Financial Institutions are investment intermediaries linking the savers and users of capital.¹ These institutions are interposed between the ultimate borrowers and lenders to acquire the primary securities of the borrowers and provide other securities for the portfolios of the lenders.² In this wide sense, they include commercial and co-operative banks, too, but it is customary to confine this term to specialised financial institutions other than commercial co-operative banks.

The more developed financial systems of the world characteristically fall into three parts. The central bank, the commercial banks, and other financial institutions.³ These are now often referred to by economists as 'financial intermediaries,' because in effect they mediate between people who save (and therefore have money to lend or invest) and people who want to secure the use of money for the purpose of spending, particularly (but not exclusively) on capital goods. It must be emphasized, at once, that in this sense, commercial banks are 'financial

intermediaries', for they also borrow from those who are not immediately spending all their current receipts and they lend to those who have intentions of immediate spending on goods beyond the range of their own current receipts. We shall, therefore, do well to think of all financial institutions, including banks which are engaged in the business of borrowing and lending money, and we must attach to our miscellaneous collection outside the banks the inelegant label, non-bank financial intermediaries.

Role of Financial Institutions

Financial institutions are among the most important levers that any society has at its command, for the achievement of its social and economic objectives. Financial institutions role as a mobiliser of community's savings and a channeliser of these savings into productive outlets plays a crucial role in the development of a country. As a matter of fact, economic and industrial development of a country depends in the main, upon how efficiently funds are managed by the banks. Like other businesses, financial institutions must be managed efficiently.

Financial institutions serve as intermediaries in financial markets. They provide borrowers with 'loanable funds' in exchange for bonds, promissory notes, and other financial assets. Because financial assets are not consumed, what is bought and sold is

their use for a period of time. It is here that the role of financial institutions originates. They provide a convenient and effective link between savings and investment. They pool the savings of myriads of people with peculiar characteristics and notions about safety, liquidity and profitability by means of different savings media offering various degrees of the mix of liquidity, return and safety of the savings.

In an under-developed country, the role of these institutions as mobilisers of savings becomes more pronounced in view of the fact that there are a large number of savers, each with small amounts of savings. These savers are generally reluctant to invest their supply in come because of their lack of adequate knowledge about complicated investment affairs. Moreover, their resources are small and they can, at best, hold securities of one or two or a few industrial units. The fate of their savings and the prospects of earnings therefrom are, therefore, tied to the fate of such unit or units. Thus, they are exposed to great risks, which impel them to abstain from investing their savings.

Financial institutions take care of both these problems. Investment in an outlet of financial institution minimises the risk involved in it. The investment policies of these institutions centre on the diversification of investments in terms of

securities, units, industries and geographical regions. Thus, the total investment portfolios of the institution will probably have a lower risk element than if the thousands of individuals invested their limited funds in one or a few business firms. Since these individuals have a claim on the financial institutions, they participate in the benefits of diversification. Furthermore, these institutions employ expert investment analysis, and professional knowledge and expertise goes into the selection and supervision of their investment portfolio.

Financial institutions channel the funds mobilised by them to those who require more funds than they have, such as business firms. One of the major problems facing a business firm is how to approach thousands of small savers with a view to raising the desired amount of funds, which means a diversion from main business activity. On the other hand, those willing to save need a convenient outlet for their savings. Financial institutions provide just such an outlet. These institutions, while themselves raising resources from a large number of small savers, make funds available to industrial concerns in relatively bigger lots and thus reduce the burden and botheration involved in raising resources directly from individual savers. In this way, financial institutions act as conduits through which scattered savings are first aggregated and then disaggregated among many business firms. This is why financial institutions are regarded as 'gap fillers.'
Besides representing the dichotomy between the savings and investment activities, financial institutions help in the allocation of funds between different industries and different sectors of the economy in consonance with the priorities laid down in a plan. They channelise savings into those industries which build a strong base for the rapid industrialization of the country and which carry forward the phase of industrial development. By providing financial help on softer terms to entrepreneurs setting up enterprises in backward areas, they help in correcting regional imbalances in the country. Further, when the programmes for rapid industrialization get bogged down due to the inadequacy of finance through the existing sources, the government can approach these institutions. By providing technical, financial and managerial assistance to entrepreneurs so that they may go ahead with the discovery of project ideas, viability studies of these ideas and the implementation of the deserving projects, financial institutions play a very useful role in accelerating the pace of industrial development.

