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THE REPORT OF The Banking Enquiry Committee of Kolhapur

Based

*On the Questionnaire issued by the Provincial
Banking Enquiry Committee*

WITH

*a special reference to the conditions prevailing
in the Kolhapur State.*

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KOLHAPUR,
4th February, 1930.

From

The Chairman,

The Banking Enquiry Committee,

Kolhapur.

To

Rao Bahadur Diwanosabeb,

Kolhapur.

Sir,

I have the honour to forward the Report of the Banking Enquiry Committee. It is a unanimous report on the questionnaire of the Provincial Banking Enquiry Committee. Our recommendations, given in the beginning, are of general nature. If the state or the Government chooses to adopt any suggestions, it will have to make further intensive enquiry on those particular items.

I have the honour to be,

Sir,

Your most obedient servant,

Balkrishna,

Chairman,

Banking Enquiry Committee,

MEMBERS OF THE COMMITTEE:

(Sd.) R. R. Shirgaokar.

S. S. Phatarpekar,

R. M. Rajadnye.

S. S. Vankudre.

S. G. Swami.

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SUMMARY OF RECOMMENDATIONS.

Prices of land.

1. Each Agricultural Department should annually publish the prices of land by private sale, or sale by court decree and for non-payment of revenue.

Indebtedness.

2. Some special staff should be employed to find out agricultural indebtedness in typical and representative areas.

Record of Rights.

3. The Kolhapur State and Municipalities should hasten to have records of rights in rural and urban areas.

4. Suggested means be adopted to insure the incontestable title to property.

Mortgage Banks.

5. Reasons why Mortgage Banks are needed in the State and British India.
6. Government should advance money to Mortgage Banks without interest.
 - (i) Compulsory Agricultural Improvement Fund to be reserved from state revenues and part of it be given at 3 % interest to Mortgage Banks and part free of interest.
7. Suggestions to find out capital for Mortgage Banks.
Suggestions to secure government against loss.
Suggestions for the issue of bonds.
Suggestions for introducing other agencies for long credit.

Small Industries.

1. Introduction and of machines for rice-milling, butter-making, cane-sugar making, sugar-refining, cotton-ginning, of spinning wheels and weaving looms, should be furthered by State propaganda.

2. Dairying, horticulture, fruit-raising, epiculture sericulture, poultry-rearing, Bidi-making, lac-making require to be developed by the State aid.

3. An Agricultural Bank with branches in large villages to finance cottage industries should be opened by the State on share basis, in which the State should invest some money free of interest and some on 3 % interest.

4. Co-operative Credit Societies should be developed for this purpose.

5. Private agencies should be encouraged to aid these industries on lines of productive, marketing and financing Co-operative Societies.

6. The starting of the weaving and dyeing classes in the Technical Institute at Kolhapur and granting of scholarships to the students, are the right methods in developing the declining weaving industry of the State. Active propaganda to draw students should be made, Steps should be taken in British India to revive the Textile industry in villages.

II. Indigenous Banking.

1. Suggestions to remove the defects of Indigenous Banking — Re Sowkars:
 - (1) Their books should be open for inspection.
 - (2) The Government should appoint auditors to audit their accounts.
 - (3) These accounts should be open to Co-operative Credit Societies as far as their members are concerned.
 - (4) These should be licensed or registered.

- (5) There should be no regulation of the rate of interest.
 - (6) Their balance sheets should be in a prescribed form.
 - (7) An Association of Bankers and Sowkars to control, systematize and develop the practice of money-lending might be established in each district.
 - (8) The village money-lenders be made agents of Joint Stock and Agricultural Banks.
 - (9) Law for compulsory issue of Pass-books be made.
2. Government to advance money to banks to be lent for agriculture.
 3. Agricultural Department to publish *annual* figures of indebtedness.
 4. The Government should exempt from income-tax and stamp duty Co-operative societies, and debentures issued by these societies or by Agricultural Banks and Mortgage Banks.
 5. The Railway Receipt should be made a negotiable legal instrument by amending the Railway Act.
 6. Suggestions to tap the idle capital.

III. Investment Habit.

- (1) Means of improving the investing habits.
- (2) Suggestions to make P. O Savings Banks more useful.
- (3) Means to increase the use of cheques.
(Besides these, succeeding suggestions numbering 6, 8, 9, 10, 12, 13, 16 and 17 be also attended to.)

Special Suggestions For The State.

Over and above the preceding recommendations, the following will be of special interest for the state.

- (1) The Usurious Loans Act of 1918 be made applicable in Kolhapur with some necessary amendments,
- (2) Land Improvement Loans Act to be made applicable here.
- (3) The Deccan Agricultural Relief Act is applicable here, but it should be revised in the light of our suggestions.
- (4) The balance sheet of the Funds used by the State for giving loans to various classes for trade, industry and agriculture should be published.
- (5) There should be at present only one Registrar for registration of Co-operative Societies and Joint Stock Companies.
- (6) The Kolhapur Bank be allowed to have a Co-operative Department to act as a Central Bank for Co-operative Credit Societies.

It is fortunate that in India the agriculturists and the traders require credit at different seasons of the year. The slack season for banks is from June to December, when a good deal of money lies idle with them. This can be lent to Co-operative Credit Societies and village Sowkars at 6%, who can advance to the agriculturist at 9% on 6-7 months' credit. The money will be available in December and January to the banks and thus like charity it will be doubly blessed, as both the banks and debtors will profit by this method of lending.

(7) The Kolhapur Bank be given the charge of the treasury and sub-treasuries on the plan that the Imperial Bank is in charge of District treasuries. (1) The Darbar will save all the expense incurred by it now on the central and sub-treasuries and (2) also will get overdrafts in times of stringency. On the other hand, the Bank will have more money at its disposal for financing trade and agriculture.

- (8) Tagavi Loans.

Delay involved in red-tapism, awe of the officers, corruption of the underpaid village officers in asking tips, rigour in realizing loans- these make it impossible or difficult for the agriculturists to obtain Tagavi loans. Hence the state should keep

money with co-operative societies and the Central Bank to be given through them at lower interest.

(9) **Co-operative Credit Societies:—**

Some modifications are necessary in the working of the co-operative societies to remove their defects and make them more useful to agriculturists and artisans.

