CHAPTER-VI

MANAGEMENT & CAPITAL INVESTED IN INDUSTRIES
CHAPTER 6

MANAGEMENT AND CAPITAL INVESTED IN INDUSTRIES :-

6.1 Sources of Capital:

In order to access the prevailing system regarding Industrial as well as Agricultural finance in rural sector, it would be proper to have an idea of the various agencies presently engaged in providing it, & thereby adjudge the advisability & urgency of the age old traditional agricultural finance in the present context, especially keeping in view the growing awareness and trends towards mechanized large scale farming and bullock plough economy losing grounds and small holdings becoming uneconomic and unfit.

The sources of capital is classified in to two category, such as

(A) capital available for agriculture sector and
(B) capital available for industrial sector

Sources Of Capital For Agriculture Sector

The agriculture – finance is further classified as under:

1- Non- institutional agencies
2- Institutional agencies

Non- institutional agencies:

The main component comprising non- institutional agencies providing rural credit are, village moneylenders, rural traders, owners of large holding viz. Landlords, Pledgers, Pensioners, Widows, relatives of the farmers and village shop-keepers. Of all these agencies engaged in providing agricultural finance, individual village moneylenders till recently had been the most important source, so far as advancing loans & volume of business is concerned.
When planned Economy was introduced in 1950-51 non-institutional agencies share in rural finance accounted for as large as 92.7% of the total agricultural finance, the village moneylenders having the uppermost hand.

The village moneylenders in rural areas are of two types:
1. Professional Moneylenders
2. Non-professional moneylenders.

Professional moneylenders generally known as ‘Sahukars or Mahajans’ are persons whose wholesale concern is lending money for all productive and non-productive purposes & for short, medium and long term. Very often his business is handled down from generation to generation or from father to son & so on & so forth.

On the other hand non-professional money lender is primarily interested in farming or in some trade or profession but lends money to augment his income. Thus he combines his business with trading in village produce. Village shopkeepers also act as money lenders. Similarly Pledgers, landlords & widows, living in village or living in neighbouring towns & cities, having some interest or the other in rural property or land holdings as ancestral boon also lend money on the basis of some tangible security in form of land or ornaments.

The overwhelming importance of non-institutional agricultural finance can be traced to many reasons. The first & the foremost reason being numerical inadequacy of institutional finance, un-coordinated planning & the natural apathy of the white collard jobbers towards rural uplift by the institutional agriculture finance agencies. Besides, there are many plus points favouring the village moneylenders & other non-institutional agencies to play a pivotal role in the agrarian economy of the country & the district Jalaun as well. These are
1. All time availability,
2. Easy accessibility & proximity,
3. Simplicity in legal formalities,
4. Spontaneity,
5. Self-sufficiency & timely cheap loan ability,
6. Flexibility avoiding rigidity in repayment of loan,
7. Generosity,
8. Magnanimity & sociability in weal & woe & above all being ever thrifty to the thriftless peasantry.

But all that glitter is not gold. Village moneylenders & other non-institutional agencies as well as have been nicknamed as a dangerous inescapable necessity & a helping cord to the hanged person. This is because there are serious shortcoming & deceptive duping device in the working of these agencies. Small area of operation, paucity of lovable funds, high as well as compound rate of interest, preference to short term loans, partially or wholly monopolistic tendency to extract maximum gain, usurp many other pecuniary benefits, manipulation of accounts, fraudulent practices & foul pranks played upon & undue advantage taken on account of poverty helplessness unavoidable urgency of the illiterate villagers exploited by hook or crook & non-issue of receipts very often adds injury to the Chronic wounds of indebtedness.

As wolf has aptly remarked, “The Country has been in the grip of ‘Mahajans’ It is the bend of debt that has shackled agriculture”. According to the Famine Commission of 1880 & 1901, at least 4/5 of the cultivators were in debt & were fast loosing the possession of their lands, as indebtedness went on mounting. No scientific & systematic treatment of Indian agriculture debts was attempted till the seventies of the last century. The Deacon Riots Commission in 1875 observed that 1/3 of the farmers on Government land were in debt. This indebtedness according to various surveys from time to time increased to great magnitude as can be seen by the following figures :-

