

*Published by order of the Government of His Highness the  
Maharaja Gaekwar.*

**Baroda Banking Inquiry  
Committee**

**1929-30**

**REPORT**

BARODA STATE PRESS

**1930**

## **Baroda Banking Inquiry Committee, 1929-30.**

*President :*

MANILAL BALABHAI NANAVATI, ESQR., B.A., LL.B.,  
M.A. (Penn., U.S.A.).

*Members :*

SHANKERRAO MADHAVRAO PAGAR, B.A., (Wis.)  
A.M., Ph.D. (Columbia).

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SHETH MAHASUKHBHAI CHUNILAL.

SHETH CHHOTALAL KILACHAND.

RAMCHANDRARAO RAOJI PAWAR, ESQR., BA., LL.B.,  
M.A., A.M.

RAJ RATNA SHETH DINSHAW RATANJI DABU.

PROF. J. M. MEHTA, M.A. (Oxford), Bar-at-Law., Ph.D.,  
(London).

PROF. K. H. KAMDAR, M.A.

*Secretary :*

A. B. PANDYA, ESQR., B.A., LL.B.

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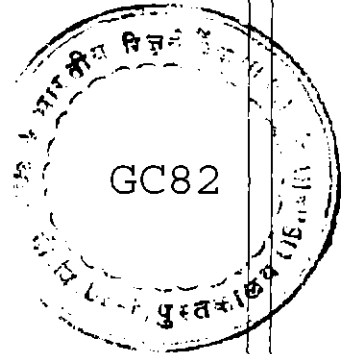
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REPORT  
OF THE  
**BARODA BANKING INQUIRY COMMITTEE**

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CHAPTER I.

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**Introduction.**

1. Mr. S. N. Haji moved a resolution in the Legislative Assembly in February 1927 recommending that "a Commission be appointed to investigate the present conditions of banking in India and to make recommendations for their improvement and expansion." The Finance Member, Sir Basil Blackett, explained that " though the Indian Government shared the member's desire that an enquiry should be made into the banking system of India, they did not think that the time was opportune. " But his successor, the present Finance Member, accepted the view of the mover of the resolution and the Government of India appointed a Central Banking Enquiry Committee in the summer of 1929. At the same time they sent instructions to the various Provincial Governments to undertake similar banking investigations in their own territories and expressed their wishes to offer facilities to any of the Indian States that might desire to associate themselves with the inquiry. In pursuance of this a letter was addressed by the Baroda Residency to the Baroda Government requesting that if the latter desired to express any opinion on the lines of the memorandum for enquiry by Provincial Committees, it might be sent to the Resident for communication to the Government of India. The Govern-

History of the appointment of the Committee.

ment forwarded this communication to the Director of Commerce and Industry and Labour who, in reply, suggested that a local enquiry might be instituted for the purpose and that as far as possible such an enquiry should be made on the lines laid down by the Governments of India and Bombay.

2. It appears that the same view was taken by Their Highnesses of the Chamber of Princes. The question whether Indian States should institute enquiries on banking was carefully considered by Their Highnesses of the Standing Committee of the Chamber at its informal meetings. It was recognised that "the States were under no obligation to institute enquiries of the type suggested or to forward their reports to the Central Committee" but "it was considered desirable in the bigger economic interests of the States themselves to co-operate, as far as possible, with due regard to the local circumstances of the States concerned, with the Central Committee, so that they might establish their claims for being associated with, and securing due benefit from, possible developments, such as the foundation of a Reserve Bank and the control of exchange and currency and the development of trade, which were expected to ensue as the result of their investigations." It was further realised that "individual references from the States might not lend to their view-point that importance which was its due, and that such individual references might receive the same scant consideration which was paid to them" by the Indian Fiscal Commission and the Indian Mercantile Marine Committee. The alternative of an Indian States Banking Enquiry was also suggested but it was decided to leave it to the discretion of the States concerned. Accordingly, the Standing Committee of the Chamber of Princes sent instructions to different States to institute inquiries after the Central and Provincial questionnaire. It has expressed a desire that the reports of these committees should be sent to the Chancellor's Secretariat with a view that they might be "thrashed out" and that afterwards the Ministers' Committee might hold informal

consultations with the Central Banking Enquiry Committee and represent the collective view-point of the States to its members.

3. In conformity with these representations and in pursuance of the advice from the Director of Commerce and Industries and Labour that an independent investigation into the banking problems of the State would prove most useful to the authorities and to agriculture, trade and industries, His Excellency the Dewan Sahib was pleased to appoint a committee by Dewan Order dated the 3rd September 1929. The following gentlemen were appointed members of the committee:—

- (1) Mr. Manilal Balabhai Nanavati, Development Commissioner, *President*.
- (2) Dr. S. M. Pagar, Accountant General.
- (3) Mr. Matubhai H. Kantawala, Mill Agent, Baroda.
- (4) Mr. Mahasukhbhai Chunilal, Shroff.
- (5) Sheth Chhotalal Kilachand, Export Merchant.
- (6) Mr. R. R. Pawar, Registrar, Co-operative Societies.
- (7) Raj Ratna Sheth Dinsha Ratanji Daboo, Agriculturist and Co-operator.

Mr. A. B. Pandya of the Commerce Department was appointed as Secretary to the Committee.

The Indian and Provincial Governments had associated professors of Economics with the enquiry and so the President of the Committee represented that a similar association of Professors of the Baroda College with the inquiry might be requisitioned. Government was pleased to comply with this request and Professors J. M. Mehta and K. H. Kamdar were appointed additional members of the Committee in October 1929. It was further ordered that Professor K. H. Kamdar should work as Joint Secretary along with Mr. A. B. Pandya.

4. The terms of reference for the Committee were identical with those for the Central Committee appointed by the Government of India. The Committee was asked to collect information regarding and report on:—

- (a) The Regulation of Banking with a view to protecting the interests of the public.
- (b) The Development of banking in the sense of the expansion of both indigenous and joint-stock banking; with special reference to the needs of agriculture, commerce and industry.
- (c) Banking education with a view to the provision of Indian personnel in adequate number and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of banking.

5. Ours was not to be a full-time working committee.

This was not the first occasion when His Highness the Maharaja's Government had ordered such an enquiry. The reports of the Economic Development Committee, which included an inquiry into the banking requirements of the State and of the Land Mortgage Bank Committee, besides the earlier attempts made in the same direction, viz. the Report of the Industrial Commission, 1895-96, and the Report on Agricultural Indebtedness submitted by Mr. Manilal B. Nanavati in 1912, were very detailed and comprehensive documents. Co-operative banking had become the subject of ample investigation at the hands of the Land Mortgage Bank Committee which reported so recently as in 1925. Joint-stock banking is conducted only by one institution in the whole State, viz. the Baroda Bank. The Baroda State has no exchange bank; the problem of a reserve bank as such does not arise in the Baroda territories; and control over currency and issue of paper-money by a State Bank or by a private bank rouses no controversy as in British India. So our enquiry and our efforts for it had their own limitations and we did not think it necessary to tour in the territories and hold personal interviews with the representatives of different banking interests in the State. Further the members of our Committee were busy officers of State or men of business, some of whom were carrying on their avocations outside Baroda and it would have involved them and the departments

Not a full-time committee.

which the official members of the Committee were serving into great inconvenience if they had been required to make extensive touring.

6. We were asked by Dewan Order to report on the banking problems of the State in accordance with the terms of reference fixed by the Indian and Provincial Governments for the Central and Provincial Committees. So we called for the questionnaires of the two Committees and then framed a series of questions relevant to banking in Baroda. The questionnaire was published in the *Adnya Patrika*-Baroda Government Gazette—and copies of it were freely circulated among members of the Baroda Legislative Council, heads of the departments of Agriculture, Co-operation and Industries and their Assistants, Subas, Naib Subas, Taluka Vahivatdars, the Baroda Mill Owners' Association and the Baroda Chamber of Commerce, leading merchants and Shroffs, Co-operative Banks and Unions, Auditors of the co-operative department, honorary organisers for co-operation, the manager and directors of the Baroda Bank, those concerned with the business of insurance, and many others who were interested in our inquiry.

7. At a later stage of our inquiry, we found that we should as well invite detailed advice from those interested in co-operative banking and so a committee consisting of the President, Mr. R. R. Pawar and Professor Kamdar, framed a comprehensive questionnaire on the subject. Answers to these questions were received from practically all honorary organisers, auditors and central banks and unions in the State.

8. At another stage we found that our investigations about indigenous banking would remain incomplete if we did not address ourselves to an examination of the effects of judicial procedure upon the rates of interest and the settlement of debts. So we prepared a small questionnaire and sent it to the judicial

officers of the State. We also requested the Chief Justice to give his best consideration to the issues raised in our questionnaire and to send to us his own opinion on them. All these questionnaires are given in Appendices 1-2-3.

9. The President and the Joint Secretary attended the conference of the chairmen and secretaries of the Provincial Banking Inquiry Committees held at Calcutta on the 3rd and 4th of January 1930.

10. In the letter which the Government of India circulated among the Local Administrations and which was communicated to the Baroda Government as well, it was suggested that the Provincial Committee should conduct in a few selected areas intensive surveys of the economic conditions of the people and of the existing facilities and requirements in regard to banking, and if possible, should undertake even a general survey of the whole province. The instruction was to carry out these surveys with special reference to the fabric of finance. It may be observed here that the Baroda Banking Committee suffered from no such lack of investigations. His Highness the Maharaja had ordered a comprehensive survey to be taken of the economic and financial conditions and requirements of his subjects in 1895. We shall have various occasions to refer to the important findings of this commission. The financial condition of the artisans, the lower middle classes employed in the services of the State, and especially its peasantry, constituted the chief burden of his repeated instructions to the State officers and orders were issued more than once to take broad surveys of these matters. The officials were not slow to act up to these orders. The introductory parts of the Reports on Agricultural Indebtedness and of the Land Mortgage Bank Committee bear ample testimony to these endeavours of the State. Soon after the submission of the report on Agricultural Indebtedness, His Highness ordered that periodical inquiries into the economic conditions of people "living in particular villages or situations" might be made and that as an immediate step a sociological

survey might be taken of the servants (numbering 800) of the Khangi or Palace department. This inquiry was conducted by the Director of Commerce and Industries, Mr. M. B. Nanavati, in the year 1914, in consultation with Rao Bahadur G. H. Desai and Dr. Meyer and a report was published in the same year. Surveys of the weavers of Baroda and other towns were also taken in 1918, besides the industrial surveys of the two towns of Petlad and Billimora. In 1918, Mr. Nanavati surveyed the village of Bhadkat in the Petlad Taluka and an up-to-date analysis of the results obtained awaits publication.

11. In 1927, the Dewan Saheb instructed the revenue department to get an insight into the rural conditions of the Raj and so a group of experienced and trained officers—Naib Subas and Vahivatdars—were asked to select typical and representative villages in every Prant or district of the State for survey. The principal object of such rural surveys was “to train up revenue officers to conduct sociological and economic inquiries so that they might be of use in the work of rural re-construction.” The officers were asked “to select small villages near the head-quarters of their offices, uninfluenced by city life,” and to “study family budgets, units of cultivation which would support an agriculturist’s family, the sub-division of agricultural land and its disadvantages, the extent of rural indebtedness, its effects on land-holding and on agriculture in general, the working of the co-operative movement, if any, in the village and the possibility of its extension to the life of the Khatedar, the marketing of agricultural produce, transport facilities for the same, the existence of subsidiary industries and their expansion to utilise the spare time of the cultivator, the condition of cattle and the development of the dairy-industry, rural sanitation, education, library facilities, the supply of labour, and all the possible lines of rural uplift, such as provision of wells, repairs of tanks, consolidation of holdings, etc. and the action of social and religious customs upon the life of the individual.” The officers were at the same time asked to treat these topics as only suggestive ones

and select any other if it occurred to them and report on it to Government. A list of select books on the subjects of rural survey and uplift was also supplied to them and they were warned against accepting the ready answers of the illiterate villager or the ill-informed Talati to their queries. The reports were to be brief and as far as possible they were to avoid technical matter. Comprehensive monographs were then to be published on the results of these investigations. Ten such surveys were made in 1928-29. They were then reported to a committee of the Development Board, which has been brought into existence to co-ordinate the activities of the different departments of the State and which contains within it academicians also. Some select ones of these surveys are at present being edited by this Board and they will be published as separate reports by Government in due course. We have utilized the results of all these intensive surveys in our report. We do not publish them here because as said above, Government are arranging for a separate publication under the direction of the Development Board. Of course, we do realize the limitations of these surveys, specially when we have to get the information from an illiterate population.

12. The conference of the chairmen and secretaries of the Provincial and State Committees which met at Calcutta during the opening week of the new year and which was attended by the President and Joint Secretary on deputation from Government, decided that the various Provincial and State reports should as far as possible conform to a common plan, and that that plan would be prescribed to them by the President of the Central Committee after examining all the tentative suggestions of the Provincial and State Committees. The draft plan for such provincial reports was sent to us for guidance by the Central Committee. We have followed this as far as possible. But we have avoided the overlapping which we found in the lists.

13. We give at the end of our report the list of publications consulted in the course of the inquiry and in the preparation of the report.



14. We place on record our appreciation of the excellent work done by Professor K. H. Kamdar in the collation of the material and in the drafting of the report, and also of the useful services rendered by the Secretary, Mr. A. B. Pandya, in this inquiry.

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## CHAPTER II.

### **Economic conditions of the Baroda State.**

15. Before we proceed with the subject-matter of the present inquiry, it is necessary to give a Preliminary. short sketch of the general economic conditions of the State to serve as a back-ground. We do not prefer to give minute details since they are available in various publications issued from time to time ; here we give such information only as may help us to discuss the banking problems of the State.

16. The larger part of the territories of the Baroda State is situated in Gujarat, and the rest in Kathiawar. Out of the five administrative divisions of the State, four Baroda, Kadi, Navsari and Amreli lie between 20-45 and 24-9' N. and 70-42' and 73-59' E while the Okhamandal tract lies between 20-5' and 20-35' N, and 69-5' and 69-20' E. The territory is mostly interlaced with parts of the British territory and the territories of other States and it forms five distinct blocks. Its total area is 8,127 square miles, the Kadi Prant having 3,046, the Baroda Prant 1,922, including the Baroda City, the Navsari Prant 1,807, the Amreli Prant 1,077 and Okhamandal 275 square miles. Out of this area about 630 square miles are covered with reserved forests. They are found mostly in the Navsari district and to some extent in the district of Amreli.

17. The greater part of the State lies within the area of the coastal band of the alluvium, formed from the detrital deposits brought down from the western slopes of Malva and the southern parts of Rajputana by many rivers, large

Physiography of the State.

and small, which drain the province of Gujarat. The upward slope of the alluvial band from the sea-board eastward is very gradual so that except where wind-blown accumulations of loam or sand make small eminences here and there, the face of the country appears to be a dead flat. It is only as the eastern side of the alluvial flat is approached that low hills make their appearance.

18. The soils are mainly alluvial, except in the hilly parts of the Navsari and Amreli districts and in the south-east corner of the Baroda district, where they are mostly formed by the disintegration of the underlying rocks. These alluvial soils may roughly be divided into *Gorat* or light-red (and sandy loam), *Besar* or mixed loam, and *Kali* or black. The rock-formed soils are for the most part black; but where they have come in contact with the alluvial soils they have formed a variety of *Besar*. The distribution of these soils may be stated as follows :—

The soils of the Navsari and Baroda districts may be chiefly classed as *Gorat* or light-coloured, *Kali* or black, and *Besar*, which is intermediate between the other two kinds. As a rule, the black soils of the Navsari district is far superior to the soil of a similar kind found in the other districts. The lands formed in the beds of rivers from alluvial deposits are often found in the Navsari district and are the most productive. In the Kadi district, the soil is mostly of the light sandy kind. Black soil is met with, but merely in patches in parts of the district except in the Kadi and Kalol Talukas where in the southern parts it is wholly black. The soils of the Amreli district may be classed under two main heads—black and *Gorat* but the black and *Gorat* soil of this district is much inferior to the similar soils of the Baroda and Navsari districts on account of the shallow depths, scanty rainfall, and dry climate. In Okhamandal, the northern half is slightly red but the whole of the coast-line is sandy and unproductive. Inland, the soil is fairly productive and fertile.

19. The average rainfall for the last decade ranged from 37 to 60 inches in different parts of the Navsari district; from 21 to 29 inches in the Kadi district; from 27 to 38 inches in the Baroda district; from 11 to 30 inches in the Amreli district, the Okhamandal having the lowest average. Thus the fall is the heaviest in the southern-most district, and it goes on diminishing as the monsoon current travels from the south towards the north. It is considerably heavier in Gujarat than in Kathiawar. The duration of rainfall is about four and a half months in the Navsari district, commencing early in June and ending by the middle of October. It is four months in other divisions, commencing a little later, that is about the end of June. The character of the *Kharif* crops and the good prospects of the Rabi crops depend entirely upon the regularity of rainfall from the middle of June or the beginning of July to the middle of October. The last showers of October help the spring crops also. Sufficient and timely rain in June, July and August in the Navsari district and in July and August in the other districts gives hope of a good harvest; but the prospects of completely satisfactory crops depend upon the September and October showers.

20. These periodic rains are the chief controlling factors in the life and the means of subsistence of the people of the State. A failure of the monsoon-current, its premature cessation, or its unequal distribution means a total or partial helplessness for a great majority of the people. Great loss of property also results, sometime leading to death of men and cattle in large numbers as in 1899-1900.

Unfortunately, however, some parts of the territories of the State are so situated that there is likelihood of failure of rains at short intervals. The subjoined table gives the amount of rainfall in all the districts during the last twenty years :—

## Rainfall in the Baroda State, 1908-1928.

No.	Year.	Kadi.	Baroda.	Navsari.	Amreli.	Beyt.
1	2	3	4	5	6	7
1	1927-28	47·18	77·66	34·59	20·02	12·69
2	1926-27	34·99	40·90	77·23	29·71	33·44
3	1925-26	10·34	29·46	30·52	11·23	10·40
4	1924-25	21·14	24·69	54·76	15·58	5·59
5	1923-24	10·04	17·39	44·60	11·38	3·02
6	1922-23	29·25	29·13	56·50	13·19	5·70
7	1921-22	36·43	44·59	72·80	22·41	19·63
8	1920-21	21·25	14·52	32·70	17·12	...
9	1919-20	34·17	31·30	48·32	17·97	11·29
10	1918-19	17·59	7·31	15·40	7·45	0·99
11	1917-18	43·30	66·73	75·83	42·15	16·32
12	1916-17	27·32	36·78	58·64	19·89	16·32
13	1915-16	11·23	24·17	33·42	12·53	12·53
14	1914-15	27·02	48·01	65·19	27·49	14·60
15	1913-14	34·40	54·65	53·96	28·02	18·87
16	1912-13	45·10	44·23	64·77	29·28	25·97
17	1911-12	6·45	16·35	27·77	9·47	0·82
18	1910-11	25·74	47·79	54·20	26·16	17·16
19	1909-10	19·18	33·51	61·52	27·26	23·66
20	1908-09	32·90	35·10	47·09	21·41	18·57

21. The climate of the Baroda State varies considerably in different districts. But it may be said generally that it is dry and warm in the summer which commences in March and ends in June.

Climate.

The climate during the rainy season from July to October is moist and relaxing. During the cold season which commences in November and ends in February the climate is dry and cool. The coldest months are generally December and January. In the months of September and October, the climate is more unwholesome than during any other time of the year, and people suffer considerably from malarial fevers.

22. The mean yearly temperature ranges from 52.5 at Baroda to 69.4 at Mehsana. The minimum temperature during the cold weather is about 40.1 and the maximum during the summer 109.5. This shows that the climate of the Baroda State and the adjoining parts of Gujarat is an extreme one, especially that of the northern parts.

Temperature.

23. The inhabitants of the State are for the most part agriculturists. The principal crops are juwar, bajri, rice, pulses, cotton, tobacco, and oil-seeds. The crops are generally thriving and plentiful in the district of Kadi and in the western half of the Baroda district. The coast-line and the western Talukas of the Navsari district are very fertile and yield garden produce but the south-eastern parts are inferior in fertility and, owing to rocks and mountains they are hardly cultivable in some places. The Amreli district as a whole is much inferior in fertility but there are very fertile tracts here and there, especially in the Amreli, Damnagar and Kodinar Talukas.

Agriculture.

24. The total land in the State is 84 lacs bighas of which 66 lacs (a bigha is equal to about  $\frac{2}{3}$  of an acre) or 78.6 per cent are cultivable, while 14 per cent is yet available for further cultivation. However, much of this available land is of a poor kind. On an average each individual of the total population has nearly  $3\frac{1}{2}$  bighas of land.

Land.

25. Small irrigation works are met with all over the Raj, especially those called "Paddy Tanks," which protect rice, the chief monsoon crop, by giving it water during the time of a break

Irrigation.

in the rains and more specially by giving it the last one or two waterings to mature it. The number of such tanks in each division or Taluka varies with the nature of the staple crops, the character of the soil and the intelligence, skill and capacity of the cultivators. The Navsari division, which has rich and good soil, intelligent cultivators and high-class crops, is singularly fortunate in the possession of a large number of paddy tanks, almost every village in each Taluka possessing one or more. The Baroda district comes next to Navsari in the matter of their number, and the rice-growing Talukas of Vaghodia, Savli and part of the Baroda Taluka abound in them. The Kadi district has also a fairly large number of such tanks, especially in the two Talukas of Kadi and Kalol, where rice is extensively grown. Its cultivation is, however, on the decline owing to the scanty and ill-timed rainfall of recent years and the bad state of the tanks, which need repairs. Hardly any rice is grown in the Amreli district where there are no paddy tanks worth the name. This district, however, like that of Navsari, possesses few rivers and streams which flow throughout the year. In both districts there are Bandharas or weirs thrown across the water-courses and the impounded water is led by channels to irrigate the fields. The Allidhar Vellor Bund near Harmadia, the Natalia Bund near Dhari in the district of Amreli, and the Chikhli, Bandharpada and Tichakia Bunds in the district of Navsari may be mentioned as instances of this form of irrigation.

26. Besides these paddy tanks, large irrigation works have been constructed at a cost of about Rs. 44.60 lacs. They irrigate about 9,570 bighas of land. Again there are about 17,177 *kacha* and 63,153 *pacca* wells all over the State. Soon after the famine of 1899 special efforts were made to encourage the sinking of wells. From 1901 to 1928, Rs. 24,72,807 were given in Tagavi at very low rates of interest and 10,682 wells were constructed during the period.

The same scheme has now been renewed and it is contemplated to create a special trust of Rs. 25 lacs for the pur-

pose. During the current year Rs. 2,50,000 were sanctioned as Tagavi at 4 per cent for the sinking of wells.

These works irrigate about four per cent of the area actually cultivated. In 1918 the area under irrigation represented 5-6 per cent of the total land in actual cultivation. In that year the number of *pacca* wells was 60,054. This shows that during the last ten years even though the number of *pacca* wells has gone up, the area of land irrigated has gone down. This may be accounted for by the shortage of rainfall, the consequent lowering of the level of water in the wells, and the change in the form of cultivation, due to increased cost.

27. The following table shows the population of the State from 1891 to 1921 and also the number of persons engaged in important occupations.



**Statement regarding population and persons dependent on principal occupations, 1891-1921.**

3 B. I. No.	Occupation.	1921		1911		1901		1891	
		Persons.	Per cent.	Persons.	Per cent.	Persons.	Per cent.	Persons.	Per cent.
1	2	3	4	5	6	7	8	9	10
	<b>INDUSTRIES.</b>								
1	Textiles ... ..	58,789	2·9	52,433	2·08	68,213	3·49	1,24,111	5·13
2	Hides, skins etc. ...	15,964	0·7	16,032	0·78	29,173	1·49	37,176	1·53
3	Ceramics ... ..	28,120	1·3	26,743	1·81	25,284	1·33	35,311	1·46
4	Metals ... ..	14,839	0·7	16,150	0·79	25,029	1·28	36,442	1·50
5	Building Industries ...	14,866	0·7	12,931	0·63	15,729	0·80	13,903	0·57
6	Miscellaneous ... ..	1,21,026	5·69	1,25,761	6·18	1,12,885	5·26	1,83,928	0·60
	Total ... ..	2,53,654	12·0	2,50,050	12·27	2,77,313	13·65	4,30,871	17·79
	<b>AGRICULTURE.</b>								
7	(a) Land-holders, tenants and sub-tenants.	10,39,217	50	9,70,675	47·75	6,34,688	32·50	11,96,580	49·55
	(b) Labourers ... ..	2,89,151	14·10	3,13,479	15·42	3,72,954	19·10	1,90,896	7·94
	Total .. ..	13,28,368	64·10	12,84,154	63·17	10,07,552	51·0	13,87,476	57·5
	Total Population ..	21,26,522		20,32,798		19,52,692		24,15,396	

The highest population on record was for the year 1891 when the figure stood at 24,15,396. The ravages of plague since 1896 and the great famine of 1899 brought down the figure to 19,52,692 in 1901. The subsequent two decades point to a steady rise though we have not yet reached the highest figure on record. The epidemic of influenza in 1918 reduced the population by about 78,000. Since the last census no such epidemic has appeared. However, there is a certain tendency on the part of the population of the State to migrate to industrial cities like those of Ahmedabad and Bombay and also to foreign countries, for instance, South Africa, Fiji, Aden, etc., for business. The statistics for these are not available.

28. The considered opinion of the Economic Development Committee with regard to the increasing tendency of the people to leave industries for agriculture is re-affirmed by the subsequent calculations as noted in the table in the foregoing paragraph. In 1891, 4,30,871 persons or 17.93 per cent were supported by industries; in 1911, 2,50,050 or 12.30 per cent were so supported; while in 1921 2,53,654 or 12 per cent are shown as depending on industries. In 1891 the number of land-lords, tenants and agricultural labourers was 13,87,476 or 57.5 while for 1911 the figures were 12,84,154 or 63.17. In 1921 this percentage increased to 64.10, the number of persons dependent on agriculture being 13,28,368. The reason is not far to seek. Owing to the competition of power-driven factories and the imports of manufactured articles, old industries and occupations are disappearing and so an increasing number of people is compelled to fall back upon agriculture as their principal means of livelihood. This has happened in spite of the various efforts of the State to develop industries.