There are numerous ways (and forms) in which the savings of different types of savers may be mobilised and transferred to real investors. Each of these ways represents a specialised activity requiring expert knowledge and information, and is carried on by specialist institutions, though in all the cases, the general nature of their functions is virtually the same, namely "to spread information, to provide brokerage, to limit
obligation, to create liquidity, and to transform the relatively risky liabilities, which are the only kind that the business (and real investors) usually can afford to accept, into relatively safe assets, which are the only kind that savers can usually afford to hold."¹

Growth and Development of Financial Institutions in India

Early History

The history of the growth of financial institutions in India can be traced back to the days of vodas. Until the end of the nineteenth century, moneylenders, indigenous bankers, the commercial banking and life insurance companies were the only financial institutions of particular note.² In the early years of the present century, co-operative credit institutions including land development banks came to be established in order to curb the undesirable activities of the money lender and indigenous banker on the one hand and to create an institutional base for meeting the credit needs of the agricultural sector at reasonable terms and conditions, on the other. In the 1930's and onward, several private investment trusts were set up by

the prominent industrial magnates with a view to supporting their own investment programmes. Then came the Reserve Bank of India in 1935 as the central bank of the country. Soon after independence for reasons well known to us, the bank was nationalised.

Development during Post-independence Period

After independence, India chose the path of economic planning to accelerate its growth so as to secure higher levels of incomes and a better social and economic order based on the values of freedom and democracy. In pursuance of the Directive Principles of State Policy incorporated in our constitution, the Planning Commission drew up the Five Year Plans. The first five year plan was a step in a new direction, a step which involved greater direct responsibility for the state in promoting development and a greater degree of co-ordination of developmental activity in all economic sectors and at all levels.¹

The experiences gained by our planners in the earlier phase of planning and the lessons learnt from similar experiences of some foreign countries led the planning authorities, the economists, and the government to realise the importance of banks and other financial institutions in the process of growth. As a consequence, several notable steps have been taken during

the last two decades with a view to making our commercial and co-operative banking system development oriented.

Since the beginning of planned development of the country in 1951, the absence of an organised and developed capital market was keenly felt. Therefore, more particularly in the post 1951 years, steps have been taken largely at the initiative of the Reserve Bank of India to fill the gaps of capital market, by establishing a number of financial development institutions to lend added support to the financial schemes undertaken so as to promote the industrial and agricultural growth in the country. Among the notable steps taken to reorient the structure, a growth oriented financial organisation including a viable commercial banking structure consisting of the State Bank of India assisted by its seven subsidiaries in the public sector was buttressed by the Reserve Bank of India with a positive rural-oriented branch expansion policy and with far reaching powers to control and regulate the entire banking system. This was re-enforced in 1969 with the policy of social control over banks so as to correct the long continued deficiencies and the persistent complaints against the banking units operating in the private sector. The major step which the Central Government introduced in July 1969 was the nationalisation of fourteen major Indian commercial banks with a view "to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with the national policy
and objectives." And a similar step was taken again in April 1980 when six other commercial banks were nationalised.

Among other developments are the introduction of a Credit Guarantee Scheme for small borrowers, Lead Bank Scheme, Differential Interest Rate Scheme, Integrated Rural Development Programme, etc. The important changes made in the organisational set up of commercial banks include the establishment of separate Agricultural, Small Industries, Export Credit and Investment Advisory Departments at the head office level and opening of Regional offices. The involvement of commercial banks in the Small Farmers Development Agency and Marginal Farmers and Agricultural Labourers Projects and the introduction of crop-loan system and crop insurance scheme were some other notable developments.

Of the structural and policy changes listed, the most noteworthy is the setting up of special financial institutions designed to fill up the institutional gaps of our financial structure. They include the creation of the Industrial Finance Corporation of India (1948), the State Financial Corporations (1952), the National Industrial Development Corporation (1954), the Industrial Credit and Investment Corporation of India (1955), the State Development Corporations, the National Small Industries Corporation Limited (1955), the Industrial Development Bank of

India (1964) which meet the credit and development needs of industries of various sizes and types, both at the All-India and State levels. Moreover, for meeting the medium and long-term credit needs of the agricultural and other allied sectors, the National Bank for Agriculture and Rural Development (1982) has been established. Similarly, schemes for provision of concessional finance to industrial projects located in the backward areas have been drawn up by many of the public financial institutions.

Types of Financial Institutions

Financial institutions are principally concerned with garnering the savings of myriads of savers and channelling them into productive outlets. They, thus, serve as conduits between savings and investment.¹ There are numerous ways in which the savings of different types of persons may be mobilised and transferred to different types of investors to satisfy their varied needs. Each of these ways represents a specialised activity, requiring expert knowledge and information, and is carried on by specialised institutions. The financial institution which cater to the notions of savers of high liquidity and safety along with profitability and which provide working capital to trade and industries mainly in the form of loans and advances,

are collectively designated as money market. On the other hand, institutions which raise resources from savors who are not very liquidity conscious, who are more venturesome and who have greater preference for profitability, and make such resources available to industries for meeting their long-term capital requirements are known as capital market.