(10) Kolhapur is a big commercial town. The Railway should establish a ware-house here and warrants issued by this ware-house for goods deposited in it should be negotiable. The system of licensed ware-houses, somewhat on the American Plan is desirable.

(11) Effort be made to negotiate with the Imperial Bank to make the Kolhapur Bank its Agent here,

(12) The state—owned enterprises be thrown open to the public for capital investment.

(13) We are not in favour of popularising the sale of Government securities and Post Office Cash Certificates, as these drain away the money of the State and thus there is less money here for trade, industry and agriculture. Effective means should be taken to encourage deposits with local banks and with local shroffs, and investment in local industries. There is lack of confidence in banks. Hence about 30 lakhs of rupees are deposited in Post Office Savings Banks, while in the Kolhapur Bank, only lakh Rs. are kept. This defect can be removed by guaranteeing the repayment of deposits in the Bank by the State, as the Durbar is controlling the bank and is responsible for its stability and security of funds.

(14) For the development of railways and irrigation, the Durbar should raise loans on the guarantee of British Government, and give these to be constructed by private companies.

(15) 'Aid to Small Industries Act' should be introduced in this state,

(16) A Market Act on the lines of the Cotton Market Act be introduced here as well as in British India.

(17) There should be a Market Officer to inspect weights and measures, to organise the merchants, to look to the interests of agriculturists, to open new markets, and improve the means of transportation.

(18) If the Kolhapur Bank is made the Central Bank, it be given the right of foreclosure.

(19) The Gazette Order, depriving the Inamdars of a right of getting money from the state as a loan, be withdrawn. A definite Act should be made for the alienation of Inam lands. The Inamdars be asked to form a Co-operative Credit Society of their own order on the security of their own lands. *These lands be alienable to the members only* by sale, on failure of loans being returned to the Society.



1. Agricultural Credit and Credit facilities for Small Industries.

1. The Agriculturists in this State obtain finance as under :

(a) Finance for expenses during cultivation. In this case the Agriculturists may conveniently be divided into 2 groups: (1) those who produce (a) Gool-sugarcane, (b) ground-nuts, (c) tobacco, (d) cotton, (e) turmeric and (f) chillies-crops which are mostly exported from this state; and (2) those who produce Jowar, rice and other crops which are mostly consumed locally.

In the 1st group the agriculturists are mostly financed by the commission agents or Dalals to whom they take the produce for sale. These Dalals mostly supply the farmers with seeds and manures. The Agriculturists in return bind themselves to bring the produce to the Dalal's shops and pay for the advances out of the proceeds of the sale. The village Banias or Sowcars also advance them money.

In the case of 2nd group these agriculturists mostly depend upon the village Banias and Sowcars, i. e., well-to-do villagers who do the business of lending money.

(b) Finance for capital and permanent improvements. For capital and permanent improvement of land, the agriculturists depend upon Sowcars (professional money lenders) and on well-to-do citizens who advance money to the cultivators on mortgage of their lands with an eye on its purchase on easy terms. Only in a very few cases Government advance money as Tagavi loans.

(c) Finance for other special needs, e. g. failure of monsoon, for land revenue, etc.

During failure of monsoon or for land revenue the cultivator gets aid from the state by way of Tagavi, remission of revenue the whole or in part or by postponement. For his personal needs, e. g., marriage of his son or daughter he gets advances from the village Sowcar.

Rate of Interest:—The rate of interest in this State varies from 9% p. c. to 24%. Sometimes it goes to 36% even. It depends on the period—the shorter the period, higher the rate—, and the nature of security and the purpose for which the loan is taken. The period is from 3 months to 1 year, but when the loan is taken for permanent improvements in land, e. g., digging a new well or repairing an old one or for improving the land, the period is extended. The security is the land itself, but in the case of advances during cultivation, the security is the standing crop. When money is advanced for permanent improvement in land or for other needs, the land is mortgaged with possession only in a few cases, but mostly it is without possession. In cases where the possession passes to the mortgagee, the cultivator still holds the land on lease from 3 to 5 years.

Only on a very small scale, the state advances loans to agriculturists. The local Bank indirectly advances loans by giving credit facilities to commission agents who advance money to the agriculturists. For purchasing machinery or for improving land, the local Bank does advance money directly to agriculturists. Co-operative Banks, Indigenous Bankers, professional money-lenders, merchants and well-to-do citizens do advance money to agriculturists. In this state money is generally not advanced by big foreign firms who export produce from here, but a beginning to that end has just been made by the Imperial Tobacco Company which is advancing seeds, etc. to the agriculturists. Companies dealing in fertilisers do not advance money to agriculturists directly, but they do so indirectly by allowing short credit facilities to the Commission Agents who give credits on their own account to the cultivators.

The defects in the present system:—are (i) high rate of interest the cultivators have to pay, leaving no balance on hand to improve the land or purchase fertilizers to increase the yield; (2) the loan cannot be had at the time when it is most needed; and (3) no corporate body can be approached for loans. The remedy suggested is the starting of Co-operative Credit Societies and Land Mortgage Banks and other Loan Associations.

There is no co-ordination among the various credit agencies, but there is scope for improvement. Vide P. 2.

II, (2) The principal crops in this state are:—

Method
of
marketing
produce.

(1) jowar, (2) rice, (3) sugar-cane, (4) ground-nuts, (5) cotton, (6) tobacco, (7) turmeric, (8) chillies, (9) betel-leaves, and (10) Dbanas or aniseed. These when ready are brought by the cultivators to the markets most advantageous to them and are taken to the shops of the commission agents where the dealers gather together and the stuff is auctioned. This is done every day except on stated holidays and new moon-days and the process goes on from shop to shop. In our opinion the present method is a good one, as purchasers of the commodities gather in the markets from different parts of India and there is a keen competition between them. The local merchants association and the Durbar authorities however should take more care to check the weights and measures used by the commission agents and to see that the cultivators get the full value of their stuff.

No pools
or
co-opera-
tive
marketing

The agricultural class in this state consists mostly of illiterate persons and there is no possibility of forming pools or co-operative marketing for some years.

Finance for
marketing,
produce.

