CHAPTER - XI

FINDINGS AND RECOMMENDATIONS
CHAPTER - XI

FINDINGS AND RECOMMENDATIONS

The study of the past and present of the Bangalore money market has revealed certain weaknesses and shortcomings which have impeded and continue to impede its allround growth. This brings us to the point where we can think of the future and offer suggestions and propose recommendations for the reform and reconstruction on sounder lines. It would be, therefore, appropriate to sum up at this stage, the trend of our study and enumerate the conclusions that may be safely drawn from it.

The most obvious and basic thing to be remembered in this connection is that Karnataka with its enormous physical resources and man-power potential occupies a very important and vital position in the economy of our country. But the resources of the State have not, for one reason or other, been fully exploited so far, with the result that the economy still continues to be primarily agricultural, and its industrial development imbalanced and inadequate. As a natural corollary, the amount of productive capital employed in this state is meagre and its per capita income comparatively low. One of the root causes of this backwardness seems to be inadequate.

and defective financial mechanism of the State. Our study shows that the constituents are not properly linked and developed, the demand for funds by borrowers is not fully met, and the equilibrium not established.

Bangalore, it is true, can be the nucleus of the money market for the State of Karnataka, since it locates larger numbers of commercial banks and co-operative banks with a clearing house, stock market, other specialised agencies with issuing and Banking departments of the R.B.I. The only missing links in the chain of money market are Discount Houses and Acceptance Houses.

The dominant position of the money market is occupied by Commercial Banks. Our study reveals that some of the districts of the State still remain backward in respect of branch expansion, deposit mobilisation and credit availability. The co-operative institutions though large in number, present a picture of dispersed development, suffer from organisational defects, inadequacy of resources and do not have worthwhile deposit base.

The study of the resources, their extent and distribution into various sectors reveals that (a) in respect of working capital, deposits and average resources they compare very poorly with the advanced states, (b) the supply of funds has not kept pace with the
demand for funds. If the demand increases still further, as it should be, due to planned economic development of the state, the helplessness of the market would be more marked.

Our study of the portfolio policy shows that there is no firmly established call loan market resulting in lower elasticity and liquidity. The bill market is not progressive. Financing through collaterals is the method most popular in the money market. Investments in Government securities are higher, leaving very limited scope for private investment within the State.

In the absence of clean advances against personal credit and the paucity of bills, loans, cash credits and overdrafts are the main channels of contact between the lenders and borrowers.

The clearing house, generally speaking, provides liquidity to the market. But the one at Bangalore and the others at other places are not in a position to perform the functions effectively as they suffer from operative and operational inefficiency.

The study of the specialised markets, namely, Stock Market and Bill Market — reveals the same story. The development of the stock market is synonymous with the development of investment market and provides liquidity, elasticity and automatic working.
of the money market. The stock market at Bangalore suffers from insufficiency of scrips, inefficiency of personnel, weak finances and competition from other stock exchanges. There is no bill market in the state outside the new bill market scheme of the R.B.I. Even the scheme suffers from defects and dearth of genuine commercial bills.

The absence of efficient specialised agencies, namely, Chambers of Commerce and Trade Associations has naturally affected the efficiency of the money market. A number of them do exist. But they are not fully developed on proper lines. They suffer from want of efficient organisation, mutual co-ordination and specialisation.

Lastly, the authorities on whom devolves the responsibility of organising the money market on sound and proper lines viz., the R.B.I. and the State have failed to rise up to the occasion. It is true that much has been accomplished by the R.B.I. in matters of promotional activities and in filling up credit gaps in the monetary structure of the country as a whole. But much remains to be done at the regional level. The R.B.I. is overburdened with many onerous responsibilities. The blending of monetary and non-monetary duties has contributed to its failure to develop regional money market.
Recommendations:

1. **Establishment of linkage**: The foremost need to reform the money market at Bangalore is to establish necessary linkage between its rural and urban sectors. The existing inter-relations between urban and rural institutions are either weak or totally missing. It would be, therefore, necessary to create new agencies wherever necessary and to reorganise the inter-relations between the existing agencies wherever possible.

2. **Conversion of Co-operatives into Regional Rural Banks**: In view of the limited financial resources, organisational and managerial constraints of the co-operative institutions, utmost care should be taken in the choice of converting the co-operative credit societies into RRBs. Where these conditions are lacking, it will be better to encourage commercial banks to create their own subsidiaries with the active support of the local residents.

3. **Expansion of Co-operative Banks and their Contribution**: In the sphere of co-operative banks if any further progress is to be made, it is necessary to see that expansion at no stage outstrips administrative capacity and due attention is paid to the efficiency of personnel and to the quality of audit inspection and control. Care should be taken to keep the purity of the movement unpolluted by political, personal and party considerations.
In order to marshall the entire resources of co-operative banks, it is suggested that State Co-operative Banks should exercise more control over the Central Co-operative Banks. The faulty practice of over-financing should be discouraged and strictness be followed in demanding repayments.

Side by side, steps will have to be taken to co-ordinate loan operations of the two types of institutions. Some sort of credit planning will have to be adopted at the district level. A regular co-ordinating committee consisting of representatives of different lending agencies may be constituted for the purpose under the chairmanship of the District Commissioner.

4. **Promotion of Operational Efficiency and Removal of Customers' Grievances:** For the creation of proper confidence in the banking system of the State, efforts should be made to develop the better banking climate. To secure the operational efficiency of existing constituents of the money market, steps should be taken to encourage better employer-employee relationship, more training facilities, organisations of customers who meet from time to time to discuss the problems of mutual benefit.

