

Weekly Notes

World Bank Mission

THE World Bank Mission which is on a tour of inspection in this country has before it an important task. After the statement made by Mr Chintaman Deshmukh in Parliament sometime ago, it is expected that there would be a co-ordination of the schemes for borrowing with the requirements under the first and the second parts of the Five-Year Plan. The estimates furnished by the Planning Commission showed that quite a large sum is required in foreign exchange for the implementation of the various projects. Even though the Government of India would be able to secure their requirements of foreign exchange from releases of accumulated sterling balances, it would be more convenient if the "gap" in rupee finance could be reduced to a safe limit, so that it would be possible to implement the second part of the plan also according to schedule.

It is not difficult for either the Government to formulate specific proposals which would be financially workable, or for the World Bank to consider fresh proposals sympathetically as considerable expenditure has been already incurred on many of the projects. Apart from the claim that the Government of India has on the World Bank for a liberal loan to finance the river valley projects and the various industrial undertakings, maximum consideration has to be given to the question of financing the schemes of expansion for raising steel output by the two major producers and the erection of a new plant for the production of 350,000 tons of pig iron, the extension of the ship-budding yard, the erection of the aluminium factories, the additions to paper production and so on.

So far as the industrial sector is concerned there is certainly no difficulty in formulating convincing propositions and even self-liquidating schemes, as additions to the steel output or pig-iron output will be followed immediately by an increase in earnings of the various units concerned. If a liberal policy could be pursued in regard to price fixation, the finance required could easily be found out of earnings over a period. Besides, the private industrial sector can make arrange-

ments for raising finances from the organized capital market. It will, therefore, greatly facilitate the work of the leading industrial producers. If, in the construction period, the necessary capital could be provided, the additional capital can be raised from the open market after the projects concerned had reached the production stage. It is in estimating the requirements of the various industries for financing extensions and effecting replacements and renewals that the utmost co-operation is needed between the industrialists and the Government.

Bank Loans

THE World Bank is not unused to large loans. An analysis of the loans made by this international lending institution since its inception will show that the earlier recipients were more lucky and that, even during the last accounting period, Australia was successful in securing as much as \$100 million. The biggest loan that has been sanctioned so far to any country has been taken by France for \$250 million. Netherlands comes next with \$191.4 million. India, on the other hand, has received only three loans amounting to \$52 million, of which only the Railway loan has been fully utilised. In fact, even repayments have commenced on this account and it is shown in the Bank's balance-sheets that there have been cancellations and refundings to the extent of \$1.2 million while principal repayments amounted to \$1.7 million. As a result, the net liability on account of the railways as on June 30, 1951, was only \$32.8 million. On the other hand, in respect of the loan for purchase of agricultural machinery, there was still an undisbursed balance of \$5.9 million and for electric power development \$12.36 million. Thus, the net expenditure through foreign loans till the end of June this year was about \$43 million.

India's Needs

THE present requirements however, will be very considerable and there is no reason why the Government should not be able to ask for as much as \$500 million. The industrial sector alone will require \$200 million as the Tata Iron & Steel Company will be spending Rs 40 crores, the Steel

Corporation of Bengal, Rs 20 crores, shipping companies probably Rs 25 crores and the rest Rs 50 to Rs 75 crores. As there are many projects which can be fruitfully launched without participation by foreign interests, there is no reason why, on the basis of specific proposals, the Government could not raise funds.

As regards river valley projects, the sale proceeds from loaned wheat will certainly be useful. But, in so far as there is need for foreign exchange, it should not be difficult to formulate schemes for securing fresh loans.

The World Bank cannot plead inability to consider the request of the Government of India as there are ample resources at its disposal. At the end of the last accounting period, the reserves at the disposal of the Bank amounted to \$438.78 million in investments and \$1.25 million in currency. Full provision has, of course, been made against the loans granted so far. It would, however, be necessary to sell further bonds in order to meet the requirements of India. It cannot be difficult to place these bonds in the United States or Canada, as the bulk of the expenditure will have to be made in these two countries.

Rural Credit

INDIA lives in her villages. But the village community does not enjoy adequate banking and credit facilities. It is no wonder that money economy does not prevail in the country. It has been suggested that this is one of the main reasons why financial and monetary controls are not effective. Many expert committees have lamented that the absence of money economy is a bar to collection and estimation of data on which alone can a planned economic policy be based. It is, therefore, welcome that the Reserve Bank is conducting an investigation into the credit and banking possibilities available to the farmer.

To admit this is not to concede that the country has progressed at the cost of the town during and since the war. On a priori assumptions a highly sophisticated theory has been elaborated. There have been increases in many incomes during the war. But the flow of savings has not grown. To explain

this apparent anomaly it has been suggested that higher taxation and rising living costs have hampered the urban, industrial community's capacity to save. The farmer does not carry a heavy tax load, He has been able to sell his produce at prices Higher than those he has been pacing for his needs. His ability to save has improved. But, it is explained, the Country has not benefited from these savings as they are either hoarded in bullion, or not available to the investment mangel, because of the absence of the conduit pipe, the banking system.

Investigations conducted by Government departments have exploded the myth of a prosperous country side. To warn the country that a prosperous village community is an imaginative invention which has no statistical basis, is not to deny the need for extending banking facilities in rural areas. They are poor. And it will be readily admitted that banking habits can encourage savings. Here the problem is whether the indigenous banker or the co-operative credit societies should be encouraged to extend credit facilities, Credit societies argue that they have been partially successful in freeing the farmer from the clutches of the greedy money lender. This is not untrue. But there is need for integrating indigenous bankers into the regular banking system,

Without prejudicing the finding of the Reserve Bank enquiry, a possible danger may be emphasised here. It may be that co-operative credit, societies are the most, suitable organisations to help the farmer in securing financial assistance at economic costs, But it would be a blunder for the co-operative movement to concentrate on credits alone. This is the main reason why the co-operative movement has failed to take deep roots in this country. In its pre-occupation with banking activities it has neglected its wider, and more useful, functions of co-operative production and consumption. The farmer must needs be indoctrinated into the banking habit. But he is also in need of help to establish his business as an economic proposition. Abortion of zamindaris alone will not do the trick. He will suffer in the absence of consolidation of holdings. And the co-operative movement can help him and the country to get rid of fragmentation of holdings.

Bank Rote and After

MORE than two weeks have passed since the increase in

the bank rate. It was followed by a sharp decline in gilt-edged securities. The market remains idle and inactive at the depressed level. The fall in securities is not due to the rise in bank rate, but to the Reserve Bank's decision not to buy securities on offer at "pegged" rates. Financial statistics do not reveal that the fall in the gilt-edged market is due to liquidation by institutional investors. Nor is there any evidence to show that scheduled banks have borrowed funds from the Reserve

Bank with securities as pledges.

Weekly statistics published by the Reserve Bank and the scheduled banks do not include any item which reveals borrowings, if any, by banks from the Reserve Bank. But there is circumstantial evidence to show that such borrowings have not been resorted to on any large scale. Scheduled banks' interest-free balances with the Reserve Bank today are not less than what they were before the increase in the bank rate. Advances by Imperial Bank show

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