The cultivators are paid immediately when their stuff is sold, but the commission agent receives payment from the purchaser on the 4th day and in the case of tobacco after a month and a half or sometimes after 2 months. He is therefore hard pressed for money and requires credit. To the cultivator he charges interest from 18 to 36%. The local Bank gives such credit to the commission agents at Kolhapur, Gadhinglaj and at Jaisingpur where it has got its branches. This credit is in the form of short bills or bills discounted.

Credit to
foreign
trade.

The question of giving credit to foreign firms does not arise here. The foreign firms make purchases in the local markets: through their agents who pay the commission agents by drafts on their principals in Bombay. These drafts are easily negotiated in Kolhapur.

Part
played by
Bankers
etc.,
during
process of
marketing
crops.

When the crops are brought into the market, the cultivators are paid immediately on sale of their stuff by the commission agents. These commission agents borrow money during the busy season from local sowcars on the security, mostly, of gold, they are given short time credit by the local Bank on personal security only. When the market is dull, the cultivators stock the goods through the commission agents and in this case the local Bank advances money, on the security of these goods in its three centres. When the stuff is booked, the dealer gets an advance from 80 to 90 % from the purchaser or Adatia on the security of the Railway Receipt.

Internal
re mittance

Internal remittances are managed by the Imperial Bank, Supply Bills are given or Telegraphic Transfer orders are sent by the Imperial Bank on the Residency Sub-Treasury and the local Bank or private individuals obtain their necessary amounts from the Sub-Treasury. A few indigenous bankers here order out parcels of half currency notes by post from their agents in Bombay. In few cases also parcels of coin are brought by motors or railway from places where cash is not in demand.

Part
played by
negotiable
instruments

The agents of foreign firms who are sent here to make purchases on their behalf make payments by drafts on Bombay. These as also hundies given by agents of purchasers residing in all parts of India, are accepted by the local Bank, also by Indigenous Bankers. The Bank also accept cheques, drafts, and hundies payable in any part of India as also in any

foreign country. Shahajog hundies are accepted freely. Sight drafts are also discounted by the local bank, provided the parties are well-known.

Remission
of stamp
duty.

Demand drafts and hundies require no stamp. Only sight drafts require a stamp, but the remission of stamp duty is not likely to increase their use as their negotiability depends solely on the parties.

Classes of
hundies.

The different classes of hundies in use in this state are Darshani hundis or sight drafts and "Mudatichi hundi." The wording is in the form settled by the Bombay Sharof Association. Cheques have lately been used and are now accepted freely. Outside cheques are cashed by the Kolhapur Bank only.

Discounting
of
Hundis.

Hundis are discounted locally when either the drawer or the acceptor are well-known. Only in rare cases these Bills pass through the hands of middlemen. *This discounting* is done by indigenous bankers or other private persons.

Instruments
of owner-
ship of
goods, etc.

In this State Railway Receipts are considered as the only effective instruments of ownership of goods. Our suggestion is given in the summary.

I (3) Basis of Appraisal.

The Principal factors affecting the value of agricultural land may be said to be:

1. Productivity depending on quality of the soil.

Location:—

- (a) Vicinity of streams, springs, tanks, other sources of water.
- (b) Rainfall.

Topography:—

- (c) Levels undulating, rolling; hilly or marshy tracts.
- (d) Climatic conditions, sanitation, general health,
- (e) Uses of manures, fertilizers, etc.

2. Salability of land.

- (a) Existence or absence of Government restrictions on the sale of land;
- (b) Active and wide market v. inactive and narrow market.

3. Prevailing land prices.

4. Character of buildings, fences, barns, wells, etc.

5. Combination of fields, meadow, woodland, orchards, cultivable, unimproved, and waste land.

6. Compact holding or fragmented.

7. (A) Character of communication and transportation.

- (a) Railway-lines.
- (b) Pakka roads.
- (c) Kacha roads,
- (d) Ferries.
- (e) Motor roads,

(B) The right of way to public road.

8. Government dues and rents.

9. Irrigation charges.

10. Cost of cultivation.

11. Prices of food-stuffs, ploughs, other agricultural instruments and cattle.

12. Markets,

13. Industries-
Mills, factories, hand-industries,
14. Facilities from the Government-Tagavi, remission of taxes, suspension of Government dues.
15. Supply of labour and the rate of wages,
16. Protection from animals, facilities from local self-government.
17. Education (art. industrial, technical, etc.)
18. Banks-Co-operative, agricultural, mortgage, etc,
19. Suburban developments.
20. Anticipation of improvements in the form of clearing, drainage, or irrigation projects.

Prices of Land in the Kolhapur State.

Value of
land in
private
sales.

The assessment officer has recently made investigation and gives the following information on the value of land by private sales. The information on a and b is not fully available. The Agricultural Department should publish information on the prices of lands sold for nonpayment of revenue and through court decrees.

Rent per acre on various lands comes to the following figures.

(a) Karvir		
Dry crop	Garden	Rice
4-12	12	10
4-8	10	9
4-4	8	8
3-12		
3-4		
2-10		
2-2		
1-5		
(b) Shirol		
4-4	12	10
4	10	
3-12		
3		
(c) Alte		
4-4	12	10
(d) Panhala		
4-4	12	10
3-12	10	9
3-4	9	8
2-8	7	7
2-4	6	6
1-10		5
1-6		
1-2		
(e) Bhudargad		
4-4	11	12
4	10	10
3-8	8	9
Inami		
3 and 2-12	7	8
Inami		
2-10 and 2-6	6	7
1-14		
1-10		
1-6		

(f) Gad-Hinglaj (includes Katkol)

	Dry crop	Garden	Rice
	4-4	10	10
	3-8		9
	3		8
	2-8		7
	1-14		
	1-4		
	1-2		
	1		
(g) Raibag			
	3	8	nil.
	1-12	7	
	1-8		

In Shirol, the value of land is, on the average, following times the assessment.

I group	70.24 times.
II "	100.27 "
III "	89.90 "
IV	104.37 "

On these bases, the average price of land is Rs. 237.34 per acre and this average value comes to 76.43 times the assessment on the average in Shirol Taluka,

At the last settlement (1898), the average price was Rs. 122.7-4 per acre, or 37 times the assessment on the average.