5. **Use of Local Languages:** A closer customer-banker relationship can be developed by the use of local language in all credit instruments, by propaganda and publicity campaign. The appointment of special liaison officer may be made to promote closer contacts and to devise special schemes.
6. **Services to Customers:** The liquidity and elasticity of resources can be achieved by free and quick remittance facilities, use of clean advances, introduction of banker's acceptance and extended bill market. The banks should change their conservative outlook and suitably reform their methods and techniques of financing in the light of customs and traditions of the area of operation.

7. **Portfolio Policy:** In course of time the reorganisation of the constituents and their proper linkage, the development of agriculture, industry, trade and commerce and a developed bill market will lessen the dependence on collateral loans and advances. The intensification of the bill market scheme by extending it to advances against godown and warehouse receipts and acceptance of hundis of indigenous bankers automatically increases inter-bank borrowing and lending, leading to more effective utilisation of funds of the constituents.

8. **Clearing Houses:** The rules and regulations of the clearing houses should be so modified as to extend its services to other financial institutions and post offices which accept terms and conditions and come up to the standard.

9. **Specialised Markets:** The organisation and functioning of Bangalore Stock Exchange on sound lines requires proper enquiry by an 'Expert Body' constituted by the Central Government in consultation with the State Government, to suggest measures for the development of a sound stock exchange for the State.
The present Bill Market Scheme should be extended and expanded by the R.B.I. by granting more concessions on sound and stable basis. The institutions like Acceptance Houses and Discount Houses should be developed and special efforts should be made for the development of the bill market outside the Bill Market Scheme of the R.B.I. Such a market helps the constituents to increase their liquidity and makes the money market more elastic and automatic.

10. **Specialised Agencies**: In order that these agencies may be able to do justice to their objectives of speedy compilation and dissemination of information, the ventilation of the grievances of their members and the provision of facilities for training and research, it is suggested that, (a) the existing chambers of commerce should be inspired by the spirit of mutual co-operation, and (b) every trade should be encouraged to form and develop its own association to serve as its source for relevant information and to ensure collective action wherever necessary. With research centres attached to them, a clear cut demarcation and specialisation can be introduced in the field.

11. **The Reserve Bank of India**:

(a) The R.B.I. be decentralised and reconstituted into five regional zones, and one each for the Northern, Southern, Eastern,
Central and Western areas. Each region may further be sub-divided into sub-regions corresponding to the boundary of a State. Such a region should be administered by a Local Board with necessary powers. The local boards should be governed and directed by Regional Boards, which in turn be controlled and guided by the Central Board. Sufficient autonomy be granted to Regional Authorities and Local Boards to develop their respective area resources rapidly.

(b) From the point of view of administration, besides the present Central Board, Regional and local Boards should be constituted at each level.

(c) The R.B.I. should give more attention to the organisation and management of money markets. The inspection part of its duties may be entrusted to a newly constituted Central Inspecting Authority, to be organised at different levels and suitably empowered for the performance of its licensing and supervisory functions.

(d) From the point of view of controlling the threat to price stability from speculation and hoarding, the higher interest rates would be particularly useful. Further, an increase in interest rates would become a technique to mobilise larger deposits to organised sector leading to promotion of economic growth. The decentralised R.B.I. at the regional level has to experiment with a positive interest rate policy.
(e) The advisory committee consisting of the representatives of different constituents and different economic interest be constituted at the regional and local level.

(f) Research, Statistics and Training Departments be constituted to meet the problem of training, education dissemination of timely information, propaganda and research on local problems. The Regional and local offices should undertake the collection and publication of regional and local statistics which are vital for decentralised economic development.

12. The Role of the State: The influence of the Government on the money market is exercised mainly through its financial operations and as a friend, philosopher and guide in the planned economic development. As such, it is left for the State Government to see that there is balanced economic development of the state, that the banking development attains a suitable standard and grows adequately to meet the growing demands on it, that there is suitable legislation to promote and develop various markets and institutions and to safeguard the interests of traders, investors and community in general. It is high time that Karnataka State Government gives serious thoughts to the question of developing a well organised money market for the State.
Our Study indicates that though there has been an increase in banking activities in our state in recent years, the pattern of expansion is not uniform among large number of districts. No doubt, during these years, the inter-district inequities have been reduced to some extent yet the performance of banking industry differs so significantly in some of the districts that it deserves deeper analysis.

Apparently, the levels of economic development attained by some of the districts do not reflect in the nature of the banking development observed in the districts. There are instances of the districts where large agricultural expansion is taking place, without commensurate increase in the volume of bank deposits and credit available in the districts. The saving habit and bank mindedness are sociological factors as much as economic factors and cannot be explained by economic factors alone. These issues would be of considerable importance not only to bankers who have direct stake, but also to economists and sociologists who can deduce very useful inferences from such analysis and studies. The operational utility of such studies can not be under estimated.

To sum up, the development of regional money markets like the one at Bangalore is the key to decentralised banking development which implies re-organisation of R.S.I., regionalisation of banking
structure, co-ordination of different financial institutions at the regional level and the growth of financial mechanism with well organised stock, Bill and capital markets each managed by suitable personnel and helped by the services of specialised agencies. In this evolution and re-organisation of financial structure, the R.B.I. can help the State in the process of integration and co-ordination of credit structure and the development of specialised markets. The State Government together with Central Government, can help the banking development to attain a suitable standard and can facilitate the promotion and development of various financial markets and institutions through suitable legislation, active assistance and necessary patronage. Further, the development of regional money market reduces the financial concentration at few centres to secure an effective mobilisation and allocation of regional resources and ensures a quicker, equitable and balanced financial mechanism necessary for the regional economic development.