29. The table given below shows the figures of actual workers in principal industries and their percentages of the total population.

Number of actual workers in principal occupations.

Statement of actual workers in principal occupations, 1891-1921.

No.	Occupation.	1921.			1911.			1901.			1891.		
		Actual workers.	P. C. of total population.	P. C. of actual workers.	Actual workers.	P. C. of total population.	P. C. of actual workers.	Actual workers.	P. C. of total population.	P. C. of actual workers.	Actual workers.	P. C. of total population.	P. C. of actual workers.
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Total population.	21,26,522	...	...	20,32,798	...	...	19,52,692	...	...	21,85,005	...	...
	Actual Workers in industries.	8,66,021	39'0	...	9,46,769	46'57	...	9,19,906	47'11	...	10,06,567	46'05	...
1	Textile industries.	26,777	1'22	3'6	25,828	1'27	2'73	33,410	1'71	3'63	75,171	3'44	7'47
2	Hides, skins etc.	5,861	'22	0'7	6,865	'34	0'73	12,299	'63	1'34	7,892	36	'78
3	Ceramics.	12,844	'53	1'5	13,755	'68	1'45	12,709	'65	1'38	14,197	65	1'45
4	Metals and precious stones.	4,975	'23	'58	6,740	'33	'71	9,587	'49	1'04	10,376	48	1'03
5	Building industries.	6,259	'29	'63	5,543	'27	'59	7,015	'36	'76	10,717	49	1'06

No.	Occupation.	1921.			1911.			1901.			1891.		
		Actual workers.	P. C. of total population.	P. C. of actual workers.	Actual workers.	P. C. of total population.	P. C. of actual workers.	Actual workers.	P. C. of total population.	P. C. of actual workers.	Actual workers.	P. C. of total population.	P. C. of actual workers.
1	2	3	4	5	6	7	8	9	10	11	12	13	14
6	Miscellaneous.	9,679	45	1' 2	57,828	2' 83	6' 11	82,036	4' 21	8' 91	55,512	2' 54	5' 52
	Total in industries.	66,395	2' 94	8' 21	1,16,560	5' 72	12' 32	1,57,046	8' 05	17' 06	1,73,865	7' 96	17' 31
	<b>Persons engaged in Agriculture.</b>												
7	(a) Landholders and tenants.	3,59,360	17' 14	8' 25	4,07,153	20' 03	43' 06	2,64,180	13' 53	28' 71	3,19,449	14' 62	31' 74
	(b) Labourers.	1,75,674	8' 33	21' 87	2,01,224	9' 50	21' 25	1,91,124	9' 79	20' 78	2,59,205	11' 85	25' 76
	Total in agriculture.	5,35,034	25' 47	30' 12	6,08,377	29' 93	64' 25	4,55,304	23' 32	49' 49	5,78,654	26' 48	57' 50

30. The mean density of the population of the State is 262 per square mile. Of the five districts Baroda is the densest with 321 per square mile. Next comes the district of Kadi with 296, while the Navsari district stands third with 188 per square mile. The Amreli district including Okhamandal has a density of 132 per square mile.

31. According to the census of 1921, there were 48 towns and 2,902 villages in the State. Out of every 100 persons in the population 21 lived in towns and 79 in villages.

32. Of the total population about 81 per cent are Hindus, about 2 per cent are Jains and 7½ per cent are Mahommedans. Animists number a little more than Mahommedans. Parsis and Christians are about 3 per cent.

33. According to the same census, of the total population of the Baroda State about 12 per cent are literate. Taking a rough estimate, one male in every four and one female in every twenty-five are able to read and write. It would thus appear that there are six literate males to one literate female. Of the total number of literate males about 66 per cent are twenty years and over and about 3 per cent are under ten. The remaining 31 per cent are distributed between the age periods 10-15 and 15-20. In the

Age.	Total population.		Number of literates.	
	Males.	Females.	Males.	Females.
1	2	3	4	5
0-10	2,91,973	2,77,708	6,741	2,745
10-15	1,35,240	1,20,181	37,928	11,870
15-20	93,169	7,7042	32,979	8,081
20 and over	5,80,182	5,51,027	15,3470	18,604

case of females about 44 per cent of those who are literate are over twenty, 6 per cent under ten, and the remaining 50 distributed between the age-periods of 10-15 and 15-20. Though the total number of literate females doubled since the census of 1911, the number of literate girls under ten practically remained the same.

34. Naturally the capital, the city of Baroda, continues to be the most favoured part in the State Literacy in districts. from the view-point of education. A little more than half the number of males are literate. In the Baroda district the proportion of literates to illiterates is one to three; the Kadi district shows the proportion of 1 to 5; in the Navsari district it is 1 to 4; the same is the case with the Amreli district, while in Okhamandal it is 1 to 3. Thus the tables for the districts except that of Kadi show very nearly the same results, Baroda and Okhamandal heading the list. The district of Baroda was the first to receive the benefits of educational facilities offered by the State owing to its proximity to the capital and also because of the advanced communities residing there. Free and compulsory education was first introduced by H. H. the Maharaja in Amreli in 1896 and throughout the State in 1906.

35. It would be seen from the physical description of the State that it cannot have any rich Resources of the State: (a) Minerals. minerals, and excepting some limestones, marbles, granites, china-clay, salt-deposits, materials for cement and ochres, there is hardly any valuable mineral. A special bulletin is published by the Department of Commerce and Industries giving a complete account of these minerals, their quality and quantity, their economic value and their location.

36. There are 636 square miles of forests. They are (b) Forests. mostly in the district of Navsari and partly in the districts of Baroda and Amreli. All forests may be classified as deciduous and mixed. The most important species of trees are *Sag* (*sectona grandis*),

*Beeya* ( *Pterocarpus marsupium* ), *Sisham* ( *Dalbergia sisoo* ), *Sadedu* ( *Terminalia tomentosa* ), *Khair* ( *Acacia Catechu* ), *Haldwan* ( *Adina cordifolia* ). Species of less importance are *Kalam* ( *Stenphegyia: parvillora* ), *Kanteo* ( *Acacia modesta* ), *Dhaman* ( *Grewia Silicefolia* ), *Timru* ( *Diospyros Melanoxylon* ) *Bondara* ( *Lagerstroemia lanceolata* ), *Asintra* ( *Bauhimia racemosa* ), *Beheda* ( *Terminalia: belerica* ), *Kagdoli* ( *Sterenlia urens* ), *Babul* ( *Acacia arabica* ), *Khakhar* ( *Butea frondosa* ), and *Bamboo* ( *Bambusa arundinaca* ). The minor products of economic value are lac, gum, resin, colouring bark, honey, wax, Mahuda flowers, etc. A complete list of these products, both major and minor, with their economic value and location, is given in bulletin No. 2 issued by the department of Commerce and Industries.

37. Agriculture is the most important industry in the State and nearly 64 per cent of the population directly depend upon it for their maintenance. Out of 84 lacs bighas of surveyed land, 66 are cultivable and of this 57 lacs of bighas are under actual cultivation.

38. The following table shows the principal crops grown in the State :—

**Crops in the State.**

Serial No.	Crops.	Bighas.	P. C. of total.
1	2	3	4
1	Food-grains and pulses.	36,00,000	64
2	Sugar ... ..	5,120	0.09
3	Oil-seeds ... ..	5,00,000	7
4	Cotton ... ..	14,00,000	24.01
5	Tobacco ... ..	53,000	0.9
6	Other crops (including drugs, colouring materials, garden produce, etc.)	2,00,000	4
		57,58,120	100

39. The food stuffs are mostly consumed in the State, but the commercial crops, such as oil-seeds, tobacco, cotton, etc. are exported either to other parts of India or to foreign countries. The cotton of Navsari and the tobacco of Petlad are well-known and they command good prices. The yellow rape and castor of Kadi are of superior variety. Taking the averages of the last four years, 1,02,443 bales of cotton were pressed in the factories of the State and 1,94,490 bales were consumed in the mills of the State. Out of this 6,546 bales were of foreign cotton.

40. The most important industry connected with agriculture is that of dairy produce, specially in Charotar in Gujarat and in the Gir tract in Kathiawar. Almost every cultivator there keeps a buffalo and utilises the milk either for his domestic use or for the manufacture of *ghee*. This industry has been very greatly developed in Charotar (Baroda district). In almost every important village of this tract there is a cream separator. The merchant separates the cream and sells it to the creameries at Anand or Bombay. The separated milk is either thrown away or casein is made from it. The *ghee* of the Gir tract is exported either to Bombay or other parts of Kathiawar. This trade is more or less common all over the State.

41. The number of live-stock in the State during the last ten years is given overleaf.

There is a fairly good trade in hides and bones, most of which are exported to Bombay.



## Statement about live-stock, 1918-1928.

Year.	Plough Cattle.	Cows.	Buffaloes including males.	Horses, Mules and Donkeys.	Sheep and Goats.	Total.
1	2	3	4	5	6	7
1927-28	4,10,387	2,30,061	3,68,803	42,216	3,26,239	13,77,706
1926-27	4,07,031	2,28,626	3,66,281	42,596	3,24,905	13,69,439
1925-26	4,05,523	2,31,794	3,57,854	41,983	3,20,768	13,57,922
1924-25	4,06,444	2,40,462	3,66,352	36,236	3,25,622	13,75,116
1923-24	3,98,942	2,36,990	3,61,858	43,888	3,12,402	13,54,080
1922-23	4,03,033	2,44,173	3,49,269	44,757	3,16,623	13,57,855
1921-22	3,94,615	2,46,732	3,42,111	41,829	3,19,675	13,47,962
1920-21	3,93,503	2,45,984	3,42,490	44,119	3,22,810	13,48,906
1919-20	3,88,813	2,43,294	3,36,453	45,090	3,01,278	13,19,928
1918-19	3,78,437	2,44,909	3,38,368	42,104	3,03,151	13,06,959

42. The principal tenure in the State is the Ryotwari or the individual tenure, under which the farmer pays the land-revenue direct to Government without the intervention of a third party. The land is surveyed by the Settlement Department and the assessment which the farmer has to pay to the State is fixed after determining its quality. The land is re-assessed at intervals of from 15 to 30 years. During the interval, the ryot pays the same land-revenue in cash annually. In theory, this is supposed to be half the economic rent or one-sixth of the gross produce. While assessing the land, the prices of the produce, the productivity of the soil, the proximity to centres of trade, the state of communications etc. are looked into. Then a lump sum is fixed for the Taluka to be apportioned over villages and holdings. The Ryot is expected to pay the assessment even though a particular season

may fail. The theory at the back of it is that the ryot is expected to save something in good years to meet the fixed demand when crops fail, thus indirectly inculcating in him the economic and moral virtues of thrift and prudence. As a matter of right the ryot cannot ask for any suspension or remission of the land-revenue; but in bad years when crops fail, to save the ryot from hardships, Government have made rules for the suspension and remission of the assessment. As long as the ryot pays the annual dues and observes all the conditions of the tenure, the State cannot deprive him of the possession except on the payment of a compensation. He has full alienable and inheritable right in the land and he can sell or mortgage it as he likes. No other restrictions are imposed upon the tenure, nor are any changes made in its terms.

43. The report of the Revenue Department for the year 1927-28 shows the castes of Khatedars as under :—

**Table showing castes of Khatedars.**

Caste.	Number.	Percentage.
1	2	3
Brahmins ... ..	29,673	8.77
Banias ... ..	17,405	5.15
Kanbis ... ..	1,04,823	30.98
Rajputs ... ..	14,921	4.41
Thakardas ... ..	26,604	7.85
Kolis ... ..	30,496	9.01
Mahommedans ... ..	13,394	3.95
Kali Paraj ... ..	13,000	3.84
Other castes ... ..	88,021	26.02
<b>Total ... ..</b>	<b>3,38,337</b>	<b>100</b>

Most of the Brahmins and Banias do not cultivate their land. They rent it out to other cultivators. The Kanbis are the best cultivators. They are hardy and usually thrifty, and are well supplied with cattle and implements. As a general rule the Rajputs, Mahomedans, Thakardas and Kolis are very inferior cultivators and the profits of agriculture for them even in good years are much smaller than those for the Kanbis. In the last group we may include the artisans, the village servants and the day-labourers who own about a bigha or two of land and cultivate it as a subsidiary occupation. Most of them are uneconomic holders and are a problem for the administration.

44. The following table shows the number of Khatedars that cultivated their own lands and of those that did not cultivate their lands for the three decades from 1908 to 1928.

Cultivating and non-cultivating Khatedars.

**Khatedars who cultivated their land and Khatedars who did not do so, during 1908-1928.**

Year.	Khatedars who were cultivators.	Bighas.	Khatedars who were non-cultivators.	Bighas.	Total Khatedars.	Total of land held by them.
1	2	3	4	5	6	7
1927-28	2,71,106	48,97,644	67,231	17,28,320	3,38,337	66,25,964
1917-18	2,62,583	49,29,958	65,766	14,27,998	3,28,349	63,57,956
1907-08	2,52,603	43,33,807	45,931	11,35,826	2,98,534	54,69,633

45. The following tables give the transfer of land from agriculturists to non-agriculturists and vice versa and among themselves. It shows that during the period the cultivating Khatedars lost nearly 95000 bighas to non-agriculturists.

Transfer of land.

**Statement showing transfer of land, 1918-1928.**

Year.	From cultivator				From non-agriculturist				Total.	
	To non-agriculturist		To cultivator		To non-agriculturist		To cultivator			
	No.	Bighas.	No.	Bighas.	No.	Bighas.	No.	Bighas.	No.	Bighas.
1	2	3	4	5	6	7	8	9	10	11
1927-28	1,626	11,816	5,254	43,160	944	9,139	1,131	10,986	8,955	75,102
1926-27	2,341	18,344	8,041	70,866	997	12,237	1,440	13,168	12,819	1,14,615
1925-26	2,971	28,979	10,248	83,887	1,725	17,348	1,921	16,309	16,865	1,46,523
1924-25	1,345	14,169	11,004	98,259	1,668	17,307	2,483	18,600	16,501	1,48,335
1923-24	2,223	17,492	11,192	95,390	1,869	16,204	1,258	14,951	16,542	1,44,037
1922-23	2,263	21,019	7,893	64,715	1,197	14,544	1,107	9,723	12,460	1,10,011
1921-22	2,819	23,735	9,123	79,583	880	6,757	986	7,735	13,808	1,17,810
1920-21	3,249	25,943	10,059	78,907	909	12,957	1,174	8,450	15,391	1,26,257
1919-20	4,047	33,833	12,959	1,06,409	1,050	12,152	1,499	9,733	19,555	1,59,127
1918-19	2,430	20,283	9,175	80,337	867	10,755	1,117	10,387	13,859	1,21,762

46. The following statement gives the classification of the Khatedars according to the size of their holdings for the last three decades.

**Statement showing Khatedars and the sizes of their holdings, 1907-28.**

Year.	Five Bighas and under.	Between 5 & 25 Bighas.	Between 25 & 100	Between 100 & 500	Above 500	Total.
1	2	3	4	5	6	7
1927-28	1,00,988	1,56,323	73,315	7,395	316	3,38,337
1916-17	92,088	1,51,985	70,314	6,764	419	3,21,570
1906-07	89,584	1,42,826	68,747	7,424	407	3,08,988

This table does not give a complete picture of the situation since a good many of the registered holders have sub-partners with them, just as registered field-numbers have pot and paiki numbers and are cultivated by co-sharers or partners. Their number is not available, nor are their holdings in one block. Most of them are in two, three or four pieces and are scattered all over the village. The chief problem of agriculture in the State is the small holder who owns two or three or even five bighas of Jarayat land and who combines agriculture with casual labour or cattle-grazing. On a failure of the rains he is the first to suffer. He is invariably indebted to the Sahukar and pays a very high rate of interest. As a matter of fact he is the most important problem in the agricultural economics of the State since he is sunk deep in poverty.

47. Before the era of industrialism, under the influence of which many factories of the modern type have grown up in Gujarat, there existed all over the State a number of small industries. Every village and every town had a full complement of smiths, carpenters, tanners, weavers, brass-

Old hand-industries disappearing.

workers, etc. who supplied the needs of the local people. Some towns were noted for their special manufactures, as for instance Pattan for Patolas (पटोल), Visnagar for brass and wood-work, Kadi and Pattan for cutlery, Sankheda for horn and lacquer-work, Billimora and Navsari for wood-carving, Baroda and Pattan for silk and gold thread-weaving, Padra, Kathor and Nandol for dyeing and printing, Baroda for glass-ware, Dabhoi for turbans, Billimora for ship-building. They were hand industries carried on by artisans mostly in their homes. But on account of the competition of cheap foreign articles and the change in the taste of the people, most of them died out or are in process of decline. The number of people supported by them has also been going down. During this period, except when weavers of silk and gold-lace were imported into Baroda from Ahmedabad, no serious attempts appear to have been made either to revive the old hand-industries or to start new ones.

48. The real work of developing the natural resources of Baroda, of reviving wherever possible the old industries and introducing industries dependent upon modern machinery and scientific research, commenced with the reign of the present Maharaja. He noticed a complete absence of modern industries in the State and initiated various measures for their introduction and development. The eighties were a period of reconstruction. Then the administration was modernised. At the same time a few factories were started by the State itself by way of pioneering to serve as models for the people. A sugar factory with modern machinery was started at Gandevi in 1884, and a cotton mill and a brick factory were started at Baroda in 1890-92. They were ultimately sold away. Soon after, an expert geologist was engaged and a comprehensive survey of the mineral resources of the State was made, to be followed later on with a detailed survey of the same with the object of testing their economic values. An industrial and commercial survey of the whole State was made in 1895. The conditions of the hand-industries,

Efforts at industrial revival and development.

Preliminary investigations.

the only forms of industry in the State at the time, were examined, and reported upon. This was followed up by several social and economic inquiries, as for instance, those for agricultural indebtedness, surveys of towns and villages, surveys of the hand-loom industry, surveys of fisheries on the sea-coast of the State in Gujarat and Kathiawar, etc. Whenever it was evident that there was a possibility of industrial development, further investigations were ordered. Experts were engaged and experiments were made either by the State alone or by the State in co-operation with industrialists. In this way investigations were made regarding many industries such as those of glass, cement, alkali, oils, soaps, tanning, calico-printing, fish-canning, china-clay, salt manufacture, wood-distillation, etc.

Similarly the economic value of all the forest-produce, major and minor, was investigated.

The results of these surveys and investigations were from time to time published for the information of the public.

49. Comprehensive measures were taken to promote industrial education in the State. The Technical education. Kala-Bhavan (the Technical Institute) was opened at Baroda under the guidance of the late Prof. Gajjar in 1890 and monotchnic schools (rather branches) were established at Padra, Dabhoi, Pattan, etc. Lastly a number of students were sent to Europe, America and Japan.

A museum was opened in Baroda in 1892 to stimulate the study of science and to enable people to appreciate the industrial value of the raw materials of the State.

50. At the same time the construction of railways in the State was undertaken; loans at low rates of interest were given to some of the new, though small, industries; weights and measures were standardised; transit duties, harassing land-customs, and town-duties were abolished except in the Talukas of Kodinar and Dwarka. Several small imposts collected from the

villagers were done away with and a tax on incomes with a low incidence was introduced instead. All this happened during 1890-1907.

In order to facilitate the growth of industries and to regulate them on well-established principles several laws were enacted, as for instance, the Factory Act, the Companies Act, the Mining Act, the Boiler Act, the Customs Act, etc. Rules were framed for the opening of factories and for the acquisition of land for them.

51. The second stage in the industrial development of the State began from 1907. Under the influence of the Swadeshi movement new industries were started all over the country. The Baroda State also took advantage of the enthusiasm of the people and helped all new ventures in every possible way. The Department of Commerce and Industries was created and rules and regulations were framed defining its functions and the policy of the State with regard to the encouragement of trade and industries and the various concessions and facilities it was prepared to offer. The Bank of Baroda Ltd. was organised with a subsidy from the State with the same end in view. The policy of granting long-term loans either through the Bank of Baroda or direct was continued on a larger scale. This liberality was fully utilised by local industrialists and by industrialists from outside and several industries were started all over the State from 1908 to 1922.

52. This is proved by the number of joint-stock companies registered during the period. The following table gives details about it upto 1928-29 :-

Joint-stock companies registered in the State.



**Joint-Stock companies registered in the State.**

Companies.	No.	Paid up capital in rupees.
1	2	3
Banking, Loan, and Insurance.	15	33,88,446
Cotton mills.	17	1,78,88,605
Mills for wool, silk and hemp.	1	4,71,525
Cotton gins and presses.	6	7,94,085
Oil-mills.	2	1,88,131
Chemical works.	6	7,31,235
Clay, stone, cement etc.	3	13,43,714
Printing presses.	3	91,460
Other companies.	19	32,75,404
Total ...	72	2,81,72,606

53. The following list shows the number of industries, large scale, and small scale, working in the State :—

Number of industries in the State.

- 13 Cotton Mills (two more are under organisation).
- 1 Woolen Mill.
- 1 Cotton-waste Spinning Mill.
- 3 Dyeing factories. (dyeing about 90 bales of yarn a day).
- 1 Cement factory.
- 1 Salt Works, constructed on modern scientific lines.
- 1 Pharmaceutical works and distillery.
- 2 Chemical Works, manufacturing sulphuric acid, etc.
- 5 Town Electrical Installations. (Licenses for three more have been recently given).
- 1 Large Government Railway-workshop.

5 B. I.

## 3 Oil-Mills. (large).

178 Cotton Ginning Factories and Presses.

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Besides there are several small industrial plants for rice-milling, cotton-ginning etc. numbering not less than 50. The factories that reported under the Baroda Factories Act last year totalled 114 and employed 17,251 persons—12,489 men, 3,101 women, 1,661 children.

54. Various measures were taken to develop agriculture which is the most important industry.

The Department of Agriculture. The Department of Agriculture was constituted in about 1895 and was given the status of an independent department in 1908-09. Its main function is to test the results of experiments made on farms in British India. It has done valuable work in popularising mechanical appliances like oil-engines, pumps and tractors, in helping cultivators to obtain abundant water by borings, and in introducing improved varieties of crops for cotton, rice, wheat and ground-nuts.

55. Ever since His Highness the Maharaja assumed control of the affairs of the State he has shown a keen desire to connect the important parts of his territory by railways. The following is the statement of the open lines.

**Railways in the State.**

Owner-ship.	Miles.				Capital invested.
	Baroad gauge.	Meter gauge.	Narrow gauge.	Total.	
1	2	3	4	5	6
Baroda State.	21.42	304.678	318.50	644.598	Rs. 4,52,70,175

Kodinar is now the only Taluka without railway-communications. It should be of special interest to note that with the state-owned railways and the foreign railways passing over 935 miles of its territory, there is one mile of railway for every eight miles in the State.

56. The territories of the Baroda State are mostly situated inland except at few places in Kathiawar and in Gujarat. All the Kathiawar ports are sea-ports. The Kodinar Taluka has two small ports—Velan and Mul Dwarka. They have small local trade. In Okhamandal there are two ports—Rupen near Dwarka and Okha. Rupen is a fair-weather port and has local traffic. But Port Okha is a modern port. It was opened to traffic in 1926. It has a concrete pier and has 30 feet of water at low tide. It is one of the most important ports between Bombay and Karachi and is drawing trade from foreign countries. It has a regular monthly steamer-service between the United Kingdom and the ports of Northern Europe. It is well equipped with modern appliances for handling traffic and is the only port in Kathiawar where ocean-going steamers can discharge cargo directly into waggons. It has therefore a great future before it. It is making a fair progress during the last four years as can be seen from the following figures:

**Working of Port Okha, 1926-30.**

Year.	Coasting sailing ships.	Coasting steamers.	Ocean-going steamers.	Cargo handled (Export and Import) in tons.	Value of trade. Rs.
1	2	3	4	5	6
1929-June, 1930	317	248	55	59,176	82,72,596- 0- 0
1928-29	335	245	57	80,527	1,05,99,596- 0- 0
1927-28	233	169	48	51,535	92,27,701- 0- 0
1926-27	111	102	18	16,196	29,39,611- 0- 0

The ports of Dubka, Navsari, and Billimora in Gujarat are river ports. But they are silted up and their traffic is on the decline specially on account of competition from the B. B. & C. I. Rly., which runs closely parallel to them.

57. Appendices 4 and 5 give the export and import trade of the State during the last three years. The statistics are collected from the rail-borne and sea-borne trade-returns of the maritime Talukas of Kathiawar.

58. The following tables give the various sources of revenue and expenditure for the years 1927-28 and 1928-29:—

<b>Sources of revenue.</b>				
Sources.				
1928-29.				
1927-28.				
-----				
1				
-----				
2				
-----				
3				
-----				
Rs.				
Rs.				
Land Revenue	...	...	94,31,599	1,18,44,161
Opium	...	...	5,33,966	5,41,908
Stamps	...	...	11,42,040	11,99,437
Excise	...	...	38,02,363	36,41,400
Customs	...	...	14,26,732	12,16,898
Assessed taxes	...	...	7,21,331	6,59,172
Forest	...	...	4,78,939	4,07,623
Registration...	...	...	1,64,135	1,82,865
Tributes	...	...	3,43,489	10,27,917
			1,80,44,594	2,07,21,381
Interest	...	...	15,32,858	14,15,407
Receipts by civil departments	...	...	8,63,758	8,60,655
Miscellaneous	...	...	25,55,748	43,87,635
Railways	...	...	15,58,207	11,40,124
Irrigation	...	...	...	27,959
Other Civil Works	...	...	3,62,339	91,244
			17,577	...
Less Irrigation	...	...		
			2,48,99,907	2,86,44,405

## Sources of expenditure.

Sources.	1928-29.	1927-28.
1	2	3
	Rs.	Rs.
Land Revenue ... ..	22,51,810	21,98,128
Opium ... ..	19,761	30,264
Stamps ... ..	98,848	83,848
Abkari ... ..	2,10,452	2,04,777
Customs ... ..	3,46,532	2,33,871
Forests ... ..	1,37,754	1,25,195
Registration ... ..	60,612	59,876
Total ...	31,25,769	29,35,959
Salaries and Expenditure of Civil Departments.		
Huzur cutcheries ... ..	9,28,301	8,75,386
Law and Justice (court of Law)... ..	5,04,540	4,90,306
Jails ... ..	94,237	98,990
Police ... ..	14,07,320	13,73,958
Education ... ..	33,58,635	33,15,563
Medical ... ..	6,58,592	7,18,914
Minor Depts. ... ..	...	57,992
Total ...	69,51,625	69,31,109
Miscellaneous Civil Departments.		
Irrigation (working expenses) ... ..	...	86,945
Public Works (Civil)... ..	25,83,425	35,43,990
Army ... ..	21,78,092	27,18,543
Famine Relief ... ..	5,887	2,09,192
Grants to Municipalities, Local Boards and others.	6,28,968	3,37,244
Total Expenditure ...	2,11,17,590	2,14,51,457

59. The administrative report of the year 1928-29 shows the financial position of the State at the close of the year as follows.—  
 Financial position of the State.