Thus if we apply the average of Shirol Taluka to the whole state the present average value per acre comes to:

I	Dry crop	Garden	Rice
	1 × 76 = 76	12 × 76 = 912	12 × 76 = 912
	1-2 × 76 = 85-8	11 × 76 = 836	10 × 76 = 760
	1-4 × 76 = 95	10 × 76 = 760	9 × 76 = 684
	1-8 × 76 = 114	9 × 76 = 684	8 × 76 = 608
	1-10 × 76 = 123-8	8 × 76 = 608	7 × 76 = 532
	1-12 × 76 = 133	7 × 76 = 532	6 × 76 = 456
	1-14 × 76 = 142-8	6 × 76 = 456	5 × 76 = 380
	2 × 76 = 152		
		AV. 684	AV. 619
	2-2 × 76 = 161-8		
	2-4 × 76 = 171		
	2-6 × 76 = 180-8		
	2-8 × 76 = 190		
	2-10 × 76 = 199-8		
	2-12 × 76 = 290		
	2-14 × 76 = 218-8		
	3 × 76 = 228		
	3-4 × 76 = 247		
	3-8 × 76 = 266		
	3-12 × 76 = 285		
	4 × 76 = 304		
	4-4 × 76 = 323		
	AV. 186		
	Dry lands	Garden lands	Rice land.
	Rs. 186 p. a.	Rs. 684 p. a.	Rs. 619 p. a.

These figures are based on the data collected from the Registration Department. 25 to 33 % of the documents of the deeds during the last eleven years (1918-28) were examined. Thus these are fully reliable.

I (4) Mortgage of Land.

Impediments to mortgage unnecessary.

4. Inam lands can not be mortgaged; there are no impediments placed in the mortgage of other lands except that the Agricultural Relief Act applies in the State. We are not in favour of putting impediments on mortgage. Those on Inam lands should be removed, so that money be easily available for improvement, and the ring round the hereditary aristocracy be broken. See recommendation in the summary. P. 3 (19) supra.

(b) There are no banks of any kind for long term credit.

Title deeds of Property and Record of Rights.

No Mortgage Banks exist. Record of Rights essential

The most important condition for lending money is the borrower's title to the land. Satisfactory evidence must be forthcoming, and if possible, it should be supplemented by a title insurance company.

If there is no record of rights as in the Kolhapur town and the whole Principality, it is difficult for banks to have self-evident title deeds. All those methods must be adopted which will give satisfactory evidence of incontestable title. Compulsory registration of transfers, low Registration fees, arbitration, etc., are means of facilitating the record of rights. This work is done in America by title surety companies which charge $\frac{1}{2}$ % of the loan with a fixed minimum charge. These guarantee the validity of the title by a thorough search in the records through their special agency. The banks and the Government have separate agencies to test the validity of titles. Only then loans can be given. Land-mortgage banks anticipate the existence of the record of rights and the growth of the title insuring agencies.

NEED OF MORTGAGE BANKING.

The practice is very ancient.

The land mortgage is the earliest type of mortgage. Hence it is a pity that in spite of the European and American experience before us, almost nothing has been done to improve the methods of land mortgage lending. The well-standardized methods of the West can be utilised here.

During the period of the infancy of banking in India, land mortgage-practice could be encouraged, because *such loans have advantages like these:*

1. Relatively high interest.
2. Safety.
3. Early maturity,
4. Freedom from fluctuation of the principal of the investment.
5. Control by the lender over his investment.

Advantages to the borrowers and others

1. Comparatively low rates of interests and easy terms of repayment. These facilities permit a borrower to procure equipment, implements and supplies by easy payments. Thus the country merchants have increased business and more profits, while the borrower gets articles on lower prices.

2. Both farmers and merchants are made more prosperous through more developed efficiency.

3. These tend to increase deposits of country banks.

4. These tend to lower the price of agricultural products to the ultimate consumers.

5. Investors get tax-exempt interest bearing securities,

6. Banks educate farmers to better agricultural methods, because in many cases they enforce their suggestions by making them a condition of granting loans.

7. These banks have furthered the growth of producers' and consumers' co-operative societies.

8. They have encouraged the good-road movement.

The long term credit is needed

Need of long credit.

For purchase of mortgaged land;
For purchase of other land;
For buildings and improvements;
For implements and equipment;
For irrigation;
For bank stock;
To purchase live stock;
To pay mortgages;
To pay other debts.

Capital of Mortgage Banks

The working capital of the Mortgage Banks should be derived from
(1) Government advances as in America,
(2) Shares and Stocks of the borrowers,
(3) Deposits of borrowers,
(4) Debenture bonds.

Government should invest money in Mortgage Banks.

Even in a country like the U. S. A., the Government had to supply the needed capital in the beginning for opening the Federal Farm Loan Banks. As the movement became popular, fund from the N. Loan Associations increased and *the Government shares were retired*. The following table will show the amounts of capital forthcoming: (In dollars)

	November 30, 1917.	November 30, 1918.	December 31, 1924,
U. S. Government	8,892,130,00	8,765,415,20	1,670,965,00
National farm loan associations.	1,488,230,00	7,363,755,00	47,524,335,00
Borrowers through agents.	0,000,00	17,695,00	3,85,160,00
Individual subscribers.	107,870,00	103,420,00	1,585,00
Total capital stock...	10,488,230,00	16,250,285,20	49,582,045,00

Suggestion.

1. Indian Farm Loan Bank in each province and State.

(1) It should be noted that all *this money was given free by Government without any interest or dividend to be paid to it by the Bank*. There should be one Indian Farm Loan Bank in each province and each state under the strict supervision of their respective Governments.

Whence Government is to find out money

2. Compulsory Agricultural Imp. Fund.

Just as there is a Famine Insurance Fund, so there should be a compulsory Agricultural Improvement Fund, for which an adequate amount be reserved per annum in each province. All this money be invested in Mortgage Banks at an interest of 3 % or so. Similarly, each state should reserve a part of its revenue for this purpose, and initially contribute as much as possible to start a Bank.

Shares.

(2) Each borrower be required to pay 5 % of the loan he is to receive, to the Bank and 5 % to the Local Loan Association.