Broadly speaking, financial institutions may be categorised into two groups viz.- Money Market and Capital Market.

'The money market' is not 'a market' in the usual sense of the term, which involves a single trading place or trading organization, but a network of markets that are grouped together because they deal in financial instruments that have a similar function in the economy and are to some degree substitutes from the point of view of holders.¹ A money market provides a mechanism by which short-term funds are lent out and borrowed, it is through this market that a large part of the financial transactions of a country of the world is cleared. It is the place where a bid is made for short-term investible funds at the disposal of financial and other institutions by borrowers comprising institutions, individuals and the Government itself. Such a market is composed of commercial and other types of banks and agencies, catering to the short-term capital requirements

in different sectors of the country's economy and Reserve Bank of India as the apex institution of the money market.

'Capital market' is a market in which lenders and investors provide long-term funds in exchange for financial assets offered by borrowers or holders. These institutions may be classified into investing institutions and development banks on the basis of the nature of their activities and the financial mechanism adopted by them. Investing institutions comprise those financial institutions which garner the savings of the people by offering their own shares and stocks, and which provide long-term funds, especially in the form of direct investment in securities and underwriting capital issue of business enterprises. These institutions include Investment banks, Merchant banks, Investment companies and the Unit Trust of India and Insurance companies. Development banks include those financial institutions which provide the sinews of development, i.e. capital and know-how to business enterprises so as to foster industrial growth.

Financial Institutions in India

The existing structure of financial institutions in India may be divided into three sectors, namely organised sector, co-operative sector and unorganised sector.

The organised sector comprises the Reserve Bank of India, the State Bank of India, the Joint Stock Banks and institutions financing industry and agriculture. The organised money market works within the provisions of the Indian Banking Companies Act, which are open to audit and inspection by public bodies.

Though rural co-operative sector is a part of organised sector but it is a sort of via media between modern commercial banking with all its formalities and sophisticated procedures on the one hand, and the institution of money-lenders on the other. Inspite of the concentrated efforts being made to open branches of nationalised commercial banks in rural areas, it may still be said that co-operative banking as yet remains the best answer for providing finance to borrowers in the rural areas. The Punjab Banking Committee report pointed out, "A scheme of government might reduce the rate of interest, but only co-operation can teach the peasant to borrow at the right time, and in the right amounts and for right ends, and to repay or right dates, and only co-operation can teach him to serve so that he may be borrow at all."¹ The co-operative credit societies in India consist mainly of short-term agricultural societies and long-term agricultural institutions.

Unorganised sector is that sector of money market which operates outside the provisions of the Indian Banking Companies Act. It consists of Money-lenders, Indigenous Bankers, Nidhies and Chit Funds. The Chart on the next page exhibits the structure of financial institutions in India.

¹The Punjab Committee Report, p.103.
I. Organised Sector

The most outstanding feature of the organisation of Financial Institutions in India is its dichotomy. It comprises the organised and unorganised sectors, with a divergence in the structure of rates of interest. The organised sector consists of the Reserve Bank of India, the State Bank of India together with its seven subsidiary banks, the twenty nationalised banks, the foreign banks and Indian joint stock banks. Quasi Government institutions like the Industrial Finance Corporation of India, State Financial Corporations, Unit Trust of India, etc. Besides these institutions, there are some other financial intermediaries also such as National Bank for Agriculture and Rural Development, Export-Import Bank of India.

1. Reserve Bank of India: Reserve Bank of India (RBI) is the central bank of India. Today, there is no country in the world, which does not have a central bank. The RBI was established under the Reserve Bank of India Act, 1934 on April 1, 1935, and nationalised on January 1, 1949 with a view to bringing about

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2. It has been discussed in detail in Chapter No. 3.
"greater co-ordination of the monetary, economic and financial policies." The main objectives of the bank are regulating issue of bank notes, keeping the foreign exchange reserves of the country, operating the currency and credit systems of the country with a view to securing monetary stability in the country, and developing the financial structure of the country on sound lines consistent with the national Socio-economic objectives and policies.

2. Nationalised Banking Sector: Nationalised banking sector comprises of all those commercial banks which were opened in private sector but were later on nationalised by government of India, such as State Bank of India and its subsidiaries and twenty nationalised commercial banks. Let us discuss them one by one:

2(A) STATE BANK GROUP: State Bank of India (SBI), the biggest commercial bank was formed on July 1, 1955 with the passing of the State Bank of India Act, 1955 by taking over the assets and liabilities of the Imperial Bank of India with a view to extending the "banking facilities on a large scale, more particularly in the rural and semi-urban areas and for diverse other purposes." The SBI did some innovative work in the spheres of mobilisation of savings more particularly in rural and semi-urban areas.

