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FINANCIAL INTERMEDIARIES

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Section I. Financial Intermediaries

A. Definition and Functions

The financial intermediaries with which we are concerned include commercial and indigenous banks, moneylenders, cooperative societies, Post-Office savings banks, insurance companies, the Industrial Finance Corporation, investment trusts, managing agents, and the various stock exchanges. All of these act in some way as a link between borrowers and lenders and their activities form an important element in the short and long term capital markets. Broadly defined the capital market "consist of a series of channels through which the savings of the community are made available for industrial and commercial enterprise and for public activities. It embraces not only the system by which the public takes up long-term securities directly or through intermediaries, but also the elaborate network of institutions responsible for short-term and medium-term lending."[1] The financial intermediaries are therefore only a part of the complex set of institutions which accumulate the savings of a community for investment purposes. The process of capital formation can be visualized in three stages: (1) The procurement of savings which is a purely passive phenomena depending on the difference between the amount of income generated and consumption expenditure at a particular period of time. (2) The channelling of these savings either by directly investing them in private or public enterprises (in this case, there are only two stages), or by depositing them in financial intermediaries, and (3) the utilization of these investible resources for the acquisition of capital equipment. Whether performed directly or through intermediaries, capital formation takes place only with the realization of physical capital goods. Savings and investment are not necessarily equal (except in a purely tautological sense). Some part of savings may be hoarded and investment would therefore be correspondingly smaller.[2] On the other hand, given modern fiscal techniques, investment need not be limited by the volume of savings.

The utility of financial intermediaries lies in channelling savings into productive uses. Many of them collect small and scattered sums from a variety of sources and put them at the disposal of entrepreneurs (including Government) for profitable investment. Geographically and industry-wise they spread risks and go beyond the confines of discrete local markets. They are, in short, catalytic in developing a market economy. In addition to their savings and investment activities, they perform other important functions. Commercial banks facilitate exchange transactions and "manufacture" money; they are, to use Aden Smik's metaphor, "a sort of waggon-way through the air [which] enable[s] the country to convert . . . a great part of its highways into good pastures

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1. A.T.K. Grant, A Study of the Capital Market in Post-War Britain (1937), p. 119.

2. Unless we regard hoarding as a form of investment possessing zero productivity.

and cornfields, and thereby . . . increase/s 7 very considerably the annual produce of its land and labour.[1]

Sound monetary policy requires a sound banking system.

Insurance Companies attract the funds of those who, having accumulated some wealth, desire safety for themselves, family, or property. Post-Office savings banks call for small savers seeking a minimum of risk, and co-operative societies appeal to those professing a feeling of communal spirit and enterprise. Money lenders and other indigenous institutions, while gradually being displaced by the more organized agencies, continue to satisfy the local needs of people, particularly in rural areas.

Stock exchanges serve generally as an indicator of the industrial, commercial, and financial progress of the country. They disseminate knowledge about corporate enterprise and impart liquidity to stocks and shares, encouraging thereby growth of the investment habit. They determine the direction of private investment and aid the Government in their loan operations as well as facilitating central backing through "open-market operations."

B. Economic Growth

Growth is a complex phenomena depending on some basic physical, technical and psychological factors. The pioneering work done by Raymond Goldsmith on some of the more advanced countries clearly shows that there is no simple relation between the role of economic development and the nature of financial institutions and credit produces; "at most, the latter can only be regarded as a contributing factor in determining the role of growth of real national product. This possibility cannot be denied or disproved, but neither can it be proven, nor is it possible -- and this is more important -- to isolate and measure the contribution of financial factors."[2] As can be seen in Table I, the United States and Canada show the highest roles of growth but, as is well recognized, their financial structures exhibit very different features. The same is true of Germany and Great Britain, in spite of the fact that the popular explanation of their growth is usually given in terms of their different institutional set-up.

One of the interesting results which emerges from Dr. Goldsmith's study is that, in the case of the United States, resources channelled through financial intermediaries have generally increased in relation to total capital formation during the past century. This appears to be true

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1. A. Smik, Wealth of Nations (ed. J.E.T. Rogers), p. 322.

2. Raymond W. Goldsmith "Financial Structure on Economic Growth in 'Advanced' Countries," paper read at the Conference on Capital Formation and Economic Growth, Universities -- National Bureau Committee for Economic Research, Nov. 6-8, 1953, p. 7.

Table I

Growth Rates of Real National Product of "Advanced" Countries, 1860 to 1950
(per cent per year)

		U.S. (1)	Canada (2)	Australia (3)	New Zealand (4)	U.K. (5)	France (6)	Germany (7)	Netherlands (8)	Belgium (9)	Switzerland (10)	Sweden (11)	Norway (12)	Denmark (13)
						Aggregate Real National Product								
1	1860-1913[a]	4.3	.	3.7	.	2.4	1.1	2.4	2.3	2.2	2.6	2.0	2.3	2.8
2	1913-1938	2.0	1.7[b]	2.1	.	1.0	1.1	.7	2.1	1.0	1.6	1.9	1.9	2.1
3	1938-1950	5.7	5.9	2.6	3.3[c]	1.6	.2	2.3[d]	1.8	.6	2.1	2.5	3.0	2.2
4	1860-1950	3.8	.	3.2	.	1.8	1.1	2.0	2.2	1.7	2.1	2.0	2.3	2.5
5	1913-1950	3.0	2.8	2.3	.	1.2	.9	1.3	1.7	.9	1.8	2.1	2.3	2.1
						Real National Product per Head								
6	1860-1913[a]	2.3	.	1.7	.	1.5	.9	1.5	.8	1.4	1.4	1.3	1.6	1.8
7	1913-1938	.9	.2	.4	.	.8	.9	.5	.6	.6	1.2	1.4	1.2	.8
8	1938-1950	4.2	4.0	1.1	2.4	1.2	.0	.7[d]	.6	.3	1.1	1.7	2.1	1.2
9	1860-1950	2.2	.	1.3	.	1.2	.9	1.1	.7	1.1	1.3	1.4	1.6	1.4
10	1913-1950	2.0	1.4	.6	.	.9	.7	1.1	.6	.5	1.2	1.5	1.5	.9

[a]First period starts with following years other than 1860: U.S. 1869/78; Australia 1886; U.K. 1870; Germany 1860; Netherlands 1900; Belgium 1846; Switzerland 1890; Sweden 1870; Norway 1891; Denmark 1870.

[b]1911 instead of 1913.

[c]1938/39 to 1947/48.

[d]From 1936 to 1952.

<u>Sources</u>: Raymond W. Goldsmith, <u>op.cit.</u>, p. 4.

of India too. Its significance lies in the transfer of investment decision from the individual saver to an institutional agent. A priori we cannot say anything definite about the structure of capital formation resulting therefrom; to do that requires a careful examination of the operations and investment policies of these agencies.