Deposits.

(3) These banks be prohibited to keep any deposits of others than those of the members only.

Bonds. (4) Bonds be allowed to be issued to 15 times the Banks capital and surplus.

Securing Govt. against loss. To secure Government against unnecessary loss, the following machinery may be recommended.

(1) There should be an adequate representation of Government in the Directorate of the Bank.

(2) There should be an independent Board to superintend, direct and control the Farm Loans Associations and Loan Banks.

(3) Banks and Associations be established after thorough examination by this Board. Each should hold a charter.

(4) Standard methods of appraisement and valuation be established.

(5) Government officers and the supervising board of the Bank be appointed for reporting on the working of Associations and Banks, correctness of appraisement, and the use of loans by the borrowers.

(6) Adequate safeguards be adopted to see that the loan is used for the purposes indicated at the time of borrowing,

(7) Supervising Board for checking loans etc. be appointed,

(8) The L. M. Banks should to be registered under Co-operative Societies Acts so as to save the members registration fees etc. and to get the benefit of Govt. audit.

(9) Government should have a Secretary-Treasurer in each local Association.

(10) Strict rules be made with regard to stock, earnings and dividends,

Issue of Bonds. *The bond issue process should be closely restricted by measures like these;*

(1) The Government should appoint a Farm Loan Board on the lines of the U. S. A.

(2) This Board should approve the issues of bonds,

(3) The bonds be issued by Government and delivered to the applying bank by the officer, specially appointed for this purpose in the Bonds Issue Department.

(4) The Government should keep the first mortgages and securities to cover the debentures.

Other Agencies for long term credit

a. Joint-stock Land Banks—to be established,

b. Land mortgage Bankers, as individuals, partnerships or corporations.

c. Cattle Loan Companies be established.

d. Live-stock commission agencies be started.

6. SUBSIDIARY INDUSTRIES:

The following are some of the industries allied to agriculture and which are followed by some of the farmers of the state:—

Rice-milling—In the rice-growing tract of the Kolhapur State the paddy is generally turned into rice by the farmers themselves at home, but a tendency is now-a-days observed amongst the farmers of taking the help of rice-milling machines, for turning paddy into rice as also for making flour from rice, jowar, etc. The flour-mills are being very rapidly introduced in the bigger villages of the State. One can understand the utility of these machines, if they were made use of by the farmers at the plantation and harvest times

when there is so much dirth of labour, and not otherwise when the farmer has ample leisure.

Dairy-farming—Excepting a few places round about the Kolhapur City, the farmers do not seem to follow this as an industry. An average farmer invariably maintains a couple of cows or she-buffaloes along with his working cattle. He usually converts the milk into butter which he sells once a week in the nearest village-market. Kolhapur butter is well-known in Bombay, and often the agents buy butter in the villages and export the stuff after converting it into Ghee. No special care is taken about the breed nor in maintaining the hygienic conditions. Much can be done in this line, if the Agricultural Department undertakes some propaganda work and shows to the farmer the great possibilities and advantages awaiting him in this branch.

No help is being taken by the farmers from machinery for butter making.

Gul-making—This industry is followed on a very large scale in the Kolhapur territory, the Kolhapur Peth (Market) being well-known for its Gul in the whole of the Bombay Presidency. From the enquiries made with the farmers, it appears that cane-growing is not a profitable industry if the land does not belong to the cultivator and if the rate of the Gul goes below Rs. 3/-per Maund (Bomb.) The question then arises as to why the farmer is after planting cane ? He does so because only if he plants cane, he is in a position to get money for all the twelve months till he harvests the crop, from either his Sowkar (money-lender) or shopman. If the ignorant farmer were to keep his accounts, he would easily find out that after labouring hard with his animals and home members for full 12 months, he cannot earn even half of what he would get as wages elsewhere.

Garden-Produces—There are very few horticultural gardens in the Kolhapur State, even though some of the tract appears to be very favourably situated for such a purpose. There will be a sure market in Kolhapur itself, whilst the fruit can be despatched to a market like Bombay within 18 hours. A large area seems to be quite suitable for fruit trees such as mangoes, mosambiques, grapes, figs, bannanas, guawas, etc. The introduction of the suitable fruit trees will have to be pushed through by the Agricultural Department.

Cotton Gineries—Some years back all the cotton produced in the State was ginned by the farmers themselves, but owing to the advent of ginning factories, ginning with hands has almost vanished. With a little propaganda, this can be reintroduced with the new hand ginning machines which, though simple in construction, are very efficient in work.

Sugar refineries—A few years back there was a small sugar factory at Yelgud, but there are none at present, even though there appears a good scope for experiments with machines like that of Haddis.

Hand-spinning—which was in vogue in all the villages growing cotton, has almost vanished. It should be revived by introducing modern spinning wheels.

A few secondary industries which can be introduced with some advantage to the farmers are as follows:—

(1) **Weaving**— This industry can be easily picked up by an ordinary farmer in the course of a few weeks, but it will have to be introduced by some central agency which can supply looms and raw materials and can also buy the finished products from the farmers. Each village should have a

Weaving House owned by a central organization, subsidized or patronized, if necessary, by the State.

(2) **Poultry**—This is indeed an industry which can be very profitably taken by the Kolhapur farmers. The U. P. Government is trying to send Indian eggs to the Continent, and in view of the ever-increasing demand for eggs, this industry either as subsidiary or main ought to be a prospective one. Kolhapur already is a supplier of eggs to Bombay, but on a small scale.

(3) **Carting**—Some of the farmers engage themselves in carrying goods from and to places situated away from Railway Stations, in their spare time, but they have now-a-days to compete with motor lorries which are undertaking this job. The farmers are losing even this item of income. Hence attempts should be made to supplement their income by opening other industries.

(4) **Ericulture & Sericulture**—Kolhapur grows a lot of castor-oil plants round about sugar-cane fields and other cultivated plots. Sericulture and ericulture will have to be organised on the lines similar to the Mysore Government where each industry is supposed to be in a very thriving condition. The State should adopt the methods of the Mysore Government in these industries.

(5) **Bidi-making**—Tobacco is grown in the Kolhapur State on a sufficiently large scale and if the farmer engages his spare time in preparing and selling Bidis instead of mere tobacco, he will certainly be adding a good sum to his slender income, in the course of the year.