1. RBI (Transfer to Public ownership) Act 1948.
2. The working of State Bank of India has been discussed in detail in Chapter No.3.
development of banking habit and lending to hiterto neglected but growth-oriented sectors. It responds in a liberal way to the financial needs of the co-operative and small scale institutions in the country.

In 1959, the State Bank of India (Associate Banks) Act was passed, and this paved the way for creating the State Bank Group. Formerly there were eight State-associated banks, but later on two subsidiaries were merged into one so that, at present, there are seven "Associate Banks". The State Bank Group controls nearly one-third of the entire banking industry in the country. It has created a strong banking structure with a total of 9680 bank offices as at the end of 1983. (6567 of State Bank of India and 3113 Associate Banks)

2(B) TWENTY NATIONALISED COMMERCIAL BANKS: Commercial banks constitute quantitatively the most important group of financial intermediaries in India today. Indeed they form the core of the organized banking system. The Government of India nationalised fourteen major Indian scheduled banks in the private sector, having deposits of Rs.50 crores or over each, by the issue of an ordinance called, The Banking Companies (Acquisition and Transfer of under takings) Ordinance 1969 on July 19, 1969. Six more commercial banks whose demand and time liabilities exceeded

2. The working & progress of these banks has been analysed in detail in Chapter No. 3.
Rs.200 crores each were nationalised by means of an ordinance issued on April 15, 1980.

The main objectives of the nationalisation of banks were, to control the heights of the economy and to meet progressively, and serve better, the needs of development of the economy in conformity with national policy and objectives.¹ With the opening of more offices of commercial banks in rural and semi-urban centres, particularly unbanked ones, there has been a distinct quantitative change in the contribution of these offices both to aggregate deposits and advances of the banking system.

3. Private Banking Sector: Private banking sector includes all joint stock commercial banks in the country registered under Banking Regulation Act, 1949 except the banks nationalised by Government in different phases viz.- State Bank of India and its associates and twenty nationalised commercial banks.

3(A) SCHEDULED BANKS: A scheduled bank is one which is registered in the second schedule of the Reserve Bank of India. The following conditions must be fulfilled by a bank for inclusion in the schedules.

I. The bank concerned must be in business of banking in India.

II. It is either a company defined in Section 3 of the Indian companies Act 1956, or an institution notified by the Central Government in this behalf.

III. It must have a paid up capital and reserves of an aggregate real or exchangeable value of not less than rupee five lacs.

(IV) It must satisfy the RBI that its affairs are not conducted in a manner detrimental to the interest of its depositors.

Scheduled banks come under the purview of the various credit control measures of the RBI. They are required to maintain a certain minimum balance in their accounts with the RBI, and do certain things prescribed by law.

3(A)(i) INDIAN SCHEDULED BANKS: The Indian Scheduled Banks are those which have their registered office in India and are registered in the second schedule of the Reserve Bank of India.¹

3(A)(ii) FOREIGN SCHEDULED BANKS: Foreign Scheduled Banks are mostly exchange banks which specialise in financing foreign trade. They provide finance to importers and exporters. In India, the bulk of the foreign trade is financed by exchange banks. All of them are foreign banks with their head offices located outside India. These banks were in fact established in India only with a view to participate in the foreign trade of the country. But gradually they have entered the field of internal trade. They compete with Indian joint stock banks in attracting deposits and making advances to trade and industry. But they specialise in financing the foreign trade in India.

3(B) NON-SCHEDULED BANKS: banks, which are not included in the second Scheduled of the RBI, are known as non-scheduled banks. They may be classified into four groups viz.- banks with paid up capital and reserves below Rs.50,000, from Rs.50,000 to Rs.1 lac from Rs.1 lac to Rs.5 lacs and above Rs.5 lacs.

Non-scheduled banks are not entitled to all those facilities that the scheduled banks avail from the RBI. Since the enactment of the Banking Regulation Act in 1949, non-scheduled banks have also come under the ambit of the RBI control. It has become obligatory on the part of those banks to carry a portion of their deposits with the RBI, and prepare their annual accounts and balance sheets in accordance with the requirements stipulated in Section 29 of the Banking Companies Act.

