CHAPTER II
STRUCTURE OF INDIAN MONEY MARKET

To define money market is a hard task. Any satisfactory definition is still lacking in the realm of monetary economics. In a simple way, a money market is the sum total of organisations, agencies or institutions through which the operations of lending and borrowing of money take place. This is, however, a very broad definition of money market. And such a broad definition serves many purposes. For instance, it is concerned with any central bank which controls the affairs of money market in general in the interest of the economic stability.

But this explanation is not a satisfactory one from the point of view of our study. For, all types of funds are not within the purview of the money market in a strict sense. Money market deals only with the short term funds for lending and borrowing. Again, short term funds are not the only criteria in judging whether a market is a money market or not. For, short term funds are sometime utilised in financing investment too. The real question, however, is the cash balance. A money market is associated with "the interplay between the forces of supply of and demand for cash balances." And this market is quite distinct from the bond market which

2. S.N.Sen, Central Banking in Underdeveloped Money Market (Calcutta Bookland Ltd. 1952)P.13-34,
is associated with the demand for and supply of the securities for the purpose of investment. In fact, however, money market is not only concerned with money like coins, currency notes and bank deposits, but also, "near money" like call loans, trade bills and treasury bills which are money of to-morrow.

Last, but not in any sense least, this money market lacks any formal organisation or specific place of business like that of stock exchanges or commodity markets. It consists of a number of sub-markets like call money market, collateral money market, short term Government Security market, each of which deals with a particular type of credit operation.

Almost every country is associated with a money market of its own. The economic behaviour of a particular country, at a given point of time, is best reflected through the mirror of the prevailing money market. But the successful operation of the money market depends largely upon the institutional pattern and structural factors existing in the money market. Institutional framework of the money market differs from country to country. On the basis of these institutional framework, one has to characterise whether a money market is organised, unorganised or semiorganised.

**REQUISITES OF PERFECT MARKET**

A developed money market presupposes a highly organised banking system. For, banks are the main supplier of loanable funds and formed an important link between the different sectors of the money market. The inertia of any strain or stress in the banking system is quickly observed in the money market as a whole. The

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5. Ibid.
7. S.K. Sen, "The Indian Money Market, P.1
effective organisation, therefore, unquestionably demands the existence of a central bank which will act as a pivot round which the whole monetary system moves. The central bank is the ultimate source of liquidity and that it acts and guides as the leader of the money market making the system as an organic whole.\(^9\)

The successful working of the money market calls for, again, the availability of proper instruments like Bills of Exchange, Treasury Bills, short-term government bonds, on the one hand, and a number of dealers ready to purchase or sell these short-term assets, on the other.\(^10\)

A developed money market should also be associated with a number of sub-markets for specialised dealings in funds, for various maturities and against different collaterals.\(^11\) These are call money market, commercial bill markets and the like. An undeveloped market generally lacks a large number of markets and sub-markets. The more a market is divided and sub-divided for specialised dealings, the more developed the market is. Each of these sub-markets should, again, be a potential and active competitor to the others having sufficient sources of loanable funds and a large number of dealers to deal in.\(^12\)

Lastly, the different parts of the money market are linked up in such a way that one part is always "depended upon and influenced by other parts." Or in other words, the links should be strong enough to carry the impulse from one part of the money market to the other promptly and effectively.\(^12\) The system should as a whole be conceived as a well-integrated money market like that of London and New York money market.

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9. Ibid.
10. Ibid. p.16
11. Ibid. p.18
MONEY MARKETS IN PRACTICE

No money market in this world is in actual possession of all the requisites mentioned above to become perfect. It is very often said that London money market is the perfect money market of the world and all the features of a developed money market are present here. Of course, in London money market, we find a number of highly organised and active submarkets each competing with the other. Naturally, the Bank of England is in an advantageous position in controlling the affairs of the money market. Yet, the integration between the different parts of the money market in London does not, in a strict sense, show the sign of perfection.