Particulars.	1928-29.
1	2
Cash Balances ... ..	Rs. 26,42,317
Fixed deposits ... ..	„ 92,04,870
Investments including amounts spent on railways, reproductive public works etc.,	„ 8,86,36,907
Total assets ...	Rs. 10,04,84,094
Less liabilities ...	„ 52,72,406
Net assets ...	Rs. 9,52,11,688

Most of the investments are in Government of India securities, in the shares of railways or in the shares and debentures of joint-stock companies. The Baroda Government have never incurred any debt and have always followed the conservative policy of arranging a balanced budget, saving about Rs. 30 lacs a year. These savings are used on capital works.

60. The description given above of the economic conditions of the State leads to some important conclusions. The principal source of livelihood for the people of the State is agriculture. Nearly 64 % or two out of every three persons depend upon it for their maintenance. The percentage was 54 in 1901. In 1921 it was 64. So nearly 10 % were displaced from other occupations and were forced back on agriculture. Further the holdings of the agriculturists are very small. Their fields are scattered. They have not even the necessary wherewithals of agriculture—cattle and tools. The majority

of them carry a load of heavy debts. Nearly one-third of them are inferior hands in the practice of their art. Their incomes are small and precarious. Some parts of the territory of the State are liable to drought at short intervals, rendering the cultivator's income still more uncertain. With his ignorance, he has little incentive to show better work.

Most of the old industries have died out, or will die out soon—they cannot survive the competition of machine-made goods. At the same time modern industries have not been able to make much progress in the State.

In spite of the efforts of H. H. the Maharaja the majority of the people are illiterate and their houses and surroundings are insanitary.

So the most important issue before the State and the people is to improve the productivity of land, to increase the efficiency of the agriculturist and the labourer, to develop the trade and industry of the State, and to raise the income of the citizen, so that he may have at his disposal a surplus for a better living.

The following inquiry is intended to show how a reformed system of banking in the State can effect this.

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## CHAPTER III.

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### **Banking by the Baroda State.**

61. Banking other than the indigenous one is of exotic Preliminary. growth in Baroda. Upto recent times, her agriculture and industry were on the small-scale system and they were carried on according to requirements suited to the age. There was none of large-scale industry or agriculture in the land till the end of the last century. The limited finance for those occupations was usually supplied by the Sahukar in the village and the Shroff in the town. The State ran no industry except a cotton mill for demonstration. Its interest in agriculture was restricted to the assessment and collection of the land-tax and occasionally to the giving of Tagavi. The remittance of money was done through the agency of the Potedar. Much of the energy of the Baroda Government of those days was taken up in looking after its inter-statal interests in Gujarat and Kathiawar. Hence modern banking as such was little known and practised in the State. And yet Baroda was the first among Indian States to start large banking houses.

These banking houses were a curious medley. They were in one way remittance-firms. From another standpoint they functioned as state treasuries; they financed trade, industry and agriculture in Baroda and all over Gujarat and some parts of Kathiawar. Their energies were felt at distant Bombay. They constituted so many centres to disburse salaries to the civil and military establishments. They worked as loan-offices to officers. They dabbled in the business of cotton and the precious metals. They earned huge profits



for their chief manager, the Maharaja. As they were the first attempts made by the Baroda Government in the direction of utilising its finance on the system of indigenous banking, it is necessary to know what they were and how they originated.

62. The Potedari system played a very important part in the banking history of the Baroda State. It was found in a fairly good working order when Col. Walker took up the question of reforming state finance but he developed it in order to suit the requirements of his time. In those old days the State kept no treasuries of its own; on the other hand it utilised the services of an accredited banker whenever it was in need of ready money by issuing a money order on him and by granting a *Varat* or letter of credit on some Izardar viz. the person to whom the revenues of the Mahal were farmed out. These persons cashed the orders for money from the Izardars and were known as Potedars or accredited bankers of the Raj. It is observed by the writer of the Baroda Gazetteer that in the time of Anand Rao Guekwar, 1800-1819, there were five such Potedars viz. Hari Bhakti, Gopal Rao Mairal, Ratanji Kahandas, Lallu Mangal, and Shamal Bechar, and that each had a right to lend to the State a certain proportion of the money which it wanted as advances. For instance it was stipulated that for every loan of one rupee Hari Bhakti should advance to the State  $5\frac{1}{2}$  as., Gopal Mairal  $5\frac{1}{2}$  as. and the other three the remainder. These Potedars charged  $4\frac{1}{2}$  to 9% rate of interest to the State. Usually the Potedar paid to the creditor of the State the full sum specified in the order but more often he charged small percentages as his Potedari-interest and agent's commission. He also charged to the State an additional sum known as *Monoli*-premium or discount according to the nature of the commission.

The Potedar passed on the money order to the Izardar along with the receipt of the person paid and the Izardar or farmer repaid to him the loan and the interest on it when the

rent of his farm was received. Of course the Izardar kept statements of his accounts with the Potedars and submitted them to Government for inspection and verification. It should be remembered that if the Potedars charged interest on loans advanced by them to the State, they paid interest when the receipts on behalf of the Raj exceeded the disbursements. They also allowed overdrafts to the State without stint.

63. The Potedari system however, did not work well.

It involved the State into heavy indebtedness and brought no relief to the Maharaja and his family. So, we notice a very ingenious device introduced by Sayaji Rao II Gaekwar, 1819-1847, to secure relief from the burden of the heavy debt and if possible to accumulate more treasure. He started Dukans or banks in different parts of his territory and at Ahmedabad, Surat and other important places. These Dukans were called after the names of the Mahals or places of their working or of the members of the royal family or of gods and goddesses, or after some fictitious names. Strangely enough some of them bore even Persian names. The Dukan of Ganesh Ishwar started work in 1829; the Gaekwar ran two such Dukans in his own Haveli-palace, yielding Rs. 1,25,000 a year. The Sarkari Dukan in the City of Baroda brought to him a revenue of Rs. 8,000 a year and the branches at Sadra, Kadi, Petlad and Rajkot yielded about Rs. 5,000 a year.

Sayaji Rao II hit on this clever device with a view to extricate himself from financial obligations to the Government of Bombay and the Potedars. But not satisfied with this he opened partnership with the Potedars and eventually with the help of the banks he succeeded in assuming the sole Potedari of the State himself and in evicting the whole band of Potedars. In short he himself became the creditor of the State.

This practice of keeping the finance of the State and of the Maharaja under the control of the banks was continued

by His Highness the Maharaja Khande Rao Gaekwar, 1845-60. In the year 1858, he started the Kutb-Rubani bank, with a capital of Rs. 21½ lacs, subsequently increased to Rs. 39 lacs. The Maula Ali bank was started with a capital of Rs. 23 lacs. It yielded an interest worth Rs. 2½ lacs in four years. In 1869-70 was inaugurated the Mehabub Subhani Dukan, part of the capital of which was made up by the *Stridhana* or personal property of Her Highness the late Maharani Jamna Bai Saheb. This Dukan was started in order to facilitate the transmission of specie from one Mahal to another and it was placed under the charge of the Sar Suba.

His Highness the Maharaja Malhar Rao Gaekwar expanded the operations of these institutions to the greatest extent. In 1870-71 he established four Dukans—those of Laxmidas Narsidas and Malhareshwar in Baroda, of Malhareshwar in Navsari, and of Narsidas Laxmidas in Bombay. In 1871-72 the Laxmidas Narsidas Dukan was started at Surat. The Mhalsakant Dukan commenced operations at Baroda in the same year. The next year saw the foundation of the two Dukans of Parvati Kant in Baroda and Parvati Kant in Bombay. It is estimated that Rs. 53 lacs in cash and bullion were transferred in this way from Baroda.

The Dukans never differentiated between State accounts and private accounts. All of them received deposits from the public. All lent money on interest. But none paid any interest to the State for the use of its funds, while if the State borrowed from them, they were certain to charge high rates of interest. There was however, one exception and it was in the case of the officers of the State for the return of whose borrowings the State itself stood as guarantee. The Dukans did brisk business in cotton and the precious metals and in Hundi-remittances. It was calculated that their profits upto 1873-74 amounted to about Rs. 72 lacs and of this the interest charges from Government came upto Rs. 28 lacs while Rs. 44 lacs were earned from other sources.

A list of the Dukans is given below with their names and the years of their establishment and closing through the courtesy of the Raj Daftardar.

## Sarkari Dukans.

No.	Name.	Duration.
1	2	3
1	Ganesh Ishwar. ... ..	(Samvat era) 1889-1929 1833-1873 A.D.
2	Mehbub Subhani ... ..	1926-1931 1870-1875 "
3	Kutb Rubani ... ..	1880-1931 1824-1875 "
4	Sar Suba Dukan ... ..	1920-1926 1864-1870 "
5	Maula Ali ... ..	1916-1921 1866-1865 "
6	Dissa (camp) Treasury Potedar Ganeshai.	1889-1941 1833-1885 "
7	Manekwada Treasury ... ..	do. do.
8	Sadra Treasury ... ..	1928-1940 1872-1884 "
9	Malhar Ishwar Parekh... ..	1927-1931 1871-1875 "
10	Sarkari Juni (old) Dukan ... ..	1931-1911 1875-1885 "
11	Parvati Kant Dukan ... ..	1930-1931 1874-1875 "
12	Dukan Doshi Naranji ... ..	1927-1932 1871-1876 "
13	Dukan Narsinhdas Laxmidas... ..	1927-1931 1871-1875 "
14	Laxmidas Narsidas ... ..	1928-1930 1872-1874 "
15	Mhalsakant Dukan ... ..	1928-1931 1872-1875 "

These Dukans were swept away by the reforming administration of Sir T. Madhav Rao. At the same time he established treasuries at important places in the State. Henceforth all the financial work of the Government was done through them.

64. The closing of the Dukans by the administration of Sir T. Madhav Rao terminated one epoch in the history of banking by the Baroda State. Before his days, the financial resources of the State and the personal funds of the

The close of the old order.

Maharaja and the royal family were pooled in the Dukans and they were made available for satisfying the banking requirements not only of the whole State but also of trade and industry all over Gujarat and some parts of Kathiawar. It was unfortunate that they did not serve the needs of agriculture directly. It was still more unfortunate that they were closed without mercy and that no institutions with modified powers and improved functions were created in their stead. For a generation after this the State and the people turned to indigenous banking to meet the requirements of agriculture and industry. The void created by the sudden abolition of the Dukans was partly filled up by the efforts of His Highness the Maharaja to revive banking in another form. However, the usefulness of the old institutions can be borne out from the following excerpt noticed in the highly interesting report of the Industrial Commission which reported in 1894-95, and from the experienced evidence of the late Sheth Maganlal Hari Bhakti, who deposed that the Dukans made available to the people a running fund of about Rs. 1 crore in all. We give below the English version of the Gujarati passage from the Commission's report:-

“The funds of the State were once at the disposal of the local merchants and Shroffs and they could get easy and timely credits from the Dukans. Government also realized better rates of interest than now when the funds are invested in the current account of the Bank of Bombay. Our Shroffs and people did flourishing business at distant centres like Gwalior and Haidarabad (Deccan). But now all that is a past story. Ever since Sir T. Madhav Rao closed the Dukans the trade and industry of Baroda and its Raj have declined and its merchants and Shroffs have gone insolvent. A time was when Baroda gloried in having several multi-millionaires. Now (1894-95) it is hard for a well established firm to get a credit of five lacs or even a lac.”

Thus the old Dukans were neither unmixed evils nor benevolent institutions.

65. At this very time however, a change came over the attitude of the State to banking itself. The beginning of modern banking. The authorities saw clearly that the old Saraffi was disappearing fast on account of the sudden withdrawal of state funds from it, that agriculture and industry could not be allowed to starve and decay, and that they should not be left to be maintained on the slender and ill-organised resources of the village and town Sahukars. Again joint-stock banking and enterprises were working on an increasing scale at the neighbouring industrial centres of Bombay and Ahmedabad respectively. His Highness the Maharaja was invested with full powers of government in December 1881. Soon after that a distinctly modern and progressive turn was imparted to all the activities of the State. Naturally agriculture, commerce and industry became the first concerns of his zeal for reconstruction and the Baroda Pedhi was started in 1884.

66. Prior to 1875 all banking in the State was carried on by Shroffs. The funds of the Commercial Banks or Pedhis. State were deposited with four prominent Sahukars of Baroda until the inauguration of the State treasuries in 1876 which dispensed with their services.

In 1884 the Baroda Pedhi was started with a capital of Rs. 3,00,000 divided into 600 shares of Rs. 500 each. One-half of the shares were taken up by Government and other half by the public. A building was given by Government together with a cash credit of Rs. 3 lacs at 3% and some other minor privileges. The Pedhi was managed by a board of five directors of whom three were nominated by the State and two were elected by the shareholders. It lent money according to the system of indigenous banking. In 1908 after the starting of the Bank of Baroda it was sent into voluntary liquidation. It had served a very useful purpose and the shareholders received about 30 % over and above their capital.

67. Another bank was started at Visnagar under the direct control of the Suba about the same time. "But being away from the head-  
Visnagar Pedhi.

quarters, and under the control of the Sar Suba who had other work to attend to, it was not well-managed. Some of its investments were risky and the famine of 1899 ruined its clientele." So in 1904-1905 it was liquidated and the share capital was fully re-paid to the shareholders.

68. Small banks were opened in 1890 to help the rank and file of the Baroda army, the servants in the palace, and the Police. These institutions are still working.

69. The next important stage in the history of banking by the Baroda State was the appointment of the Industrial Commission by His Highness the Maharaja in 1894. It consisted of three officials and one non-official. We doubt if any industrial commission did its work more comprehensively and with greater thoroughness. Its members toured all over the Raj, heard evidence from distinguished merchants, industrialists and agriculturists, studied the economic conditions of the people at first hand, and then submitted a report in four bulky volumes, each covering 800 handwritten pages. The recommendations of the commission were summarised by Mr. Arabindo Ghosh and published by Government. Throughout this voluminous work, the President, Mr. Dinshah Talyarkhan, lamented the continuous drain of money from the State, the extinction of the Sarafi, the dearth of capital, and the very exorbitant rates of interest charged by money-lenders. On page 8th of the summary of the recommendations he says that "the difficulty of procuring capital for industrial or agricultural improvement is reported from every Taluka and it is a fact that to supply this want is the first desideratum, without which nothing can be done. The only remedy is to establish Government banks in each Mahal. Where possible it should be a joint concern in which the capitalists of the Mahal should be induced to take shares, the Government taking the rest. The existing banks should deal on a far larger scale. The Baroda Pedhi should accept deposits and lend money to any one at low rates of interest

(proper security being taken), the rate of interest given on the former being a little higher than that taken for the latter."

Writing about the industrial breakdown of Baroda the same report observes that "the decline of trade has been chiefly felt in cloth and jewellery owing to the loss of State custom by the Shroffs, the cessation of Government dealings in money, the investment of State money in Government of India promissory notes, the withdrawal of Government funds from trade and commerce and active participation in them."

The economic backwardness of the Amreli Prant was emphasized by the Commissioners' observation that "the difficulty of procuring capital for industrial enterprise and agricultural improvement was a great impediment to the expansion of agriculture and industry and this circumstance was accentuated owing to the extreme paucity and in some Talukas, e. g. Kodinar, practical non-existence of moneyed men and the difficulty experienced in the poor country such as Peta Mahal Khamba, in collecting loans".

We give these excerpts from the report of the Commission because they clearly prove the utter inadequacy of banking in the State in those days. The report throws a flood of light on the economic conditions of our State before the great famine of *Samvat* 1956 (1899) and it shows how the people were absolutely unprepared for that great catastrophe. The recommendations of the commissioners are very interesting and deserving of careful consideration by Government even at this time. Their report, which is now in manuscript, should be printed.

70. Between 1890-1900 seed-depôts were organised all over the Raj. But most of them did not work satisfactorily. So they were closed, one after the other. Some of them were however converted into *Sadar* or chief banks, with the clientele of the old ones as their members. These were subsequently transformed into *Pedhis* or agricultural banks after the Egyptian model.



71. The principal concessions granted by the State to the Khetivadi Pedhis were (1) subscription of half the share-capital, (2) exemption from the payment of stamp and registration duties and (3) collection of arrears by revenue process (subsequently withdrawn). They were subject to audit and inspection by Government. The first two banks were started in 1899-1900 in the forest tracts of Songadh and Vyara in the district of Navsari. They are still working. Later on two more banks were started, at Harij in 1901 and at Visnagar in 1905, in the district of Kadi. But they were subsequently closed because of incompetent management. Since then two more banks have been organised, at Amreli in 1909 and at Bhadran (Baroda district) in 1910. They finance the co-operative credit societies under their jurisdiction and are working fairly well.

72. Thus the findings of the industrial commission and the consideration of the best measures to be taken to rescue the declining trade and agriculture of the State resulted in the starting of the agricultural banks and the improvement in the working of the Baroda Pedhi. But the great famine of 1899-1900 upset all previous calculations. The people were suddenly caught in the worst economic cataclysm. Gujarat and therefore Baroda was no longer the land of peace and plenty. His Highness the Maharaja, not satisfied with the measures which his officers were asked to take to relieve the distress of the people, desired that some permanent step should be adopted by the State to prevent as far as possible a recrudescence of the troubles of that year. His attention was specially drawn to the chronic indebtedness of his peasantry. He rightly judged that no banking organisation in the State, however efficient and complete, could ever succeed in keeping a heavily-indebted peasantry from the effects of even a slight failure of the rains. So he ordered that comprehensive investigations should be carried out to ascertain the volume of agricultural indebtedness in the State. The efforts made to estimate this by various com-

mittees and district officers culminated in the production of an exhaustive survey of the whole problem by Mr. Manilal B. Nanavati in 1912 in his report. This report was followed up by a detailed proposal from him to establish a land mortgage bank in the State in 1916.

The investigations of these committees and reports were aimed at the liquidation of the old debts of the peasantry and the improvement of land. But the entire subject of agricultural and industrial finance had never been made the subject of a complete survey since 1895. That was done in 1918 by the appointment of the Economic Development Committee which reported in 1919. In 1924 another committee was appointed to report on the advisability of starting a land-mortgage bank in the State under the chairmanship of Mr. Nanavati. This committee reported in 1925.

73. Meanwhile Tagavi worth Rs. twenty-four lacs was distributed amongst the agricultural classes and eleven thousand wells were sunk in the State out of this grant. Recently Government have deposited Rs. 3,25,000 with the Pedhis or agricultural banks, the co-operative unions and the central co-operative banks for advancing long-term loans to members of successful co-operative societies for the liquidation of old debts. The results of this experiment are being watched at present. Besides this, large sums of money are lent to the Kheduts for purchasing oil engines and tractors and during the last ten years the amount has reached the grand total of Rs. 3,85,474.

74. But the Khetivadi Pedhis and the loans from Co-operative banking. Government in the form of Tagavi were found insufficient to give relief to the peasantry, greatly impoverished by the famine of 1899-1900. The agricultural inquiries of the British Government pointed to the same unhappy experience in British India and it was thought advisable that besides Government being called upon to go to the rescue of the distressed peasantry the latter should be made self-reliant through the exertions and savings of its

own members. Before Lord Curzon's Government passed the Co-operative Societies Act in 1904, a co-operative store and a co-operative bank were started on the initiative of some enthusiastic officers in Baroda. In 1905 was passed the Co-operative Societies Act. This Act allowed the organization of credit societies only. So the Act of 1913 was passed which extended co-operative efforts even to non-credit work.

75. The Baroda Industrial Commission had deplored the dearth of capital and the destruction of the Sarafi throughout the State, and had advised Government to give liberal grants of money to those industrialists who would give sufficient account of themselves by working successful business-schemes. This advice was liberally followed up by His Highness the Maharaja's Government and, ever since that date loans have been liberally advanced to enterprising merchants to enable them to start industries in the State. Loans worth Rs. 8,13,100 and debentures worth Rs. 17 lacs were allowed to twenty-one industries in all from 1909 to 1929. We discuss this in details later on.

76. Just before we referred to a recommendation of the Industrial Commission that the Baroda Pedhi should be transformed into a Bank for Baroda, as its scope was very limited and as it was not in a position to meet the growing needs of commerce and industry. For several years, however, no action was taken upon this suggestion. Once it was contemplated to invite one of the important banks of Bombay to open a branch in Baroda. But in 1908 it was decided to start a new Bank for Baroda and to allow the Baroda Pedhi to go into voluntary liquidation. The Bank of Baroda Ltd. commenced work from July 1908.

77. The development of banking in the State and its co-ordination with trade and industry, and specially agriculture, was accentuated by the organization of a separate department of Commerce and Industries (now the Department of the Development Commissioner). This

work had once been entrusted to the Department of Revenue but in 1905 a separate branch was opened in the office of that department and a special officer was appointed in charge of commerce, agriculture, industry and customs. In 1906, Mr. Whitenack, an American, was engaged as Economic Advisor. The next year his department was made independent of the department of revenue and was named the Department of Commerce and Industry. In 1909 he was succeeded by Mr. A. N. Datar, and in 1912 by Mr. Nanavati

In order that the work of the department should be conducted on well-regulated lines, rules were made in 1915, which defined its functions and the conditions under which the State was to afford concessions and such other facilities to trade and industry. The Department was also entrusted with the development of co-operative societies in the State and the Director of Commerce worked as Registrar of Co-operative Societies till 1919 when a separate Registrar was appointed.

Later on the departments of Commerce, Industries and Labour, Agriculture, Forests and Co-operative Societies were placed in charge of a special officer with the designation of Development Commissioner with a view to co-ordinate their activities.

#### **Recommendation.**

*The report of the Industrial Commission, which is at present in manuscript, should be published by Government. (Para 69).*

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## CHAPTER IV.

### **Agricultural Finance.**

78. Agriculture is the most important industry in the State and as said above, nearly 64 per cent of its population is dependent on it. It is therefore necessary to look into its financial requirements and to see how they are met. In this chapter we take first the chief agencies that finance agriculture. Then we discuss the subject of agricultural indebtedness. The question of a land mortgage bank comes up under our consideration after that. Lastly we point out the ways to effect co-ordination between the various agencies.

#### **I. Financing Agencies.**

79. Four agencies finance agriculture in the State  
They are:—  
Financing agencies.

- (1) Private money-lenders,
- (2) Co-operative Societies,
- (3) Agricultural banks,
- (4) Tagavi advances from the State.

#### **(1) Private Money-lenders.**

80. It is impossible to give a correct description of money-lenders in the State. They are of all imaginable types and shades. But for the sake of convenience, they may be divided into three distinct groups. Each group has special characteristics of its own, though the dividing line is not very sharp. There are several members in each group that do business in the same way as members of the other groups. The first group includes the city and town bankers. They are mostly Baniyas and sometime Brahmins. In some Talukas the former predominate while in others the latter. The second group is composed of the village-merchants and the third group consists of successful cultivators.

81. The members of the first group are mostly Banias, sometime Brahmins, and reside in  
 The city or town Taluka towns or in prosperous villages.  
 banker. They lend to the better class of cultivators. Their advances are of sums above 100 or 200 rupees and their dealings are generally straightforward and honest. They charge from 8 to 10 p. c. interest and lend money as much on personal security as on the security of land. When the security is mortgaged with possession, they permit the agriculturist to cultivate the land. Generally they are not land-grabbers though in every case they own a few bighas, mostly foreclosed. Though their greed for land is not great, they would not miss an opportunity to get valuable holdings. They do not receive produce in return for principal and interest, but always accept cash in payment. Sometimes they charge discount or *Adat* (आडत) when an account is opened. Generally they do not drive hard bargains. Each one of them has his sphere of influence and operation in certain villages. With money-lending they combine some other kinds of business, for instance, trade in produce or brokerage.

82. The second group is composed mostly of village  
 Village merchants. merchants. They are generally merchants in villages, i. e. grocers, drapers, brokers, and grain-merchants, all combined. They advance their goods and wares on credit to the cultivators of their villages and of the surrounding territory where there are no such merchants. They also give cash loans. But their bargains are harder and harsher than those of the first class. Besides charging a high rate of interest i.e. from 12 to 15 p.c. they charge some discount when an account is opened. They always expect to receive produce of land in lieu of principal and interest. This gives them an additional advantage. They get a good deal in weight and in the rate charged for the produce. They advance to the lower and middle classes of cultivators, to farm servants, and to farm-labourers. Their bargains with the latter class are much harder than with the former, the rate of interest varying from 25 to 75 p. c. Sometime they charge an anna per month

per rupee. The cultivators who offer better securities are charged 12 p.c. as book-interest, while extras cost them from 10 to 15 p.c. Every one of this group owns some land in the village, purchased or foreclosed. As said just now the contracts of these people are very harsh. They take every advantage of the weak position of the ryot. True that they try to help the Khedut out of all difficulties; but then they do it with a view to get better advantages later on. To new clients they advance freely and for all purposes and go on advancing to the highest limit. Their dealings are harsh but they are harsher still when they deal with the *Kaliṇaraj* or backward classes. These people are very primitive and backward and every advantage is taken of their ignorance. Here the Khedut is nothing but a serf of the Sahukar. He can have no dealing except through the Sahukar. He must buy from him and sell all his produce to him. All the produce of the farm is immediately taken to the Sahukar, leaving very little for his own purposes; a little later when he wants something, he must go back to the same Sahukar. The Sahukar does not render any account to him. Probably the ryot does not know how much he is indebted; the accounts grow from year to year and they never close. The ryot must live and work for the Sahukar. This state of affairs is generally found in the *Rani* Mahals or forest tracts of Songadh and Vyra, in the Vaghodia Taluka, and to some extent in all those Talukas inhabited by lower classes of cultivators such as Thakardas, Kolis, Bhills, etc.