Section II. Financial Intermediaries: Present-Day Set-Up

A. Commercial Banks

Commercial banking made little progress in India until the turn of this century; since that time its growth was particularly pronounced during the speculative period of the Swadeshi movement (1906-13) and the Second World War while in 1900 there were only 20 joint-stock banks with paid-up capital and reserves above Rs. 5 lakhs, by the end of 1951, their number had increased to 167. They are either scheduled or non-scheduled. To be "scheduled," i.e. to be included in the second schedule to the Reserve Bank of India Act, a bank must have paid-up capital and reserves of Rs. 5 lakhs or more, and satisfy the Reserve Bank that its affairs are conducted in a manner not detrimental to the interests of its depositors. Every scheduled bank is required, in accordance with Section 42 of the Reserve Bank Act, to deposit with the Reserve Bank 5 per cent of its demand, and 2 per cent of its time, liabilities. In December 1951 there were 92 scheduled banks, accounting for 9/10 of all deposits in India. Scheduled banks may be classified into (a) Imperial Bank of India, (b) other Indian scheduled banks and (c) Exchange Banks.

(a) The Imperial Bank is the dominant commercial bank; privately owned, it was formed in 1921 by the amalgamation of the three Presidency Banks of Bengal, Bombay, and Madras. Its paid-up capital and reserves totalled Rs. 12.0 crores at the end of 1951, with deposits of Rs. 230.9 crores, or more than 20 per cent of all deposits in India. It has a wide network of branches and pay offices which are administered through three local boards at Calcutta, Bombay and Madras and coordinated by a Central Board. Until the creation of the Reserve Bank in 1935, it performed some of the functions of a central bank and, today, still operating under a special statute, its role is generally envisaged to be that of an auxiliary to the Reserve Bank. In those places where the Imperial Bank has branches and the Reserve Bank has no offices, it is the sole agent of the latter. Most of the bigger banks, port trusts, local governments, and others, keep their accounts with it. The Imperial Bank has retained a very powerful position in the money market, for, in spite of the borrowing and rediscounting facilities offered by the Reserve Bank to commercial banks, the latter have preferred to borrow directly from the Imperial Bank. Its hundi[1] and advance rates are in fact more effective than the official Bank Rate. In general, the Imperial Bank appears to have followed a conservative line of action by maintaining high cash ratios and scrutinizing rather carefully ("timidly" according to Indian critics) its loaning operations.

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1. Indian bill of exchange

(b) Apart from the Imperial Bank, there were 75 other Indian scheduled banks at the end of 1951. Compared to 1939 when they numbered only 39, this represents a sizeable growth which is also reflected in the three-fold increase in the number of branches and an almost six-fold expansion of deposits. This has been, however, a very lop-sided development, being heavily concentrated in the larger cities. Their deposits account for over 50 per cent of all the deposits in the country. The largest of these banks is the Central Bank of India with deposits of Rs. 123.9 crores in December 1951, followed by the Bank of India (Rs. 55.6 crores), and the Punjab National Bank (Rs. 51.9 crores).

(c) Exchange banks[1] which operate in India have their headquarters located outside the Indian Union. There were fifteen of them at the end of 1951, seven of which were registered in Britain; their branches are confined to ports and the bigger cities. All the exchange banks are scheduled. Their deposits in India account for over 15 per cent of total deposits in the country, the largest amounts being held by Lloyds Bank, the National Bank of India, the Chartered Bank of India, Australia, and China, and the Mercantile Bank of India. Their business is primarily concerned with foreign trade, in which they have retained almost a monopoly. In recent years, they have also been financing an increasing amount of the internal trade, mainly to assist the movement of goods between up-country centers and ports. Their preferential status, enjoyed by them prior to Independence in 1947, has been removed by the implementation of the Banking Companies Act of 1949 which, _inter alia_, stipulated that assets to be held in India must at least equal 75 per cent of their liabilities in India.

As regards the non-scheduled banks, prewar data are incomplete but there was undoubtedly a great increase in their number during the Second World War, for at the end of 1951 they had more than 35 per cent of all the commercial banking offices in the country; however, their deposits accounted for less than 10 per cent of total banking deposits in India, so that their average business turnover is very low. These non-scheduled banks are divided into four sub-classes, _viz_. A2, B, C and D, according to whether their paid-up capital and reserves are Rs. 500,000 and above, Rs. 100,000 to Rs. 500,000, Rs. 50,000 to Rs. 100,000, and below Rs. 50,000. Since these banks are not scheduled, they are in fact outside the central banking system, and the Reserve Bank exercises no regular supervision over them. Though they are allowed to maintain accounts with the Reserve Bank for inter-bank transactions, only few have availed themselves of this opportunity. The stringent provisions of the Banking Companies Act of 1949 have forced a number of theses banks to declare themselves as non-banking institutions, and it is expected that in the course of time many

1. These banks are also known as foreign banks, though not all the foreign banks are exchange banks. There were six non-exchange foreign banks in India at the end of 1951; small in size (only one of them is scheduled), their total deposits amounted to Rs. 22 lakhs.

of them will be put on a sounder basis so that the distinction between scheduled and non-scheduled banks may be eliminated.

Though banking expanded greatly during the last war, the total number of banking offices is still rather low, averaging about 12 per million of population.[1] The distribution of these offices continues to be concentrated in the larger cities, some of which are "overburdened" as manifested by excessive competition for deposits, while many rural areas remain inadequately served, especially in view of the oft-advanced contention that income has moved in favor of the agricultural sector during the past decade.[2] At present, less than 20 per cent of towns with a population of under 10,000, and only 70 per cent of towns with a 10,000 to 50,000 population, have banking facilities. Organized banking is still essentially an urban phenomenon with respect both to its sources and disposition of funds.

Banks in India perform the usual banking functions. Most of them receive deposits on current, time, and savings account for which they pay interest, the smaller banks generally paying higher rates to attract funds. They discount bills, make loans and advances to commerce, industry, and others, and take up investments, mostly Government securities. In terms of size and efficiency they vary from the large and efficient banks to the smaller scheduled and more numerous non-scheduled banks which follow precarious banking practices, such as excessive bidding for deposits, low cash ratios, high proportion of unsecured advances, and other malpractices, the defects of which the further implementation of the Banking Companies Act is expected to remedy.

In December 1952, personal deposits in scheduled banks amounted to Rs. 382.6 crores and business deposits were Rs. 291.3 crores. The latter were held mainly on demand account, as balances of working capital. For private individuals, banks serve significantly as savings institutions, hence about 70 per cent of their deposits are in the form of time and savings accounts. Demand deposits of scheduled banks have fallen during the past two years, their ratio to total deposits having declined from 57 to 52 per cent between December 1950 and 1952, reflecting deflationary trend.[3] This is also borne out by the somewhat less inclusive returns of non-scheduled banks whose ratio of demand to total deposits, always much lower than that of scheduled banks, fell from 29 to 21 per cent during the same period.