Next to London, is the Newyork money market. But here also the integration between the different parts of the money market has not yet attained the level of perfection. The sub-markets lack the very effective competition among them so necessary for narrowing the differences in their structure of interest rates. What is more, it is very difficult to trace the relationship between the rates of interest on government security and other money rates. Naturally, therefore, the different sub-markets are sometime conceived as uncontrollable parameters to the Central Bank of U.S.A.

Outside London and Newyork money market, there are money markets in other countries where we do not find even what we have in the above two markets. Money markets are there. Yet, we find an interplay between the forces of demand for and supply of the short-term funds there. But the nature of operation and the effectiveness of their operation do not show neither way

15. Ibid.
sign of perfection nor any symptoms of development of the money market. These money markets also do not possess the large variety of sub-markets necessary for the smooth running of the money market. A very few of them possess effective call loan market and commercial bill markets. Lack of coordination and lack of integration are the two characteristic features of these markets. There are even countries where the banks always focus their whole attention on the foreign banks for their liquidity. Banks of the foreign origin in a few countries make it very difficult for the organization of the money market as a whole. 17

INDIAN MONEY MARKET

The most striking feature of Indian money market lies in its swing character—a swing from the busy to slack season and again from slack to busy season. As Indian economy is predominantly an agricultural one the operation of the money market gathers momentum with the starting of the agriculture. Naturally, during the busy season when harvesting becomes imperative, the market is charged with financial stringency. At this hour the Reserve Bank provides financial accommodation to the commercial banks when they are in need of money. Again, during slack season when the commercial banks have no other investment opportunity "the treasury bills issued by the Reserve Bank provide an important outlet for the surplus funds." 18 Similarly, other financial institutions like insurance companies, hire-purchase companies etc., generally keep their surplus funds in commercial banks or co-operative institutions during the off season. But at times of need they borrow from the commercial banks as well.

17. Ibid., pp. 29 - 31.
Another characteristic feature of the Indian money market lies in its overlapping of functions among the different financial institutions comprising the organised sector of the money market. In U.K. and U.S.A. the financial institutions work within a well defined sphere—they are meant to perform a set of specific functions. But in India financial institutions, beginning from the Reserve Bank to the indigenous money lenders, perform a variety of functions having no consistency at all.\textsuperscript{19}

The structure and composition of the money market in India is also a paradoxical one.\textsuperscript{20} It presents a combination of three different types of financial institutions operating at a time. The first one is the continuation of the age old institutions very often considered as the indigenous sector of the money market. The second is the outcome of the growing modern banking systems of the highly developed markets of the West.\textsuperscript{21} It is better known as the organised sector of the money market. While the third is the result of a struggle between the organised and indigenous systems of the money market during the process of operation.

The organised sector of the money market is considered as the central part of the money market. The structure and functions of this part of the money market mostly correspond to the whole systems of the U.S.A. and the U.K. It consists of the Reserve Bank of India, the Imperial Bank (presently State Bank of India), the Indian owned commercial banks, the foreign owned Exchange Banks and the like.\textsuperscript{22}

\textsuperscript{19} Ibid.
\textsuperscript{20} S.R.K. Rao, The Indian Money Market, P.1
\textsuperscript{21} Ibid. Ibid., pp. 7-8.
\textsuperscript{22} Ibid.
The indigenous sector of the Indian money market is a peculiar one. The institutions are the product of traditional political and economic system operating in India. This sector is scattered and unorganised in every sense. It consists of indigenous bankers, on the one hand, and various categories of money lenders, on the other. There are not only inconsistencies in the structure of interest rates in this sector but also in the working of the different institutions. There are not even any demarcation between short-term and long-term finances and the very purposes of the finances. Or, in other words, the workings of these institutions lack mostly effective coordination and uniform practice.