83. The third class of money-lenders consists of the  
 Successful cultivator, successful cultivators or land-lords who  
 combine money-lending with farming.  
 This class is fast growing and is mostly confined to the Baroda Prant, to Shinor, Baroda, Petlad, and other parts of Charotar and Kanam. There are a few more in Navsari and some in Amreli, as also in Kadi. But on the whole their number is not very great. They form the most intelligent class of the farming community, shrewd and business-like. Formerly it was not considered polite or decent for these people to lend money as that profession was considered low.

Socially the Bania occupied a higher rank; but he was treated with contempt by the Charotar Patidar. But now the Patidar also has taken to money-lending. In this economic revolution the old demarcations of caste are disappearing. The reason is : money-lending affords good profits and at the same time holds out a chance of getting the desired piece of land to the Patidar.

84. The dealings of this class are very unscrupulous. Their ultimate object is to get land by every possible means, fair or foul. They lend money with a design and do not at all care for the ryot when their object is fulfilled. They are real land-grabbers. They do not permit the owner to cultivate the mortgaged land for fear that the possession of it may be disputed.

However an exception may be made to this class by the mention of some of the Khedut money-lenders of the Navsari district, men who have earned money in South Africa. On their return they lend money to their neighbours but their dealings are very fair and reasonable.

85. In this connection it may be mentioned that almost all the money-lenders in the State are local men, unlike those in the Deccan. They live permanently in the villages and towns where they carry on their trade. Their interest is bound up with the society they live in and except in the *Rani Mahals* they are of the same race as the bulk of the cultivators.

86. We have here to note the coming into existence of a new class of money-lender, viz. the unscrupulous Pathan whose transactions do not often come to light. For recoveries he relies on personal threats and coercion and the interest he collects is enormous. He finances the lowest class of cultivators, like Kolis, Dharalas, etc. He is a menace to be dealt with.



87. It is difficult to give a correct idea of the rate of interest paid by the farmers. Though the legal maximum rate of interest is 12 p. c. per annum, it does not mean that the limit is never exceeded. On the contrary, it is confidentially asserted that in the majority of cases this rate is exceeded and that too by a substantial amount. In all the bonds upon which the farmers are sued the rate of interest charged is never above 12 p. c. Therefore our law courts could not give us any help in arriving at the correct interest charge that the farmers were used to pay. There are few cases in the courts where the defence of an illegal interest-charge is brought. Ignorance, overpowering need, and the necessity of keeping good relations with the Sahukar, are reasons why such a defence is never set up. Under the circumstances we had to depend upon the oral testimony of the farmers and sometime of the Sahukars themselves for our information.

88. Interest is the price paid for the use of money. Its rate depends upon the moral qualities of the borrower, upon his foresight, his self-control, his intelligence. They are the qualities that conduce to thrift and to savings even out of a meagre income. In a farming community possessed of these qualities the rate of interest is bound to be low. The rate of interest depends also upon environment, upon seasons, and upon training. And it depends upon the stream of income, its size, shape, composition and probability. In a static society where expensive social customs reign supreme, where it is obligatory upon every member to perform certain rites and ceremonies irrespective of his economic condition, the rate of interest is bound to be high. Where the season fails frequently and where returns from the field are small and uncertain, the rate of interest is likely to be very high. To sum up, the rate of interest depends upon the moral qualities of the farmer, upon the objects of the loan, upon the character of the seasons, and upon the time element in it.

8 B. 1.

89. The lowest rate of interest is paid in the Talukas of Shinor and Petlad. As a rule, in the same locality the better class of cultivators have to pay less in interest than the rest. Probably they offer better security; probably the Sahukar has greater confidence in them. The ordinary rate paid by the better class of farmers is from 6 to 9 p. c.. But in the same locality a Thakarda or a Koli will have to pay 25 to 75 p. c. or even more. The same is the case in all the other Talukas. In the districts which are badly hit by famines, i. e. those of Kadi and Amreli, the rate of interest is very high. There even the best farmers pay at the lowest 10 to 12 p. c.. But if the need for a loan is very high or overpowering, the high class Khedut pays a still higher rate of interest. To meet the fixed Government demand, to purchase cattle, to replace the dead one, to celebrate marriages or perform funeral rites the ryot will consent to any terms dictated by the Sahukars.

90. The rate of interest depends specially upon the time-value of the loans. Loans are of three kinds:—(1) seasonal or current, (2) temporary or intermediate viz. for short periods of three years and (3) for long periods, viz. for more than three years. Current loans are generally unsecured. They are to be returned at the next harvest time. Almost every farmer has to contract temporary loans. The better class of farmers obtain these loans at reasonable rates. Occasionally, advances are made in the form of grain. Here no interest is charged but a certain return in kind is stipulated for. If grain is advanced for seeds, double the amount has to be paid; if for maintenance, half as much. Sometime cash advances are made and return in kind such as cotton, etc. is stipulated for, with the condition that if the farmer fails to carry out the agreement, the usual market rate for the commodity in the season would be charged. These contracts are called Jalaps and are usually made by the lower classes of cultivators. Let us

Rates of interest in different parts of the State.

The rate of interest depends upon the nature of the loan.

assume that Rs. 60 are advanced for which the farmer promises to give one *Bhar* of Kapas at the harvest time, and that in default the best market rate of the season is charged. Suppose that the minimum rate was generally Rs. 120 per *Bhar*, but that in the best part of the season the rate goes to Rs. 140. Then if the farmer fails to give the Kapas, he has to pay Rs. 140. A similar contract is made for the next year. If during the time a small sum is paid, it does not reduce the principal but it is credited after the Kapas is turned into money-value. It is needless to mention that no separate interest is charged, nor is any interest paid on the sums paid during the time. These contracts are called *Jalaps*-(जालप्स.)

91. The short-term loans are recorded in *Khatas*.

Forms of contract. When these loans accumulate, a mortgage with ample security of land or house is obtained. Then it becomes a long-term loan to be returned at the convenience of the cultivator. In such loans the tricks of the trade disappear while the interest charged is moderate and reasonable.

92. The methods of charging discounts, commissions (*adal*), etc. are as many as human ingenuity can devise, varying in different

Commissions and discounts. parts of the State. Some time when an account is opened, a certain percentage is returned to the *Sahukar* as *डिपण्डि डिपण्डु* (literally for opening the mouth of the purse). It is from 5 to 10 per cent of the loan. If the stipulated rate of interest is higher than the legal rate, viz. 12%, a sum equal to the difference is discounted when money is advanced. If the rate is 18 per cent and if Rs. 100 are loaned, Rs. 6 will be charged as discount. In some of the backward parts of the State the *ryot* is expected to bring the produce of the farm to the money-lender who has the prior right to buy it. He pays an *anna* or two less per maund than the market rate. He also cheats the farmer in weight. This charge of an *anna* or more is imposed upon the farmer even if he sells his produce to any other merchant.

93. There are several other ways also in which the farmer is cheated. Sometime small personal service is imposed as in Charotar. While settling the accounts, repayments made by the debtor do not receive any interest. The ryot has also to pay small amounts as *પાઘડી-Paghdi* (turban) or *ચાંલા (chanla)* on various occasions. If all these charges were taken into consideration, the rate of interest paid for the use of money would run very high.

94. It is hardly possible to describe adequately the relations of the money-lenders and the farmers. They cannot be called cordial, for there is an amount of suspicion. They cannot be called unfriendly because the farmers need the Sahukars and cannot afford to break openly with them. Probably they may be described as strained. In the Kadi and Amreli Prants and in a portion of the Navsari Prant, the farmers do not and cannot pay up the loans easily and so very strict terms are imposed upon them. In the other districts money is somewhat easy but the loans are made very cautiously. This change in the mutual attitude of the communities began from the year 1899—soon after the great famine or possibly from the year 1896, the beginning of the plague epidemic. Before that their relations were rather cordial. Both the farmers and money-lenders were prosperous. The Sahukar was the *ma-bap* of the cultivating classes and a benevolent friend of the rest of the villagers. He held an important position in the village economy. He financed the village. He transacted all the business of the village, selling crops, and supplying all necessaries. He paid the Government dues on behalf of the farmer and thus indirectly helped the Government too. Credit was personal. Security was required very seldom. The village also was more organised and the Sahukar was not permitted to drive a hard bargain. The social restraint of the village-elders was great and beneficial, the seasons were good, the produce ample and steady, and the money-lenders always willing to lend. In the Amreli and Kadi districts

there was even competition among the Sahukars to lend. The Sahukar would go to a village with a bag of money and would persuade farmers to accept small loans. He would show when and how to spend, to buy one more piece of land, purchase one more bullock or cow, and so forth. In the Amreli Taluka some of the Sahukars even engaged brokers to bring them new and rich clients. The presence of a good farmer and a borrower created a great furore in the market and when an account was opened, the borrower was given a પાઘડી (*Paghdi*).

Government also realised the usefulness of the Sahukar very well and in consideration of the good relations which existed between him and the farmer, it issued a notification No. 35 dated 29th November 1859 (the famine year) permitting the Sahukar to lend money to the Khedut at 9 per cent with the condition that Government would help him to realise the sum so advanced by revenue process.

95. This is however an old story. At present, the relations between the Sahukars and cultivators are not at all cordial. There is an amount of mutual distrust and suspicion. Except for the best of cultivators personal credit is seldom accepted, specially in the Amreli Prant. Ample security is demanded. The Sahukar is unwilling to extend his operations further, except when forced to do so—probably in order to keep an old customer going, because he expects to get from him a part payment of the old debt with the return of good years. A time was when the ryot took the produce of the land to the money-lender, keeping a little in his house just to last him for a few months, and when that was used up, he would go to the Sahukar for more. Now however even when the produce is more than sufficient, it is not always taken to the Sahukar but is stored in the house, and if there is any surplus, interest is paid out of it. The money-lender does not advance freely. So the farmer holds back as much as he can—at least so much as he needs to support himself and his family till the next harvest-time.

The present state  
of affairs.

96. The distrust is due to frequent failures of crops and to the administrative and legislative changes since 1895. Since then more formalities of contract are demanded. Laws for registration, stamp and limitation were passed and they came too sudden on the people. Next, Government began to assume the function of the money-lender on an ever-increasing scale. Large sums of money are now being advanced as Tagavi to the farmers without any interest, or if any is charged, it is very small. These advances are realised by revenue process and have got a prior claim to private loans. The system of Tagavi has checked money-lending to a certain extent. Lastly the regulations about liberal maintenance provisions, exempting a certain minimum of land even though previously mortgaged from decretal executions, have also affected the credit of the cultivator.

All this made the Sahukar more cautious. He demanded full security for advances. The result was a diminution in the number of mortgages without possession and a slight increase in mortgages with possession. In the Amreli Prant and in the Mangrol Taluka of the Navsari Prant, the system of conditional sale increased in vogue. The Sahukar's distrust of the farmer was also shown in other respects. Sometime the Sahukar did not allow the farmer to cultivate the land mortgaged to him as the ryot was likely to dispute the possession and create trouble. So he preferred to lease the property to an outsider. Thus the relations of the two became strained.

In this connection it may be mentioned that the Sahukar very seldom drags the Khedut to the law courts. Generally he tries to settle the dispute privately. Probably the high cost of the law-suits and the delay and trouble attendant upon them prevent him from taking a ready recourse to law. At the same time the ryot also knows that in spite of the law's dull delay, the decree and its execution are sure and sufficiently strong when they work. This tendency towards amicable settlements of money-disputes can be

seen from the remarkable decrease of small causes and ordinary suits. Probably the Sahukar does not expect to realise his dues and therefore, he does not sue; probably owing to recent changes in the law, there are greater difficulties in executing decrees against the land and the house of the farmer. It is curious to note here that only 45 to 50 per cent of the suits in the State are against the farmers, though their proportion to the total population is 66 to 70 per cent. A time was when the village-community prevented the Sahukar from "taking the *Abru*" (*abru* i. e. honour) of the farmer by putting the farm and the other property to auction, at least if he wanted to stay in the village; but this has now disappeared.

97. In 1891 there were 21,807 Sahukars in the State. In 1901 they were 16,582. The number Sahukars in different districts slightly went up in 1911, when they were 17,600. But they again decreased in the next decade, because they were 15,751 in 1921. In all these vicissitudes they have suffered equally with the cultivators. The Sahukar's prosperity depends upon the prosperity of the agriculturist. And in localities where the cultivators have suffered by failures of crops, the money-lenders have suffered too. In the Kadi and Amreli Prants, the Sahukars have suffered very much. Lacs of their money are locked up with the farmers and some of their old debts have become time-barred. During the last three years money-lending has become very precarious. There were three successive bad years on account of the destruction of crops by floods, by frost, and by shortage in rainfall. So everywhere the rate of interest has gone up and money-lending is proportionately reduced. In the Baroda Prant the Sahukars of Petlad, Baroda, Padra, Savli, etc., have suffered but not to the extent of their brethren in Kadi and Amreli. The Sahukars of the Navsari and the rest of the Baroda districts are in a better condition. But of all the Sahukars in the State those of the Vyara and Songadh Talukas have fared best. There, the seasons have been generally favourable, and the farmers being like serfs, they have profited by their ignorance.

98. One important feature in this situation is the willingness of the Sahukars of the progressive districts to invest in industries, mostly in ginnings and cotton-presses. The several protective measures enacted for the benefit of the farmer have created misgivings in their minds and they do not wish to invest every pie of their fortune in agriculture.

Sahukars are investing in industries.

99. It is impossible to get an estimate of the requirements of the cultivators of the State, and to appreciate them under different heads. A vast majority of them do not keep accounts. But looking to the extent of agricultural indebtedness and the value of crops raised we think the annual requirements as working capital would come somewhere near six to seven crores of rupees. Most of the funds are required for expenses during cultivation or for the maintenance of the family upto the time of harvest.

Extent of the financial requirements of the agriculturists.

100. Nearly 90 per cent. of the present capital invested in agriculture is advanced by private money-lenders. Whatever may be the defects of the system, the Sahukar meets all the wants of the Khedut; he is easily approachable; he fully understands the needs of the farmer and his capacity to repay the loans. The Sahukar is on the spot and he carefully notes the changes in the farmer's condition. In distress, if the farmer is honest and hard-working, he puts him on his legs and keeps him going. He receives back his loans so long as it is possible to get them from the crops; he very seldom resorts to courts for their recovery. This system is very elastic and it meets the requirements of the individual farmer in a very easy way.

Importance of money-lenders.

101. But it has many disadvantages also. The rate of interest is very high and the poor cultivator is crushed under the weight of debts in the long run. Some of the bargains are very hard. Then there is no restraint on borrowing. Money-lending by the Sahukar does not at all encourage thrift or

Disadvantages of the system.



savings. The loans go on from generation to generation and they never close. When the debts are funded, he seldom receives payments in part or instalments; usually the security is sold but rarely redeemed. Lastly the Sahukar scarcely advances loans for productive purposes. Money-lending by him does not organise agriculture and place the farmer on a better footing.

102. And still, looking to the enormous investments of the Sahukar it is impossible to drive him away from his business, however bad and undesirable he may be. In the absence of a better system of agricultural finance he must be tolerated. The best way to improve him and his methods is to introduce a thoroughly efficient system of banking in the State.

How to influence his method of business. His regulation.

We discuss the regulation of the business of money-lending in our chapter on "Regulation of Banking."

## (2) Co-operative Societies.

103. The next important agency that finances agriculture is the co-operative society. The Co-operative Acts. Co-operative Credit Societies' Act was passed in the State in 1905 soon after the enactment of a similar Act in British India in 1904. This Act provided for the organisation of credit societies only. It was amended in 1912 to provide for the higher finances of the movement and for the organisation of non-credit activities. This Act was amended in 1927. It did not make any change in the fundamentals of the co-operative movement but it provided for the classification of the societies, for the creation of provident funds, and for the attachment of members' property before awards by revenue process. It also enlarged the Registrar's powers.

104. We do not propose in this inquiry to review the working of the co-operative movement in general. Our object is to examine it from the standpoint of efficient banking only. It was with

Object of the inquiry.

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this end in view that we issued a special questionnaire on the subject, because we were not satisfied with the nature of the inquiry which the questionnaire of the Provincial Banking Inquiry Committee for Bombay proposed for itself and which we took as our principal guide in the investigations. We emphasise this at the very outset of our observations on co-operative banking in the State, lest we might be misunderstood.

105. At the end of the year 1929, there were in all 1,045 co-operative societies, comprising 4 central and 2 union banks, 2 supervising unions, 734 agricultural credit societies, 26 thrift societies, 114 agricultural non-credit societies, 162 non-agricultural societies (consisting of 148 credit societies, 4 stores, 1 housing society and 9 thrift societies) and one Co-operative Institute. The 114 agricultural non-credit societies consisted of 19 cotton-sale societies, 19 societies for the consolidation of holdings, 2 societies for power-pump irrigation, 22 supply societies, 29 milch-cattle societies, 5 cattle-breeding societies, 5 milk-supplying societies, 3 seed-supply societies, 1 village water-works, 7 fodder and grain-storage societies, and 2 better-living societies.

Statement No. 1 shows the progress of the co-operative movement in the State during the last five years. All primary societies are financed by the four central banks of Baroda, Petlad, Mehsana and Damnagar, the two banking unions of Navsari and Kodinar, and the four agricultural banks. Statement No. II gives the financial position of the central banks and unions. Statement No. III shows the progress of the co-operative agricultural societies during the last five years.

Serial No.	Item.	1929 ending December.	1928 ending December.	1927-28	1926-27	1925-26	Percentage.				
							1929	1928	1927-28	1926-27	1925-26
1	2	3	4	5	6	7	8	9	10	11	12
1	Number of societies ...	1,045	975	900	750	731	...	...	...	...	...
2	Number of members ...	39,210	34,138	31,035	25,739	24,808	...	...	...	...	...
		Rs.	Rs.	Rs.	Rs.	Rs.					
3	Loans and deposits from non-members.	22,22,703	21,36,214	18,51,398	15,56,282	12,42,991	31.1	31.2	31.8	32.7	32.7
4	Loans and deposits from other societies.	1,99,11,213	19,20,000	16,06,983	14,17,578	10,05,231	28.0	28.1	27.7	29.5	26.5
5	Loans from Government	6,81,462	7,38,208	5,78,827	2,39,087	1,71,204	9.5	10.8	9.9	5	4.5
6	Deposits from members.	8,27,132	7,82,452	6,94,794	6,03,211	5,48,561	11.5	11.5	11.9	12.6	14.5
7	Share capital ...	5,30,963	4,54,164	3,93,519	3,43,971	2,86,404	7.5	6.7	6.8	7.2	7.5
8	Reserve and other funds	8,87,207	8,01,190	6,96,912	6,21,992	5,43,218	12.4	11.7	11.9	13.0	14.3
9	Total working capital ...	71,40,680	68,32,326	58,22,433	47,95,121	37,97,609	...	...	...	...	...
10	Outstanding loans at the beginning of the year	54,95,517	47,51,140	39,05,749	28,66,538	22,01,042	...	...	...	...	...
11	Fresh loans advanced during the year.	22,30,528	25,70,803	31,07,037	27,38,360	28,73,015	...	...	...	...	...
12	Total.	77,26,045	73,21,948	70,12,786	56,34,578	50,64,057	...	...	...	...	...
13	Repayment of loans by members.	18,43,743	18,26,431	22,61,646	16,19,129	21,97,519	...	...	...	...	...
14	Loans due at the end of the year.	58,82,302	54,95,517	47,51,140	39,05,749	28,66,538	80.1	80.4	81.6	81.4	75.5

STATEMENT No. II.  
Progress of the co-operative banks in the Baroda State.

Serial No.	Item.	Year.				
		1929	1928	1927-28	1926-27	1925-26
1	2	3	4	5	6	7
1	Number of societies ... ..	6	5	5	5	5
2	Number of members ... ..	1,285	1,234	1,196	1,172	1,129
3	Loans and deposits from non-members ... ..	Rs. 13,14,254	Rs. 12,80,457	Rs. 10,92,813	Rs. 9,52,719	Rs. 6,42,410
4	Loans and deposits from other societies ... ..	" 1,93,420	" 2,28,041	" 1,26,812	" 88,401	" 1,31,538
5	Loans from Government ... ..	" 2,02,737	" 1,96,941	" 1,98,683	" 2,32,785	" 1,62,579
6	Share capital ... ..	" 2,57,777	" 2,07,097	" 1,60,158	" 1,54,573	" 1,48,123
7	Reserve funds and other funds ... ..	" 1,10,777	" 92,711	" 75,083	" 61,594	" 52,006
8	Total working capital ... ..	" 20,78,565	" 20,05,247	" 16,53,549	" 14,90,473	" 11,36,676
9	Outstanding loans at the beginning of the year.	" 13,40,966	" 12,47,240	" 10,88,339	" 7,31,096	" 4,75,418
10	Fresh loans advanced during the year ... ..	" 4,36,298	" 6,75,969	" 7,93,243	" 8,04,425	" 7,77,103
11	Total ... ..	" 17,77,264	" 19,23,209	" 18,82,082	" 15,25,221	" 12,52,551
12	Repayment of loans by members ... ..	" 2,66,159	" 5,82,243	" 6,34,842	" 4,46,682	" 5,21,455
13	Loans due at the end of the year ... ..	" 15,11,105	" 13,40,966	" 12,47,240	" 10,88,839	" 7,31,096

STATEMENT No. III.

Progress of the co-operative agricultural societies in the Baroda State during the last five years.

Serial No.	Item.	Year.				
		1929	1928	1927-28	1926-27	1925-26
1	2	3	4	5	6	7
1	Number of societies ... ..	874	821	764	675	658
2	Number of members ... ..	27,489	22,323	21,713	18,783	17,806
3	Loans and deposits from non-members ... ..	Rs. 6,10,375	Rs. 5,63,958	Rs. 4,79,131	Rs. 4,03,639	Rs. 4,01,015
4	Loans and deposits from other societies ... ..	„ 16,96,356	„ 15,98,796	„ 14,08,535	„ 12,68,823	„ 8,20,698
5	Loans from Government ... ..	„ 1,26,594	„ 1,41,564	„ 1,18,685	„ 6,302	„ 8,625
6	Deposits from members ... ..	„ 4,58,416	„ 4,27,720	„ 4,02,518	„ 3,50,248	„ 3,25,352
7	Share capital ... ..	„ 68,056	„ 64,705	„ 61,202	„ 50,698	„ 45,167
8	Reserve funds and other funds ... ..	„ 7,09,207	„ 6,52,202	„ 5,12,419	„ 5,19,459	„ 4,54,855
9	Total working capital ... ..	„ 36,69,004	„ 34,48,845	„ 30,42,540	„ 25,99,168	„ 20,55,712
10	Outstanding loans at the beginning of the year	„ 32,01,519	„ 27,22,961	„ 23,30,905	„ 17,96,925	„ 14,13,455
11	Fresh loans advanced during the year ... ..	„ 11,38,225	„ 13,60,373	„ 16,33,430	„ 14,87,429	„ 17,38,535
12	Total ... ..	„ 43,39,744	„ 40,83,534	„ 39,64,335	„ 32,84,354	„ 31,51,990
13	Re-payment of loans by members ... ..	„ 9,20,555	„ 8,81,815	„ 12,41,374	„ 9,53,449	„ 13,55,065
14	Loans due at the end of the year ... ..	„ 34,19,186	„ 32,01,519	„ 27,22,961	„ 23,30,905	„ 17,99,925

106. The 874 agricultural societies had in all 27,489 members and Rs. 36,69,000 as working capital. Of the latter nearly Rs. 17 lacs were supplied by the banks, Rs. 6 lacs by deposits from non-members, Rs. 1,26,000 by Government, Rs. 4,58,000 were received as deposits from members including compulsory deposits, Rs. 7,09,207 were as reserve-funds and Rs. 68,000 were as share-capital. Of the 874 societies about 150 are not working at all.

Looking into the figures it appears that the average working capital for each agricultural society was Rs. 6,833 and for each member it was Rs. 182. Separate figures for credit societies were not available. If the credit societies alone were considered, the amounts per society and per member would be a little more. Out of the 114 non-credit societies nearly 50 had no working capital at all. The conclusion is obvious. The movement has only touched a fringe of the problem. Out of 2,902 villages in the State about 600 only can boast of societies and out of about 3,30,000 registered holders only 27,000 i. e. 8 p. c. were members of societies. The average indebtedness of the Khatedar is about Rs. 400 and the society provides loans to the extent of about Rs. 200 only. Thus it will be seen that after nearly twenty-five years' working, the co-operative movement was availed of only by a small percentage of our agricultural population and that too in no great measure.

The following table shows the classification of societies for 1929 as compared with that of the previous year :—

**Classification of societies, 1928-29.**

District.	A.		B.		C.		D.		E.		Not classed.		Total.	
	1929.	1928.	1929.	1928.	1929.	1928.	1929.	1928.	1929.	1928.	1929.	1928.	1929.	1928.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Baroda ... ..	42	35	361	97	18	221	22	32	...	3	43	75	485	463
Navsari ... ..	19	15	131	54	22	66	13	2	...	...	28	15	213	152
Kadi ... ..	30	10	116	11	4	115	3	37	...	...	13	23	166	196
Amreli ... ..	12	2	111	16	29	81	8	34	...	4	20	27	180	164
Total ... ..	103	62	719	178	73	483	46	105	...	7	104	140	1045	975

In the words of the Registrar, "there were 11 per cent good, 76 per cent fair, 8 per cent indifferent, and 5 per cent bad, societies during the year under report. Out of the 46 D class societies 41 have been wound up. Every effort is made to improve the quality of the movement. The quality of the co-operative movement in general is sound and healthy. It has been the steady policy of the department to weed out hopelessly bad societies and to register new societies with great care." The increase in the number of good societies seems to be due to the manipulation of figures. This is evident from the fact that the arrears in 1929 increased from 17 to 21 p. c. for all societies and for central banks they were more than 40 p. c., due mostly to the failure of crops during the last three years.