The Table No. 1.1 shows the position of branches as at the end of June 1969 and as on June 30, 1983 in respect of all commercial banks, including Regional Rural Banks.
Table No. 1.1

Indicator of Progress of Commercial Banking in India

<table>
<thead>
<tr>
<th></th>
<th>June 1969</th>
<th>June 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Number of Commercial Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Scheduled Commercial Banks</td>
<td>89</td>
<td>226</td>
</tr>
<tr>
<td>II Regional Rural Banks</td>
<td>73</td>
<td>222</td>
</tr>
<tr>
<td>III Non-Scheduled Commercial Banks</td>
<td>-</td>
<td>142</td>
</tr>
<tr>
<td>B. Number of offices in India</td>
<td>8262</td>
<td>42027</td>
</tr>
<tr>
<td>C. Population Per Office (in thousand)</td>
<td>65</td>
<td>16</td>
</tr>
<tr>
<td>D. Aggregate deposits of Scheduled Commercial Banks (Rs. crores)</td>
<td>4646</td>
<td>53386</td>
</tr>
<tr>
<td>E. Aggregate Credit of Sch. Com. Banks (Rs. crores)</td>
<td>3599</td>
<td>35881</td>
</tr>
</tbody>
</table>


4. Development Banks and Other Financial Institutions: A development bank is a hybrid institution which combines in itself the functions of a finance corporation and a development corporation. A finance corporation is an institution which is concerned primarily with long-term loan capital, while a development corporation is concerned primarily with equity capital and with fostering and managing specific companies as well as providing financial support.¹ A wider role is envisaged for them, such as,

acting as a catalytic agent by promoting development, initiating and servicing new investment projects, preparing project reports and establishing and managing of industrial units on appropriate occasions.¹ A brief account of the various term financing institutions in India are given below:

4(A)(i) INDUSTRIAL FINANCIAL CORPORATION OF INDIA: The Industrial Finance Corporation of India (IFCI) is the first specialist institution to be established in India soon after independence, in July 1948, for the purpose of making medium long-term credit more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue channels is impracticable.² The IFCI’s primary role has been to provide financial assistance to any limited company or co-operative society incorporated and registered in India.

4(A)(ii) STATE FINANCIAL CORPORATIONS: The Union Govt. passed in 1951 the State Financial Corporation (SFC) Act along the lines of the IFCI Act to provide at the state level long-term finance to medium and small scale industries. After its coming into force in August 1952, the first Corporation was registered in Punjab in February 1953. At present there are 18 State

² IFCI’s First Annual Report for the Year end June 1949, p. 2.
Financial Corporations. State Financial Corporations extend their financial assistance to industrial concerns engaged or to be engaged in the manufacture, preservation or processing of goods, mining or hotel industry, the transport of passengers or goods by road or water, generation or distribution of electricity or any other form of power and in the development of any contiguous area of land as an industrial estate.

4(A)(iii) NATIONAL INDUSTRIAL DEVELOPMENT CORPORATION: The National Industrial Development Corporation (NIDC) was established on October 20, 1955 by the Union Government with the chief objective of promoting and developing industries in both public and private sectors. In pursuance of this objective, the NIDC is expected to formulate and execute industrial projects particularly in the field in which our country is exclusively or mainly dependent on imports. Besides, its functions include preparation of feasibility studies for Central and State authorities, provision of consultancy and engineering services and grant of finance to industries.

4(A)(iv) INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA: The Industrial Credit and Investment Corporation of India (ICICI) was registered on January 5, 1955 with full freedom to function independently according to its own wisdom and foresightedness to

1. India, 1984, p.324.
2. Ibid, p.324.
encourage and assist private industrial investment in India. The objectives of the ICICI were to assist in the creation, expansion and modernisation of industrial enterprises in the private sector, to encourage and promote participation of private capital, both internal and external, in such enterprises, and to encourage and promote private ownership of industrial investment and expansion of investment markets.¹

4(A)(v) NATIONAL SMALL INDUSTRIES CORPORATION LIMITED: The national Small Industries Corporation Limited (NSIC) was established in February 1955 as a Government of India undertaking in pursuance of the recommendations of the International Planning Team of the Ford Foundation.² Its objectives are to aid, counsel, assist, finance, protect and promote the interests of the small industries in the country. Though quite wide, the range of the services offered to achieve these objectives does not include any scheme of extending direct financial assistance to small industrial units. The services rendered by it, thus, broadly fall in two categories, namely, the developmental and intrinsic financial services.

4(A)(vi) STATE INDUSTRIAL DEVELOPMENT CORPORATIONS: The machinery of State Financial Corporations was considered inadequate

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¹ ICICI's Memorandum of Association and Articles of Association as amended up to April 10, 1969, p.1.
by most State Government's during the third plan period for the purpose of setting up new industries within their respective territories. Consequently, a new type of development institution known as State Industrial Development Corporations (SIDC) were established in different States between 1960 and 1971 except Manipur, Sikkim and Tripura. In all there are 19 SIDCs.