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Year</th>
<th>Debt (Rs. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Edward Maclagan</td>
<td>1911</td>
<td>300</td>
</tr>
<tr>
<td>2.</td>
<td>Mr. Darling</td>
<td>1923</td>
<td>600</td>
</tr>
<tr>
<td>3.</td>
<td>Indian Central Banking</td>
<td>1934</td>
<td>900</td>
</tr>
<tr>
<td></td>
<td>Enquiry Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>P. J. Thomas</td>
<td>1935</td>
<td>1200</td>
</tr>
<tr>
<td>5.</td>
<td>P. J. Thomas (between 1929 &amp; 1933)</td>
<td>1929 &amp; 1933</td>
<td>2200</td>
</tr>
<tr>
<td>6.</td>
<td>The Reserve Bank of India</td>
<td></td>
<td>1800</td>
</tr>
<tr>
<td>7.</td>
<td>The Agriculture Credit Deptt.</td>
<td>1937</td>
<td>1900</td>
</tr>
<tr>
<td>8.</td>
<td>S. Thirumalai</td>
<td>1945-50</td>
<td>1800</td>
</tr>
</tbody>
</table>
The great vicissitudes are the result of depression of early thirties, famine during seventies & the second World War from 1939-1944-45. whenever there was slump or recession in the market, the small farmers had to suffer as they had neither bargaining power nor hoarding power & were compelled to sell at cheap rates, while during World War second, the prices shoot up, the benefit was pocketed by the larger farmers and landlords. Similarly during draught & famine the poor farmers were the worst sufferers as they had to purchase seeds or corn for sowing & for daily consumption at high rate. Consequently indebtedness went on amounting to alarming stage.

Thus whether it is the village money lender or any other existing non-institutional financial agency, without exception is not immune from any of the aforesaid vices & vindictiveness. These agencies are surely not an unmixed blessing. To exemplify, loans even from relatives given at cheap rates & soft terms, unmindful of the purpose of loan are taken very easily & so spent very easily too mostly in unproductive channels, thereby adding a dead weight of indebtedness to the beneficiary. All India Rural Credit survey Committee Report aptly remarked, “Private Credit, generally unsuitable, is wholly unsuitable in the context of planning for larger production.”

This brings us to give a thought to analyse & scrutinize the validity of the above statement, which points out to two facts namely:

1. Private or non-institutional credit generally unsuitable
2. Wholly unsuitable in the context of planning for larger production.

To my mind the underlying thought is towards their short comings such as paucity of the much needed loanable fund, the high rate of interest & compound interest wholly undesirable to the poverty stricken masses.

**Institutional agencies:**

Institutional credit agencies have forged ahead and have become successful in putting stronghold over the village moneylender who by nature was undoubtedly inadequate, highly expensive & exploitive source of credit supply. Of course his monopoly has been threatened to a certain extent, but at the same time the picture of institutional finance to
agriculture that has emerged out has remained far more satisfactory. Dozens of Institutional financing agencies, one after the other have been brought in since Independence on regional state & national level to supply cheap, timely & adequate credit. Cooperative credit in 1904, Commercial banks in 1969, Regional Rural Banks in 1975, Agriculture Refinance & Development Corporation 1963, NABARD in 1982 were created to augment regular supply of credit to rural sector & above all State Bank of India in 1955 with its multifarious branches all over the country was directed to actively assist rural credit together with Reserve bank of India with its Agricultural Credit Department 1935-37 was to work as the ‘lender of the last resort’.

As Institutional Agencies are Commercial Banks, Co-operative Banks and Government sources. Policy on agriculture credit aims at progressive institutionalization of credit agencies for providing credit to farmers for raising agricultural production and productivity. Agriculture credit is disbursed through a multiagency network consisting of Co-operatives, Commercial Banks and Regional Rural Banks (RRBs).

The flow of institutional credit for agriculture and allied activities which was Rs. 31,956 crore in 1997-98 is estimated to have increased to Rs. 53,504 crore in 2000-2001. The total credit flow from all agencies is projected to reach a level of Rs. 66,771 crore by 2001-02. The total credit flow to agriculture during the period 1997-2002 is likely to be of the order of Rs. 2,33,700 crore which is close to the ninth plan projection of Rs. 2,29,000 crore.