107. All the agricultural credit societies are of the Raiffeisen type with a fee system; a few ones are on a share system with permission to divide profits after ten years.

Constitution and working of agricultural credit societies.

The fundamental basis of co-operation is thrift and self-reliance. The co-operative societies supply credit at a cheaper rate but they supply it under certain restrictions. The loans must be used for productive purposes mentioned in the loan application and must be repaid punctually. The loans are sanctioned to a member by a committee of his own people who know the circumstances of the applicant. The members' liability is unlimited, that is, every one of them is jointly and severally liable for the debts of the society. Therefore there cannot be a greater restraint upon reckless borrowing or its abuse. The profits of the society remain undistributed and therefore serve as a guarantee against future losses. They increase the society's capital, reduce the rate of interest on loans, and ultimately make it financially independent. The management of the society is entrusted to the chosen representatives of the members, who work without any remuneration. Only men of the same village are admitted as members. They must be of good character. The society is expected to raise capital from local sources by



deposits by its own efforts. It should resort to outside financing agencies as a last resource only. Besides the supply of credit the society can also work for the moral and material benefit of its members.

108. The working methods of the Raiffeissen societies have been very ably summed up by Mr. Cahill in his "Report on Agricultural Credit and Agricultural Co-operation in Germany (1913)". He may be quoted with profit:—

The ideal of a credit society.

"The principal functions of rural credit societies are (1) to meet the needs of their members for supplementary personal credit or working capital (2) to promote thrift amongst the rural population by receiving their savings and paying interest thereon (3) to act in general as village bankers. Principally the object of such societies is the conducting of a savings and loan bank to foster banking and credit transactions as well as to restrict itself to acting only as the village-banker without undertaking any other functions. The society may also become the agency for the supply of agricultural requirements to its members in the absence of a special supply-society in the locality".

"The object of the society is to procure the necessary capital for furnishing loans and credit to members to effect the betterment of their economic conditions by the purchase in common of farming requisites, the preparation and sale of agricultural products and the products of rural industry for members, the procuring of machines and other objects of utility on their joint account for letting on hire to members. But the society aims less at realizing profits than at strengthening the weak members, and at promoting their intellectual and moral welfare. Its activities should therefore extend to the promotion of thrift, the accumulation of indivisible common fund, the organisation of means for the promotion of rural social welfare, the establishment of conciliation courts, the vigorous opposition to such transactions in real property as are opposed to public good and the holding of instructive lectures and the exchange of practical experience

at the meetings of members.....The society rests upon a christian and patriotic foundation”.

109. Judged by these principles hardly 5 p. c. of the societies would come up to the standard and the majority of them will have to be ruled out as inefficient or under probation. In many cases loan applications are not properly scrutinised, nor is care taken to see that the loans are applied for the purposes for which they are taken, nor are they punctually repaid; if they are returned, the amount with interest paid is borrowed soon after, or temporary accommodation is obtained from the village Sahukar. Loans are not made when needed but they are usually advanced once a year. The management of the society is entrusted to a board which seldom functions as an efficient machinery: it is a management that seldom manages. Publicity is the soul of co-operation but the members do not know what is happening in the society nor are the accounts or the financial condition of the society submitted before the general body of members who very seldom meet. In some cases the panchayats or members of committees appropriate all the money and the needs of the other members are hardly attended to. In spite of the fact that more than five-hundred men have been trained as secretaries so far, only one hundred societies are well managed. In many societies the objectionable system of the group secretary is kept up. The result is that most of the members are underfinanced and they are obliged to keep up their relations with the Sahukars who cannot be replaced under the existing conditions. This is a fundamental defect from the banking view-point. The better class of people remains outside the movement lest the unpunctuality of members and their improvidence may bring on them unexpected liabilities. The banks have funds but they do not lend large amounts for fear of their being misapplied or never returned. There is no mutual confidence. Consequently most of the societies do not function as real village-banks. They act as mere loan associations providing additional facility for the supply of funds and not of credit. It is now nearly twenty-

Defects of the credit societies.

five years since the movement was started and still these defects are found more or less in most of the societies. In the early stages, the movement was new and the fundamentals were not properly understood. Mistakes were made in the organisation of the societies. But now the type of society has been fixed and the method of work has been properly understood. The movement is no longer in an experimental stage. We feel that we ought to get better results in the future.

110. From the success that is already achieved it has been amply proved that where the societies have worked well they have

The achievements of the societies.

- (a) reduced the rate of interest and saved a large amount of waste,
- (b) liquidated a part of the old debts of the members that carried a heavy load of interest,
- (c) stimulated a desire for improvements in agriculture,
- (d) introduced co-operative sale and purchase of farm produce and requirements,
- (e) attracted local deposits at a low rate of interest,
- (f) broadened the outlook of members by creating interest in local improvements,
- (g) created and trained local leaders who will, in future, play an important part in village reconstruction,
- (h) served as schools of training in business for the masses.

111. As mentioned in the opening portion of this report we had issued a questionnaire on co-operative banking. We now propose to deal with the issues arising from it. We were told that in many instances the current needs of the members of societies were not adequately financed by them. The reasons why deserving members were disappointed and undeserving members did well are not far to seek. In the first instance several societies are only on the probationary

Inadequacy of finance:  
Remedies suggested.

stage. We pointed out above how a large number of societies went unclassified and an equally large number of them were described as D and E class societies. The result is that the weaker members of such societies can never succeed in getting their banking requirements satisfied. The best way to remedy this evil is therefore to reduce the number of probationary societies as far as possible and to consolidate the weaker ones. There is another reason why members find themselves inadequately financed. The societies do not get adequate finance from the central financing agencies. It often happens that while the central banks have a plethora of funds with them, the primary societies feel short even of bare finance. This shows lack of co-ordination between the financing agencies and the societies. The former take no part in the initiation of such institutions. We recommend that the Co-operative Department should help in establishing this much needed co-ordination between the financing agencies and the primary societies. An administrative defect was brought to our notice. At present credits for individual members of societies are fixed without regard to their assets and requirements. The credits are fixed in a general way for all members of the societies. The same practice prevails with the central banks. The credit of the societies with the central banks are fixed by the Registrar of co-operative societies with the result that no real responsibility attaches to the banks for the loans. We believe that this is a very grave defect and that it is against all sound rules of co-operative finance. The credits of individuals with societies should be fixed by the general bodies of the societies themselves as is done in the provinces of the Punjab and Bombay. Similarly the credits for individual societies should be fixed by the central banks and only a formal sanction should be sought from the Registrar. In the same way the present rule, which requires the sanction of the Registrar before the maximum credit of the member of the society or the individual credit of a particular member in the society is increased, also requires modification. The societies are not free from the blame. Their management is inefficient, as can be clearly seen from the amount of overdue.

We should at the same time guard against laying too much store by this or any other administrative difficulty. Almost all administrative difficulties are more or less the consequences of personal bias and no amendment of rules or regulations would ever remove them. The difficulties in connection with the co-operative movement are chiefly those which arise on account of bad or unsuitable training, bad supervision, and lack of the understanding of the co-operative principles.

In our opinion a part of the difficulty of inadequate finance will be remedied if a banking union was established in every Taluka to minister to the financial requirements of the societies.

112. The next point for consideration is in regard to safeguards if co-operative societies are permitted to increase the volume of their loan business. In our opinion loans should be secured against land as collateral security in addition to personal surety if the loans are for long periods, and against personal surety if they are short-term loans. But it is not advisable for primary societies to accept movables as security for loans advanced, as there are difficulties with regard to their safe custody and valuation.

There is a tendency on the part of members of primary societies to transfer their property without the knowledge of the societies with a view to defraud them. It is necessary to restrain this. We therefore recommend that a binding clause should be added to the bye-laws of the society to the effect that no member shall transfer his property without obtaining the previous sanction of the managing committee of his society and that the guilty party should be made to pay a penalty not exceeding Rs. 100. This would serve as a moral check on the practice noticed above.

113. Another important question is whether savings accounts should be allowed to be opened by co-operative societies and banks. Village societies cannot be expected

to meet their obligations in time if savings accounts were opened by them. Most of them are C class or D class societies and it would be unsafe to keep large sums of money with them in savings accounts. Therefore the question of such societies does not arise at all. But we believe that the time is now ripe when the Registrar should allow A class societies to open savings accounts under restrictions. In order that the society may not have to maintain a large cash balance with itself to meet a sudden demand for withdrawal, some restrictions will have to be imposed on immediate payments. For instance, it may be provided that previous notice should be necessary before the money is withdrawn, that only one withdrawal should be allowed per week, that the withdrawal should not exceed a certain percentage of the savings account, that the failure to withdraw after notice may result in a loss of interest, and that the society should arrange for cash credits from the central bank. We feel that with such restrictions, the A class society may be allowed to open savings accounts. It would assist the society in creating capital, enable it to serve its clientele more effectively, impart a moral tone to its relations with the public of the village, encourage habits of thrift among the rural population, deflect a substantial part of the people's savings from outside investments, and convert hoardings into savings deposits.

The central banks and agricultural banks should also open savings bank accounts with the public with the safeguards mentioned above. This would increase their usefulness.

114. A suggestion was made to us that village panchayats might be required to deposit their money with co-operative societies. We are inclined to accept this suggestion but with one qualification. We would recommend that only first-class societies should be permitted to receive deposits from the village panchayats. In this connection we would suggest that every year the Registrar should publish for general information a list of A

class societies. This should be allowed to A class societies on condition that they made arrangements for cash credits from the central bank.

115. The system of compulsory deposits specially calls for some comment from us. It is one of the many ways to augment the funds of primary societies and hence has an important place in the development of sound co-operative banking in the village. The practice of calling forth from the members at regular intervals dribblets of money as compulsory deposits stimulates in them the habit of thrift and by slow degrees increases the fluid resources of the societies themselves. So far the system of compulsory deposits has the merit of converting the society into a thrift society. Of course it is true that the element of compulsion takes away from it much of its merit. But the maximum limit of compulsory deposit to be received from a member is not very high and it is not difficult for an individual to save such a sum. It often happens that the member borrows the money necessary for the purpose from a Sahukar or pays it from the loan advanced to him by the society. Its effect is so far demoralizing but that does not mean that its continuation in the case of most of the societies is of dubious merit. Again the compulsory deposits are not paid regularly. So the share-system is preferred to it. However we are of opinion that the present system of compulsory deposits should not be entirely replaced by the share-system as it is done in the Punjab but that efforts should be made to educate the members in its merits.

116. The next problem for consideration is the investment and utilisation of reserve funds by primaries and secondaries. Should the reserves be invested outside the concern? Or should they be used in the business of the concerns? Reserves are kept mainly to safeguard the business of a concern against unforeseen losses. According to the Act 25% of the profits of the year are carried to the reserves ex-

cepting in the case of general and consumers' societies where only 10% are carried to the reserves. The primaries use their reserves in their business at present. The reserves are the owned capital of the society. The committee is not vigilant in making prompt recoveries. This increases the amount of overdues, which ultimately result in bad debts. If the recoveries of dues are not in time, the bad debts increase with the result that the reserves are utilised in writing them off and the society is closed. The best way to remedy this state of affairs is to require the society to invest the reserve outside. The society must keep in view three points in the matter of investment—namely the availability of the reserve, its security, and lastly the rate of interest. Of course, if the reserves are invested outside, the fund available for loan business would be less; but on the contrary it would enhance the credit of the society and so ample funds would be obtainable at all times. Besides, the investment of the reserves outside would enable the society to raise sufficient fluid resources against them. This suggestion should apply to primaries after they have accumulated a good reserve of Rs. 100 or upwards. But it should be an invariable rule with the central banks to invest their reserves outside. Such a practice would augment the deposit business of the banks and societies and would enable the former to do even remittance work.

The reserves should mostly be invested in the securities mentioned in the Trust Act.

117. Thrift is the essence of co-operation and habits of thrift should be inculcated in all classes of society. Thrift institutions are therefore great necessities. The existence of such institutions would encourage people to save continuously and constantly. They would deposit their savings regularly with the thrift societies and would in course of time learn to better their lives. Thrift may be encouraged as a general habit and also for specific purposes, for instance to pay land-revenue, to purchase cattle or agricultural machinery, etc. We devote a



special section to this subject in our report on investment banking in the State; so we do not enter into a detailed consideration of it here. But we may mention that a society would be a bad village bank if it did not function as a thrift institution and if it worked only as a loan bank. We therefore recommend that agricultural credit societies should have their bye-laws amended to enable them to serve the purpose of thrift institutions also.

We venture to make another suggestion. In future the Registrar should show in a separate list the statistical details about the working of thrift societies, their geographical distribution, their accumulations, their investments, and their membership.

118. There is one institution requiring comment from us here. It is that of the group-secretary. He was once created in order that he might in course of time develop into a sub-inspector who would supervise the working of the society and who would in fulness of time train the people and especially the local secretaries for co-operative work. But the experiment has failed. The group-secretary has not trained up a body of men who would feel interest in the growth of the co-operative movement. He has become the dictator of the society and therefore a veritable source of annoyance and obstruction to the movement. His continuation is therefore greatly damaging to the movement and to the growth of sound co-operative banking among the village people. His elimination is therefore most urgent and we suggest that he should be forthwith dispensed with and replaced by the local secretary and if necessary by the local schoolmaster.

119. Now we take up the central co-operative banking institutions of the State. The central financing banks are of two types: mixed and pure: namely central banks and banking unions. Besides these there are four agricultural banks.

11 B. 1.

120. The central bank is a co-operative society having societies as well as individuals as members. Its object is to facilitate the financing of the societies which are affiliated to it. The area of its operations is pretty wide. The profits of its business are generally divisible and the dividends are declared every year. Liability is limited to the value of a share or some multiple of it. The new Act of 1927 has given equal votes to members, irrespective of their holdings.

Central banks and banking unions.

The banking union has only societies as its members. A few shares are reserved for the founders and are issued to local leaders who are likely to help the union in its early stages. They are redeemable in course of time. The object of the institution is to finance societies which are its members. The area of its operation is necessarily small as compared with that of the central bank.

It will be seen from the brief sketch given above that the central bank is, as it were, a combination of individuals and societies and is therefore more capitalistic and personal than co-operative in its constitution and method of work. There is an impression of urbanity about its surroundings and it is quite natural if the simple and unsophisticated villager does not find himself quite at home with it. The largeness of the size of its operations precludes it from serving the affiliated societies with efficiency and directness and therefore it acts as a deterrent to the spread of co-operative enterprise among the people while it should be the first aim of an institution like it to spread co-operation as effectively as it possibly can.

The union is on the other hand more familiar with the needs and circumstances of the societies which are its members. Its constitution and its nearness to them go a great way in spreading the lessons of co-operation amongst the people. It accordingly serves the needs of its members with greater directness and efficiency than the central bank does.

But then there are obvious limitations to the capacity of the union to be useful to the societies. It cannot mobilise its finances so rapidly and so conveniently as the central bank can. The latter has behind it the experience of an urban management and it carries with it the advantage of close connection with the Bank of Baroda and the investing public. So the resources at its command are more elastic and ample than those at the command of the union.

But then the central bank has a tendency to dominate the society by the sheer weight of its superior knowledge, finance and resourcefulness. Not so the union, which is composed of affiliated societies. As it happens, the initiative in co-operative banking at present goes from the central bank. It ought to be just the other way. In democratic co-operation which is born of the primary society, the latter is the spring of all action and the central bank is intended only to complete the whole process.

It will thus be evident that the central bank is strong where the banking union is weak and vice versa.

The four central banks are those of Baroda, Mehsana, Petlad and Damnagar. The Navsari Union serves six Talukas while the Kodinar Union serves only one Taluka. As a pure co-operative unit serving a small area the Kodinar Union has done excellent work. Apart from the financing of the constituent societies and their supervision it has succeeded in popularising many agricultural improvements such as the introduction of iron cane-crushers, Poona furnaces and pans, iron-ploughs and improved seeds. It has also helped the members of the societies in the profitable disposal of their crops and in the purchase of their domestic requirements.

A birds' eye-view of the financial position of the central banks and unions is given below :—

**Financial Position of Central Banks and Unions, 1925-26 to 1929.**

Name of the bank.	Year.	Number of individual members.	Number of society members.	Total.	Deposits.	Share capital.	Reserve and other funds.	Total working capital.	Out-standing loans at the beginning of the year.	Fresh loans advanced during the year.	Total.	Repay-ment of loans during the year.	Loans due at the end of the year.
					Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Baroda Central Co-operative Bank Ltd.	1929	210	294	504	10,26,895	1,61,555	47,143	12,35,593	7,07,220	1,76,585	8,83,805	54,324	8,29,481
	1928	187	282	469	10,54,601	1,16,160	38,418	12,09,179	6,15,90	4,02,660	10,07,950	3,10,730	7,07,220
	1927-28	165	273	438	8,22,109	75,125	29,749	9,26,983	4,93,417	4,92,112	9,85,529	3,70,239	6,15,290
	1926-27	162	245	411	7,48,091	73,125	24,672	8,45,988	3,20,029	4,55,999	7,76,028	2,82,211	4,94,417
	1925-26	161	245	410	5,14,690	72,375	21,891	6,11,956	1,75,789	3,92,963	5,68,752	2,48,723	3,20,029
Petlad Co-operative Bank Ltd.	1929	164	52	216	77,767	16,680	3,079	97,526	84,829	29,861	1,14,690	29,420	85,270
	1928	179	49	228	70,451	16,000	1,292	87,745	57,185	51,503	1,08,688	23,859	84,829
	1927-28	177	49	226	44,707	14,430	1,412	60,549	67,684	32,432	1,00,116	42,931	57,185
	1926-27	222	43	265	55,030	13,790	638	69,458	73,735	32,084	1,05,819	38,135	67,684
	1925-26	219	40	259	61,114	12,355	162	73,631	22,262	79,240	96,502	22,767	73,735
Mehsana Central Co-operative Bank Ltd.	1929	162	172	334	2,49,956	33,012	20,468	3,03,436	2,54,129	1,07,163	3,61,292	89,721	2,71,571
	1928	161	169	330	2,55,243	32,837	14,889	3,02,969	2,40,410	1,13,593	3,54,003	99,874	2,54,129
	1927-28	161	166	327	2,29,550	32,753	10,593	2,72,896	1,91,504	1,58,973	3,50,477	1,10,057	2,40,410
	1926-27	153	150	303	1,61,023	32,078	7,441	2,00,542	1,26,629	1,49,452	2,76,081	84,577	1,91,504
	1925-26	132	130	262	90,288	29,123	4,692	1,24,103	96,569	95,933	1,92,502	65,873	1,26,629

Navsari Co-operative Banking Union Ltd.	1929	35	99	134	2,21,291
	1928	42	58	140	2,01,221
	1927-28	42	97	139	1,87,513
	1926-27	42	85	127	1,82,722
	1925-26	51	83	134	1,26,961
Kodinar Co-operative Banking Union Ltd.	1929	...	69	69	1,42,804
	1928	...	67	67	1,23,923
	1927-28	...	66	66	1,34,429
	1926-27	...	65	65	1,27,040
	1925-26	...	64	64	1,40,494
Damnagar Co-operative Bank, Ltd.	1929	16	12	28	1,970

28,850	9,950	2,59,991	1,88,811	68,755	2,57,566	52,265	20,50,301
26,900	9,950	2,38,071	2,01,387	1,00,019	3,01,406	1,12,595	1,88,811
25,540	8,573	2,21,636	1,91,059	87,317	2,78,376	76,989	2,01,387
23,940	7,782	2,14,444	82,626	1,41,108	2,23,734	32,675	1,91,059
23,440	7,310	1,57,711	83,969	1,24,600	2,08,589	1,25,963	82,626
17,260	30,137	1,79,629	1,10,276	51,214	1,61,490	44,165	1,17,325
15,200	29,162	1,68,285	1,32,969	19,494	1,52,463	42,186	1,10,276
12,300	24,756	1,71,485	1,45,175	22,405	1,67,584	34,615	1,32,969
11,540	21,461	1,60,041	1,28,076	24,582	1,52,658	7,483	1,45,175
10,830	17,951	1,69,275	92,839	89,367	1,82,206	54,130	1,28,076
420	...	2,390	...	2,720	2,720	563	2,157

121. The Taluka banking union is in our opinion the most efficient institute in the organisation of co-operative banking. It serves the triple requirements of the Taluka: it finances the societies; it supervises their working; it helps in the training of men for co-operative work and it assists in the propagation of the principle of co-operation. So we recommend that the department should keep this idea in view in developing co-operative banking and should try to found unions wherever possible at Taluka centres.

The need for a union in every Taluka or a branch of a district bank in every Taluka.

But it may not be possible to start unions in certain Talukas. Then we should urge that the branches of a district bank should be opened in such tracts. These institutions will require the services of trained men and it would be difficult for them to command such efficient services from the beginning at their own cost. We therefore recommend that Government should liberally subsidise them for a period from three to five years.

122. We inquired how far our State was in need of co-operative banking and were informed that the tracts at present comprised in the Talukas of Dehgam, Patan, Kadi, Sidhpur, Mangrol, Karjan and Sankheda including Tilakwada, stood in bad need of banking unions. We accordingly suggest that the possibilities of development in this direction should be immediately explored by the department and that efforts should be made to introduce banking unions if a need for them is really felt by the people there.

More co-operative banking.

123. The relations between the primary societies and banks are not very satisfactory at present. The former are financed by the latter but their financing is not followed up by effective supervision. The result is the lack of understanding between them and the increase of overdues. The central banks dominate over the societies. The majority of the directorate of the banks are lacking in co-operative spirit and do not

Primary societies and banks.

show sympathy towards the growth of the movement. A few banks do not maintain even a sufficient amount of fluid resources and are managed by low-paid agents. The Registrar is powerless to correct these defects and his advice is often ignored. We would therefore wish that his powers over them were enlarged as in the Punjab and his authority made more effective.

The other way to meet this evil is to appoint the best men for the management of the banks and for the efficient supervision of the primary societies affiliated to them. The reports of the various banks and the report of the Registrar urge for the strengthening of their staff every year. It is gratifying to note one important fact in connection with this. Recently Government have come forward with an offer to bear half the cost of inspectors. The arrangement is temporary. But we trust that it will be made permanent or at least it would not be withdrawn as long as there is need for it. In fact some banks have already availed themselves of the offer.

124. The resources of the central banks and specially of the unions are very limited and many a time they find it difficult to maintain the necessary fluid resources to meet contingencies arising from the withdrawal of large deposits. At present Government allow them cash credits from the Taluka treasuries ranging from Rs. 10,000 to Rs. 50,000 at 5 or 5½ p. c. according to their status. We think that this policy needs a revision. It is undesirable that the small banks should draw funds from the treasuries without any restrictions. We propose that they should be asked to arrange for cash credits with the Bank of Baroda if the latter has a branch in the town. Of course this would apply to banks that have established a status of their own; we do not wish it to be applied to new institutions to which Government should continue extending the old facilities.

We also suggest that the Accountant General should place more deposits with the central banks. He can ascertain their credits from the Registrar and then he may fix the



limits. This will greatly enhance the credit of the banks and will enable them to meet the requirements of the affiliated societies. The co-operative central banks should be treated in the same way as the commercial banks are treated because the investments in the former are perfectly safe and secure, the primary agricultural society of unlimited liability being the back bone of co-operative finance. If this is done, there will be a healthy growth of the movement from every point of view and agriculture will be liberally financed.

125. We feel that there is a great need for conferences between the managers of the co-operative banks of the Raj. Various questions may be considered at such conferences, as for instance the inspection of societies, the liquidation of old debts, the treatment of reserve funds, the relations with Government and the Bank of Baroda, arrangements for cash credits, remittances, questions relating to savings and current accounts, adequacy of finance to primary societies, the training of the staff of the banks, the education of the people in the principle and practice of co-operation, etc. In brief, the policy in regard to co-operative banking may form the subject-matter of discussions and decisions at such conferences. We accordingly urge a closer association of the co-operative banking institutions of the state. The management of the Bank of Baroda may be invited to attend such periodical conferences.

126. We take up the agricultural banks in the next section and the urban banks in our chapter on industrial finance. Managed by a semi-official committee, regulated by the provisions of a special Act, working under the directions of the Suba advancing loans to agriculturists and co-operative societies, supervised by the departments of co-operation and accounts, created in the nineteenth century after the Egyptian model, the Pedhis or agricultural banks are veritable anomalies in the structure of agricultural and co-operative finance in the State and they call for some reform in their constitution on the co-operative system.

127. We recommended above the establishment of a bank or union in every Taluka of the State, a closer association of the central banks and unions by conferences, and an enlargement of the patronage of Government to them. The question then arises: Should the Baroda Central Co-operative Bank be raised to the status of an Apex Bank for the whole State? Should we have centralised co-operative banking in the State or should we rest content with what we have at present and the little more that may be forthcoming in the future as a result of slow and continuous development?

We believe that the future of co-operative banking in our State should be in the direction of centralization and federation and that the Baroda Central Co-operative Bank should eventually attain the position of an Apex Bank. The consummation of such a result will necessitate a revision of the constitution and functions of that institution and a recasting of its relations with the other sister institutions. It would also require an enlargement of its staff. Further it carries with itself the implication that the staff of the institution will cope with the new duties and responsibilities devolving upon them. This would mean a very well-trained staff, a very competent and vigilant directorate, and a closer relationship with the Bank of Baroda Ltd. and Government.