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1. For the United States the figure is ten times as high, and for Australia about 20 times. Since banking potentialities depend on a variety of factors, such as distribution of population, per capita income, transportation, pattern of production and resources, etc...., these figures are merely indicative, and not an index, of the scope of banking exposition in India.

2. Government of India, Report of the Rural Banking Enquiry Committee (1950), p. 31 ff.

3. This trend started in 1951.

The relative distribution of assets of the different classes of banks is given in Table II. Advances and investments are the two most important items, the former having regained its prewar dominance. Cash ratios have generally been on the decline since 1947, probably because of a greater realization of the borrowing facilities offered to them by the Reserve Bank. Excess balances of scheduled banks with the Reserve Bank consequently fell from Rs. 54 crores in 1947 to Rs. 18 crores in 1952.

The survey of bank advances (including bills purchased and discounted), conducted quarterly by the Reserve Bank, covered 88 scheduled and 376 non-scheduled banks in December 1952 (see Table III). Nearly half of all the advances went to commerce, while industry received only about one-third; agriculture is conspicuous for its low percentage. With non-scheduled banks, personal and professional advances rank relatively high, but since the volume of non-scheduled banks' advances is only a small part of the total (about 8 per cent), this does not materially alter the pattern as set by the scheduled banks. The rates charged on these advances depend on the kind of security given. Against Government and trustee securities they are 4 to 6 per cent, clean advances costing more, somewhere between 41/2 and 9 per cent, the small borrowers finding it more difficult to obtain advances at cheap rates. Due to the convenience of obtaining finance by means of advances, the amount of bills discounted is relatively small, less than 5 per cent of all accommodation granted.

The investment portfolio of banks, as shown in Table IV, is dominated by government securities (including Treasury bills) which account for about 85 per cent of all investments, the non-scheduled banks showing a somewhat greater willingness to invest in other securities. The reluctance of these banks to finance fixed capital expenditures of industrial and other enterprises has been a frequent point of criticism by proponents of a mixed banking system of the continental European type.

B. Indigenous Banking

For many hundreds of years, indigenous bankers and moneylenders have been the main suppliers of funds to agriculturists, small manufacturers and traders. Even today they are the most important source of finance in India, accounting for what is generally believed to be about nine-tenths of all the internal trade. Only scanty data are available as to their resources and transactions; the Banking Companies Act does not apply to them, and the regular statistics put out by the Reserve Bank do not include them. The results of the All-India Reserve Credit Survey, for which the Reserve Bank interviews indigenous bankers, moneylenders, co-operative societies and others, are to be published soon and should provide much needed information on rural finance.

The indigenous bankers, also referred to as shroffs, marwaris, multanis and chettiars, are either individuals or partnerships. Generally, they receive deposits, discount bills, and perform many of the usual banking functions. Their dealings with customers are on a more flexible and personal basis than those of joint-stock banks (though less so than are

TABLE II. DISTRIBUTION OF ASSETS OF BANKS
(Relative to Total Deposits)

As on the last Friday (1)	Cash in Hand and Balances with the Reserve Bank (2)	Advances (3)	Investments (4)
1. Indian Scheduled Banks			
1949	15.7	44.8	48.5
1950	12.8	47.5	48.9
1951	10.9	60.1	42.4
1952	10.0	53.6	46.4
2. Exchange Banks			
1949	10.0	65.4	30.5
1950	9.6	66.9	29.0
1951	10.3	92.6	28.3
1952	7.8	79.5	26.1
3. All Scheduled Banks			
1949	14.6	48.8	45.0
1950	12.2	51.3	45.0
1951	10.7	66.6	39.6
1952	9.6	59.0	42.6
4. Non-Scheduled Banks			
1949	9.0	76.0	32.0
1950	9.6	75.9	32.4
1951	8.6	80.2	32.0
1952	7.9	70.1	41.3
5. All Banks			
1949	14.3	50.1	44.4
1950	12.0	52.3	44.5
1951	10.7	67.2	39.3
1952	9.5	59.8	42.1

Source: Reserve Bank of India, Trend and Progress of Banking in India, 1952, pp. 34-7

TABLE III. DISTRIBUTION OF BANK ADVANCES

	End of	SCHEDULED BANKS Amount	SCHEDULED BANKS Percentage to Total Advances	NON-SCHEDULED BANKS Amount	NON-SCHEDULED BANKS Percentage to Total Advances	ALL BANKS Amount	ALL BANKS Percentage to Total Advances
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. According to Purpose							
Industry	December 1951	194,91	33.4	7,88	18.0	202,79	32.3
	September 1952	183,35	35.1	7,21	18.1	190,55	33.8
	December 1952	178,84	35.1	7,61	19.4	186,45	34.0
Commerce	December 1951	308,11	52.8	17,66	40.3	325,77	52.0
	September 1952	244,93	46.8	16,30	40.8	261,23	46.4
	December 1952	237,53	46.7	15,64	39.8	253,17	46.2
Agriculture	December 1951	12,97	2.2	2,48	5.7	15,45	2.5
	September 1952	23,92	4.6	2,20	5.5	26,12	4.6
	December 1952	21,09	4.1	2,26	5.8	23,35	4.3
Personal and Professional	December 1951	42,90	7.4	11,91	27.2	54,81	8.7
	September 1952	39,36	7.5	10,96	27.5	50,32	8.9
	December 1952	39,57	7.8	10,71	27.3	50,28	9.2
All Others	December 1951	24,39	4.2	3,85	8.8	28,24	4.5
	September 1952	31,73	6.1	3,27	8.2	35,00	6.2
	December 1952	31,78	6.2	3,06	7.8	34,84	6.4
TOTAL	December 1951	583,28	100.0	43,78	100.0	627,06	100.0
	September 1952	523,29	100.0	39,93	100.0	563,22	100.0
	December 1952	508,80	100.0	39,28	100.0	548,08	100.0
B. According to Security							
I. Secured Government and Trustee Securities	December 1951	49,09	8.4	26	0.6	49,35	7.9
	September 1952	42,01	8.0	16	0.4	42,17	7.5
	December 1952	41,06	8.1	16	0.4	41,22	7.5
Bullion, including gold and silver ornaments	December 1951	15,99	2.7	8,88	20.3	24,87	4.0
	September 1952	12,40	2.4	7,48	18.7	19,88	3.5
	December 1952	13,70	2.7	7,10	18.0	20,79	3.8

TABLE III. DISTRIBUTION OF BANK ADVANCES (Cont.)