For the Tenth Plan Period (2002-07) the credit flow into agriculture & allied activities from all banking agencies is projected at Rs. 7,36,570 crore which is more than three times the credit flow during the Ninth Plan. The target for credit flow for the agriculture & allied sector for the current year is Rs. 82,073 crore.
### Flow of Institutional Credit to Agriculture (Rs. In Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative Banks</td>
<td>14085</td>
<td>15957</td>
<td>18363</td>
<td>20784</td>
<td>27080</td>
<td>35111</td>
</tr>
<tr>
<td>Per cent Share</td>
<td>44</td>
<td>43</td>
<td>40</td>
<td>39</td>
<td>42</td>
<td>43</td>
</tr>
<tr>
<td>Short-term</td>
<td>10895</td>
<td>12571</td>
<td>14845</td>
<td>16564</td>
<td>21542</td>
<td>24711</td>
</tr>
<tr>
<td>Medium/Long-term</td>
<td>3190</td>
<td>3386</td>
<td>3518</td>
<td>4220</td>
<td>5538</td>
<td>10400</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>2040</td>
<td>2460</td>
<td>3172</td>
<td>4219</td>
<td>4956</td>
<td>5745</td>
</tr>
<tr>
<td>Per cent Share</td>
<td>6</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Short-term</td>
<td>1396</td>
<td>1710</td>
<td>2423</td>
<td>3239</td>
<td>3415</td>
<td>3145</td>
</tr>
<tr>
<td>Medium/Long-term</td>
<td>644</td>
<td>750</td>
<td>749</td>
<td>980</td>
<td>1541</td>
<td>2600</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>15831</td>
<td>18443</td>
<td>24733</td>
<td>27711</td>
<td>31964</td>
<td>41217</td>
</tr>
<tr>
<td>Per cent Share</td>
<td>50</td>
<td>50</td>
<td>53</td>
<td>53</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Short-term</td>
<td>8349</td>
<td>9622</td>
<td>11697</td>
<td>13480</td>
<td>16004</td>
<td>17073</td>
</tr>
<tr>
<td>Medium/Long-term</td>
<td>7482</td>
<td>8821</td>
<td>13036</td>
<td>14231</td>
<td>15960</td>
<td>24144</td>
</tr>
<tr>
<td>Total</td>
<td>31956</td>
<td>36860</td>
<td>46268</td>
<td>52714</td>
<td>64000</td>
<td>82073</td>
</tr>
<tr>
<td>Per cent increase</td>
<td>21</td>
<td>15</td>
<td>26</td>
<td>14</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>$ provisional @ Estimated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** NABARD

---

### Sources Of Capital For Industrial Sector :-

In the development of Industrial Sector, the finance plays a vital role. The finance works in any Industry as the blood works in the body. The various sources of Industrial Finance are divided into two categories:

1. (1) Internal Sources
2. (2) External Sources
INTERNAL SOURCES : In the internal sources of Industrial Finance, mainly are Shares, Debentures and ploughing back of profits.

(A) **Shares :** As per the rules and regulations of the Indian Companies Act, 1956 the company can raise the capital from the capital market by issuing shares of the company. The company can issue two types of shares i.e. (a) Preference shares and (b) Ordinary shares.

(B) **Debentures :** The company also raise the capital by issuing Debentures. Debentures attracts to those investors who are not capable of taking risk or do not want to take the risk. In the recent years debentures have been very famous among the investors. Mainly debentures are of two kinds as (1) convertible and (2) non-convertible.

(C) **Ploughing back of profits :** In India it is not the easy task to collect sufficient money for the industrial development. Because of the low level of capital formation and due the necessity of capital for other plannings of development, the Industries find difficulties in obtaining the finance. In such situation in private sector the most appropriate means of capital formation is the ploughing back of profits. In the Five Year Plans the importance of ploughing back of profits has been accepted.

EXTERNAL SOURCES : In the external sources of Industrial Finance, mainly are (1) Public deposits, (2) Commercial banks and (3) Financial institutions providing industrial finance.

(A) **Public deposits :** Accepting public deposits by Indian industrial companies is the feature of Indian industrial financing system. In the Western countries the public deposits are not the means of capital of Western industries. In India the main responsible factor for the development of this system is the too late development of Indian banking system. There existed the system of depositing the savings with the businessman for the consideration as interest before the development of Indian banking system. The establishment of industries in Mumbai and Ahmedabad led to the inflow of public deposits in to the industries, as it was the result of the great efforts of the managements. A big part of capital invested in the Cotton Textile Industries situated at Ahmedabad,
Mumbai and Sholapur is from the public deposits. The public deposits are of both two
types as Short term and Long term.