The resultant third type of financial institutions arose out of controlling on the one hand and hindering on the other the excessive exploitation of the money lenders, especially in the rural areas, and the indigenous bankers in the town and urban areas. This type of institutions according to their nature and operation has been split up into two parts — co-operative societies and other financial institutions. The former ones are controlled and directly linked up with the state governments. These co-operative societies are again divided into two parts — co-operative credit societies and non-credit co-operative societies. The latter include housing societies, consumer co-operative societies and so on. Co-operative credit societies, on the other hand, present a federal structure of organisation. At the head stands the Provincial Co-operative Bank having jurisdiction over the whole province. Primary societies reside at the bottom. These primary societies are controlled, directed and guided by District Co-operative Banks, regioned one in each sub-division. These are, in turn, supervised by the provincial co-operative banks. Other financial institutions, which grew since Independence, are the Industrial Finance Corporation, State Finance Corporations, Industrial Credit and Investment Corporation of India Ltd., Refinance Corporation for Industry Pvt. Ltd., Unit Trust of India, Industrial Development Bank etc. In the operation of the money market, call loan brokers, general finance brokers and other financial intermediaries also do play a great role, and they are no less important in the market.
ORGANISED SECTOR

The organised sector is comparatively well-developed in terms of specialisation of functions. It is not only institutionalised but also run on the organised basis on the lines of banking institutions of the West. It includes the Reserve Bank of India, foreign exchange banks, the Imperial Bank of India and the Indian owned commercial banks. Commercial banks were further divided into scheduled and non-scheduled banks. Quasi-government bodies and large joint-stock companies do participate in this sector of the money market as lenders. Besides, there are call loan brokers, general finance brokers, stock brokers and other financial intermediaries too.

These commercial banks accept deposits on current, time and saving account with interest. They also discount bills of exchange and remit funds being from one place to another. Investment and trustee functions are also performed by them on behalf of their customers. A lot of their resources are being invested in government securities. Above all they grant short-term loans and advances to commerce, industry and individuals. They participate in the short-term money market, sometimes as supplier of money and sometimes as lender of money.

The various categories of business run by the organised agencies have created gradually a number of sub-markets. They are call money market, short term security market, collateral market and bill market. The first three were in existence at the beginning of the study while the last one has emerged and subsequently developed during the period of the study.
Co-operative Societies, the oldest among the semi-organised financial agencies, had appeared before the scene of Indian money market as early as in 1904, to institutionalise the credit structure of the country, especially to supply cheap credit to the farmers in rural areas. These co-operative societies, controlled and directly linked up with the state governments, are again categorised into two parts: co-operative credit societies and non-credit co-operative societies. The latter ones comprise housing societies, consumer co-operative societies and so on. Co-operative credit societies, on the other hand, present a federal structure of organisation. At the head stands the Provincial Co-operative Bank having jurisdiction over the whole province. Primary societies reside at the bottom. These primary societies are controlled and supervised by District Co-operative Bank regioned in each subdivision. These are in turn guided by the provincial co-operative banks.

Primary societies are of two types—agricultural and non-agricultural. While the agricultural societies supply funds to the agriculturists only, the non-agricultural societies advance loans to finance small traders, commerce and individuals other than agriculturists. The business operations and the working capital of the agricultural societies are not so remarkable as compared to their non-agricultural counterparts which work even with small number of membership. The working capital of the non-agricultural credit societies includes the share capital of the subscriptions, members' deposits and financial assistance from the co-operative central banks. These societies are again in an advantageous position in that they have not to depend always upon the financial assistance from the co-operative central banks as compared to the agricultural societies which chiefly depend on the borrowings from the
co-operative central bank. The rate of interest charged by these societies
is more or less 8 per cent and far below the rate charged by indigenous
financial agencies.

Co-operative central bank, commonly known as District co-operative bank,
has been set up, one in each district. Although primary co-operative societies
are usually members of these banks, yet in majority cases, membership is also
open to individuals having outstanding financial position. Working capital
consists of share capital, deposit and financial assistance granted by the
provincial co-operative banks. Commercial banks very often tend to meet the
financial needs of the co-operative central banks. However, acceptance of
deposits from non-members is the chief source of its capital. The functions
of the District co-operative banks include, along with certain other commercial
banking functions, lending to the primary societies.