	End of	SCHEDULED BANKS Amount	SCHEDULED BANKS Percentage to Total Advances	NON-SCHEDULED BANKS Amount	NON-SCHEDULED BANKS Percentage to Total Advances	ALL BANKS Amount	ALL BANKS Percentage to Total Advances
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Shares of joint stock companies, etc.	December 1951	51,43	8.8	1,32	3.0	52,75	8.4
	September 1952	43,55	8.3	96	2.4	44,51	7.9
	December 1952	43,02	8.5	1,09	2.8	44,11	8.0
Merchandise	December 1951	303,10	52.0	8,48	19.6	311,58	49.7
	September 1952	260,76	49.8	6,94	17.4	267,70	47.5
	December 1951	248,56	48.9	7,12	18.1	255,68	46.7
Real Estate	December 1951	22,22	3.8	9,10	20.8	31,32	5.0
	September 1952	20,46	3.9	9,05	22.7	29,50	5.2
	December 1952	21,09	4.1	9,21	23.4	30,30	5.5
Other Securities[a]	December 1951	74,93	12.9	5,99	13.7	80,92	12.9
	September 1952	67,83	13.0	5,28	13.2	73,11	13.0
	December 1952	63,24	12.4	4,88	12.4	68,11	12.4
TOTAL OF I	December 1951	516,75	88.6	34,04	77.8	550,79	87.8
	September 1952	447,00	85.4	29,87	74.8	476,87	84.7
	December 1952	430,66	84.6	29,55	75.2	460,21	84.0
II. Unsecured	December 1951	66,53	11.4	9,74	22.2	76,27	12.2
	September 1952	76,28	14.6	10,07	25.2	86,35	15.3
	December 1952	78,14	15.4	9,73	24.8	87,87	16.0
TOTAL OF I AND II	December 1951	583,28	100.0	43,78	100.0	627,06	100.0
	September 1952	523,29	100.0	39,93	100.0	563,22	100.0
	December 1952	508,80	100.0	39,28	100.0	548,08	100.0

a. Include fixed deposits

Source: Reserve Bank *Bulletin*, April 1953, p. 286.

TABLE IV. DISTRIBUTION OF INVESTMENTS OF BANKS

	SCHEDULED BANKS			NON-SCHEDULED BANKS			ALL BANKS		
	Dec. 1951	June 1952	Dec. 1952	Dec. 1951	June 1952	Dec. 1952	Dec. 1951	June 1952	Dec. 1952
No. of Banks	85	86	88	123	144	157	208	230	245
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Government Securities	305.83 (85.4)	305.21 (85.0)	327.02 (86.1)	8.33 (79.8)	17.69 (79.3)	17.94 (81.2)	314.16 (85.2)	322.90 (84.7)	344.96 (85.9)
Other Domestic Investments	27.12 (7.6)	27.27 (7.6)	28.52 (7.5)	2.10 (20.1)	4.16 (18.7)	3.80 (17.2)	29.22 (7.9)	31.43 (8.2)	32.32 (8.0)
Foreign Investments	25.17 (7.0)	26.53 (7.4)	24.15 (6.4)	0.01 (0.1)	0.45 (2.0)	0.35 (1.6)	25.18 (6.8)	26.98 (7.1)	24.50 (6.1)
Total Investments	358.12	359.01	379.69	10.44	22.30	22.09	368.56	381.31	401.78

(Figures in parantheses are percentages to respective totals.)

Source: Reserve Bank *Bulletin*, March 1953, p. 191

those of the moneylenders). These bankers are found in urban and rural areas and supply funds to small traders and manufacturers, at interest rates which are not very much higher than those charged by commercial banks. Agriculture is mainly financed through moneylenders, who obtain funds from them. Attempts to bring these indigenous bankers into the orbit of the organized banking system have so far met with little success, due to their reluctance to shed their non-banking business and conform to some of the other conditions demanded by the banking authorities. Their only contact with the Reserve Bank is through facilities offered to approved indigenous bankers for remittances at concessional rates.

Moneylenders, known also by such names as banias, mahajans and sowcars, are distinguished from indigenous bankers in that they generally do not accept deposits and discount bills; their primary business is to lend money. There are about 300,000 of them scattered throughout urban and rural communities. They are divided into two classes (a) professional moneylenders (including itinerant moneylenders), and (b) non-professional moneylenders carrying on other business as well, including landlords, merchants and traders. Their customers are mainly agriculturists who borrow often at usurious interest rates. In the past these rates have varied somewhere between 10 and 40 per cent, depending on local market conditions and security given; loans without security have been made at rates as high as 360 per cent. The greater part of rural debt has, in the past, been incurred for consumption purposes, marriages, funerals, and the like, but in more recent years new borrowings are said to be largely productive, i.e. used for the acquisition of land and capital equipment.[1]

The importance of moneylenders in rural finance (and hence in total Indian finance, since India is primarily a rural country) is attested by results of ad hoc surveys which have been conducted in a number of villages. Table V gives an indication of agricultural indebtedness in Murbad Taluka. The data were derived from information with the Debt Adjustment Board which was set up in that area under the Bombay Agricultural Debtors Relief Act, 1939. Professional moneylenders accounted for more than half the total amount of money lent; the cooperative societies and Government were conspicuous for their very small contributions, each 0.01 per cent of the total. Other studies seem to confirm this overall picture.[2] There persists, however, quite a general impression that moneylending is losing its overwhelming importance. During the past few decades attempts have been made to curb the malpractices of moneylenders and regulate their scope. Most of this legislation[3] has been concerned with licensing of

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1. J.S.G. Wilson, "The Business of Banking in India," in Banking in the British Commonwealth, ed. R.S. Sayers (1952), p. 186.

2. See, for example, Government of Hyderabad, Rural Economic Enquiries in the Hyderabad State, 1949-51, pp. 408 ff.

3. For a list of these, see Reserve Bank of India, Report of the Committee on Finance for the Private Sector Section (1954), p. 157.

moneylenders, stipulation of maximum interest charges, and prevention of land alienation. On the whole, these attempts have met with little success. Some professional moneylenders have completely withdrawn from this field with the result that there is a dearth of credit in numerous villages. Many moneylenders, on the other hand, appear to have successfully circumvented these regulations in collusion with their debtors.

Other semi-indigenous institutions performing quasi-banking functions, such as the loan offices in Bengal, and the nidhis and chit funds in the South which cater to the lower income groups, are also on the decline. But this is a very slow and, at times, a painful process, for in spite of their numerous abuses and inefficiencies, they have been catering to a definite demand which, with their disappearance, will have to be financed either by the existing agencies or the creation of new institutions.

C. Cooperative Societies

Supplementing the indigenous institutions, with the ultimate purpose of supplanting them altogether, the cooperative movement was launched in India in 1904. Its primary purpose is to encourage cooperation and thrift among farmers and supply them with cheap credit. Cooperatives are regulated at the provincial level and come under the control of the Registrar of Cooperative Societies. They have evolved a federal structure consisting of the provincial bank at the apex, central banks which are affiliated to the provincial bank, and primary societies which are generally linked to the central banks. Credit societies are the most important type of cooperative enterprises, but in recent years non-credit activities, such as cooperative stores, housing, and the multi-purpose societies which perform several of these functions have become significant and are generally hailed as a favorable element in the development of the cooperative movement.