Although in the Planning Period the Industries progressed yet the importance of
this resource has declined. The main reason of the decline of this resource is that the
investors like to purchase debentures in instead of depositing in the company. Debentures
are transferable and are dealt in stock exchanges. The investor may get loan on the
security of such debentures but this facility is not available in public deposit.

(B) Commercial Banks :- The commercial banks also provide short term, medium
and long term loans to the industries except providing loans for the business. The share of
commercial bank’s loans to the industries is continuously increasing in India. The bank
credit occupy the second position in Industrial financing from the quantitative point of
view.

At present 27 commercial banks in public sector are working in the country. Out
of these 27 banks, 19 banks are nationalised banks (Earlier this number was 20 but New
Bank of India was merged with PNB leaving this number to 19).

Commercial Banking system in India consisted of 297 scheduled banks (including
foreign banks) and one non-scheduled banks at the end of the December 2000. Over the
period March 1999 to March 2000, the number of scheduled banks decreased by 8. Of the
scheduled banks, 223 are in public sector and these account for about 82 % of the
deposits of all scheduled banks. There are 196 RRBs specially set up to increase the flow
of credit to small borrowers in the rural areas. These banks are also categorized as
scheduled commercial banks. The number of nationalised commercial banks is 19.

At the time of bank nationalisation (i.e. July 1969) there were 8262 branches of
various commercial banks (1860 in rural areas and remaining 6402 branches in urban
areas). In other words in 1969 only 23 % of the total bank branches were working in rural
areas. But on June 30, 2002, total number of bank branches increased to 66239.
Presently, 49.0 % of total branches are working in rural areas. There is one bank branch
working for 15000 population while there was one branch for 64000 population in 1969.
( C ) Institutional Finance for Industries:— With the end of Second World War, there was great urge for speedy industrial expansion. At the same time, there was also a great need for modernisation and replacement of obsolete machinery in already established industries. The usual agencies meant to provide finance for large-scale industries were either apathetic or were found inadequate and hence the Government of India came forward with a series of financial institutions to provide funds to large industrial sector. It set up the Industrial Finance Corporation of India (IFCI) in 1948, The Industrial Credit and Investment Corporation of India (ICICI) in 1955, the Industrial Development Bank of India (IDBI) in 1964, the Industrial Reconstruction Bank of India (IRBI) in 1971, now called IIBI, the Export and Import Bank of India (EXIM BANK) in 1982 and so on. In recent years, the Government set up the SCICI (later merged with ICICI), Risk Capital and Technology Corporation Ltd.(RCTC), Tourism Finance Corporation of India Ltd.(TFCI) and Technology Development and Information Company of India (TDICI). At the state level, the State Financial Corporations (SFCs) and the State Industrial Development Corporations (SIDCs) were set up. All these institutions have come to be known as public sector financial institutions or term lending institutions. The Narasimham Committee (1991) called them Development Financial Institutions (DFIs).

6.2 Form of Capital

Actually for keeping the cost minimum or to say for avoiding from the over-capitalisation as well as from under capitalisation it is essential to have as much capital as required. Keeping in mind this concept of financial management the various financial institutions provide loans to agriculture and industrial sector as much as required. It is suggested to the farmers as well as to producers to take the loans from the various financial institutions only to the extent to required, or to say both under-capitalisation and over-capitalisation is harmful for the agriculture as well as for industry. Forms of capital for agriculture and industrial sector is as under:

For the agriculture sector three types of loans are provided to Indian farmers to meet their financial requirements—
1. Short term loans
2. Medium term loans
3. Long term loans

Short term loans are provided for a period of less than 15 months to meet out expenses of routine farming and domestic consumptions. This type of loans is deemed by farmers for purchasing seeds, fertilizers and for meeting out family requirements.

Medium term loans are provided for a period of 15 months to 5 years to purchase agriculture equipments, animal and land improvements,

Long term loans are provided for a period more than 5 years. This type of loan is taken by the farmers to purchase land and expensive agricultural equipments and for repayment of old loans.

Indian industries also need three types of finances:
1. Short term loans
2. Medium term loans
3. Long term loans

Long term finance are required to purchase permanent assets like land, building, machinery etc. Industrial units also need long term finances for their extension and re-establishment.

