Weekly Notes

IFC Emerging from Tutelage

THE Industrial Finance Corporation has entered its eighteenth year of operations but this is the first year with effect from which direct Government assistance to it would be progressively withdrawn. Refinance (not straight loans) would now be provided by the Industrial Development Bank, which has been entrusted with control over policy and 30 per cent of the share capital. Such refinance would be of a relatively limited order since IFC is expected to find the resources itself, mainly through the issue of bonds. The prospect of cultivating this source to a much greater extent than before (it has raised Rs 31 crores in this manner) under present capital market conditions has understandably not enthused the Chairman. He has drawn rather pointed attention to the fact that his resources are no longer perfectly clastic. This is a sobering thought indeed after net sanctions during seventeen years of Rs 227 crores and disbursements of Rs 156 crores. The change places the IFC on par with the ICICI which has had no readily tappable source in the Government, but it still has a favoured position insofar as its bonds and shares carry a Government guarantee and are, therefore, approved trustee securities.

Conditions in the capital market made a considerable impact on IFC in 1964-65, The demand for rupee loans went up and the ratio of their disbursements to net sanctions improved. Underwriting commitments proved highly onerous; given its built-in conservatism and the dubious benefit of intermittent Parliamentary scrutiny, it is hardly surprising That the IFC intends to limit its activities in this field. With the IDB around to take on major underwriting burdens, this reluctance should not prove too damaging to the capital market. Interest paid (and establishment expenses) have increased more steeply than earnings since the rate of interest on borrowings increased while that charged on loans given earlier was kept constant. There have been some defaults in payment of interest and discharge of guarantees but those in repayment of principal have been at previous year's level of less than 1 per cent

The disbursement of foreign currency loans has been very slow: through June 1965, it was Rs 6 crores against net sanctions of Rs 22 crores, of which Rs 4 crores awaited clearance by other authorities. The Chairman attributes this delay in utilisation to the time taken by borrowers in finalising their orders and changing their equipment lists; utilisation of the French credit has been particularly slow. While the Chairman does not go further into this problem in the published statements, this curious phenomenon is, in large part, the result of tied credits, cartellisation by suppliers in aid-giving countries, prospects of expansion before the projects are fully worked out and fears of not getting adequate and timely licenses for maintenance imports after the equipment is ordered and erected.

IFC continues to take an active interest in the financing of sugar and other co-operative factories. Their share in total assistance extended has come down slightly from about 22 per cent in 1962 to 18 per cent now but this is partly due to the diversification of its business into guarantees and underwriting. So far Rs 40 crores of loans have been given to 52 sugar mills, 4 spinning mills and 1 vegetable oil extraction unit in the co-operative sector. Experience in this field has been, on the whole, encouraging and more applications are being received.

The procedures for processing applications and finalising loan formalities are being streamlined. Conditions for the registration of agreements have been liberalised, the burdens of periodical reporting reduced and, above all, completion of legal formalities is being expedited through strengthening and decentralisation of the legal division.

While the two traditional industries, textiles and sugar, continue to dominate the industrial pattern of assistance, it is clear from the appendix (provided for the first time) to the annual report that IFC has played a notable role in the financing of new industries, too. The concerns assisted in fertilisers, hardboard, general machinery, automobiles, bicycles, cement and chemicals, account for a considerable part of output in their respective industries.

In terms of its statutory powers, the Industrial Development Bank has instructed IFC to continue to carry out the directives previously given by Government till such time as these are modified or rescinded. The new rules laid down by Government in consultation with the IDB, in substitution of the 1957 rules, represent no major change in the mechanism of its functioning. One curious rule stays as a reminder of past faith in the efficacy of industrial licensing. Rule 5 states that assistance should be extended for objectives which are approved by Government and consistent with the plans. In explanation, it is clarified that "any industrial concern for which a license has been issued under the Industries (Development and Regulation) Act 1951 shall be deemed to be established for a purpose which has the approval of the Central Government".

Coal Industry's Problems

SOME of the gnawing problems of the coal industry seem to have been virtually ignored in the recent discussions of fixing targets for the public and private sectors and for coking and non-coking coal. These are the questions of mechanisation, higher productivity, setting up of carbonisation plants, wider differentials for various grades and provision of rupee finance. Considerable emphasis has been placed over the last few years on mechanisation. For this purpose, fairly liberal foreign exchange allocations have been made for the industry, from World Bank and British credits and in trade agreements with Poland; the Durgapur mining machinery plant has also made progress. These allocations have produced results in the new public sector mines and those private mines which have large areas under exploitation. Except in open cast and difficult or deep mines, however, mechanisation has still to be proved a fully economic proposition. Most mines are much too small to benefit from mechanisation or to think about it—and some of the small mine-owners are sitting on valuable reserves. Even where it has been successful in speeding up operations, mechanisation has created problems of maintaining the quality of coal and also of full utilisation of equipment. The failure of moves to rationalise the industry through amalgamation of small collieries and increasing private sector doubts about the profitability of mechanisation are serious portents which threaten future investment as well as prevent deriving of full benefit from investment already undertaken.

The Central Fuel Research Institute has almost completed its experiments