Primary societies operate in villages or groups of villages. They are divided into agricultural and non-agricultural. The latter provide finance to small traders, artisans, Government servants, etc. In number and membership, agricultural societies are bigger than the non-agricultural, but not in the volume of business and working capital. Their funds are obtained through share capital, members' deposits, and borrowings mainly from cooperative central banks. In the case of agricultural societies borrowing is important, while the non-agricultural societies have been able to secure substantial deposits. Money is advanced by these societies on a short term and intermediary basis at about 8 per cent rate of interest; since these loans are limited and strictly controlled, the benefits of their operations are enjoyed only by a fraction of those needing finance. Loans are granted for productive purposes, but loans for marriages, funerals, etc., which are "necessary and unavoidable" have also been made. Banking unions are formed from among a number of societies in a neighborhood for the purpose of performing common banking functions.

Cooperative central banks may operate in a single taluk or throughout a whole county. Their membership is open to primary societies and, in most cases also, to individuals. The sources of their funds are share

TABLE V. SAMPLE OF RURAL FINANCE

A. Type of Creditors in Murbad Taluka

Occupation (1)	Percentage Number (2)	Percentage Amount Advanced (3)
1. Professional Moneylender	33.27	50.06
2. Trader	20.04	17.77
3. Agriculturist	35.54	27.21
4. Artisans	1.51	0.44
5. Village Servants	1.70	0.32
6. Lawyers, etc.	0.38	0.64
7. Others	7.18	3.53
8. Co-operative Societies	0.19	0.01
9. Government	0.19	0.01
Total	100.00	100.00

Source: V.M. Jokhade "Agricultural Indebtedness in Murbad Taluka," Reserve Bank Bulletin, January 1950, p. 14

B. Purpose of Borrowing in Murbad Taluka

(1)	Amount (2)	%age of Total (3)	Average Size of Loan (4)
1. Repayment of old debts	1,12,800	71.14	623.2
2. Purchase of seed, land and cattle	3,163	1.99	186.1
3. Arrears of rent	535	0.34	133.8
4. Household expenditure and social functions	25,542	16.11	195.0
5. Arrears of account	15,611	9.84	200.1
6. Personal Loan	917	0.58	183.4
Total	1,58,568	100.00	381.2

Source: V.M. Jokhade, "Agricultural Indebtedness in Murbad Taluka," Reserve Bank Bulletin, January 1950, p. 23

TABLE VI. WORKING CAPITAL OF CO-OPERATIVE SOCIETIES

(1)	Average for 4 yrs from 1906-7 to 1909-10 (2)	Average for 5 yrs from 1910-1 to 1914-15 (3)	Average for 5 yrs from 1915-6 to 1919-20 (4)	Average for 5 yrs from 1920-1 to 1924-25 (5)	Average for 5 yrs from 1925-6 to 1929-30 (6)	Average for 5 yrs from 1930-1 to 1934-3! (7)	Average for 5 yrs from 1935-6 to 1939-40	Average for 5 yrs from 1940-1 to 1944-45 (9)	Average for 5 yrs from 1945-6 to 1949-50 (10)	1950-51 (11)
	Rs.(1,000)	Rs(1,000)	Rs(1,000)	Rs(1,000)	Rs(1,000)	Rs(1,000	Rs(1,000)	Rs(1,000	Rs(1,000)	Rs(1,000)
Share Capital paid-up......	13,19	88,87	2,51,97	5,25,66	9,94,17	12,91,42	13,62,32	16,63,29	28,35,37	43,45,67
Loans and Deposits held at end of yr. from Members....	14,12	88,28	96,35	2,54,45	5,03,42	7,46,76	9,53,98	13,38,93	20,35,01	22,04,81
Loans and Deposits held at end of yr. from Societies....	13,59	1,93,42[a]	47,81	1,49,98	2,92,88	3,79,72	4,02,68	7,70,44	14,73,99	16,96,73
Loans and Deposits held at end of yr. from Provincial or Central Banks....	..	..	5,03,19	12,29,88	24,62,43	26,95,98	24,47,48	23,26,00	31,52,85	48,79,00
Loans and Deposits held at end of yr. from Government...	5,86	10,87	25,58	67,69	1,63,34	1,53,51	1,29,70	1,70,69	5,52,63	11,69,77
Loans and Deposits held at end of yr. from Non-members and other Sources	19,69	1,41,98	4,70,25	10,96,22	23,59,68	29,12,06	29,39,48	34,27,29	53,36,52	83,30,75
Borrowings of Land Mortgage Banks and Societies......	..	..	..	..	..	..	4,80,46[b]	6,86,01	9,21,49	13,04,26
Reserve Fund... Other Funds.....	1,67	25,00	1,23,32	3,12,38	7,13,21	12,81,61	17,51,63	13,48,59 7,03,50	25,65,38	36,54,24
Total	68,12	5,48,42	15,18,47	36,36,26	74,89,13	94,61,06	1,04,67,13	1,24,34,74	1,88,7324	275,85,23

a. Includes loans from Provincial or Central Banks

b. Average fro 3 years from 1937-38 to 1939-40

Source: Reserve Bank of India, Statistical Statement Relating to the Co-operative Movement in India for the Year 1950-51, p. 97

TABLE VII. LOAN TRANSACTIONS OF PRIMARY SOCIETIES

(1)	Average for 5 yrs from 1915-16 to 1919-20 (2)	Average for 5 yrs from 1920-21 to 1924-25 (3)	Average for 5 yrs from 1925-26 to 1929-30 (4)	Average for 5 yrs from 1930-31 to 1934-35 (5)	Average for 5 yrs from 1935-36 to 1939-40 (6)	Average for 5 yrs from 1940-41 to 1944-45 (7)	Average for 5 yrs from 1945-46 to 1949-50 (8)	1950-51 (9)
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Loans advanced during year to individuals	5,00,84,946	11,11,02,082	20,43,57,211	17,03,85,989	21,10,34,800	26,94,00,748	52,14,45,254	86,56,58,475
Loans repaid during year by individuals	3,84,24,516	8,80,46,819	16,00,88,063	17,15,07,523	19,83,20,791	27,83,13,869	44,85,11,044	72,65,76,113
Loans outstanding against individuals	7,61,20,195	17,22,33,428	34,21,30,315	41,87,70,095	44,53,53,583	42,87,73,101	54,38,33,260	83,86,43,111
Loans overdue from individuals	1,08,22,683	2,67,48,249	7,22,84,326	14,04,62,319	14,14,73,474	11,53,50,828	7,47,34,885	9,78,24,256*

Note.--Data for 1950-51, include figures for the Travancore and Cochin Central Land Mortgage Bank also as this institution advances loans to individuals directly.

* Does not include the overdues of the Agricultural Non-credit and Non-agricultural Non-credit Societies.