(6) **Apiculture** or the rearing of bees for honey and wax is worth a trial in villages, in and round forest areas, and can be experimented upon with the help of the forest department.

(7) **Lac-growing** should be encouraged by the state in its forests.

Finances—

It is of prime importance that necessary capital be made available for the development of the various industries possible in the rural areas. The starting and fostering of new industries can only be achieved by organising a central financing body, with sufficient resources to meet all the demands. Co-operative societies will really play an important part in the organisation of a good many industries. The financing of these Co-operative bodies be undertaken either by the Durbar if possible, or the Kolhapur Bank which is to act as the central Bank for co-operative credit societies.

Unless some definite arrangement is made on the lines suggested above, it is not possible to develop any industries in the rural areas.

II. INDIGENOUS BANKING

The Indigenous Bankers fall into two groups:

(1) Professional bankers and (2) persons who irregularly follow the profession of lending money as a subsidiary means of income.

Question 1.

Functions
of
indigenous
bankers.

Professional bankers accept deposits, lend money, draw and purchase hundis, give credit facilities to their constituents, deal in gold and silver bullion and ornaments, lend money on mortgage of land, houses, gold and silver ornaments and jewellery. These follow the profession of banking for generations.

Bankers of the 2nd group mostly lend money on mortgage of land, houses, gold and silver ornaments.

Question 2.

Agricultural finance through indigenous bankers.

The Indigenous Bankers in the city and towns rarely lend money to the cultivator directly, but do so indirectly by lending money to commission agents who in turn, lend money to agriculturists. They assist traders and small industries to some extent. The village sowkars help the agriculturists directly by lending them seeds or money, assist the marketing of the produce and the village industries.

Question 3.

Organization of indigenous banking.

There is no organisation of the Indigenous Banking systems. Each Banker forms a separate unit and does business in his own way and according to his means.

(a) The amount of capital invested by all the Indigenous Bankers in this state cannot be ascertained, but we know of a few Bankers in the city who have invested Rs. 3 to 5 lacs each in this business.

(b) Not known.

(c) Their expenses are very few. One or two clerks, whose yearly salary is Rs. 400 to 600 at most and one or two peons whose pay is Rs. 150 to Rs. 200 per year, are kept by them.

(d) The relations between the Indigenous Bankers among themselves or with other Banks are not cordial. They look to both as competitors. The local Bank has made them reduce their rates of interest as also the Hundi Batta. Most of their clients of good financial means have left them.

(e) No facilities are given by the Imperial Bank to the Indigenous Bankers in this State.

Question 4.

Hundis used by indigenous Bankers.

The form of hundi cashed by the Indigenous Bankers is the ordinary Darshani Hundi. The other credit instrument used by them is "Vayada Chithi" (Promissory Note), Both of these are used freely.

Question 5.

Methods of granting loans.

Loans are advanced by the Indigenous Bankers on mortgage bonds of property or after taking actual possession of gold or silver ornaments and jewellery. The time in most cases is one year and in the case of lands and houses, it is generally for a longer period. The amount of loan depends on the security offered. Cash credits are given to really sound parties upon their executing a promissory note in favour of the Banker. The amount of Cash Credit depends upon the status in life and the business of each constituent. The constituent binds himself to take hundis from the Banker alone, These Cash Credits are on personal security only. *Another method of giving credit is by long dated hundi or sight hundi.* In this case the borrower draws a hundi on another person, the period being up to 1 year, in favour of the Banker, Both the drawer and drawee are responsible to the Banker for his advances.

The capital of an Indigenous Banker consists of his own money, deposits received from some of his constituents and credit allowed to him by his agents in Bombay or other financial centres.

The rate of interest allowed by these Bankers on deposits received from the constituents varies from 4 to 9 % p. a.

Question 6.

Rates of interest.

It is not the general practice with Indigenous Banks to insist on advances being made in the form of commodities, etc., but only the Adatias-commission agents-sometimes make advances to the agriculturists in the form

of seeds or manure purchased through them and they make it a condition that the articles produced by them should be brought to their shops and sold through them.

When advances are made in kind and returned in kind, the usual practice is to pay in return *savsi*, which practically means interest at 25%. When advances are made in cash, the interest charged is from 12 % to 18 % and rarely 24 %.

These rates can be brought down by the introduction of Land Banks and credit co-operative societies in the rural areas. These will be veritable boons to agriculturists and village traders and artisans.

The minimum profit of Indigenous Bankers, taking everything into consideration, varies from 10 % to 20 %.

Question 7.

Defects
and
remedies.

(1) There is generally no prejudice against the Indigenous Bankers of the 1st group, except that before the starting of the local Bank their rates of *hundis* and of interest were thought to be very high. Traders and others had to approach them, as there was no other alternative at the time. There is, however, some prejudice against the village money-lenders, as their ultimate object is to become owners of the land mortgaged with them by the agriculturists. The object of the professional money-lender is to earn interest, whereas the 2nd sort of Indigenous Banker looks with a covetous eye on the land of the agriculturist.

(2) These Bankers are sufficiently protected in law, except that the Deccan Agriculturists' Relief Act sometimes comes in their way by granting small instalments to those who can be called agriculturists by name only. (see appendix.)

Law for
compulsory
Pass
Books.

The dealings of the Indigenous Bankers are conducted on sound lines, But for the protection of their clientele, there should be some enactment requiring all money lenders to be registered, making it compulsory on them to give a Pass Book to their constituents which should show all payments made by them to their clients with their rates of interest and dates as also all payments made by the clients to the Bankers. (see summary,)

Question 8.

Village
Sowkars to
be made
agents of
Joint Stock
Banks.

The only way we can suggest to make these Bankers more useful to the community is by making them agents of Joint Stock Banks, or Agricultural Banks. The Banks should advance them money on credit and the Bankers should be made responsible to the Joint Stock Banks. The books of the Agents should be open for inspection to the management of the Joint Stock Banks as well as to the Loan Registrar of the Government.

Govt.
to advance
money to
banks.