128. The Apex Bank is the ideal institution for the purpose stated above but before the development of co-operative banking reaches that stage, we desire that the Bank of Baroda could render the same service. It has very large resources, ample openings, and an experienced staff. Even an independent co-operative Apex Bank will want a commercial bank to keep its surpluses and invest them profitably. The Bank of Baroda will serve that purpose well. So efforts should be made to use it as a central institution for the balancing of the funds of the co-operative banks. Such a co-ordination will result in the linking up of agriculture and commerce also. The details of the

The Bank of Baroda and co-operative banking.

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arrangement may be decided by conferences and if the Bank of Baroda Ltd. agrees to function as an Apex Bank, the idea to convert the Baroda Central Co-operative Bank into a similar institution may be given up.

129. Special types of societies should be organised for backward people like the *Kaliparaj*. The *Kaliparaj* people are mostly devoid of lands. They cultivate the land on behalf of Sahukars on the half-share system. To begin with, co-operative land-lease societies should be started and cash rents should be fixed in place of the Bhag-system. The Vyara Pedhis may be utilised for this work.

130. There is a wide field for the beneficial application of the co-operative principle beyond the problems of credit. But no non-credit society should be organised without proper investigation and without the guarantee of proper management and skilled control. On an examination of the non-credit movement we find that not very substantial results have been achieved. At the end of 1929 there were 118 non-credit societies consisting of 19 cotton sale societies, 19 consolidation societies, 2 pump irrigation societies, 22 supply societies, 3 urban stores, 29 milch-cattle societies, 5 cattle-breeding societies, 5 milk supply societies, 3 seeds supply societies, 1 village water works, 7 fodder and grain storage societies, 2 better living societies, and one Institute. Most of these societies are merely on paper as they have not commenced working. Out of the 19 cotton sale societies only five have been functioning. The consolidation work is progressing very slowly; there is nothing like a redistribution of the whole area of village-lands as in the Punjab. One power-pump society has been working well. The milch-cattle societies are technically credit societies. The cattle-breeding societies are all dormant. Out of the five milk supply societies only one has been working. The village water-works society is doing excellent work. The fodder and grain storage societies are hopeless. One better living society has been working but it is rent with factions. The Institute is doing

good work but its resources are limited. It will be observed from this brief sketch that great care is required in the organisation of such societies.

131. The introduction of the co-operative movement should be preceded by a detailed study of the rural and urban life of the people. Without such a study the co-operative officer would be working without knowing what he has to do in a particular locality and hence his energies would not be utilised to the full. Work without an ideal and without a definite problem on hand would be purely mechanical and would result in waste of time, money and energy. If this had been realised from the first the movement would have been a real live-force in rural and urban life. We therefore, strongly recommend to every worker in the field of co-operation the study of rural economics. The Punjab co-operative movement has established a school for such studies and it has immensely gained by it.

132. But we are afraid that much progress cannot be made in this direction as long as the department remains understaffed. We, therefore, recommend that three assistant registrars, one expert in co-operative banking, one expert in business and one expert in agriculture should be placed under the Registrar if credit and non-credit activities are to be properly developed and guided.

Almost every auditor complained to us that he was heavily worked and that he was in need of some relief if he was to be of any use to the societies under his jurisdiction. We believe that this question has to some extent a direct bearing on the development of a healthy co-operative organisation in the State. The present staff has to attend to a lot of clerical work and has little time to do any important field work. The grade of the auditor of the co-operative department is too poor to attract able and hard-working men and the work he has to do is so heavy that he can have little time left to him to devote to a study of his subject or to the initiation of a comprehensive co-operative policy. Every auditor urged on us the necessity of immediately giving him a

moderate clerical service. So we recommend that the auditors should be provided with the required clerical staff as in Bombay and the Punjab and that their grades should be revised.

133. The co-operative movement is a people's movement and it must be led and controlled by the public; but unfortunately we have not been able to secure the co-operation of the leaders of people. Till that is done it will have to be guided by Government and the time and measure of advance will depend upon the efficiency of the co-operative staff and their method of working. The staff of the department must be properly trained. Otherwise it would be like the blind leading the blind.

134. Of the staff the most important person is the Registrar. On him the success or failure of the movement ultimately depends. The Royal Commission on Agriculture emphasised this point and said that "the Registrar should be the foundation of the movement". In para 376 of their report they have enumerated the qualifications of that officer:—

"It was for him to study the experience of other countries and to bring his knowledge to the examination of the economic problems of the agriculturists, artisans and persons of limited means for whose relief legislation was undertaken. It was never intended that he should be merely a registering officer. He was expected to provide supervision, assistance, counsel and control and, though he was warned that he must not allow co-operation to become an official concern managed by state establishments, he was held to be primarily responsible for seeing that societies were formed on a sound basis, and was given wide powers to ensure this. The Committee on co-operation, after a careful enquiry into the movement throughout India, expressed their considered view of the qualifications required and the duties to be performed, in no ambiguous terms. 'He must be continually studying co-operative literature, which is now most extensive; he must make himself acquainted with economic conditions and practices

both throughout India and in his own province; he must know the principles and methods of joint-stock banking; and must examine the systems of developing thrift and inculcating co-operation which have been tried in other countries. He is also head of a teaching establishment and must devise effective means for impressing a real knowledge of co-operation on the bulk of the population. He has further to control a large staff and to draft model by-laws and rules, to collect statistics and write reports, to advise Government on various subjects, and to keep in close touch with the higher finance of the movement as managed by provincial banks and central banks.' To the list of qualifications laid down by the Committee we would now add others, for the modern Registrar must be fully abreast of the activities of all departments working for the improvement of rural conditions; he must see that there is a sound foundation of Better Business to support the superstructure of Better Farming and Better Living; the more efficient the movement, the more will other departments make use of it to promote their own special activities. If our view is accepted, that the experts of other departments will find, in a widespread and efficient co-operative movement, the one agency enabling them to reach the mass of the rural population, the Registrar of the future will need to be very carefully selected."

Government are requested always to bear in mind this recommendation of the Royal Commission on Agriculture. We therefore urge that the very best man available should be invariably selected as Registrar.

135. Apart from the Registrar, the other staff of the department should also be carefully selected and trained. So far our men were trained at the Bombay Co-operative Institute. But recently the Punjab co-operative movement has evolved an excellent system of training for the co-operative staff and is worthy of adoption by us. The system is described by Mr. Darling as follows :—

" We have first of all, the training of our Inspectors, who are government officials. Their course of training lasts for

not less than 15 months; the average is probably about 18 months. An Inspector candidate is placed first of all for three months with an experienced Inspector, who educates him in the elements of co-operative theory and practice. When he has mastered this, he is given charge of 40 or 50 societies as sub-inspector, and during this period of his training he learns to deal with co-operators, to understand their point of view and their problems and he masters the practical details of their societies. At the same time he is expected to do a course of reading for which about 30 or 40 books have been recommended. Then there comes a point in his training at which he has to attend a class, which is held annually. The class is in charge of Government officials called Educational Inspectors, of whom we have three. They deliver lectures on every aspect of co-operative law, theory and practice; but perhaps the most characteristic feature of the class is that, departing from academic precedent, we encourage discussion rather than lectures. The lecture is the starting point of the teaching, and at the end of every lecture, which does not last more than half an hour, there is half an hour's or an hour's discussion with the result that problems are thrashed out in all their bearings and whatever of importance is lurking in the mind of a candidate is brought to the surface. By this clash of mind with mind I think that the class leaves a very definite impression upon the minds of those who attend it. At the end of the class there is an examination which is so stiff that, though most of the candidates are said to work for 9 or 10 hours a day, ordinarily not more than 33 per cent pass. There is another point in connection with the Inspector's training. He is required to get one month's training in the Central Bank and to familiarise himself with the inside working of this most important co-operative institution. Then we come to the sub-inspectors. They are the servants of the Punjab Co-operative Union. Upon them rests the audit and the duty of supervision of the primary societies. Their education therefore is only less important than the education of the Inspector. This course lasts for six months and is mainly of practical nature. In addition they have to attend

a class similar to that attended by the Inspectors. It lasts for two months." (*Proceedings of the Registrars' Conference at Simla, 1928.*)

It will be seen from this that the co-operative movement in the Punjab is in the hands of a skilled and expert agency. No amount of general intelligence would do without technical training in the science and art of co-operation. We therefore recommend that we should start an institution for the training of our staff as they have done in the Punjab.

136. In order to secure this result it would be necessary to have the co-operation of the triple agencies which work at present for the progress of the movement—namely Government, the Sahakara Sangha or Co-operative Institute, and the Central financing agencies.

Co-operation of three agencies.

137. Co-operation is an art and it has now been developed into a very important department in the economic policy of the State. It is, therefore, necessary that honorary organisers, members of the societies and the staff of the banks should be well trained. We therefore, suggest that a select group of experienced men—organisers, managers and directors of banks, members of the managing committees of good societies—should be sent out to other provinces in India to study the progress of the movement there. Government should bear part of the cost of such deputations. We even go a step further and recommend that experienced and competent officers of the State should be deputed to Europe for the same purpose. This would involve the State into some expense but we submit that it should not grudge it—the problem is so immense and complicated.

Training of workers.  
Education abroad.

138. It is more than a quarter of a century since the Baroda Government introduced the co-operative movement in their territories. But during this quarter of a century no official inquiry was ever instituted into the detailed working of the movement. We are convinced that

The appointment of a committee.



the time is ripe when Government should order a comprehensive investigation into the technique of the movement by a competent committee, and we recommend that the committee should consist of three members, one local officer and two experts from outside, namely from the Provinces of the Punjab and Bombay. This suggestion for the appointment of a committee should not be construed as an adverse reflection on the present working of the movement in the State.

#### **Recommendations.**

(1) In order to overcome the difficulty of inadequate finance the department of co-operation should establish co-ordination between the financing agencies and the primary societies. Credits of individuals in primaries and of societies with central banking institutions should be fixed by the societies and the central banks respectively and approved by the Registrar and not vice versa as at present. (Para 111).

(2) A binding clause should be added in the bye-laws of the society to the effect that no member shall transfer his property without the sanction of the committee and if guilty would have to pay a penalty not exceeding Rs. 100. (Para 112).

(3) 'A' class societies should be permitted and encouraged to open savings accounts with proper safeguards. So also central banks. (Para 113).

(4) 'A' class societies may be allowed to receive funds of village panchayats. (Para 114).

(5) The system of compulsory deposits should not be converted into share system. (Para 115).

(6) Reserve funds of primaries after they have accumulated to Rs. 100 or upwards as well as reserve funds of central banks should be invested invariably in safe concerns outside the business of the institution. (Para 116).

(7) The bye-laws of credit societies should be so amended as to enable them to function as thrift institutions. (Para 117).

(8) The statistical details of thrift societies should be shown in a separate statement. (Para 117).

(9) The system of the group secretary should be abolished. Co-operative work should be in the hands of trained men only. (Para 118).

(10) The department should organise a Taluka banking union in the first instance and if this is not possible a taluka branch of the district co-operative bank, for the higher finance of the movement. Government should liberally subsidise them for a period from 3 to 5 years. (Para 121).

(11) Attempts should be made to start unions in certain areas at once. (Para 122).

(12) The very best man should be appointed for the management of the banks and the efficient supervision of the primaries, affiliated to them. Government should help in this matter. (Para 123).

(13) Government should invest its funds with central banks. Cash credits should be arranged by the latter with the Bank of Baroda. (Para 124).

(14) Conference of managers of banks should be held for discussing and deciding the co-operative banking policy from time to time. The Bank of Baroda may be invited to them. (Para 125).

(15) Attempts should be made to make the Bank of Baroda Ltd. an Apex Bank for the co-operative movement. (Para 128).

(16) Special societies like land-lease societies should be started for *Kaliparaj* and other backward people. (Para 129).

(17) No non-credit society should be organised without proper investigation and without guarantee of proper management and skilled control. (Para 130).

(18) The study of rural economics should be specially encouraged. (Para 131).

(19) Three Assistant Registrars, one expert in banking, one expert in business and one expert in agriculture should be placed under the Registrar for non-credit co-operation.

Auditors should be provided with clerical staff and their grades should be revised in view of the importance of the movement. (Para 132).

(20) We urge upon Government that the very best man available should be invariably selected as Registrar; the other staff of the department should also be carefully selected and trained. (Paras 134-135).

(21) An institution for the training of the co-operative staff should be started on the lines of the one in the Punjab and to achieve this purpose Government, the Sahakara Sangha, and the central financing agencies should co-operate.

Government should also help in the training of the non-official agency. (Paras 135-137)

(22) Government should order a detailed survey of the technical part of the movement by a committee of three—one local officer and two experts from outside, one from the Punjab and one from Bombay. (Para 138).

### (3) Agricultural Banks.

139. The next agency to finance agriculture is the *ખેતિવાડી* The Khetivadi Pedhis: *ખેડી* or the Agricultural Bank. a brief history.

While giving the history of banking in Baroda we mentioned the circumstances under which the Khetivadi Pedhis or agricultural banks were started after the model of the Agricultural Bank of Egypt. First Government started such a bank for the most backward tract of the State—the tract in the Songadh and Vyara Talukas, inhabited by the *Kaliparaj*. The first bank was opened at Songadh with a branch at Vyara in the Navsari district. A similar bank was opened at Harij in the Kadi district in 1901. They were followed by three more, at Visnagar in 1905, at Bhadran in 1910 and at Amreli in 1909. The Vyara Branch was found to be doing good business; so it was converted into an independent institution.

140. The principal concessions granted by the State to these banks were (1) subscription of half the share-capital, and payment of dividends on Government shares to the maximum of 5% (2) exemption from the payment of stamp

Constitution and concessions.

and registration duties (3) collection of arrears by revenue process and (4) audit and inspection by the State. Rules were made allowing advances and repayment of loans to be made in kind. The last concession enabled the banks to maintain grain-stores, the idea at the back of it being to follow the practice adopted by money-lenders. Arrangement was also made to enable them to advance very small loans—even from week to week—as they could not be trusted to handle large sums of money.

The directorate was composed of eight members, four of whom were to be elected by private share-holders, the rest being nominated by Government. The latter were the Suba of the district, an Assamdar of the district, the Vahivatdar of the Taluka, and the Sub-registrar of the Taluka. The Suba was the chairman.

141. The management of the banks was in course of time found to be very unsatisfactory. The actual conduct of affairs came to be vested in low-paid clerks who abused their powers. The directorate contained officials who had little time to see to the detailed working of the institutions. The management accordingly passed into the hands of the inefficient Munims. So radical changes were introduced in their organisation in 1924. The advances in kind were stopped and only cash transactions were permitted. The rules of business were revised and they were made to conform more or less to the Co-operative Societies Act. Only the Suba and the Vahivatdar were continued in the directorate and the other officials were withdrawn from it. The inefficient banks of Harij and Visnagar were closed. The banks of Songadh and Amreli were forbidden to transact business with individual cultivators and were asked to restrict their dealings only to co-operative societies under their jurisdiction. In brief they were approximated to co-operative central banks.

142. A combined statement of the financial position of the four banks is given below :—

The financial position of the banks.

## The financial position of the Khetivadi Pedhis, 1925-29.

Name of the agricultural bank.	Year.	Share-capital paid up.		Deposits held at the end of the year.	Reserve fund.
		State.	Public.		
1	2	3	4	5	6
		Rs.	Rs.	Rs.	Rs.
Vyara Bank.	1929	6,250	7,940	73,532	10,673
	1928	6,250	7,940	81,586	10,242
	1927-28	6,250	7,940	75,841	10,064
	1926-27	6,250	7,940	82,437	9,384
	1925-26	6,250	7,940	61,594	8,868
Bhadran Bank.	1929	50,000	50,000	3,03,004	20,200
	1928	50,000	50,000	2,70,107	16,329
	1927-28	50,000	50,000	2,45,105	13,103
	1926-27	50,000	50,000	1,31,387	10,078
	1925-26	50,000	50,000	1,26,256	7,642
Amreli Bank.	1929	18,750	17,032	1,32,757	5,942
	1928	18,750	16,500	95,067	5,025
	1927-28	18,750	16,600	95,064	4,292
	1926-27	18,750	14,552	49,654	3,544
	1925-26	18,750	13,987	38,395	2,878
Songhad Bank.	1929	6,250	4,560	...	11,224
	1928	6,250	4,560	...	10,960
	1927-28	6,250	4,560	...	10,690
	1926-27	6,250	4,560	...	10,362
	1925-26	6,250	4,560	...	10,195

## Financial position of the Khetivadi Pedhis, 1925-29.

Surplus fund.	Total working capital.	Loans advanced.	Loans recovered	Loans outstanding at the end of the year.	
				Cooperative societies.	Individual Khatodars.
7	8	9	10	11	12
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1,654	1,00,049	20,432	25,169	31,393	2,414
1,384	1,07,402	29,201	57,250	34,570	3,795
1,641	1,01,736	38,720	64,846	59,378	7,216
780	1,06,791	74,725	46,900	80,766	7,893
384	85,036	74,944	67,470	45,736	9,645
10,000	4,33,204	1,18,328	1,30,723	1,19,209	2,16,435
5,578	3,92,014	99,397	1,16,547	1,16,985	2,30,964
3,738	3,61,946	2,08,806	1,57,782	1,30,585	2,34,429
3,949	2,45,414	1,80,286	91,943	1,01,343	2,12,569
4,349	2,38,249	1,51,866	1,10,693	66,615	1,58,955
4,821	1,79,102	66,268	49,448	91,819	9,058
4,217	1,39,559	31,765	24,818	61,544	10,758
4,217	1,38,323	41,884	33,426	59,012	11,343
4,217	90,717	40,151	36,108	48,952	12,935
4,217	78,227	37,011	25,304	45,230	12,624
313	22,347	...	...	...	...
226	21,996	...	...	...	...
275	21,775	9	1,255	...	225
1,075	22,245	...	963	...	1,471
1,004	22,099	13	2,252	...	2,434

It will be seen that the banks have succeeded in attracting good deposits from the public.

At present the Songadh Bank is in a dormant condition and the co-operative societies in the Taluka are financed by the Vyara Bank.

The Bank at Bhadran is very well-managed. All applications for loans are properly scrutinised and adequate security is always taken. This bank has more dealings with individuals than with co-operative societies.

143. Four important issues emerge from a review of the working of the Khetivadi Pedhis.

Four important issues.

- (1) Should the banks continue advancing loans to individuals ?
- (2) Should arrangement be made to provide for long-term loans ?
- (3) Should Government and private individuals continue to hold the shares of the banks or should the shares be transferred to co-operative societies ?
- (4) Is it advisable to launch more banks of the type ?

We discuss the issues in details below :—

144. We have had sufficient experience of the working of

(1) Loans to individuals. the co-operative movement since 1905, and we have realized its limitations. We have found it difficult if not impossible, to

start co-operative societies in the backward Talukas of Songadh, Tilakwada, Vyara, Okhamandal, Harij and Sankheda. The majority of the cultivators there are illiterate. They are terribly indebted. They have mortgaged their lands with the Sahukars and they are greatly addicted to drink. It will take years before they will be reclaimed to better farming, better living and a solvent state. But even in those parts of the State it is not difficult to find a few cultivators who are literate, who are solvent, and who can be saved from a miserable fate if they could find adequate finance to aid their business. In the Songadh Taluka a sufficient number of well-

to-do agriculturists would be found to whom a loan from a bank would be a blessing. The loans would be for three to five years to be returned in instalments and would be secured by the mortgage of land. This facility can be afforded to them only by the local Pedhi. Similarly the Vyara Bank should be permitted to advance loans to the agriculturists of those places where there is no co-operative society. At the same time if the number of the bank's clients in a village comes up to the requisite strength for the formation of a credit society, every effort should be made to start one and the loans to individuals should be turned into those to the society. This would accelerate the development of the co-operative movement.

Similarly in advanced tracts like those of Petlad and Bhadran there is a class of cultivators who are substantially well-off and who have no desire to join the local societies. We said in the preceding section that the co-operative credit society has not been able to assume the status of a real village bank to which every member can look up with trust and pride. Then there are parties in the village and men of one party would not work with those of the other party. There are several cultivators who are fairly well-to-do men, whose holdings are large and whose financial requirements can never be met by the ordinary society. It is not fair that these men should go without any facility for getting loans. Therefore we feel that the Pedhis should continue advancing loans to individuals but the advances should on no account be under Rs. two thousand.

Again whenever small loans are advanced by these Pedhis the auditors of the co-operative department should carefully scrutinise them and see that they are properly secured and are returned in time. This is necessary especially with regard to loans in the backward areas.

145. The Khetivadi Pedhis advance loans to individuals and to co-operative societies generally  
 (2) Long-term loans. for from one to five years but sometime special funds are earmarked for advancing long-term loans



also. We believe that the rule which restricts the business of the banks only to short-term loans should be relaxed and that they should be recognised as institutions fit to give long-term credits to farmers and to co-operative societies. The Land Mortgage Bank Committee recommended in 1925 the formation of Taluka associations on the co-operative principle, which would be functioning as so many branches of the proposed land-mortgage bank. We believe that the Pedhis can be safely entrusted with the work which the Taluka associations were expected to do by the Land Mortgage Committee and that the task of the liquidation of old debts and of financing the improvement of agriculture can be conveniently performed by them even at present.

146. The policy of Government with regard to this issue is to induce the co-operative societies to take over the shares of the Khetvadi Pedhis and to become their members. But the present share-holders of some of the banks refuse to issue new shares to the societies even at a premium. Again many of the shareholders of the banks in the *Kaliparaj* tract are Sahukars and they do not like co-operative societies to assume the business of the banks and help the farmers. The Sahukars exercise a strong influence with three out of the four Pedhis. The only way to rectify this evil is for Government to interpose and transfer to the societies some of their own shares. We were told that Government can take such a drastic action only by amending the rules. We have no hesitation in recommending such action to Government in the interest of the agricultural public, if ordinary methods of persuasion fail.

147. The last issue is:-- Should Government encourage the launching of more Pedhis in the State ?

(4) Organisation of more Pedhis. There is little doubt that the Pedhis have served a useful purpose in the financing of agriculture and are capable of great improvements if their management could be made more efficient and if the official control were relaxed. We would therefore recommend the

opening of such banks for Okha, Tilakvada, Sankheda and Harij-places where it is difficult to develop the co-operative societies. But in order to prevent a repetition of the evils which characterised the working of the old Pedhis, we would suggest that the new banks should be placed from the very first under the direction of a well-trained and well-paid staff and that Government should subsidise them in the beginning. We may also add that the control of Government in the matter of inspection and auditing should be the same as it is with the co-operative banks.

148. It is often suggested that no more banks of this type should be organised as they would be entering into an undesirable competition with co-operative societies and banks. But we do not agree to this view. Even in Germany, the home of the co-operative movement, such agricultural banks do exist and flourish along with co-operative institutions and serve very useful purpose. Provided there is efficient management there is room enough for such banks in the State. Classes of cultivators will be found all over the State, whom the co-operative movement will not reach and who can be conveniently served by such banks.

#### **Recommendations.**

(1) The agricultural banks can lend loans to a few individual farmers even if they are located in backward areas ( Para 144 ).

(2) The Pedhi of Vyara should be allowed to lend to farmers of those places where co-operative societies do not exist ( the same para ).

(3) If the number of a bank's clients in a village comes up to the requisite strength for the formation of a credit society every effort should be made to form one (The same para).

(4) The Pedhis at the advanced places can also lend long-term loans to well-to-do farmers (The same para).

(5) Auditors of co-operative societies should scrutinise the small transactions of the banks more carefully. ( The same para ).

(6) The Pedhis should be allowed to work as land mortgage banks (Para 145).

(7) Government should arrange to get their shares in the banks transferred to co-operative societies ( Para 146. )

(8) Agricultural banks should be opened for Okha, Tilakvada, Sankheda and Harij, where the co-operative movement has not made much progress (Para 147).

#### (4) Tagavi.

149. In all eastern countries Government assume the role of a money-lender or of a shrewd and benevolent landlord. The reason for this is obvious. The peasantry must remain contented and agriculture must be kept well-financed. Again in those old days adequate finance was not always available for agricultural needs. Generally, however, the State refrained from interfering in the finance of agriculture. Its interference became necessary only during emergencies, when special conditions arose for it, or mostly when costly and sometime risky improvements had to be executed.

150. The advance of loans by the State to finance agriculture is known as Tagavi. Once it was advanced for the purchase of bullocks, for repairs of tanks, etc. With the change in the economic system, it has taken another form. Now it is granted not only to enable the agriculturist to purchase a bullock, to repair a tank, or to sink a well, but also to purchase tractors, oil engines, pumps, etc. The object is the same namely, agricultural improvement. We bring out this change in the form of the Tagavi in order to show the elasticity of the system.

151. At present three kinds of Tagavi are granted under the rules :—

Forms and purposes  
of Tagavi.

- (1) Fixed or Jathu जथु Tagavi.
  - (2) Tagavi for famine.
  - (3) Special Tagavi.
- (1) *Jathu Tagavi* is given under the Tagavi rules out of the fixed sum allotted to each Taluka for the following purposes :—
- (a) To construct new wells and to make *pacca* wells out of *kacha* ones.
  - (b) To carry out agricultural improvements, including purchase of bullocks, seeds, implements and grass, and the building of farm-houses.
  - (c) To maintain the family. On this Tagavi 5% interest is charged. The loan has to be re-paid in instalments and it is spread over from one to ten years.
- At present Rs. 2,50,000 are annually allotted to all the Talukas.
- (2) The second form of Tagavi is granted during famine and for all sorts of purposes; viz., for purchase of seeds, fodder, *kos*, कोस and *varat* वरत, for sinking wells, building houses (when damage is done by floods), for maintenance, etc. Usually no interest is charged and if any is charged, it is very small.
- (3) The third form of Tagavi is granted when some special improvements are to be effected : such as the sinking of wells, the purchase of oil engines and pumps, etc.