Source: Reserve Bank of India, Statistical Statements Relating to the Co-operative Movement in India for the year 1950-51, p. 97

capital, deposits, and borrowings from the provincial bank, and at times from commercial banks. Deposits are most important and are largely obtained from non-members. They lend to primary societies and, in addition, perform other banking functions, such as discounting of bills, offering remittance facilities, etc. However, this extension into the commercial field is deprecated by the Reserve Bank which regards their main function to be the financing of affiliated societies.

The provincial cooperative bank, or "apex" bank, attempts to coordinate the activities of the central banks in its district. Its members include central banks and frequently also individuals. Its funds consist mainly of deposits and, to a lesser extent share capital and borrowings from the Reserve Bank, commercial banks, and the Government. Advances are made to cooperative central banks. Through its borrowing and lending operations, the provincial cooperative bank provides a link between rural societies and the organized banking system.

Since the aforementioned cooperative banks provide only short and medium term credit, land martgage banks have been organized in a number of provinces to supply agriculturists with long term finance. The first one was set up in the Punjab in 1920, but the effective beginning of land mortgage banking is usually dated to 1929 with the establishment of the Central Land Mortgage in Madras, which was followed by Bombay in 1935. Like the cooperative banks, these land mortgage banks are divided into primary and central banks. Primary land mortgage banks obtain their resources from share capital, deposits and borrowing from the central land mortgage bank and the public by the issue of debentures. Where no central land mortgage bank exists, the provincial cooperative bank in the district issues debentures for primary societies. Loans are made to agriculturists for periods of 15 to 30 years at a rate of interest varying between 6 and 9 per cent. In the past, advances were made almost exclusively for redemption of old debts, but of late loans have increasingly been granted for productive purposes, improvement of land, and purchase of machinery. The central land mortgage bank issues debentures and coordinates the activities of primary banks. Provincial governments guarantee interest and principal of debentures floated, having classified them as trustee securities.

During the war, the financial position of the rural population improved and with it that of the cooperative movement. Total working capital rose from Rs. 106.5 crores in 1938/9 to Rs. 164.0 crores in 1945/6; capital and deposits increased, and borrowings declined. However, the growth in deposits was not commensurate with the rise in war-time prices, which, in fact, suggests that the cooperative movement did not take full advantage of its then unique opportunity for expansion. Since the end of the war, the demand for funds from cooperative societies has necessitated a substantial increase in their borrowings. By 1950/1 total working capital stood at Rs. 275.9 crores, of which share capital and reserves accounted for 29 per cent, deposits 41 per cent and loans 30 per cent (including land mortgage banks).

Loans outstanding against individuals in 1950/1 were Rs. 83.9 crores, or almost double the five-year average of the 1940-45 period and 50 per cent above the 1945-50 figure. On the whole, cooperative societies finance probably about 5 per cent of total requirements of the rural economy. Often, as in the case of Murbad Taluka, their contribution is very much smaller. Apart from a few states (Madras, Uttar Pradesh and Bombay alone account for 45 per cent of all primary agricultural credit societies), the general progress of the cooperative movement has fallen considerably short of the anticipations expressed at the time of its inception.

D. Post Office Savings Banks

Post Office savings banks and various kind of postal certificates attract the savings of the working and middle classes, particularly the latter group. The funds thus channelled constitute the "small savings" item in the Government debt structure. Post Office savings banks were started in 1882, and by the turn of this century they had absorbed the business of the pre-existing district savings banks and Government savings banks which had hitherto been managed by the Presidency Banks. These banks, which numbered 9,890 in March 1951, are scattered throughout the country, particularly in Madras, Bombay, Madya Pradesh, Uttar Pradesh, the West Bengal; two-thirds of them are in rural areas, being located in all head post offices, sub-post offices, and some branch offices. As of April 1952, the maximum amount which any single person can hold was raised from Rs. 10,000 to Rs. 15,000, and for joint accounts from Rs. 20,000 to Rs. 30,000; adults may also hold accounts up to Rs. 1,000 on behalf of minors. Interest return was increased last year to 2 per cent per annum on any amount not greater than Rs. 10,000 and 1 1/2 per cent for the remainder. Withdrawals are limited in amount and can only be made once a week. Pass books are issued either in English or in the vernacular of the locality. Progress of Post Office savings banks has been steady, except for some temporary setbacks as a result of the two world wars, the depression of the 'thirties,' and the partition of the country in 1947. In March 1938, deposits stood Rs. 77.5 crores and by 1951 they had increased to Rs. 185.1 crores; the average balance per depositor standing at an all-time high at Rs. 452. The Post Office also makes available national savings certificates and Treasury savings deposit certificates of varying maturities. Altogether, the amount of small savings channelled through the Post Office has been about Rs. 30 crores per annum during the past few years.

In addition to these savings facilities, the Post Office issues life assurance policies to Government workers and provides services for the purchase and sale of Government securities free of charge, but not as much use has been made of the latter as might have been expected.

E. Insurance Companies

Insurance companies in India transact the usual life, fire, marine and other miscellaneous classes of insurance business; they also perform some banking functions in granting loans to policy holders and investing

TABLE VIII. TRANSACTIONS OF POST OFFICE SAVINGS BANKS

End of March (1)	Number of depositors at the end of the year (In thousands) (2)	Deposits including interest (In lakhs of rupees) (3)	Withdrawals (In lakhs of rupees) (4)	Balance at the end of the year (In lakhs of rupees) (5)	Average balance per depositor Rs. (6)
1900	786	4,98	4,77	9,65	122.8
1905	1,059	7,05	5,97	13,41	126.6
1910	1,379	7,82	7,18	15,87	115.1
1915	1,644	12,05	20,43	14,89	90.6
1920	1,760	20,94	18,42	21,35	121.3
1925	2,164	21,26	20,41	25,64	118.5
1930	2,305	30,61	27,97	37,13	161.1
1935	3,100	44,40	38,33	58,30	158.1
1936	3,542	52,60	43,65	67,25	189.9
1937	3,922	50,82	43,39	77,68	190.4
1938	3,786	48,20	45,39	77,49	204.7
1939	4,241	51,85	47,48	81,86	193.0
1940	4,583	47,40	50,94	78,32	170.9
1941	2,844	31,51	50,32	59,51	209.2
1942	2,756	27,23	34,67	52,07	189.0
1943	2,564	26,98	26,83	52,22	203.7
1944	2,774	39,79	27,83	64,18	231.4
1945	3,095	49,13	33,09	80,22	259.2
1946	3,507	82,64	47,81	115,05	328.1
1947	3,973	104,33	77,03	142,35	358.4
1948	3,153	99,67	80,83	128,11	406.3
1949	3,426	98,15	77,77	148,49	433.3
1950	3,808	101,66	82,96	167,19	439.1
1951*	4,090	110,19	93,80	185,06	452.5

* Provisional

Source: Reserve Bank Of India, Statistical Tables Relating to Banks in India for the Year 1951, p. 55

their resources in various kinds of Government and other securities. As of October 1952, they numbered 324, of which 222 were Indian and 102 non-Indian, mainly British. Of the Indian companies, 115 were doing life insurance business, 48 life and other insurance and 59, non-life business only. The proportion of purely life insurance business of non-Indian companies was considerably lower.

