Industrial Credit Facilities in Pakistan

By **Hamid Ahmad**, VI Year Economics

There is a universal impression that the provision of credit facilities in the field of industry in our country are far from adequate. The adequacy or otherwise of credit facilities can be judged if reliable figures about the supply of and demand for credit are available. But complexity arises in the estimation of supply and demand conditions. Even if we can get approximate figures about the credit supply, it is hard to calculate the total genuine demand for credit. It is possible that some of this real demand may be lying suppressed due to uufavourable terms and conditions attendant upon the present supply of credit are to an extent interdependent. As the credit supplied for purposes of production becomes purchasing power in the hands of the factors of production, the greater the quantity of credit supplied the greater the sum of purchasing power and more extensive the market for the disposal of all types of goods. And the better the market the greater is the demand for credit at once. Thus an increase in the supply of credit is instrumental in stimulating the demand for credit just as a limitation in the supply of credit frequently leads to a decline in the demand for credit. On the other hand, an increase in the actual demand for credit must often precede an increase in the supply of credit.

It may prove convenient to proceed with the supply side, bearing in mind the number of types of institutions, the conditions on which they grant credit and the extent of their operation, and then co-relate it to the demand, actual and potential for credit in the industrial sector of the economy.

In the field of industry demand for credit falls under two main categories, firstly, need for fixed capital for setting up new industry and replacing the outmoded and worn out capital equipment, and Secondly, the need for circulating capital to meet current expenses in running the factory. It is an admitted fact that our economy is industrially backward. It appears that actual demand for industrial credit is not very large at present. Several factors confirm this fact by the inclination of the moneyed class to-wards engaging in commerce rather than in industry, lack of power resources, bottlenecks in obtaining capital goods by the settled delivery date, lack of technical know how, deficiency of iron, steel and coal deposits, difficulties in the floatation of shares and dele-catures and the lack of co-ordination in the separate departments concerning industry.

But the potential demand for credit ought to be calculated at a higher figure because this is the demand which is to result in more propitious circumstances. In 1953, the Prime Minister estimated the minimum capital requirements for industrialization at least Rs. 300 crores over ten years or Rs. 30 crores per annum.

According to the U.N. Report on "Measures for Economic Development of under-developed countries" the capital requirements of under-developed areas amount to $ 15,270 million for their industrialization. Calculating on the basis of population, the potential demand for industrial credit in Pakistan comes to about Rs. 246 crores or $ 748 million.

Taking account of the supply side, the position of industrial finance in Pakistan stands in no comparison with economically developed areas. Most of the Western countries are able to raise their block capital through the issue of debentures which are readily taken up, while their needs for circulating capital are adequately met by the commercial banks and other specialized agencies. In our country funds through private subscription are quite inadequate. The agriculture class in general has meagre savings and if it happens to save, it invests in land only or at best in personal effects like ornaments. Middle class is fond of investing in landed property or building houses or at best in safe and secure government debentures. The stock Exchange market has hardly overgrown its stage of infancy and the shares in industrial concerns are not popular.

The major sources of supply of industrial credit as at present may be enumerated as follows.

1. Issues of Debentures and Shares

Industrial shares are not encouraging because there is a general tendency to invest in those avenues of economic activity which secures the maximum possible benefit within the minimum period of time and the commerce serves both the purposes. The issue of debentures is attended with numerous difficult-ties. The absence of issue houses which could under-write the debentures makes their success dangerous. The debentures can ensure only fixed returns, they cannot become the object of speculation to any great extent and hence enjoy limited popularity.

Moreover, the use of debentures, antagonizes the commercial banks who withhold even the limited facilities they might otherwise have given because debenture have the first claim on the assets of the industrial undertakings.

2. Pakistan Industrial Finance Corporation

P.I.F.C. with an initial capital of Rs. 3 crores was set up on 15th July 1949, to provide finance to indigenous industries. The loans advanced by it to date amount to more than Rs. 2.5 crores. This is not impressive figures.

The terms and condition of the loans, the delay in the granting of loans and the inadequacy of amounts advanced have often been complained against. The corporation exists primarily to supply the financial needs of only large scale industries. The government has realized the need of an institution which would be of similar help to the cottage and medium-scale industries. It is a wise step in the right direction and will enormously stimulate the work of small-scale industries.

3. Insurance Companies

There are many insurance companies but most of them are foreign concerns which have always been investing their surplus funds outside Pakistan. Even Pakistan insurance companies have been following the same lines. In this respect an Insurance Act has been passed already that compels them to keep a large portion of their assets in the form of government securities and semi-government securities, thus, reducing the scope for investment in industrial equities. The Provincial Governments have made provisions for financing the industries, for example the State Aid to Industries Act in East Pakistan and Industrial Loan Act in Punjab, but little progress has been achieved in this direction. The main reason are limited resources of the provincial governments, ill-equipment of the department of industries for undertaking this task and the formality attending government assistance. The central government recognized the significance and stampedes in to help the industry in financial matter. In the two year Priority Plan out of Rs. 45 Crores, Rs. 23 crores were set aside for industrial development. Under the present Five Years Plan, Rs. 882.2 million have been set aside for large-scale industries spread over a period from 1955 to 1960.

4. The Commercial Bank

The share of the joint stock banks in the sphere of industrial finance is far from significant. They hardly provide any block capital to industry. The time liabilities in our commercial banks are far less than the demand liabilities and this proves difficulty in engaging in much long-term financing. The joint-stock banks more often do not buy the debentures of industries out of their paid up capital or reserve fund nor do they underwrite industrial debentures or shares. With regard to the need of working capital, their contribution is far from satisfactory. The banks advance short-term loans which may be reviewed. But this position is dangerous from the point of view of the industry concerned, as, being faced with changing conditions at different periods of time. Moreover they usually advance loan against a full backing of marketable security lodged or pledged with them and pay little heed and take no account of the personal integrity of the borrowers. While giving loans against the security of liquid assets banks want to keep a margin of 30% or more. The small-scale industries experience greater handicaps in the matter of obtaining necessary finance because they are not able to offer such security to the banks as may be readily acceptable to them. The terms of loans do not prove favourable to their interests. Hardly any finance is supplied by these banks to handloom, weaving, glass, rope-making industries etc. The percentage of Commercial bank credit invested in our country is not more than 14.

The present sources of supply of industrial finance seem to be adequate. But the terms and conditions on which some of the institutions advance industrial finance stand in need of immediate improvement. There is no exact quantitative analysis to uphold the degree of adequacy of industrial credit. But a realistic approach of both demand and supply sides of the industrial sector tends to confirm the impression that credit facilities in our country in the case of industry are less than satisfactory.

—— - ——