This system became common after the famine of 1899 and during 1901–1929 Tagavi to the extent of Rs. 25,00,000

was granted for the construction of wells only. Special officers were appointed for this purpose with the result that nearly 11,000 wells were constructed in the whole State during the period. Now it is intended to create a Trust Fund of Rs. 25 lacs to be associated with the name of H. H. the Maharaja Sayaji Rao to meet the requirements of this form of agricultural finance. To begin with, Rs. 3 lacs have already been sanctioned as loans for the construction of wells and for the purchase of engines and pumps. The State has sanctioned Rs. 1,00,000 every year as loan for the purchase of oil engines and pumps. During the last ten years Rs. 3,85,474 were loaned for tractors and engines.

152. In spite of the fact that Tagavi is granted at a nominal rate of interest and in some cases without any interest at all, people are unwilling to take full advantage of it and they ask for it as a last resort. There are three important reasons for this hesitation :

Drawbacks of the system.

*First:* there is a certain amount of leakage associated with every loan.

*Secondly:* there is always some delay in getting it; and

*Thirdly:* there is some rigidity in its collection.

The last one is not very important as postponement is always given if the year is bad, nor is laxity in collection advantageous to the borrower. As for the other defects in the system they are usually minimised when the Taluka officer takes personal interest in such matters and attends to the applications himself. For these reasons the farmers prefer the money-lender to the Government and approach the Vahivatdar as a last resource only. In any case the Tagavi cannot be a substitute for a good banking facility.

153. But as long as a large number of uneconomic holders remain on land and a comprehensive system of agricultural banking is not available, Tagavi will have to be granted by Government specially in famine times when heavy

Changes in the system suggested.

losses are incurred by the cultivators and when the Sahukar is unwilling to accommodate them. Therefore, we must suggest ways by which the evils complained of may be remedied or reduced. We suggest as under :—

- (a) As far as possible, the disbursement of all the loans should be made through the Bank of Baroda at those places where the treasuries have been abolished. But when the loans are of small amounts and when the borrower cannot conveniently cash the cheques, the Bank of Baroda should not be made the medium for paying the Tagavi.
- (b) When an applicant is member of a co-operative society, the loan should be paid to him through his society. A rule to this effect is in existence but it is not rigidly followed. We submit that rules for the granting of loans through the society should be simplified.
- (c) Tagavi should be paid to members of agricultural banks through them.
- (d) Several co-operative societies exist in the State which serve those very purposes for which Government distribute Tagavis among individuals. For instance an individual applies for a loan to purchase milch-cattle. Now at the same place a co-operative society may be working for that very purpose. In that case the loan should be advanced through the co-operative society as far as possible. Efforts should also be made to encourage the formation of such types of co-operative societies. To take an instance in 1928, Rs. 25,000 were paid to co-operative societies for disbursement among their members to enable the latter to purchase milch-cattle and thus to increase the output of milk and *ghee*. Co-operative societies can be launched for various purposes, e. g., for the

manufacture of cream and butter, for the consolidation of holdings, for the redemption of mortgages, for the purchase of land for colonisation, for irrigation, etc. In all such cases Tagavi or Government aid should be given to the individuals concerned through such co-operative societies.

- (e) At present Rs. 2 lacs are provided by the State for the sinking of wells and Rs. 1 lac for pumps and tractors. The first grant is made at 4% while the second is made at 5%. We are of opinion that the two grants should be combined and that their distribution should be centralised.
- (f) The scheme of a land-mortgage bank already submitted by the special committee appointed for the purpose should be put into effect as early as possible, in order to make funds for agricultural improvement easily available.

154. At present Government allow special rates of interest for long-term Tagavi grants in certain cases. The same loans will be advanced by Government through the Land Mortgage Bank when such an institution is brought into existence. But even then the practice of granting concessions in the rate of interest will continue. In that case, the Land Mortgage Bank will have to be indemnified by Government.

Recovery of concessions in rate of interest.

#### **Recommendations.**

(1) Tagavi should be paid through the Bank of Baroda when the loans are fairly large, and the cheques of the bank can be easily cashed. (Para 153).

(2) Tagavi should be paid to members of co-operative societies through the latter. The rule in existence for this should be rigidly followed. (Para 153).

(3) Tagavi to members of agricultural banks should be paid through the latter. (Para 153).

(4) When the object of a Tagavi loan and the object of a co-operative society coincide, the loan should be advanced through the latter. (Para 153).

(5) The Tagavis for the sinking of wells and for the purchase of pumps and tractors should be combined and their distribution centralised. (Para 153).

(6) A land mortgage bank should be started by Government. (Para 153).

## II Agricultural Indebtedness.

155. We discussed in the foregoing pages the principal agencies that finance agriculture in the State. Now we take up the next important subject in agricultural finance—namely agricultural indebtedness.

156. In all societies where farms are small and where life is regulated mostly by custom the financial embarrassment of the farmer is very acute. Such was the condition of farmers in Europe and Ireland fifty years ago and the same condition obtains to-day all over India.

157. The problem of agricultural indebtedness is an ancient one. India is a land of small farms, of uncertain monsoons and of expensive social customs. The same observation holds good about Baroda. Most of the farmers of the State are indebted and the majority of their debts are incurred for non-productive purposes.

In the beginning Government paid little attention to the seriousness of the problem. The State was busy collecting the land-tax and questions incidental to land-revenue policy were not treated in a scientific manner.

But a change came over this attitude. The administration was reorganised in 1875 and it heralded many changes in the State.



158. The first and the most important was the introduction of the present ryotwari-system under which the farmer paid a fixed annual land-tax in cash to Government directly. Under the old system a share of the produce, one-half, was paid to Government through the village headman or the village community. Under the new system of land-tenure the ryot was secure in the possession of the land so long as he paid to Government the dues and observed all its conditions. If Government acquired his land for public purposes, an adequate compensation was paid to him.

159. Under the old regime, the ryot could alienate, sell or mortgage land. Transfer of land was not uncommon. But on account of the vigorous working of the system of village-community, the rights and obligations of the individual farmers were not clear and definite. In the new system, these rights were made very definite and certain. The farmer now acquired full, alienable and inheritable right in his land.

160. Before 1875, there were very few laws and courts in the State. All civil disputes were decided by the village-community or sometime by the man to whom the revenues were farmed out. There were no laws of stamp, registration, or limitation or procedure. There was no law making it obligatory on the part of the money-lender to submit his accounts for periodic inspection. The increase in the debt of the agriculturist was prevented by the rule of *Dam Dupat* which permitted the recovery of interest to the extent of the amount of the principal due. But the new administration opened courts of law in the districts and passed laws adapted to a highly developed society. The new legal system opened up fresh opportunities to the money-lender to recover his dues from the farmer.

161. Under the operation of these important changes, the autonomy of the village was broken and the prestige of the village-community disappeared. Once it exercised a great check on the money-lender. Then there was ample waste land and the farmer was always welcome in the village. If by chance the ryot was oppressed, he was free to migrate elsewhere. There are instances where even the unscrupulous Sahukar was driven away from the village. But under the new system the village-community lost its power and at present it has none of its old influence.

162. Equally important was the change in the economic conditions of the people. In the old days the population was small, with an amount of waste land that was cheap. With the succession of a stable government and with good seasons, population increased rapidly and most of the waste land was taken up. This enhanced the value of land.

163. From this discussion it will be seen that the changes introduced by the new administration increased the credit of the farmer and made money-lending easier and more secure. The value of farm-lands increased, thus affording a very valuable security against debts. The new laws were equally favourable to the money-lender. It may, therefore, safely be said that the growth of money-lending in the State commenced with the new administrative system. Not that there was no money-lending previous to that; it only means that after this time it became an important problem in the economic system of the community. Happily the next twenty-five years that followed the introduction of the new administration were exceptionally good. There was plenty of rain and crops were bumper. The farmers borrowed freely and the Sahukars lent freely too. A part of this credit was used for the development of agriculture. But the rest was utilised to meet social expenses.

164. Thus facile credit and good crops spoiled the farmer who became rather extravagant, with the result that the burden of indebtedness increased and land-mortgages became more frequent. In the mean time the attention of Government was drawn to the indebtedness of the cultivators by some of the Settlement Officers. In 1891, Messrs. Machonachie, Patel and Elliot made a mention of this evil in the settlement-reports for the district of Navsari. But only the assessment was reduced and no other step was taken to mitigate the evil.

165. During this period, the amount of indebtedness was great but its burden was not very appreciable. In 1899, rains failed in all the districts of the Raj. The illusion that Gujarat was free from the vicissitudes of weather was dispelled. Men and cattle died by hundreds and property otherwise valuable was sold away at nominal prices. Land also depreciated. The result was that the credit of the cultivator shrank significantly. In the beginning the Sahukar tried his best to help the farmer but his help was too insignificant to be of much value to him nor were his resources ample. Government permitted him to lend money on certain terms but no advantage was taken of the offer. Possibly the calamity was too sudden and too great to be mitigated by such efforts. So eventually Government was compelled to be the Sahukar for the ryots. During the first year, Rs. 14,55,553 were advanced as Tagavi; it went up to Rs. 54,63,393 in 1912, the date of the report on agricultural indebtedness, and to Rs. 1,02,81,351 in 1928. At the same time Government have suspended the collection of the land-tax and sometime even remitted it.

166. The famine of 1899 was an eye-opener. H. H. the Maharaja's Government gave ample relief to the people. At the same time His Highness the Maharaja ordered that a careful inquiry into the indebtedness of the cultivators should

be made and that steps should be taken to relieve it on the basis of the conclusions reached. Accordingly a census of the debts of the agriculturists was taken by revenue officers and suggestions for its relief were also submitted.

On the receipt of the reports of the district officers a committee was appointed ; but the work of preparing the final report could not be done owing to changes in its personnel. In 1911, the same work was entrusted to Mr. Manilal B. Nanavati, who submitted his report in 1912. In this report the whole question of agricultural indebtedness in the State was exhaustively discussed in all its bearings. So we do not propose to go over the same ground again. We would rather confine our remarks to the important problem of the relief of indebtedness.

167. Short of a regular census compelling every farmer to register his debts and every Sahukar his loans to cultivators with penalty for non-compliance, any attempt to get an estimate of the ryot's indebtedness is bound to be conjectural. For our present purpose, such a procedure, if not positively dangerous and impossible, is sure to be inconvenient. However, we may get some idea from registration and other returns.

The first estimate of agricultural indebtedness in the State was made in the year 1901. The returns of the Talatis or village revenue-officers showed that out of 2,53,734 Khatedars, 1,57,722 or 60 per cent were indebted to the extent of Rs. 7,57,17,190 or Rs. 460 per head. The details also showed that the Khatedar of the Baroda district was on an average indebted to the extent of Rs. 620, the Khatedar of the Navsari Prant to the amount of Rs. 469, that of the Kadi Prant to Rs. 428 and the one in the Prant of Amreli to the extent of Rs. 313. The interesting fact of the situation was that the indebtedness was in the same proportion as the value of the land in the district. The Talati's figures might not have been scrupulously accurate, but even then there is no harm in accepting the figures as approximately correct.

The next estimate of the agriculturists' debts was taken at the time of the report of 1912. It was observed that the indebtedness of the farmers of the State was in no way less in 1912 than in 1901. The method employed in calculating the debts was very elaborate and was much more scientific than the one employed in the year 1901. It was computed that the lowest estimate of the debts of the farmers would go to Rs. 8,06,44,152, that the number of indebted Khatedars was larger in 1912 than in 1901 and that the average debt per Khatedar totalled Rs. 450.

The third estimate was arrived at in the year 1918 by the Baroda Economic Development Committee which calculated that the peasantry was indebted to the extent of Rs. 8,03,55,516.

The last estimate was made in 1925 by the Land Mortgage Bank Committee, which reported that the debts of the agriculturists had remained practically the same.

Since then no material change has taken place in the general conditions of the cultivators to show that the debts have gone down. On the other hand the last three years were very bad for Gujarat, and crops were damaged by floods, frost and shortage in rainfall. Rather the condition must have gone worse.

In one of the calculations we showed above, the unsecured debts were taken as twice the secured debts. This was based on calculations made in 1912. From the reports of village-surveys made during 1928-29, we were able to obtain practically the same results.

Elsewhere other methods of calculating the indebtedness of the agriculturists are adopted. The estimates are based mostly on the returns of the co-operative societies. These may be true for a certain class of farmers but for the whole class of them they would serve as interesting guides and no more. But looking to the ignorance and poverty of the masses and the incomplete data of the information collected, the extent and acuteness of the burden will always remain a mystery.

167. The problem of agricultural indebtedness is very intricate and it is very difficult to assign to each contributing cause its share in the ryot's embarrassment. The causes of it were elaborately investigated in the Report on Agricultural Indebtedness, 1912. We summarise them below :—

Causes of agricultural indebtedness.

- (1) *Uneconomic holdings of land* :—The first cause is the presence of a large number of cultivators whose holdings of land are not sufficient to maintain them. They hold from one to five bighas of *Jarayat* land and they form nearly thirty per cent of the registered holders. They sell their produce in advance and borrow grain and other requirements at a very high rate of interest. They are suffering from chronic indebtedness.
- (b) *Social customs* :—All classes of cultivators borrow heavily for marriage and funeral expenses. In many cases they borrow beyond their means. The better class of cultivators, specially the Patidars, are usually thrifty and hard working and conduct agriculture at a profit, but social expenses involve them into debts and it is difficult for them to get out of them.
- (3) *Drink* :—Drink is the next contributory cause for indebtedness and it has practically ruined the Kolis, Thakardas, Bhils and the *Kaliparaj*. The last class of people cultivate very rich land and usually get good returns but all that is frittered away in drink.
- (4) *Famines, etc.* :—A part of the debts is due to frequent famines, failures of crops, cattle-epidemics, etc. When crops fail, the expenses of agriculture are lost while fresh debts are incurred to carry on for the next season. During the last three years seasons were very bad and consequently the burden of debts must have rather increased. The debt is also due to the rigidity in the collection of land-revenue in spite of the fact that considerable elasticity is allowed in

the collection of the tax. Remissions and suspensions are always given but in most cases they work on an average and in the same area those lands that are below the fixed average do not get much benefit from it.

Many other causes may be given but they are not very important.

Most of the debts grow from generation to generation and are never cleared except when the cultivator is forced to sell his land and take to some other business.

168. A fairly good amount of the debts must have been incurred also for productive purposes, e. g. purchase of land, seeds, sinking of wells, purchase of tractors and oil engines etc. But it is very difficult, if not impossible, to fix the exact proportion between productive and unproductive debts. An analysis of the causes of the agricultural debts was made on the strength of the surveys of ten villages carried out during 1928-29 and it was found that nearly 30% of the debts were incurred to meet social expenses.

169. The best way to eliminate indebtedness contracted for unproductive purposes is to remove the pre-disposing causes: the holdings of land should be consolidated; the cultivators should be taught to be thrifty by the introduction of co-operative banking; they should also be educated. Some of the expensive social customs may be abolished by means of legislation. All these and many other matters which would help to increase production and improve the moral and material condition were discussed in the report mentioned above, and, therefore we do not propose to treat them here. These are really constructive measures and it must take time before they can have their full effects. But here we discuss the ways to liquidate the burden of the existing debts, specially that portion of the debts which carries a disproportionately high rate of interest and which keeps agriculture in a depressed condition.

As long as this burden remains, it is impossible for the agriculturist to make any progress; till then, he must remain a serf to the Sahukar to work for him for ever.

170. Apart from measures that would increase production and reduce the chances of indebtedness, Three suggestions. three distinct remedies have been suggested for the liquidation of the old debts. These are as under :—

- (1) Wholesale liquidation of debts by means of conciliation-proceedings.
- (2) Passing of legislation similar to the Deccan Agriculturist Relief Act or the Punjab Land Alienation Act.
- (3) Slow liquidation through land mortgage or other banks or the co-operative societies.

171. It was suggested to us that the State should liquidate the debts of the ryots and should An impossible suggestion. find the necessary funds. This is a preposterous proposal and can never be entertained. It is impossible for the State to find the necessary funds. How can the State get eight crores of rupees? And even if the State were to find funds for the purpose, it would be difficult to distinguish the productive from the unproductive debts. Then, we have a number of uneconomic holders whose debts it would be useless to redeem, for even when once freed from their old debts, they would start incurring fresh ones. This is, therefore, an impracticable and unacceptable suggestion.

172. The proposal to pay off the debts of the agriculturists by the step suggested above has Conciliation-proceedings. only to be mentioned and then dismissed. We therefore, take up the next suggestion, namely that conciliation proceedings should be instituted through committees which would inquire into the problem and would propose that the debts should be reduced to fair or reasonable amounts to be paid off in instalments.



The work of the committees would be of the nature of a commission for universal insolvency. This very experiment was tried in the Central Provinces in 1899, but it failed in its purpose. We report that it would fail with us also. The Sahukars would be unwilling to submit to the procedure and would refuse to lend to the Khatedars. An attempt was made in 1905 to introduce such a measure in the Baroda State but it was rejected by Government. It is our considered opinion that no conciliation of debts can ever be successful without an efficient system of agricultural banking. We may go a step further and say that even if agriculture were financed very efficiently, a wholesale liquidation would never succeed. There are many holders who are thriftless, improvident and therefore uneconomic, whom it would never pay to redeem wholesale; they would ever remain sunk deep in debts and no bank or society would advance loans to them. The redemption of debts must proceed side by side with the development of character and with the inculcation of the virtues of thrift and prudence. To undertake the huge task of the redemption of debts in the manner proposed would be a colossal waste of time, money and energy and it would result in the disturbance of the whole organisation of society.

173. The second method of liquidating debts through  
 Legislation. legislative enactments is better, though  
 it has dangers of its own. In this connection two important measures have been passed in British India :—

- (1) The Deccan Agriculturist Relief Act, and
- (2) The Punjab Land Alienation Act.

The principle underlying these Acts is twofold :—

- (a) to stop alienation of land from the agriculturists to non-agriculturists by placing certain restrictions, and
- (b) to settle money-claims by means of a special method of making up the accounts.

174. For a long time, it was thought that the phenomenon of agricultural indebtedness was the result of the legislation which permitted free commerce in land, giving full opportunities to money-lenders to advance loans against its security and which allowed the enforcement of his claim through courts of law. It was urged that this privilege was unsuited to a backward population and, therefore, it should be withdrawn or curtailed. In the beginning, decrees against land were executed through the Collectors and arrangement was made for the satisfaction of the claim by taking over the management of the land for a definite period. In about 1875, following upon agricultural distress, riots took place in the Deccan and some of the Sahukars were looted and the money-bonds were destroyed. The British Government, therefore, felt the necessity of taking strong measures and in 1879, the Deccan Agriculturist Relief Act was passed. It was to operate first in the four districts of the Deccan where the distress was very acute, but in 1905 it was applied to the whole of the Bombay Presidency.

The object of the Act, as stated in the preamble, was to relieve the agricultural classes in certain parts of the Deccan from indebtedness, and as stated in the 'Objects and Reasons' to "put the relations between agriculturists and money-lenders on a better footing." It formulated the methods by which this result was to be attained as follows :—

- (1) by the provision of safeguards against money-lenders committing frauds in their accounts and obtaining from ignorant peasants bonds for larger amounts than are actually paid to, and due from, them .
- (2) by settling disputes by conciliation as far as possible ;
- (3) by requiring the courts in contested suits against agriculturists to investigate the entire history of the transactions between the parties, and do substantial justice between them ;

- (4) by restricting the sale of the ryot's land in execution of a decree and by providing an insolvency procedure more liberal to the debtor than that of the Code of Civil Procedure.

The principal safeguards against frauds by money-lenders referred to in (1) were :—

- (a) the appointment of village registrars before whom every written obligation for the payment of money should be registered ; and
- (b) the provision requiring money-lenders to give receipts to agriculturists for all payments made by them, to render accounts, and to give the agriculturist client a pass-book.

In 1912 a commission was appointed to inquire into the working of the Act. The findings of the commission may be quoted in its own words :—

“It is a contest of dishonesty in which that side is likely to gain the upper hand which is prepared to go farthest in perjury and in the production of false evidence. Witness after witness has testified to this demoralisation. Distrust has been engendered on both sides. The honest Sahukar and the honest cultivator suffer alike, since in their dealings with one another they have to allow for the judgment of a court which will presume dishonesty on both sides. Hence, it is that an Act whose main object was to put the relations between agriculturists and money-lenders on a better footing is actually having an opposite effect.”

It was expected that the Act will be revised in the light of the commission's report. The amendment should have been introduced long ago; but as it was likely to be of a controversial nature it has been postponed.

175. The Punjab Land Alienation Act, based on the same principles, was passed on a slightly different consideration. The Punjab is a land of the fighting races whose main occupation is agriculture. A part of the land was

The Punjab Land Alienation Act.

passing into the hands of the non-agriculturists. So some measure was found necessary to check this tendency in the interest of the country and the prosperity of the ryots.

We may summarise the principal clauses. There are two kinds of alienations—

- (i) permanent, and
- (ii) temporary,

and the Act regulates them. To every permanent alienation of agricultural land the sanction of a revenue officer is made necessary by clause 3 of the Act. Such sanction is to be given, as a matter of right, where the alienator is not a member of the agricultural tribe or where a member of an agricultural tribe alienates to an agriculturist in the same village or to another member of his own tribe residing in the district. In any other case, inquiry is to be made by a revenue officer not lower in rank than a Deputy Commissioner, into the circumstances of the proposed alienation and sanction may be given by the officer at his discretion.

The temporary alienation by a member of an agricultural tribe must be made in any one of the following forms when the mortgagee is not a member of the same tribe or of a tribe in the same group :—

- (1) Usufructuary mortgage with a maximum period of twenty years.
- (2) Mortgage without possession subject to the condition that if the mortgagor fails to observe the contract, the mortgage should be treated as a usufructuary mortgage as in (1).
- (3) Usufructuary mortgage, the mortgagor retaining the land and recognising the mortgagee as a landlord and paying a fixed rent.

Leases of agricultural land are also prohibited except for a term of twenty years. So too all contracts of the nature of mortgages with conditional sale are prohibited. The hypothecation of the produce of land is allowed only for

one year. No land belonging to a member of an agricultural tribe can be sold in execution of any decree or by order of any civil or revenue court.

It will be seen from the above that under this law permanent alienations of agricultural land to non-agriculturists are completely prohibited and if in execution of a decree the land of a farmer is required to be sold, only temporary mortgage or alienation for a maximum period of twenty years is allowed. This Act is reported to have worked well.

176. The Deccan Agriculturist Relief Act adjudicates debts by means of section 13 (A) which opens the old transactions and settles the account on the basis of simple interest calculated at a very low rate of interest, that is, it imports a new term in the contract and it does it without any discrimination between an honest creditor and a dishonest creditor. The result is that it has driven away honest money-lenders and has greatly curtailed the credit of the cultivator.

We believe that it is unnecessary to enact any legislation of the kind of the Deccan Agriculturist Relief Act for Baroda at present. Instead, it would be better to amend section 174 (C) of our Civil Procedure Code and make it more definite. We elaborate this in our chapter on "Regulation of Banking."

177. One of the best ways to secure the liquidation of the old debts of the Kheduts is to utilise the co-operative societies as far as possible and then to organise a land mortgage bank. The societies know the condition of their members, who are jointly and severally responsible. Therefore they would be careful in selecting cases for redemption. During the last seven years, Rs. 3,67,593 were advanced by Government to the co-operative banks which lent to good credit societies to enable their members to pay off old debts.

The societies borrow the funds from the central banks for a period of three or five years. The results obtained are satisfactory so far. But we are of opinion that the time

allowed for the loans is very short and the societies and members are put to a lot of inconvenience on account of it. It may even be argued that it rather defeats its own purpose. We wish that the well-to-do societies were enabled to undertake this work on a large scale and allowed to cover cases where large amounts of money were required. We would go so far as to say that loans should be allowed to run for fifteen or even twenty years. For this however a land mortgage bank is necessary.

#### **Recommendations.**

(1) Wholesale liquidation of old debts or conciliation proceedings for the same will be dangerous. (Para 172).

(2) It is not necessary to enact legislation like the Deccan Agriculturist Relief Act or the Punjab Land Alienation Act in the Baroda State at present. But section 174 of the civil code may be amended, which should be enabled to lend long-term loans. (Paras 175-177).

(3) Liquidation of old debts may be carried out through co-operative societies. (Para 177).

#### **III. Land mortgage bank.**

178. The questions of the liquidation of old debts and of agricultural improvement raise the important issue of a land-mortgage bank for the Baroda State. This question was investigated by the Land Mortgage Bank Committee, which reported in 1925. So we do not discuss it here in details.

179. In the early period of the co-operative movement it was thought that the ordinary credit society would be able to meet all the financial requirements of its members, that it would replace the money-lender soon and that the agriculturist would have to deal only with the village-bank. But soon the limitations of the co-operative credit societies were realised. It was found that for lack of the co-operative spirit and organisation, the village society could not meet even the ordinary short-term credit that was needed.

Credit societies and long-term credits.

180. The credit societies could not liquidate the heavy debts of their members. The slender profits of agriculture in good years could scarcely suffice to remove the burden. Hence arrangements had to be made for mitigating the evil in some form or another. Such was the experience of British India and the Baroda Government as well. In fact, the question of a land-mortgage bank has been under the consideration of Government since 1915. But it could not materialise at once. So funds were placed at the disposal of the Registrar of co-operative societies to enable good societies to help selected members to liquidate their old debts. The money was made available to the societies through their respective banks. It may be mentioned here that the banks paid the instalments punctually to Government but some societies and members were not able to keep to the conditions laid down as will be seen from the statement which is attached herewith to show the results of the arrangement. The failure to make punctual payments was partly due to the fact that the last three years were exceedingly unfortunate—the year 1927 being one of unprecedented floods, the year 1928 being one of frost, and the year 1929 being one of scarcity of rains.

Credit societies and  
liquidation of old debts.