At the apex of the co-operative societies stands a Provincial co-operative
bank in each province. It is the chief coordinating body among the whole
co-operative institutions. It is again linked up directly with the Reserve
Bank on the one hand and District co-operative banks on the other, and indirectly
with the primary co-operative societies. Its membership lies with the
co-operative central bank and, very often, with the individuals having monetary
resources. Its resources include deposits from the individuals, share capital
from the Provincial co-operative banks and borrowings from the Reserve Bank of
India, commercial banks and the government. These Provincial co-operative
banks maintain their account with the Reserve Bank directly.

Among their various functions, they advance loan to the District
co-operative banks who are its members and individuals, especially in their
business activities in rural areas. Fixed deposits are being also accepted.

by these Provincial co-operative banks mainly from the co-operative institutions and individuals. Ordinary deposits have also been accepted by these banks from the municipalities, local boards and school boards. They also borrow from the central money market. They participate in call money market and thus secure call loan from the scheduled banks. They are also placed in a position to enjoy advance facilities from the Reserve Bank for granting seasonal agricultural credit. Financial assistance are, however, granted against the security of bills or promissory notes of the District co-operative banks for a fixed period only. The rate of interest charged is lower than that of the operating rate.

The principles of management of the co-operative banks are similar to that of the ordinary commercial banks. They seek to mobilise the resources of the richer section of the community in urban areas by accepting deposits, especially from the co-operative institutions along with the money markets. They are also the bankers of the District co-operative banks in strict sense of the term in balancing the surplus and deficit in the resources of the District co-operative banks. Very often Provincial banks act as District co-operative banks in places where the District co-operative banks are absent.

**UNORGANISED SECTOR OF THE MARKET.**

Unorganised sector of the money market consists of various indigenous agencies scattered profusely all over the country each having different business practice and different rates of interest as well. The market is an imperfect one and compared to its organised counterpart it is less homogenous. According to their nature and business operations these agencies are broadly:

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27. S.R.K. Rey, op.cit. - p.64
divided into two categories: 1) Indigenous bankers, and 2) Indigenous money lenders. Besides, there are Nidhis, chit-funds and loan offices which are classified according to their nature of constitution and business operations in different parts of the country.

Of course, it is very difficult to draw a line of demarcation between the indigenous money lenders and indigenous bankers. Several attempts had been made to distinguish one from the other. According to the Central Banking Enquiry Committee, "Any individual or private firms receiving deposits and dealing in hundi or lending money are indigenous bankers; money lenders are those whose primary business is not banking but money lending." But this type of definition suffers from various defects. What are about the post offices which too accept saving deposits, Life Insurance Corporation which deals in long term deposits and money, industrial houses and other financial institutions which accept deposits? Several writers took hundi as the sole criteria in judging an indigenous banker. According to B.C. Ghosh, "An indigenous banker is any individual or firm who deals in hundi whether he accepts deposits or not, and those who do not deal in hundi are money lenders." Dr. Karkal also accepts the same definition. To him, "The indigenous bankers are those individuals or firms who deal in hundi whether they accept deposits or not, and money lenders are those who do not deal in hundi." But these lines of demarcation are also not absolutely correct. For there are some village and urban money lenders who are not recognised as indigenous bankers; yet they do accept deposits. Again hundi operations in the market are not solely within the jurisdiction of the indigenous banks. Commercial banks, which are part and parcel of organised part

33. G. Karkal - op.cit. pp 4-5.
34. All India Rural Credit Survey, Vol.I, Part II, P 504.
of the money market, also deal in hundi. And naturally, hundi business is a part of banking business. Hence, it is better to define indigenous bankers as those which deal in hundi business only, whether they accept deposits or not and fulfill all the criteria of the indigenous sector of the money market. Money lenders are those who do not usually deal in hundis.

**INDIGENOUS BANKERS**

The most striking feature of the unorganised sector of Indian money market lies in its indigenous banking system. After many years of economic and political obstacles indigenous banking still occupies a unique position in Indian money market as a whole. Its importance, however, lies not in its organisation or technique, but in its volume of lending and magnitude of operation. Even after the establishment of modern commercial banking institutions and co-operative credit societies as well, a great majority of people consider the indigenous system as an easily accessible institution. It is interesting to note that about 90 per cent of India's internal trade had been financed by these indigenous bankers before Independence.