Life insurance made significant progress during the past two decades. In 1928, the number of policies totalled about 1/2 million, with sums insured amounting to Rs. 124.0 crores; by 1951, the number of policies had increased to almost 3 1/2 million, insured for Rs. 792.9 crores. Annual premium income rose during the same period from Rs. 6.2 crores to Rs. 43.8 crores; other sources of income, such as interest, dividends, rents, etc., increased likewise, representing somewhat less than 20 per cent of total income. The table below on the distribution of assets of Indian companies reveals that a large proportion, though in postwar years a declining one, is held in Government securities, due in part to the statutory provision which requires these companies to cover their liabilities to the extent of 25 per cent in Government securities, and a further 25 per cent in Government or other approved securities. This aggregate total of asset holding, however, conceals the fact that there are considerable differences among companies; a few of the bigger ones, e.g. the Oriental Government Security Life Assurance Co., Ltd., invest heavily in Government securities, while some of the smaller companies hold a substantial amount of their assets in land and house property, etc. Most of the funds of insurance companies are obtained from middle class savings in urban areas. Provident societies which cater for lower income groups have as yet made little headway, their premium income amounting to only a few lakhs annually. Some government workers are covered by State Employees' Insurance Corporations. Life insurance has thus been confined to a small segment of the total population, and there seems ample scope for further development. The ratio of expenses of management to premium income is high, particularly among Indian companies, as is also the number of lapsed policies. The resulting costliness, to some extent inevitable in an underdeveloped economy, has hampered the more widespread expansion of life insurance.

As regards general insurance, premium income (less re-insurance) has been continually rising during the past few years. In 1940, it stood at Rs. 3.6 crores; by 1951, it totalled Rs. 18.4 crores, of which Rs. 9.4 crores were for fire (mainly from the cotton and jute industries), Rs. 4.1 crores for marine, and Rs. 4.9 crores for miscellaneous insurance business. Premium income of Indian insurance companies operating outside India was Rs. 6.3 crores in 1951.

The Insurance Act of 1938 and subsequent amendments, regulate comprehensively the operations of insurance companies. The 1950 amendments were designed *inter alia* to prevent the use of insurance funds for speculative purposes, the interlocking of interests between insurance companies and banks, and to limit the amount which may be spent on expenses

TABLE IX. NUMBER OF INSURERS
(October 7, 1952)

(1)	Indian (2)	Non-Indian (3)	Total (4)
Insurers registered for			
1. Life only	115	4	119
2. Life and other classes	48	13	61
3. Other classes only	59	85	144
Total	222	102	324

Source: Reserve Bank Bulletin, February 1953, p. 111

of management and commission. It set up the Insurance Association of India to furnish advice to the Controller of Insurance. The Association functions through two councils, the Life Insurance Council and the General Insurance Council, each with an executive committee of 12 members, the Controller of Insurance being represented on both. Only Indian insurers can be members of the Association, while non-Indian insurance companies are associate members without voting rights. As to the question of nationalization of insurance, an official statement viewed the 1950 amending Act as a "half-way house to nationalization. The scheme of the insurance law as a whole will enable a considerable degree of control and supervision exercised by Government over insurance business though in full cooperation with the business interests themselves."

F. Industrial Finance Corporation

Indian industrialists have for many years complained about inadequate facilities for obtaining capital. To meet this deficiency, several provinces passed State Aid to Industry acts during the inter-war period, e.g. Madras, Bengal, Bihar and Orissa, which enabled provincial governments to make loans, subscribe to shares and debentures, guarantee interest on capital and cash credits with banks, grant subsidies for research, etc. On the whole their efforts to stimulate industries failed and many of the enterprises which they promoted went subsequently bankrupt.

A new attempt was made in 1948 with the establishment of the Industrial Finance Corporation. This Corporation was empowered to provide long and medium term finance to public limited companies and cooperative societies registered in India and the Acceding States, which undertake the manufacture of processing of goods, mining, generation and distribution of electricity or any other form of power. Its authorized capital is Rs. 10 crores and paid-up capital Rs. 5 crores, of which the Government of India and the Reserve Bank subscribed Rs. 1 crore each, the scheduled banks and other financial institutions Rs. 1 1/4 crore each, and the cooperative banks Rs. 1/2 crore. The Government guarantees repayment of capital and a minimum dividend, which stands at present at 2 1/4 per cent per annum; the maximum dividend may not exceed 2 per cent and any surplus after the declaration of dividend accrues to the Government of India. By issuing bonds and debentures, the Corporation can borrow up to five times the amount of its paid-up capital and reserves and, in addition, it may accept deposits for a duration of not less than five years and a maximum amount of Rs. 10 crores. Its head office is in Delhi, and other offices are in Bombay, Calcutta, Madras and Kanpur. The Corporation is managed by a twelve-man Board of Directors, four of which are nominated by the Government (including the Managing Directors), two by the Reserve Bank, and six represent other financial institutions. The Corporation is a lender, and not a partner in industry; it is not allowed to invest its resources in stocks and shares of companies. It may grant loans or subscribe to debentures of industrial concerns for a maximum period of 25 years on security of sufficient pledge, hypothecation, or mortgage.

TABLE X. DISTRIBUTION OF ASSETS OF INDIAN LIFE INSURANCE COMPANIES

	1949		1950		1951	
(1)	Amount Rs.Crores (2)	Percentage of total (3)	Amount Rs.Crores (4)	Percentage of total (5)	Amount Rs.Crores (6)	Percentage of total (7)
1. Government Securities	119.7	55.0	121.3	53.7	127.4	51.0
2. Municipal, Port Trust and Improvement Trust Securities	11.0	5.0	11.0	4.5	13.7	5.5
3. Holdings in Indian Companies, Cooperative Societies, etc.	30.2	13.9	33.2	14.7	34.7	13.9
4. Land and House Property	8.8	4.0	9.6	4.2	12.5	5.0
5. Mortgages on Property	6.0	2.8	7.7	3.4	10.0	4.0
6. Loans on Policies, Securities and other loans	12.5	5.8	13.8	6.1	16.7	6.7
7. Miscellaneous (including cash and deposits	29.3	13.5	29.3	13.0	34.8	14.0
Total	217.5	100.0	225.8	100.0	249.8	100.0

Source: Reserve Bank *Bulletin*, February 1953, p. 113

TABLE XI. LIABILITIES AND ASSETS OF THE INDUSTRIAL FINANCE CORPORATION
(as on June 30) (Rs. Lakhs)