Medium term finance is generally a part of long term finance. Besides, industrial units has to arrange raw material, intermediate goods and to meet out daily expenses.

Short term finance is required for all these purposes.

As it has been already discussed above that Industrial finance in India includes major sources like shares and debentures, deposits from public, credit from banks and industrial finance institutions. The major industrial finance institutions are:
IDBI, IFCI, ICICI, SIDBI, UTI, IIBIL, NABARD, EXIM BANK, SFCs, LIC, GIC
And its associate companies.

All the above mentioned financial institutions arrange medium and long term finances for industrial units. Scheduled commercial banks play the important role in providing short term finance to industrial units. Deposits from public and indigenous bankers are also the important sources of short term finance.
6.3 Financial Assistance

The financial assistance provided by the financial institutions has made growth during the Planning Periods especially in last two decades. During the period 1960-61 all the financial institutions have accepted to provide 60.50 crore assistance but out of which 29.80 crore were delivered for assistance. The establishment of IDBI in 1964 made very fast changes. In the year 1965-66 the total sanctioned assistance was increased to Rs 190.3 crore and total delivered assistance was Rs 119.8 crore. During the Seventh Five Year Plan Period, there was the rapid growth in assistance. Actually 67.5 per cent of the total assistance upto March 1990 was accepted in the Seventh Plan Period. All the financial institutions made finance assistance available of Rs 5,20,653 crore upto the year 1998-99 out of which Rs 3,62,711 crore has been delivered.

6.4 Other Form

As agriculture productivity plays an important role in the development of Agro-based industries. And there is a positive correlation between agriculture production and the development of Agro-based industries, at the same time the agriculture productivity is also directly correlated with the agriculture finance, so the agriculture finances have importance in the development of Agro-based industries.

Upto 31 March, 2001 the 31,434 branches of banks were making available the agriculture finance. In cooperative sector 91,720 Primary Agriculture Credit Societies, 364 District Central Cooperative Banks, 28 State Cooperative Banks are making available agriculture finance. In the agriculture sector 19 State Land Development with their 2,337 branches are making available long term loans.

The total loan flow to agriculture and allied activities increased from Rs 31,956 crore in 1977-78 to Rs. 53,504 crore in 2000-01, while it is expected to be Rs. 66,771 crore in 2001-02.

The total loan flow from commercial banks to agriculture sector has increased from 50 per cent in 1997-98 to 52 per cent in 2000-01.

To facilitate access to credit from Commercial Banks and Regional Rural Banks a new Scheme called ‘Kisan Credit Card Scheme’ was introduced in 1998-99. The salient features of the scheme are as given below:
1. Farmers eligible for production credit of Rs. 5000 or more are eligible for issue for Kisan Credit Card.
2. Eligible farmers to be provided with a Kisan Card and pass book or card-cum-passbook.
3. Entire production credit needs for full year plus ancillary activities related to crop production considered while fixing limit. In due course, all activities and non-farm credit needs may also be covered.
4. Limits to be fixed on the basis of operational land holding, cropping pattern and scale of finance.
5. Sub-limits may be fixed at discretion of banks.
6. Cards valid for three years subject to annual review.
7. Each drawl to be repaid within 12 months.

**Progress of the Scheme:** The Scheme has been proved as an innovative mechanism for facilitating access to short term credit to farmers. The scheme has gained popularity and its implementation has been taken up by 27 commercial banks, 378 co-operative banks and 196 RRBs throughout the country. The number of cards issued and the amount sanctioned under the scheme has increased in each successive year since its inception to reach a total of over 271 lakh cards involving an amount of over 64000 crore by September 2002. Co-operative banks accounted for 66% of Kisan Credit Cards followed by commercial banks (27%) and RRBs (7%).

**Number of Kisan Credit Cards Issued and Amount Sanctioned**

( Cumulative Progress upto Sept. 2002)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Cards Issued (in Lakh)</th>
<th>Amount Sanctioned (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operative Bank</td>
<td>175.85</td>
<td>40333</td>
</tr>
<tr>
<td>RRBs</td>
<td>21.20</td>
<td>5211</td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>74.76</td>
<td>18521</td>
</tr>
<tr>
<td>Total</td>
<td>271.81</td>
<td>64065</td>
</tr>
</tbody>
</table>