The institution of indigenous banking is purely a family business and a hereditary one being confined to certain castes only. Indigenous bankers can be classified into two broad categories: professional or pure bankers and non-professional or imperfect bankers. Professional bankers are again sub-divided into four categories: Multani Bankers, Shroffs, Chettiars and others. Non-professional bankers signify Commission Agents, Harwaris and others.

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35. All India Rural Credit Survey, Vol.I, Part II (Bombay Reserve Bank of India, 1937), P.688.
36. S.B.E. Bao, op.cit, P 81.
Indigenous bankers perform all the major functions associated with the commercial banks in the organised sector of the money market. Besides lending, they receive deposits on both current and saving accounts and allow interest for the same. They give cash credits and deal in Bills of Exchange - hundis of both kinds, demand and usance. They issue cheques and pass books to their depositors.

In strict sense, indigenous bankers maintain transactions with almost every category of industries, trade and commerce. The main functions of the Multani Bankers observe Dr. Karkal, "is to act as an intermediary between the traders, merchants and small industrialists on the one hand and joint stock bank on the other. The Multani bankers can be considered as discount houses."

The most important instrument through which the operations of lending take place is the hundi i.e. a sort of indigenous Bill of Exchange. The execution of hundis is directed to three purposes: (i) for raising loans, (ii) for financing trade and (iii) for remittance of money. Hundis are of two types - demand and usance. While the first one is payable on demand, the latter one is payable after a specific period of time calculated from the date of draw of the bill. "Usance is a period", observes Dr. Karkal, "recognised by custom, for the currency of bills, and such bills are used for remitting funds, or for borrowing, or for collection and payable after a fixed period, usually 90 days."

The most important functions of the demand bills are of two types: (i) to remit funds, and (ii) to send bills for collection. The functions of the usance bills include: (i) the drawing of bills by one trader in favour of another or in favour of local bank, and (ii) the drawing of bill by one financier in favour of another or of a bank. Formerly, demand hundis were not subject to stamp duty. But now these are subject to a demand duty similar to demand promissory note.

Usance bills are subject to stamp duty. The rate of hundis, otherwise, known as bazaar rate varies between 4 to 12 per cent according to local custom and seasonal demand.


43. Ibid.
It should, however, be noted that the indigenous bankers usually work with their own capital together with the deposits from the public. But in peak season, especially during the harvesting season, the total resources fall short of the necessary demands waiting outside. Naturally, therefore, they have no other alternative but to knock at the door of the joint stock banks for financial accommodation. But accommodation can be availed of by those indigenous bankers who are in the approved list of joint stock banks concerned. The amount of financial assistance is also limited for a particular indigenous banker to the extent to which the joint stock bank thinks it fit. Again, this limited advance is also made by discounting approved hundis only. In dealing with the hundis, banks generally prefer trade bills to finance bills. For, although the finance bills are very often backed by adequate security yet the trade bills carry much more weight and confidence in the matter of transactions. Moreover, banks do not consider hundis direct from the traders but insist on such hundis properly endorsed by the indigenous bankers. For, the joint stock banks are, in no mood to take undue risks involved in such unhealthy advances.

It is interesting to note, however, that although the functions and workings of the indigenous bankers are no less important in the money market as a whole, yet they are still thrown out of the orbit of the organised sector of the money market and that they are not getting their due recognition by the monetary authorities. It is complained that they are not simply confined to the banking operation only, but extending their activity to trade and allied business. In favour of the indigenous bankers it can also be
claimed that, even in that case, Multani hankers who are functioning purely on banking line are not getting the same recognition. What is more, those joint stock banks who are dealing with the indigenous bankers, are also looked down upon and are treated discriminately in the market. Thus any sort of co-ordination between the indigenous bankers and the joint stock banks, which is one of utmost necessity for the integration of the money market, has been discouraged by the Reserve Bank.