Special facilities should be given to Joint Stock Banks by the state and government by keeping state money without interest with the banks for use of *the agriculturist*. The village bankers will be paid commission for work done by them.

Govt.
to inspect
account
books.

The general system of accounts by the Indigenous Bankers consists of keeping one or more cash books—*kird* and ledgers—*Khatavahi*. Their books of accounts are nominally open to clients and the clients can verify their accounts, but in practice most of their clients being illiterate simpletons, are duped by the Bankers. These books should be open to inspection by Government.

The attitude of the Indigenous Bankers towards the introduction of any measures to regulate their operations and for giving publicity to them,

will be of antagonism. They won't like the measures and would try to put every obstacle in the way.

Agricultural Department to publish figures of indebtedness.

On the basis of accounts of village sowkars and other banks, figures of indebtedness should be published by the Revenue or Agricultural Department.

Question 10.

The Indigenous Bankers are not able to meet all demands for accommodation. Sometimes their hands are full and they cannot advance sums even to sound parties for want of funds, and even though they have got ample funds, they have to refuse owing to want of proper security or presence of defects in the party.

Question 11.

Village bankers to be agents of commercial or agricultural banks.

A reply to this question is contained in the answers to question 8 where in the introduction of the system of agency has been suggested. The Indigenous Bankers as agents can have direct dealings with the commercial banks which have dealings with Bombay.

Branches of the Kolhapur Bank should be opened at market places, Opening of agency system would be more useful in other places.

The Bank can inspire confidence of the Indigenous Bankers by appointing them agents.

The competition would be avoided by the same means of Agency.

Question 12.

Capital available

We do not think that there is a large amount of unemployed capital in the hands of Indigenous Bankers. There are a few persons holding large amounts, but by nature they want to make people believe they are poor and so do not bring out their hoards.

There is not much exodus of capital to Bombay, all capital can be employed and is really being employed here.

Means to tap the idle capital

(1) Education and confidence would bring out the hoarded money; besides, (2) sound organisations of lending or borrowing money are needed. So long as the people are ignorant of the vast progress made by the neighbouring countries and continue to lead a leisurely life of ignorance and idleness, no progress can be expected. (3) What is really wanted is educative propaganda for the improvement of credit. (4) Active assistance of the state in starting banks, making salutary laws, creating departments for improvement of agriculture, are much needed.

III. Investment habit and attraction of capital

Question 1.

Banking resources.

The existing banking institutions in this state are:- (1) The state-aided Bank of Kolhapur, Ltd, (2) The Urban Co-operative Bank, (3) Rural Co-operative Societies, (4) Urban Societies and Bhisnis, (5) Sowkars or Indigenous Bankers, (6) Well-to-do people who lend money, (7) Post Office Savings Banks.

Additional capital required.

The gross capital absorbed by the recently started Bank of Kolhapur is a little over Rs. 20 lacs and as the Bank increases its activities and widens its field of action, we doubt whether rupees fifty lacs would suffice.

Extension of facilities.

The existing institutions for encouraging saving and habit have been shown above. Insurance Companies and Provident Societies may be added to

the list. The funds of insurance companies are, however, benefitting the foreign countries and British India.

Publishing
of
investment
figures.

(1) The annual figures of investment in Post Office Savings Banks and Insurance Companies should be published by the Government for each district and Indian State separately, so that each locality will definitely know the rate of improvement in savings. The state should try to obtain these and publish them in its Administration Report.

Duty of
Govt.

(2) The people in the city alone are provided with facilities to invest their savings in these institutions, as these do not exist in rural areas. There is a crying necessity for some of these agencies to be opened in rural areas to tap the funds existing there. The state should adopt an active propaganda to start Co-operative Credit Societies and other banking institutions.

(3) The State-owned concerns should be opened to the public for capital investment, to encourage the saving habits and if possible, some minimum dividend be guaranteed by the state, so long as the concern is predominantly controlled by the Government.

(4) Active propoganda is required to induce the people to invest their money in the improvement of lands, in industries and trades.

Investment
in gold
and silver.

The Indians consider investment in land as a prudential investment and whenever a person has sufficient funds with him, he goes in for land, somewhere near his home. It is considered to be a safe investment, as it is believed that if a person holds land, his sons and grandsons will not starve. Investment in Government Promissory Notes was considered to be a safe investment, but owing to abnormal fluctuations in the prices of the Government Promissory notes in recent years, the people have lost faith in that investment.

Next to land, the people go in for gold and silver ornaments. There is a natural desire in women, both Indians and Europeans, to decorate their bodies with glittering things and this leads to the tendency of purchasing precious metals. The lower classes gauge riches by the number of ornaments worn by their women folk. As in the days of prosperity these ornaments serve as decorations, so in the days of adversity these serve as a reserve to fall back on.

Question 2.

Postal
Cash
certificates.

Postal Cash Certificates are popular in the state, we are not for increasing their popularity, as all the money thus saved is lost to trade and agriculture in this state and we are not sure whether it is used for those purposes even by the Government of India.

The present interest rules and terms of issue need no revision.

Savings
Banks.

Do Savings Banks afford all possible facilities to the public? Yes, except those noted below:

Lower middle classes such as Government and private clerks and officials drawing moderate pay and others of their status, resort to this sort of investment.

Spread of education and propoganda will attract other classes also to this investment.

Increase
their
Utility

(1) The withdrawal of money, instead of once a week, be made more frequent, say, twice a week. In fact, there need be no restriction.

(2) The Postal Savings Banks be run on the commercial banking lines. *Their depositors be allowed to draw cheques.* These deposits will then

be available for local trade and industry and the banking habit will be fostered among the masses.

Govt.
competition
is harmful.

Excepting the rate of interest for Savings Banks Deposits, all other rates are higher than Bank rates. The Fixed Deposit rate for one year in Banks is $4\frac{1}{2}\%$, whereas the Postal Cash Certificate rate is $4\frac{1}{2} - 5\%$. Banks take deposits for short periods - 3 months at $5\frac{1}{2}\%$, whereas the Government rate for Treasury Bills is more than $6\frac{1}{2}\%$. So it is obvious that the Government by giving alluring rates of interest is withdrawing savings which would otherwise have been useful for trade and agriculture.

Question 3,

Govt.
securities.