Unlike that of SFCs the objectives stipulated for SIDCs differ widely from one state to another state on account of conspicuous differences found among different states in their present status in point of industrialisation, their specific needs and the use they wish to make of these corporations. The declared objectives of the SIDCs of certain states are (a) the establishment and management of industrial estates, (b) development of less developed parts of the states through provision of roads, electricity, drainage and water supply and (c) provision of institutes for training middle or high level technicians and of capital to technically competent persons to set up industrial units.¹

4(A)(vii) INDUSTRIAL DEVELOPMENT BANK OF INDIA: The Industrial Development Bank of India (IDBI) was set up in July 1964² to co-ordinate the activities of other financial institutions (including banks), to supplement their resources to plan and

promote industries of key significance to the industrial structure, and to adopt and enforce a system of priorities in promoting future industrial growth. The IDBI was delinked from the RBI and made an autonomous corporation owned by the Government of India from February 16, 1976. Under its charter, the IDBI can finance all types of industries, irrespective of the form of organisation or size of the unit. Also, there are no restrictions on the nature and type of security and quantum of assistance, which it can provide.

4(A)(viii) INDUSTRIAL RECONSTRUCTION CORPORATION OF INDIA LIMITED: The Industrial Reconstruction Corporation of India Limited (IRCI) promoted by IDBI was registered as a public limited company on April 12, 1971. The corporation's functions are wide and include financial assistance to industrial units; provision of foreign currency loans, undertaking management of industrial units and promotion of infra-structure facilities for accelerating industrial growth. The corporation can take over management, at least temporarily, of units which are not functioning well. Initially, IRCI would be mainly busy with the rehabilitation and reconstruction of industrial units in the Eastern region.

4(A)(ix) UNIT TRUST OF INDIA: The Unit Trust of India (UTI) was established in public sector on February 1, 1964 under the Unit Trust of India Act, 1963. The UTI is the only organisation of its kind in the country. It is a monolithic public sector organisation which serves two basic purposes: Firstly, it mobilises the savings of the community and channelises them into productive investment, by promising savers the triple benefit of safety, liquidity and profitability of their investments.

To achieve this, UTI sells units of the denomination of Rs.10 or Rs.100 to the investing public to provide an opportunity to particularly those belonging to small and medium income groups indirectly to participate in the ownership of shares and debentures of joint stock companies.1

Secondly, it gives everyone a chance to indirectly own shares and securities in a large number of selected companies and enables the investors to share in the widening prosperity consequent on industrial growth.

4(B)(i) AGRICULTURAL FINANCE CORPORATION: The Agricultural Finance Corporation (AFC) which was set up in April 1968 has built up considerable expertise as a consultancy organisation in a wide range of agricultural activities. The Corporation which so far used to formulate projects at the instance of member banks,

1. India, 1983, p.325.
State and Central Governments, development corporations set up by State Governments and private entrepreneurs, has now also been assigned consultancy role for assisting National Bank for Agriculture and Rural Development.\(^1\) The Corporation's major activities include consultancy service for identification and appraisal of agricultural projects, project formulation in various disciplines such as command area development, block level planning, integrated tribal development, watershed management and animal husbandry in areas where weaker sections are concentrated.

\(^4\text{(B)(ii) NATIONAL BANK FOR AGRICULTURAL AND RURAL DEVELOPMENT:}\)^2

To foster the credit based programmes of agricultural development, particularly those requiring term credit, Agricultural Refinanced Development Corporation was providing refinance support to the banks. With the widening of the role of bank credit from 'agricultural development' to 'rural development', need was felt for a more broad based organisation at the apex level to support and give guidance to credit institution rural development programmes. A National Bank for Agriculture and Rural Development (NABARD) was, therefore, set up. It started functioning from July 12, 1982. The bank is an apex organisation with respect to all matters relating to policy, planning and operational aspects in the flow

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2. The progress of NABARD has been analysed in detail in Chapter No. 3.
of credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other allied activities in rural areas. The bank is a single integrated agency for meeting the credit needs of all types of agricultural and rural development activities and helps in the implementation of policies and programmes included in the Sixth Plan document.

4(C)(i) EXPORT-IMPORT BANK OF INDIA: A new bank, Export-Import Bank of India (EXIM), was set up on January 1, 1982. The bank commenced lending operations on March 1, 1982. The bank has taken over the operations of International Finance wing of Industrial Development Bank of India. The bank will, among other things, grant deferred payment credit of medium and long-term duration for export of projects, capital goods, engineering goods and consultancy services. The bank will also undertake merchant banking and development banking functions as considered necessary to finance promotional activities and undertake counselling services. It will also, wherever required, give refinance and rediscounting facilities to commercial banks.

4(C)(ii) HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED: The Housing Development Finance Corporation Limited (HDFC) was promoted in 1977 by the ICICI with the primary objective of providing long-term finance to individuals in middle and lower

income groups, associations of individuals and other corporate bodies for construction and purchase on ownership basis residential houses in urban and rural areas all over the country. The corporation arranged to raise a loan of $20 million in the US capital market under the Housing Guarantee Programme of the United States Agency for International Development with the approval of the Reserve Bank and Central Government.