**Money Lenders**

According to their nature, practice and field of operations, money lenders may be classified into several categories. In respect of their field of operations they may be categorised into two: (a) urban or town money lenders, and (b) rural money lenders. These are again sub-divided into two parts: (a) Professional, and (b) non-professional. Professional money lenders are those who earn a substantial return out of their lending operations and usually include land owners, large agriculturists, merchants and traders and such persons as pensioners, priests and rich widows. Non-professional money lenders refer to the landlords, Mahajan or Sahukar, the pathans, familiarly known as Kabulis, Pawn brokers, Merchants, Traders and others.⁴⁵

It is an accepted phenomena that the village money lenders who are scattered profusely in every nook and corner of rural India neither show any systematic account nor follow any uniform pattern of operation. The whole credit atmosphere is not only surcharged with cash loans but also with kind loans. And what is more, the latter one is a significant one. The kind loans refer to rice or paddy etc.⁴⁶

⁴⁵ G. Karkal, op. cit, p. 20.
⁴⁶ G. Karkal, op. cit, pp 24-25.
The operations of the town money lenders usually take place in certain commercial or industrial centres. There are different shades and grades of the town money lenders having larger and smaller resources as well. While the small money lenders advance petty loans for the purpose of consumption, or to meet any other financial needs of the industrial and office workers as well, the big money lenders advance loans for the purpose of trade and commerce. Of course, professional money lenders, who are usually absent in rural areas, are present in the town areas, but still the major source of credit even in the town areas is the trader-merchant-money lender 47.

The difference between the rural and urban money lenders lies not only in its place of operation but also in magnitude of operation. Again the volume of capital of the urban money lenders in operation is much larger than that of the rural money lenders. But the rate of interest charged by the village money lenders is much higher than that of the town money lenders. While a village money lender lends for consumption purpose the town money lender lends for trade or production purposes. Naturally, the loan advanced by the urban money lender is of larger in volume and that for a short period than that of its rural counterpart.

On the question of interest rates charged by the different money-lenders, the Report of the Provincial Banking Enquiry Committee is a puzzling one. Rates among the various lenders are not only astonishingly high but they vary between 12 and 57 per cent according to the security of loans, amounts of loans and the availability of the loanable funds in the locality. Again, rates in urban areas are lower than those of the rural areas. But in rural areas the professional

and non professional money lenders charge almost the same rates. Some time the
interest rates charged by the money lenders are up to 300 per cent if the loan
is unsecured. Dr. Rao observes, "in the case of itinerant money lenders such
as pathans, Kabulis, and Rohillas, the interest rates charged are exorbitant.
They vary between 75 to 350 per cent." This high rate of interest is the
outcome of the monopoly position held by the money lenders, especially in the
absence of any banking facilities in many rural areas. People in rural areas
are not habituated with co-operative societies. They are usually afraid of
the drudgeries usually associated with the co-operative societies. Naturally,
they prefer loans from these money lenders at a high price.

POSITION OF DIFFERENT SECTORS IN INDIAN
MONEY MARKET AT THE INITIAL STAGE OF OUR STUDY

The organised part of the money market was the product of the development
of the twentieth century. Almost all the big commercial banks had started
functioning in or around the turn of the present century. Most of them run
more or less in an organised basis on the lines of the banking institutions
of the West. During the World War II banking institutions in India had expanded
at a considerable speed. Yet as compared to other developed money markets of
the world the number of bank offices in India was too low and it remained
eight per million of population at the initial stage of our study. Again, the
branch expansion reflected a distinct urban bias. A low share of the total
offices concentrated in large cities. Some of which were again in possession
of too many banks in such a way that they had been forced to offer higher rates
of interest to attract the depositors. On the contrary, banking facilities
remained absent in rural areas and, as a result, the indigenous agencies seized.
this opportunity to exploit the poor farmers.

