ROLE OF INVESTMENT TRUSTS IN MOBILIZING SMALL SAVINGS FOR THE ECONOMIC DEVELOPMENT OF INDIA

Among financial intermediaries in the industrially advanced countries like the United Kingdom, the United States and Japan, investment trusts are playing a significant role in the mobilization of the savings of the small investors for productive channels. The same, however, cannot be said about the Indian investment trusts although the developing economy of the country offers a favourable climate for the growth of genuine investment trusts. The augmentation of savings into stock exchange investments, the emergence of capital appreciation and growth prospects in addition to safety and regularity of income, as investment objectives, underline the need of and provide the scope for the development of intermediary institutions like investment trusts for the small investor. The author has suggested measures which the Government of India and the investment trusts should take to implement the planned economic development of the country.

The author has reasons to believe that the investment trusts, particularly of the unit type, would be suitable agency for mobilizing the savings of the small
investors. There is no denying the fact that the Unit Trust of India is a step in the right direction, but alone it cannot deliver the goods.

If investment trusts are to give a good account of themselves the government should pass an enabling legislation, permitting the establishment of a number of unit trusts to cater to the need of different types of investors. To ensure sound management, the 'management company-trustee' structure with well recognized rights and duties of all parties concerned appears to be suitable inasmuch as it will provide, among other things, internal check and increased safety to investors. Finally, some of the statutory requirements such as the control of capital issues, reduction of capital in relation to redemption, pre-emptive rights of equity holders and distribution of capital gains along with adequate tax concessions would require modification for the expansion of investment trusts on sound lines.

Organized on the lines indicated above the investment trusts would accelerate the tempo of economic development and democratize the industrial share ownership. Thus would act to the furtherance of some of the objectives of the Directive Principles of State Policy enshrined in the Constitution.