II. Rural Co-operative Sector

The co-operative credit institutions are a part of organised sector, although it stand midway between the organised and unorganised sectors. Set up with the object of displacing the indigenous sources of rural credit, particularly the money lenders whose loans carried high interest rates, they have not been very successful in achieving this objective. The National Bank for Agriculture and Rural Development has now been providing financial assistance to the co-operative banks on massive scale for financing agricultural operations.

A brief description of various types of co-operative credit institutions is given below:

1. Co-operative Banks: The short-term needs of agriculturists are met by co-operative banks. Agricultural finance is a special field. Separate banks are needed to supply finance to agriculture. The agriculturists organise themselves on co-operative principles
and form co-operative banks. The co-operative banks play a very useful role in providing cheap credit facilities to the petty farmers and artisans who have no accessibility to big joint stock banks. Co-operative banks receive all kinds of deposits and make them available to members who are in need of financial assistance.

1(A) STATE CO-OPERATIVE BANKS: The State Co-operative Banks (SCBs) or the Apex Bank's occupy a crucial position in the three-tier co-operative credit structure. These banks are formed by federating District Central Co-operative banks in the particular State. The Apex Banks assume key-position in the co-operative credit structure because it is only through them that the NABARD provides finance to agriculturists. As the District Central Co-operative banks are not allowed to carry on lending operations among themselves, the Apex Bank operates as a "balancing centre", balancing excess funds in some District Central Co-operative Banks with deficiencies of some other District Central Co-operative Banks. The Apex Bank also plays an important role of acting as an intermediary between the District Central Co-operative Banks on the one hand and money market on the other.

1(B) DISTRICT CENTRAL CO-OPERATIVE BANKS: Primary Co-operative credit societies in a particular area, generally a district, federate and form a District Central Co-operative Bank (DCCB).
Generally the DCC Bank is located at the head quarters of the district. Some DCC Banks have branches in some towns in the particular district.

The DCC Banks are of two types. In one type of the DCC Banks, the membership (i.e. federating members) is confined to primary societies only. This type is, therefore, known as 'Banking Union.' In the case of second type of the DCC Banks, there is mixed membership, consisting of both primary societies and individuals possessing some financial status or influence or some special business capacity or experience in the field of co-operative banking.

1(c) PRIMARY AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES: A Primary Agriculture Co-operative Credit Society (PACCS) is supposed to be 'an association of borrowers and non-borrowers who, residing in a locality, know one another and take interest in one another's affairs.' Membership of the society is open to any person in the locality, provided his membership is approved by fellow-members. This is supposed to foster the spirit of co-operation. A primary agricultural co-operative society is supposed to be restricted to a compact area, preferably a village, or a group of small villages where each person knows practically every other person of the locality. The idea behind this is to facilitate granting of loans to really needy persons and effective supervision of the use of the loans given by the PACCS. This is
because firstly, it is on the foundation of this basic unit established at the village level that the entire foundation of the co-operative credit structure is erected, and secondly, it is the PACCS which comes in direct contact with agriculturists giving them loans and collecting repayment of loans given.

2. **Land Development Banks**: Loans secured by mortgage of land is known as mortgage credit which is a special type of credit. Such type of mortgage credit is, therefore, generally handled by specialised type of credit institutions. The main aim of the land development banking structure is to raise long-term resources and to advance investment credit to the farmer members. Resources are raised primarily, through share capital. Further, temporary advances are secured from co-operative or commercial banks and long-term funds are raised by issuing debentures. The advancement of loans is made for purposes mostly related to the development of land and in exceptional cases for the purchase of land.

3. **Regional Rural Banks**: A landmark in the field of the development of banking in India was the establishment of Regional Rural Banks (RRBs) under the Regional Rural Banks ordinance, 1975, promulgated by the Government of India on September 26, 1975 and subsequently replaced by the Regional Rural Bank's Act, 1976.