The Bank of Kolhapur Ltd. does the business of purchasing or selling Government Securities for its constituents and others, charging only as. 4% as its commission. There is no other facility in this state for the purpose except through Post Offices.

We are not in favour of small agriculturists and small investors locking up their savings in Government Securities, as all this money is lost to trade and agriculture of this place.

The Bank of Kolhapur Ltd. does the business of selling and purchasing all kinds of securities, government and others, as also shares of companies, etc.

Investment
habits of
various
classes.

Those persons who get money either by sale of produce or other means, can in our opinion be divided into the following groups: (1) Salary earners, (2) Traders, (3) Craftsmen, (4) Commission agents, (5) Industrialists, (6) Manufacturers and (7) Agriculturists. These groups can be subdivided into educated and uneducated. (1) *State servants* have recourse to Banks and Postal Savings Banks, and when they have accumulated sufficient funds, they go in for purchase of land, jewellery including gold and silver, Government Promissory Notes, Treasury Bills, etc. They also deposit their monies with commission agents—Dalals—and Indigenous Bankers—Sowkars. (2) *Traders* deposit their earnings with Banks and Sowkars. They generally do not lock up their money in land etc., as they require it often. (3) *Craftsmen*—Their savings being small, they generally purchase gold and silver, as they have to raise money on the mortgage of these during the busy season. Lately, they are depositing their surplus in banks and arranging for credit from the bank during busy season when they require lots of funds. (5) *Industrialists*—use their savings in increasing their output. These have recourse to banks and Savings Banks. (6) *Manufacturers*—The same as above; they now put their surplus capital in banks. (7) *Agriculturists*—These get money by sale of their produce once a year. After meeting all the loans and advances taken by them, the surplus, if any, is kept with the Sowkars or commission agents for the purchase of seeds, manures, etc., or is locked up in gold and silver. They do not know what banks are and they are generally afraid to go out of their villages.

The educated classes first use their money for meeting their daily wants and purchasing provisions for months' or years' use. The surplus they keep in Banks, Pedhis of Sowkars and in some other form of investment. They also purchase gold and silver. The savings are used partly for meeting the expenses of marriages, social and religious ceremonies. *The uneducated classes* mostly keep the money required for yearly provisions etc. in some secret place and use it for drink and other vices, or for purchasing gold and silver, if the yield of crops is plentiful. They rarely use it for improving their lands, etc.

Rich farmers—lend to fellow agriculturists on simple personal notes, when the amount is a small one or on the mortgage of property both moveable

and immoveable, Their rate of interest is generally 6%. The surplus money in prosperous years is spent in repaying loans if any, in celebrating marriages etc., and in the purchase of ornaments.

There is an exodus from the villages. Youngmen go out to work as labourers in Bombay and other places and on railways as gangmen, porters, etc. The old men and women remain in the villages and look to cultivation which is not paying. The higher and educated classes who are not used to manual labour are getting poorer and poorer and are finding it difficult to maintain themselves. The amount of capital on the whole has increased, but the expenditure has also increased by the rise in prices and the increase of wants.

Question 4.

Growing
use of
cheques.

The cheque habit has begun to grow gradually after the starting of the local bank, still it is in its infancy.

The abolition of stamp duty on cheques has increased their use considerably.

How to
increase
the use of
cheques.

State servants, traders, and some other educated persons are using cheques. Contractors are taking advantage of payments by cheques. The cheque-habit will increase considerably, if the Huzur Treasury and other Government offices accept cheques and issue cheques. At present the Diwan's office and the city improvement and extension offices are making payments by cheques. If the Municipality, Ilakha Panchayat and other big offices make it a point to make all payments and receipts by cheques, the cheque habit will surely increase.

Use of
Vernacular
in banking.

The local bank, from its very beginning, commenced the use of both Marathi and English language in all its dealings. The pay slips, the cheques, the Savings Bank pay slips etc., are printed in both languages. The pass books are written in Marathi, so that all persons may take advantage of the Bank. Signatures on cheques in vernacular languages are accepted freely. The same should be done in British India.

Question 5.

Causes of
the slow
growth of
the
banking
habit.

Yes, we support the view that the banking and investment habit in India is of very slow growth. It is attributable to want of banks conducted on sound principles and managed by reliable persons. The illiteracy of the masses and ignorance regarding banking institutions, dearth of banks and co-operative societies in rural areas, and want of confidence in them are the contributory causes.

Means to
attract
capital.

We believe the starting of co-operative credit societies, land mortgage banks, loan associations, co-operative societies, etc., to assist the farmers, and a vigorous propaganda by these institutions and by the Government in rural areas, will attract capital from the villagers. Now industrial concerns on joint stock principle be encouraged, but these should be initially aided by the state, if necessary.

No branch of the Imperial Bank has been opened in Kolhapur and hence its effect has not been studied here.

Imperial-Bank. There is no necessity of having a branch of the Imperial Bank here. It is forbidden to finance agriculture by its very constitution. It is a general and genuine complaint that the bank instead of financing trade and industry in the Muffasal is drawing money out from all these places, and thus depriving agriculture and local trade of the necessary funds. Kolhapur has fortunately got many bankers for financing trade and

discounting Hundis. We will, however, suggest that the Imperial Bank may appoint the Kolhapur Bank as its agents for the whole state. Both will gain by this arrangement in such a large centre of commerce.

APPENDIX.

Revision of the Deccan Agriculturists' Relief Act.

1. The Deccan Agriculturists' Relief Act requires a thorough revision and amendment. The definition of the word "Agriculturist" is faulty and many rich adventurers, by claiming to be agriculturists, have dodged the courts and harassed the creditors.

2. It is extremely difficult for the money lenders to realize their capital and interest. It has diminished credit of the agriculturists and has encouraged dishonest dealings on both sides.

3. It has very much encouraged litigation.

4. There is unnecessary delay in civil courts for recovery of even small loans; some summary procedure is necessary.

5. Compulsory arbitration can be introduced; or Panchayat courts may be given powers to try cases of loans up to Rs. 200; and Credit Courts can be established for disposal of suits for recovery of loans above Rs. 200.

6. The expenses to both the parties should be as low as possible by reducing stamp duty and other costs of litigation.