(1)	1949 (2)	1950 (3)	1951 (4)	1952 (5)
1. Liabilities				
a. Capital - Issued and Paid-up. (authorized Rs. 10 Crores)	5,00.0	5,00.0	5,00.0	5,00.0
b. Reserve Fund	-	0.5	1.0	2.0
c. Provision for Taxation	2.0	2.0	5.3	13.5
d. Bonds and Debenture	-	5,30.0	5,80.5	5,80.5
e. Fixed Deposit	-	-	-	-
f. Contingent Liabilities under Guarantees and Underwriting Agreements	-	-	-	-
g. Other Liabilities	0.2	7.8	9.4	33.4
h. Profit and Loss Account Credit	0.9	3.1	7.9	9.2
Total	5,03.0	10,43.4	11,04.1	11,38.6
2. Assets				
a. Cash in Hand and with Banks	33.8	17.1	63.2	57.1
b. Investment - Gov't Securities	3,31.7	6,72.5	4,57.4	3,08.2
c. Loans and Advances	1,33.0	3,41.3	5,65.7	7,25.0
d. Debentures	-	-	-	-
e. Guarantees and Underwriting Agreements	-	-	-	-
f. Other Assets	4.5	12.4	17.7	48.4
Total	5,03.0	10,43.4	11,04.1	11,38.6

Source: Reserve Bank Bulletin, October 1952, p. 804

TABLE XII. INDUSTRY-WISE CLASSIFICATION OF LOANS SANCTIONED BY THE INDUSTRIAL FINANCE CORPORATION*
(Rs. Lakhs)

(1)	1948-49 (2)	1949-50 (3)	1950-51 (4)	1951-52 (5)	Total 1948-52 (6)
1. Cotton Textiles	40	92	28	44	2,04
2. Chemicals	56	4	25	1,01	1,86
3. Ceramics and Glass	60	--	20	39	1,19
4. Electrical Engineering	26	38	21	30	1,15
5. Sugar	--	20	--	95	1,15
6. Cement	40	--	50	--	90
7. Paper	--	--	3	71	74
8. Mechanical Engineering	10	39	--	19	68
9. Textile Machinery	43	8	7	6	64
10. Rayon	--	50	--	--	50
11. Aluminum	--	50	--	--	50
12. Automobile and Tractor	--	--	50	--	50
13. Iron and Steel (Light Engineering)	15	27	--	8	51
14. Metallurgical (Non-ferrous metals)	30	--	--	5	35
15. Woolen Textiles	5	--	30	--	35
16. Mining	--	30	--	--	30
17. Electrical Power	3	9	--	6	18
18. Oil Mills	2	--	1	--	3
19. Unclassified	12	10	4	22	48
Total	3,42	3,77	2,39	4,45	14,03

* Include loans aggregating Rs. 1,45 lakhs which applicants declined to avail themselves of, or which were not made available to the borrowers.

Source: Reserve Bank *Bulletin*, October 1952, p. 805

It may underwrite the issue of stocks, shares and debentures, and guarantee loans which are floated in the open market, provided that they are repayable within 25 years. The purpose of the Corporation is to assist in those cases where normal bank financing is inappropriate and where there is no recourse to the regular channels of the capital issues market. In accordance with the Finance Corporation (Amendment) Act of 1952, it can make finance available to any single enterprise to the amount of not more than 10 per cent of its share capital or Rs. 1 crore, whichever is less. The Corporation originally charged 5 1/2 per cent on its loans but in February 1952 this was increased to 6 per cent, with a 1/2 per cent rebate if repayment is made on due date. Since its inception to June 30, 1952, progress of the Corporation has been steady but slow, due largely to the paucity of worthwhile projects.[1] During the four-year period, it has received 259 loan applications for a total of Rs. 31.9 crores, of which it sanctioned 94 applications amounting to Rs. 14.0 crores, about half of this being outstanding. Nearly 45 per cent of all applications were rejected and the rest were under consideration. The table on the distribution of loans in Table XII shows that the cotton textile industry was granted the largest amount (Rs. 2.0 crores), followed by chemicals (Rs. 1.9 crores), ceramics and glass (Rs. 1.2 crores), sugar (Rs. 1.2 crores), and electrical engineering (Rs. 1.1 crores); other industries, such as cement, paper, etc., obtained less than Rs. 1 crore each during the 1948-52 period. The number of applications for loans declined continuously (except for 1951/52) as also the ratio of rejection.

In September 1951, the State Financial Corporation Bill was passed as an enabling measure for State Governments to set up similar corporations on a state level in order to provide medium and long term finance to small and medium scale industries. The share capital of these corporations may vary between Rs. 50 lakhs and Rs. 5 crores, subscription being open to the public to the extent of 25 per cent. The Reserve Bank and the Industrial Finance Corporation will provide part of the capital and appoint some of the directors, though they will have no direct control over these state corporations. The maximum assistance to any single enterprise is fixed at Rs. 10 lakhs for a period of no more than 20 years. Such corporations have been established in Punjab, Bombay, Hyderabad, Saurashtra, Travancore-Cochin and West Bengal; proposals for others in Assan, Bilan, Madhya Pradesh, Mysore, Orissa and Ulla Pradesh are under consideration.

G. Managing Agents and Investment Trusts

The bigger managing agents and investment trusts have one characteristic in common, viz, they both distribute their resources among diverse enterprises. The managing agency system has during the past 50 years played a notable role in promoting, financing and managing industrial concerns, performing in some way the functions which in other countries

1. See the Fourth Annual Report of the Industrial Finance Corporation (1952).

were undertaken by banks, issue houses, underwriting firms, etc... in initiating industrial development. As a rule, managing agents have taken the form of partnerships or private companies, although several important ones have lately been converted into public companies. According to data in the Investors Encyclopedia, 1951-52, there are now more than 500 agency firms managing about double that number of companies.[1] Supplementing their own resources, they obtain funds from relatives and friends, and thereby act as intermediary agent. Figures are not available as to the extent to which they channel savings from these outside sources, but there is a general feeling that the amount of intermediary business, as in fact the importance of the managing agency system itself, is on the decline with the development of the organized capital market.[2]

Investment trusts, on the other hand, are of recent origin; there are about half a dozen of them with total capital amounting to a little under Rs. 3 crores. Investment trusts pool the savings of different people by issuing shares and bonds, and invest their resources among various enterprises in such a way as to minimize risks. Diversification is the operating principle of their investment policy. They put their funds in Government and other securities with the view of holding them as investment rather than seeking capital gains through frequent investment turnover.

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1. About 10 per cent of the agency firms manage almost 50 per cent of all the companies. Some of the bigger managing agents (e.g. Andrew Yule and Co., Karamchad Thapar and Bros., Ltd.,) manage a great number of companies of different industries, such as coal, cotton, paper, etc., while most of the smaller agency firms have only one company under their management.

2. This refers to the managing agents, qua financiers, and not in their capacity as entrepreneurs. The Center's research project on the business community should be able to throw more light on both of these aspects.