Besides, the money market had to work without a central bank until 1935. In the absence of any central bank the leadership was assigned to the Imperial Bank of India which was a private share-holders bank. Even after its establishment the Reserve Bank of India could not assume true leadership in the market because of some technical difficulties and legislative rigidities. A most powerful bank like Imperial Bank of India was not controllable. Moreover, there were scheduled and non-scheduled banks and the latter had remained for all sorts of practical purposes beyond the jurisdiction of the Reserve Bank till 1949. Again, the commercial banks were not of equal status and they had never followed the same and uniform pattern of business and activities. Some of the scheduled banks were uncontrollable because of their sound liquidity position, on the one hand, and foreign attachment, on the other. While a great majority of the banks suffered from the defects of inadequacy of reserves and liquid assets, the high proportion of advances, the relatively large volume of unsecured advances and advances against immovable property, the concentration of advances in the hands of a few borrowers and the low level of investment in government securities.

The organised sector of the money market had also experienced hardship in its smooth functioning because of the absence of a bill market till 1952. In the absence of such discount house the impact of any monetary policy was not felt at desired level even on the organised sector of the money market. The policy had also suffered because of the existence of a large number of foreign banks. Moreover, the Reserve Bank was not empowered to inspect and supervise the affairs of the commercial banks till the passing and execution of the
Banking Companies Act, 1949. Besides, the Reserve Bank had no power to amal-
gamate, reconstruct or to declare moratorium at its own initiative at the
initial stage of our study. Naturally, therefore, the situation called for a
bold effort to empower the Reserve Bank to institute regular inspection and
supervision of all banks — scheduled and non scheduled. The Reserve Bank
should also be made powerful statutorily to raise the standard of the banking
companies by compulsorily amalgamating or reconstructing the small and weak
banks and thus in a way to eliminate the weak joints of the money market in
particular and to better organise the organised sector of the money
market.

Although the co-operative banks behaved more or less like the
organised agencies in the money market in certain sphere, yet they could not
establish a close contact with the organised agencies. As a matter of fact,
there was no link between the cooperative sector and the Exchange Banks. Nor
there existed any close contact between these cooperative banks and the
money lenders and indigenous bankers in the money market. Unorganised agencies,
in spite of their high rates of interest had dominated the scene in the
rural economy and cooperative institutions remained as mere spectators
there. On the contrary, the cooperative banks depended constantly on the finan-
cial assistance from the Reserve Bank and they had not attained any independent
status of their own by drawing out the untapped resources in the rural
areas.

The position of the indigenous agencies can best be appreciated as
something in the absence of anything. It can not be denied that they were the
uncontrollable segments of the market, yet Indian money market had remained
incomplete without them. The institutions were as old as the Indian commerce.
With their age-old experience, good or bad, they had worked even at the bottom of the money market where the organised part of the market hesitated to enter and the co-operative sector was too sick to enter.

Rural economy, especially, the agriculture and cottage industries had entirely depended upon the financial assistance of the indigenous financial agencies. The rigidities observed and delays involved in the process of lending by the joint-stock banks and co-operative banks made it difficult for the agriculturists and small traders to borrow from these institutions. Naturally, they had considered indigenous financial institutions as easily accessible even at higher rate of interest. On the other hand, the organised agencies were not usually ready to undertake the undue risk involved in investing against the personal security in rural areas and in case of urban small traders. In the absence of any other alternative, these indigenous financial agencies, the product of the Indian soil with long and varied experience of 'men and manners' in underdeveloped money market like ours, had operated freely. Herein lay the importance of the indigenous agencies in Indian money market at the hour. In the absence of such agencies, agriculture, the very life breath of the people of the country and on which about 70% of the people of the country had depended, would suffer a painful financial crisis. Any attempt to uproot these agencies would definitely create a vacuum in the money market. And this vacuum must be filled up by some other financial institutions created and established by the monetary authority. Hence the whole thing depended upon how far the monetary authority was efficient enough to create and establish these institutions quickly.

It is a matter of tragedy that our monetary authority was not in a
position to extend the banking facilities so quickly to fill up the vacuum likely to be created by the extinction of the unorganised agencies who were uncontrollable at the hour. Naturally, therefore, the situation called for two things: (i) to bring about these indigenous agencies within the fold of the organised agencies by establishing some links between the two, and (ii)(a) to extend the banking facilities in both urban and rural areas, (b) to reorganise and reorient the structure of the cooperatives according to the changing needs of the country and (c) to establish other financial agencies, especially for the industrial finance.