Each RRB will operate within the local limits to be specified in the notification. If it is necessary, a RRB might
also establish branches, or agencies at any place with in a
specified locality notified by the Government. Every RRB is
required to undertake the business of Firstly, granting of loans
and advances to small and marginal farmers and agricultural
labourers, whether individually or in groups, and to co-operative
societies, agricultural processing societies, co-operative
farming societies, primary agricultural credit societies for
agricultural purposes or for other related purposes, and
secondly, granting of loans and advances to artisans, small
entrepreneurs and persons of small means engaged in trade,
commerce or industry or other productive activities within its
area of operations.¹

III. Unorganised Sector

"The unorganised sector is that sector which operates
outside the provisions of the Indian Banking Companies Act and
maintains private accounts which are not audited, therefore,
the unorganised sector is not amenable to control."² The
unorganised sector in rural India includes money-lender, (both
professionals and non-professionals), Indigenous Bankers, Nidhis
and Chit Funds. Thus unorganised sector in rural India is
characterised by blending of money lending with other types of

¹. RBI Bulletin, Jan. 1976 - Article on 'The Regional Rural
². Ghatak, S.: Rural Money Market in India, Macmillan Company of
India Ltd. 1976, p.7.
economic activities, great amount of informality in dealing with customers, personal contacts with customers, fairly simple system of keeping accounts, fairly great amount of flexibility in matters of loan operations, and by secrecy that shrouds financial transactions.

1. Money-Lenders: "Money-lenders are those who do not generally deal in hundis or accept deposits but who are mainly interested in money-lending." The Indian Central Banking Enquiry Committee defined money-lender as a person whose primary business is not banking but money-lending. Money-lenders have played an important role in Indian agricultural finance in the past and they continue to play that important role even after the country became independent and even after a number of steps were taken to curb their activities and establish institutional agencies like commercial and co-operative banks in rural areas. The Table No. 1.2 illustrates the dominating role of money-lenders in rural areas in our country.

1. Ibid., p. 5.
Table No. 1.2

Borrowing of Cultivators From Different Sources

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name of the Credit Agency</th>
<th>Proportion of Borrowing from each Agency to Total Borrowings by Cultivators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1950-51</td>
</tr>
<tr>
<td>1.</td>
<td>Government</td>
<td>3.3</td>
</tr>
<tr>
<td>2.</td>
<td>Co-operatives</td>
<td>3.1</td>
</tr>
<tr>
<td>3.</td>
<td>Relatives</td>
<td>14.2</td>
</tr>
<tr>
<td>4.</td>
<td>Land-Lords</td>
<td>1.5</td>
</tr>
<tr>
<td>5.</td>
<td>Agricultural Money-Lenders</td>
<td>24.9</td>
</tr>
<tr>
<td>6.</td>
<td>Professional Money-Lenders</td>
<td>44.8</td>
</tr>
<tr>
<td>7.</td>
<td>Traders and Commission Agents</td>
<td>5.5</td>
</tr>
<tr>
<td>8.</td>
<td>Commercial Banks</td>
<td>0.9</td>
</tr>
<tr>
<td>9.</td>
<td>Others</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>


It is evident from the Table No. 1.2 that though the share of Landlords, Money-lenders & Traders etc. in borrowing of cultivators has decreased, they still dominate by providing nearly half of the financial requirements of rural areas.
2. Indigenous Bankers: The institution of indigenous bankers has stood the test of time and has gone through various vicissitudes. These indigenous bankers are individuals and firms who accept deposits or rely on bank credit for the conduct of their business and are close to or on the periphery of the organised money market and are professional dealers in short-term credit instruments (hundis) for financing the production and distribution of goods and services.\(^1\) It is observed that while money-lenders are to be found among all castes and communities in India, indigenous bankers mostly hail from certain castes like Jains, Chettiar and Marwaris. They have been playing a very useful financial role in the rural economy of India as they make credit available to those sectors which are productive and which due to some reason or another find it difficult or impossible to get financial accommodation from organised sector of banking in rural areas, namely commercial banks and co-operative credit societies.

3. Nidhis: By the middle of the last century, Nidhis came into existence mainly in South India, essentially as 'Loan Societies.' But in course of time, these Nidhis have developed into a sort of semi-banking institutions with great amount of respectability among the rural folk for whom ordinary banking facilities are not available. These Nidhis are registered under the Indian Companies Act. These Nidhis receive funds in the form of deposits

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from their members. Another way of receiving funds is to receive from members share capital withdrawable in monthly instalments. According to the Madras Committee, many of these Nidhis are well managed, though the management of some Nidhis is extremely defective.

4. Chit Funds: Chit Funds are voluntary but loose associations for mobilising rural savings. Chit Fund is a comparatively loose organisation comprising of a number of members, both to promote savings and to give loans to members. There were hundreds of Chit Funds in South India. Though Chit Funds have been providing some useful services in rural areas of the country where hardly any alternative banking and financial agencies are in existence, it is observed that many promoters of Chit Funds have been exploiting the ignorant rural masses. The Government of India ban the activities of Chit Funds in the interest of contributors.

The foregoing study reveals that there is a network of financial institutions in India. However, the greatest drawback in the system is that the agriculturists, even today, depend for their financial needs on unorganised sector and co-operative sector, which envisages the real solution of our rural economy has not developed to the desired extent. The next Chapter discusses in some more detail of the development of co-operative banking in India.