis Committee has observed in its report that one of the causes, not the only one or the main one but one of the principal causes, which have contributed to the development of economic concentration and the growth of monopoly in our method of planned economy is the way in which the existing financial institutions have functioned.

This observation of the Mahalanobis Committee may not be acceptable to the Government. Government may contest it. Government may come forward with its own arguments and facts and figures to prove that this is wrong. But the Mahalanobis Committee has laboured long and I believe that its report and its recommendations and observations do deserve most serious consideration by the Government. It is really strange that

just at the time when this Committee's report has seen the light of the day and when they have stated that loans advanced by public institutions, like, the Industrial Finance Corporation and the National Industrial Development Corporation have aided the growth of the private sector in industry and specially big companies and their growth have been facilitated by the financial assistance rendered to them by these institutions, they have observed that there can be no doubt that the working of our planned economy—and they have referred here specifically to the working of these financial institutions—has encouraged the process of concentration by facilitating and aiding the growth of big business in India.

**Mr. Speaker:** Would he like to take more time?

**Shri Indrajit Gupta:** I do not know how much time is allotted. ....

**Mr. Speaker:** I did not want to interrupt him or to stop him. He might resume his seat.

13.23 hrs.

RE: RECEPTION TO SHEIKH  
ABDULLAH

**Mr. Speaker:** Mr. Prakash Vir Shastri and other Members had given a Calling Attention Notice this morning about Mr. Dinesh Singh's going and receiving Sheikh Abdullah. I have not allowed that.

**Shri Prakash Vir Shastri (Bijnor):** And also the Commonwealth Secretary, Mr. C. S. Jha.

**Mr. Speaker:** I have rejected that. But then he wanted to interrupt the proceedings and he raised that question. The Prime Minister is here. If he wants to make a statement, he might do it.

**Shri S. M. Banerjee (Kanpur):** Is he making a statement *suo motu*?

**Mr. Speaker:** I had rejected that. He is making it *suo motu*.