**Statement regarding redemption of old debts through co-operative banks and agricultural pedhis.**

Serial No.	Name of the Bank.	No. of societies to whom sums were advanced.	No. of members whose debts were redeemed.	Loans advanced. Rs.	Amount recovered. Rs.	Amount due. Rs.	Loans overdue. Rs.	The amount for which postponements were given. Rs.
1	2	3	4	5	6	7	8	9
1	Baroda Central Co-operative Bank, Ltd.	16	109	1,44,663	79,528	65,135	22,904	12,490
2	Mehsana Central Co-operative Bank, Ltd.	7	48	52,353	10,227	42,126	1,237	...
3	Navsari Co-operative Banking Union, Ltd.	11	26	24,446	1,678	22,768	1,031	...
4	Kodinar Co-operative Banking Union, Ltd.	8	16	14,454	2,262	12,192	...	...
5	Bhadran Agricultural Bank, Ltd.	6	50	48,749	10,290	38,459	3,928	...
	Total ...	48	249	2,84,665	1,03,985	1,80,680	29,100	12,490



181. Just before we considered the question of long-term finance from the standpoint of agricultural indebtedness. But the need for long-term finance is felt on other grounds as well. Every year the demand for loans for agricultural improvement is pressing hard on the funds of the State. Government cannot provide for such calls from its annual savings. Again the demands vary from year to year and it would be hard to anticipate its extent in the annual budgets. Besides funds are required for purposes of development like drainage, water-works, lighting projects, roads, railways, repairs of tanks, expansion of industries, etc.

182. We shall show in our chapter on "Investment Banking" how huge sums of money are being sent away from the Baroda State for investment abroad. We feel that the same funds may be utilised for local requirements if an organisation existed to receive them in the shape of bonds and debentures and invest them on betterment services. The return on such investments will be the same as that on investments abroad. In addition Government will have better and more easily accessible securities offered by local properties. A land mortgage bank of the type recommended by the Land Mortgage Bank Committee of 1924-25 would turn out a very serviceable institution in this respect; it would also serve as an excellent agency to receive people's savings by the issue of bonds which can be used in advancing long-term loans to agriculturists and local institutions. We therefore, recommend that Government should give effect to the recommendations of the committee detailed below at an early date. The question has been under consideration since long and it is time that some definite decision is reached on it. The issue is not the loaning of a few lacs of rupees more or less; the real issue is the creation of an organisation that would grow in course of time into a very effective land mortgage bank in the State.

We understand that a scheme for a record of land rights is under the consideration of Government. If Government

do not give effect to the scheme, we recommend that the old system of the card-indexing of mortgages should be revived.

#### **Recommendation.**

A land mortgage bank should be started by Government at an early date. Government should at once proceed with a scheme of record of land-rights or should revive the old practice of card-indexing of mortgages. (Para 182).

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### **A summary of the recommendations of the Land Mortgage Bank Committee, 1925.**

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#### **Constitution.**

1. There is a clear need for a separate institution for long term loans to agriculturists.
2. The agricultural co-operative credit societies and their financing agencies are not suitable agencies for giving long-term credit. A separate institution is, therefore, necessary for land mortgage credit work.
3. Of all the types of land mortgage banks, the co-operative, the philanthropic, the capitalist and the state-owned, the purely co-operative type, with a slight modification for the first few years, is best suited to our conditions. The constitution of the proposed bank should therefore provide for ultimate devolution of control, management and ownership from the Government to the members of the institution.
4. The Government should provide the initial capital and should undertake to commence the working of the bank on the understanding that the investment of Government capital and its complete control over management would be temporary.
5. The authorised capital of the bank should be Rs. 10,00,000 divided into 1,00,000 shares of Rs. 10 each.

6. Government should take up 40,000 shares of the value of Rs. 4,00,000 and the bank should commence business with this amount.
7. Every borrower should be required to become a member of the bank by taking up shares of the bank of a face value of ten per cent. of his borrowings.
8. The bank should not be allowed to issue shares to persons other than borrowers.
9. After the subscriptions from the borrowers to the share capital have reached Rs. 4,00,000 half the amount of every additional subscription should be utilised towards the retirement or re-purchase of the shares held by Government.
10. The share capital of the bank will form only a small part of its working capital. A very large part of it will be raised by issuing bonds.
11. To safeguard the rights and interest of the bond-holders, the Government should establish a Board of Trustees, consisting of three members, with the Accountant General as ex-officio member and president. Of the other two, one will be a representative of the share-holders elected by the Board of Directors of the Bank and the other a representative of the bond-holders nominated by the Government.
12. Every issue of the bonds should first be authorised by the Board and should contain a certificate to that effect. The Board should authorise the issue and grant the certificate after satisfying themselves that the bank holds sound mortgage security for the amount prescribed by the rules.
13. The Board should keep these securities in their custody and release them only on the bank supplying a proper proof that the bonds of the value equivalent to that represented by the securities have been withdrawn from circulation and cancelled.

14. It will be the duty of the Board of Trustees to see that the interest on the bonds is paid regularly and that they are re-paid on due date.
15. The bank should be required to obtain the approval of the Board for the appointment of valuers, and the Board should exercise general supervision over the working of the bank and they should submit a report every year to the Government concerning the affairs of the bank.
16. The Board should be made responsible for the proper observance, by the bank, of the provisions of the Land Mortgage Bank Act and the rules and regulations made under the Act.
17. The management of the bank should be in the hands of a Board of Directors consisting of five members appointed by Government in the beginning and might be raised to a suitable number not exceeding nine, when the capital subscribed by the members amount to Rs. 1,00,000. One of these should be a representative of the shareholders. As the amount of share capital subscribed by the borrowers increases, they should be allowed to elect four members from among themselves. When the capital subscribed by members exceeds that of the Government, this number should be raised to five and when the whole of the Government capital is withdrawn, the members should be allowed to elect six directors, the rest being nominated by Government.
18. The entire management of the bank should be in the hands of the Board of Directors subject to the authority of the general meeting of the members.
19. The resolutions of the Board of Directors will be subject to the veto of the Huzur, when they violate the provisions of the Act.
20. As a link between the borrowers and the bank, Taluka Land Mortgage Associations should be established as soon as there are from twelve to fifteen members of the bank in a taluka. These associations should in the beginning

be merely of an advisory character, but it is certain that as time passes, they will develop into very useful institutions.

21. Among the functions of the associations will be:—
  - (a) Giving information to farmers about the facilities granted by the bank.
  - (b) Receiving applications for loans and forwarding them to the bank, with their own recommendation.
  - (c) Creating a mutual guaranteeing fund for its members. Every member will have to contribute one per cent. of his borrowing to this fund, which would be returned to him on the redemption of his debt to the bank.
  - (d) Central propaganda work regarding the co-operative movement.
22. The interest on this mutual guarantee fund will be the regular income of the associations.
23. In the case of default by any member and in the event of the mortgaged property not fetching enough to pay off his debt to the bank, the association will be called upon to make good the loss upto the amount of the guarantee fund.
24. Unlimited liability of the members of the bank would not be desirable for an institution of this kind. A member's liability to the creditors of the bank would be restricted to the amount of his loan and the share capital subscribed by him.
25. The liability of the Board of Trustees of the Government would be for the balance of bonds in circulation left unpaid with interest due, in the event of liquidation of the bank, after all its resources have been exhausted.
26. The following concessions by the Government are recommended :—
  - 1.. A Land Mortgage Bank Act embodying the general principles governing the establishment of the bank should be duly passed by Government.

2. Government should take up shares of the face value of Rs. 4,00,000 in the beginning.
3. Government should underwrite the issue of the bank's bonds upto Rs. 10,00,000.  
Government should guarantee the interest and the face value of the bonds issued by the bank in the event of the liquidation of the bank.
4. Government should defray all preliminary expenses for the starting of the bank which should not exceed Rs. 5,000.
5. Government should pay the full cost of the necessary establishment of the bank not exceeding Rs. 10,000 annually for the first five years.
6. Government should exempt the interest on the bonds of the bank from the levy of income-tax and the bonds from stamp duty.
7. The bank should be given all the concessions given to the co-operative institutions registered under the Co-operative Societies' Act. The Co-operative Land Mortgage Association should also be given these concessions.
8. The bank should be given the right of free access to the records of the Registration department.
9. The bank should be given the first claim over the mortgaged property, in the event of no claim being submitted to it in reply to a notice in the *Adnya Patrika*, giving intimation of the proposed mortgage.
10. The bonds of the bank should be included in the list of valid and lawful securities for the investment of Trust, Charity and Wards' Funds.
11. The bank should be given the right to enter into possession or sell the mortgaged property after giving the defaulter three months' notice, without any reference to a court of law.

12. The bank should be exempted from the provision in the law with regard to the leaving of a margin of property for the maintenance of the borrower.
13. Government should undertake the establishment of a scheme of Record of Land Rights at an early date.
14. The Transfer of Property Act and other necessary Acts should be amended in the light of these concessions.

The concessions outlined above shall be subject to revision or renewal after ten years.

27. The first business of the proposed bank should be to give loans for redeeming the old debts of the agriculturists, especially those that carry a high rate of interest.
28. In granting these loans, the bank should not enter into the question of the causes of the debt as this is impracticable.
29. The bank should grant loans for agricultural improvements.
30. Loans for unproductive purposes should not necessarily be refused, but preference should always be given to loans for redemption of old debts and for agricultural improvements.
31. The maximum limit for the period of re-payment of the loans should be twenty years.
32. Subject to this maximum, the period should be fixed in such a manner that under ordinary circumstances, the borrower should be able to pay the instalments from his earnings after keeping enough for maintenance and for his farming operations.
33. The minimum period for the loans should be seven years.
34. The minimum amount for loans should be Rs. 500, but it should be Rs. 200 for the Kaliparaj people and Rs. 300 for other backward communities.

35. The bank should fix for every taluka, a definite multiple of land tax which would represent the value of the property. For loans under Rs. 5,000 the borrower should have the option to ask for loans on a summary valuation based on the land tax. For loans exceeding this amount there should be an independent estimate of the value of the property.
36. The bank should not give more than fifty per cent of the value of the property offered for mortgage as loan.
37. The rate of interest charged on the loans by the bank should not exceed that paid on the bonds issued previous to the granting of a particular loan by more than  $1\frac{1}{2}$  per cent.
38. The method of re-payment of loans by borrowers should be by amortization instalments of an unvarying amount.
39. The loans granted should be absolutely unrecallable so long as instalments are paid regularly.
40. The borrower should not have the right of repaying the loans in full during the first five years except with the permission of the bank.
41. The rate of interest on loans should be uniform from the issue of one series of bonds to another. It should also be uniform for the whole area of operation of the bank.
42. The borrower should be allowed to re-pay the loan in full or in part either in cash or in bonds of the bank.
43. The loans should invariably be given in cash.
44. The bank should have the power to grant an application for postponement of the payment of one instalment at a time and for not more than two consecutive instalments. But if the borrower has paid more than ten regular instalments, one more remission might be granted.
45. It should be obligatory on the bank to proceed to realise its dues from the borrower for any defaults exceeding the period stipulated.



46. When postponement is granted, the bank should extend the period of re-payment by a year or two as the case may be, if the borrower applies for it.
47. The bank should raise the necessary funds for loans by issuing bonds.
48. Arrangements should be made to sell these bonds at Government treasuries and through the Post Office if possible.
49. The bonds should be negotiable by endorsement.
50. The bonds should have the interest coupons for the whole period attached to them which could be easily cashed.
51. The bonds should be issued in series at fixed intervals.
52. The value of bonds in circulation should not be more than twenty times the paid-up share capital of the bank.
53. The bonds should be issued in monsoon as far as possible.
54. The re-payment of the bonds should be made gradually every year by withdrawing bonds upto a certain amount by lots.
55. The bond-holder should not have the right to ask for the re-payment except on the date of maturity of the bond, but the bank should have the option to withdraw the bonds from circulation prematurely after giving two months' notice.
56. The bank might be allowed to issue premium bonds carrying bonds on recall.
57. The bank should take twenty five per cent. of its net profit to a reserve fund every year.
58. The balance of the profits might be distributed to the share-holders.
59. Before ascertaining the profits for distribution, the arrears should be deducted from the amount.

60. The dividends on shares should not exceed 8 per cent. or the rate of interest on loans.
61. The bank should work in the beginning through the agencies of the co-operative banks, the branches of the Bank of Baroda, Limited, etc., on a commission basis. Its aim should be, however, to develop the taluka associations in such a manner that they might in course of time constitute themselves as taluka branch offices of the bank.
62. The bank should be started at an early date.
63. An officer should be deputed on special duty to work out necessary details, prepare a draft Act, get it sanctioned and to establish the bank.

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#### IV. Co-ordination in Agricultural Finance.

183. The description which we gave above of agricultural finance in the State conveys one impression to us. It is that the whole system is lacking in organisation. It is very easy to point out its evil effects. The majority of our peasantry still remain without much staying power. The slightest failure of the monsoon or the season immediately upsets their plans and Government, the co-operative societies and the money-lenders find it difficult to meet the situation. The best method of improving the conditions is through the co-operative societies. But the co-operative movement does not reach all farmers. The improvement of agriculture also suffers on account of the same reason.

184. In order to place agricultural finance on a sound basis co-ordination between all the financing agencies is desirable. With co-ordination they can bring a common financial policy to bear upon the problem and thus help the primary societies in meeting their requirements. Government can also co-ordinate its own efforts with the financing agencies by allowing

Tagavi to be paid through the central banks, the Bank of Baroda, the Khetivadi Pedhis and good co-operative societies. A land mortgage bank can also help. But we can not expect any real co-operation between the primary societies and the Sahukar, for the objects of the two are diametrically opposed. We would rather like to see the money-lender attracted to the co-operative bank of the Taluka or the union. When the present system of money-lending is replaced by the village bank the co-operative society will have a more assured place in the economy of the village. The farmer should have but one institution to approach for loans. At present he is under the double grip of the society and the Sahukar; and the society functions in his eyes as a second money-lending institution only in the village.

185. But this co-ordination between the various financing agencies in agricultural finance is possible only by a strengthening and extension of the co-operative movement.

Strengthening of the co-operative movement.

If the society is made to function not only as a money-lending and thrift association, but also as a marketing institution and as a general store-in brief, if the village is made as it were, a small co-operative common-wealth then and then only will the money-lender disappear as money-lender.

The Bank of Baroda can play the part of a balancing institution for the various systems of agricultural finance.

#### **Recommendation.**

Co-ordination between co-operative banking, the Bank of Baroda, Government and the Khetivadi Pedhis can be effected. But the Sahukar and the co-operative society cannot be co-ordinated. The former can be attracted to the Taluka union if the village society develops into a real village-bank. ( Para 184 ).

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## CHAPTER V.

### Marketing.

186. The advantages of sound marketing cannot be over-emphasised. Wherever there obtains a good marketing system, the evils of adulteration are minimised and the people are sure of the quality of the produce they purchase. Sound marketing insists on the grading of the produce or the ware. This facilitates business in it, reduces the cost of the intermediate agency and effects savings in the settlement of the bargain. It also curtails the cost of establishment. A good marketing system enables the producer to relate the price-quotations with the quality of his produce easily and the occasions for a great disparity between his realisations and the actual market price for the article are very few. The frauds incidental to weighment and transit are also reduced. The farmer or the producer gets his money in cash and immediately if he conforms to the common standard. Lastly, if marketing is adjusted to an adequate system of warehousing, it becomes still more efficient.

187. In the second chapter of this report we had occasion to describe the important crops of the State. These may be enumerated as under :—

Important crops in the State.

Cotton,	Fruits,
Seeds,	Wheat and
Tobacco,	Sugar-cane.

188. We give below in tabular form the details about the system of marketing of some of these crops :—

Details of marketing.

Details about the marketing of important agricultural produce in the four Prants or districts of the Baroda State.

Name of the crop.	Where grown.	At what place disposed of.	Where finally exported.	Financing of the crop, etc.
1	2	3	4	5
<b>Kadi District.</b>				
Corn and cereals.	Pattan, Chanasma, Visnagar, Sidhpur, Mehsana, Vijapur.	Locally disposed of at places like Pattan, Visnagar, Mehsana.	Marwar, Jodhpur and locally consumed.	1. Financed by the Sahukars or societies when the crop is growing.
Oil-seeds.	Pattan, Harij, Chanasma, Visnagar, Mehsana, Kheralu, Kalol.	Locally disposed of at Harij, Pattan, Mehsana, Kalol, &c.	Bombay and from there to Europe. Sold to oil-mills in Gujerat and disposed of locally.	2. No buyers finance the Kheduts.
<i>Kapas.</i>	Chanasma, Kadi, Kalol, Dehgam, Harij.	Harij, Kalol, Kadi and Dehgam.	Ahmedabad and Bombay.	3. Future sales take place in case of oil-seeds and cotton to some extent. In such transactions firms like those of Ralli Brothers, Saudey

Wheat.

Sidhpur,  
Harij,  
Vijapur,  
Mehsana.

Unjah, Harij, Vijapur,  
Mehsana.

Jira-જીરું.

Bijapur,  
Mehsana,  
Chanasma.  
Kheralu.

Bijapur, Mehshana,  
Chanasma, Harij, Umpta.

& Co., Kijachand Devchand & Co., take part. The local merchants also finance the crop and in the case of cotton the gin owners and mill agents of Ahmedabad and export firms of Bombay also do the same.

Bombay and middle Gujarat.

4. Sales take place through middlemen and petty merchants who use mostly Sahukars or money-lenders as financiers.

Bombay.

5. Money is paid a month or so after the delivery of goods. The petty merchants resell to the big merchants or firms.
6. There are no co-operative sale societies.
7. There are no organised markets in Kadi for the disposal of crops as in Billimora.

Name of the crop.	Where grown.	At what place disposed of.	Where finally exported.	Financing of the crop, etc.
1	2	3	4	5
		<b>Baroda District.</b>		
Rice.	Savli, Vaghodia, and part of Baroda.	Savli, Baroda.	Locally consumed.	1. Financed by the Sahukars.
Cereals.	Baroda, Petlad, Padra.	Baroda, Petlad, Padra.	Locally consumed. Part sent to South Gujarat.	2. No. buyers finance the Kheduts except in case of cotton where gin-owners lend money to the Kheduts.
Oil-seeds.	Padra, Petlad, Savli.	Padra, Petlad, Savli.	Baroda, Bombay and Ahmedabad.	3. Produce is sold through local middle men who are mostly money-lenders or petty businessmen. 4. Commission charged to the Khedut amounts to anna 1 to 2 per maund of produce sold. 5. There are no sale societies in the Baroda district.



Navsari District.

Rice.	Mahuwa and part of Vyara.	Billimora in the open market as unhusked rice.
Cereals.	Do.	Billimora in the open market as unhusked cereal.
Cotton.	The whole of the Navsari Prant.	<i>Kapas</i> is sold to gin-owners, middlemen and to merchants and mill-agents of Bombay.

6. There is no organised market as in Billimora for corn and pulses.

- .....
1. Financed by Sahukars while the crop is growing.
  2. No buyers finance the farmers.
  3. No future sales take place.
  4. Payment is made in cash after the delivery.

- .....
1. Financed by Sahukars while the crop is growing.
  2. No buyers finance the farmers.
  3. No future sales take place.
  4. Payment is made in cash after the delivery.

- .....
5. *Jalap* or future sale is being done to some extent nowa days. A part of the payment is made when the contract is

Name of the crop.	Where grown.	At what place disposed of.
1	2	3
Ground-nut.	Navsari, Palsana, Kamrej.	Navsari and Surat.

Where finally exported.	Financing of the crop, etc.
4	5
.....	<p>agreed to and the remainder is paid on delivery.</p> <ol style="list-style-type: none"> <li>2. Mostly cotton is sold and payment is received in a month after the delivery.</li> <li>3. Commission is charged to the buyers at the rate of annas 8 to Re.1 per <i>Bhar</i> (24 maunds)</li> <li>1. Financed by Sahukars while the crop is growing.</li> <li>2. Buyers do not finance the growers.</li> <li>3. No future sales take place.</li> <li>4. Payment is made in cash on the delivery of seeds.</li> <li>5. Commission is charged to the buyers. Commission agents are the paid servants of the buyers.</li> </ol>

19 B. I.

Cotton.

Amreli,  
Damnagar,  
Kodinar,  
Dhari and  
Khambha.

Grain.

Amreli,  
Damnagar,  
Kodinar,  
Dhari and  
Khambha.

Oil-seeds.

Do.

### Amreli District.

Locally through middlemen and petty merchants like money-lenders who move over the district when the crop is being matured. Main markets are at Amreli, Kundla and Chalala.

Ahmedabad and Bombay through Bhavanagar by sea.

Locally disposed of.

.....

Locally disposed of.

Sesamum, castor-seeds and ground-nut are partly exported and partly crushed.

1. No future sales take place.
2. A large quantity of seed cotton is sold at the time of the Devali. About half the price is advanced and the remaining half is paid after the delivery of goods. The remaining seed cotton is sold to the *Dalals* who are mostly money-lenders.

1. In villages disposed of directly.
2. Surplus sold in marketing places through middlemen on small commission from sellers.
3. No finance from buyers. Pretty small traders and money-lenders collect in small lot and re-sell to big merchants who export to Bombay.

.....

Name of the crop.	Where grown.	At what place disposed of.	Where finally exported.
1	2	3	4
<i>Ghee.</i>	Khambha, Dhari.	.....	The oil is exported to Bombay through Bhavnagar by sea.  Collected by small traders and exported to Bombay by sea.

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Financing of the crop, etc.

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5

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1. Small traders buy for cash and in small lots and these re-sell to big merchants who export to Bombay by sea and to Calcutta by rail.



## Marketing of Tobacco in the Baroda State.

Name.	Variety.	Uses.	Where exported.	Financing.
1	2	3	4	5
Tobacco.	<i>Kaliu.</i> કલિયુ.	Smoking <i>Hukkas</i> and <i>Bidies</i> ચાંદી. Snuff and smoking.  Chewing.	The Konkan.  Marwar, Nasik and Berar.  Khandesh and part of C. P.	1. No financing from buyers. Producers manage their finance.  2. No future sales.  3. Money received by cultivators through middlemen, in two to five months after sale, with a discount of 5 to 20 p. c.  4. Only a small sum upto Rs. 10 to 15 is given by the middlemen for manuring and that too a month or so after it is sown.  5. No <i>dalali</i> (commission) discount.
	<i>Jardo.</i> જાર્દો.	Smoking <i>Hukka</i> and <i>Bidies</i> .	Aden Marwar.	1 2 and 5 of <i>Kaliu</i> common.  3. Payment received at once or one month after delivery; account cleared with advance on these at 6 per cent. charged for one month with a discount upto 5 per cent.
	<i>Litoo.</i> લીટૂ.	<i>Bidies</i> .	Locally consumed in Gujarat.	1. Sold while standing in the field at the ripening state. 2. Money is paid in cash or after a month as the case may be. 3. Discount is charged upto 5 per cent. when paid on the spot or after a month. 4. No <i>Dalali</i> or commission.

189. We now take up the finance and marketing of the cultivators' cotton in the State of Baroda.  
Cotton.

190. The Indian Central Cotton Committee carried out investigations in eight villages in the Baroda State to secure information about the financing and marketing of the cultivators' cotton. The period of investigation was divided into three parts:

- (1) When the crop was in the last stages of growth but before picking started, that is from the 25th October to 20th December 1927,
- (2) From the time when the major part of the crop was picked to the time when some early sales were effected, that is from the 1st March to 10th April 1928,
- (3) From the time when all the crop was picked to the time when a major part of it was sold, that is from 15th April to 10th May 1928.

191. The committee found that out of a total number of 457 cultivators in the villages who gave complete information 406 or about 88% borrowed money from one source or another. The following table gives an idea of the sources, number of persons borrowing from each source, and the amounts involved:

Sources.	Sahukar.	Co-operative society.	Landlord.	Friends and relatives.	Trader or merchant.	Others.
No. of borrowers.	193+13*	34+15*	65+10*	18+4*	327+47	28
Amounts borrowed (Rupees.)	79,539	18,780	12,534	4,378	14,553	1,764

\* These figures show the number of cultivators who borrowed from the source in question but not exclusively from that source.

192. The rates of interest and the loans advanced are

The rate of interest. shown below :  
and amounts borrowed

Rate.	4½-6%	7½-8%	9-9½%	10%	12%	15-16%	18-18½%	25%	75%	150%
Amount borrowed (Rupees).	3,810	25,793	87,398	500	10,397	1,171	580	100	50	90

Amount borrowed free of interest. Rs. 1,659

193. The investigator offered the following remarks on these transactions :—

Some remarks.

- (a) Proprietors and persons partly proprietors and partly tenants borrowed more than tenants. The amount borrowed per head was Rs. 299 for proprietors, Rs. 135 for tenants, and Rs. 200 for those who were partly proprietors and partly tenants.
- (b) Borrowing was roughly 20 per cent. of the value of the yield.
- (c) Borrowing had no effect on the sales as the borrowers were free to sell the produce to any one at any time in most of the cases.

194. The total outturn in the Baroda villages investigated was 1,619,172 lbs. of which

Amount and place of sales. 4,40,053 lbs. were sold locally and 10,38,935 lbs. were sold on the market. The producers had 1,40,184 lbs. of cotton left on their hand unsold.

195. An analysis of the early sales shows that 27% of the cotton sold was bought by petty

Method of sales. merchants, 14% by gin-owners, 14% by Sahukars, and 45% by *Dalals*. None of the cultivators had

written agreements to sell the crop through or to the money-lender. Payment for the purchases, as a rule, was made promptly.

196. The number of cultivators who made advance sales in the villages investigated was negligible, though the rates for advance sales were much better than rates for stocks sold for cash. The cultivators did not realise that they could profit by making advance-sales.

197. The Indian Central Cotton Committee deduced the following conclusions from their investigations into the finance and marketing of cultivators' cotton in middle Gujarat :—

Conclusions of the Indian Central Cotton Committee, 1925-26.

In the Baroda Prant where there were numerous small market centres in close proximity to the villages under investigation, the market sales were considerable.

The crop was purchased chiefly by the *Dalals* or agents of big cotton merchants, but in most cases the local Sahukars themselves were such *Dalals* or agents. Money-lenders were to a slight extent purchasers of *kapas* on their own account.

14% of the cultivators gave a verbal undertaking to sell their *kapas* to or through their lenders but..... this was not the general rule.

The weight system was not uniform, the *Bhais* and *Dhadis* varying in their lb. equivalents. Through no particular inconvenience was felt on this account a uniform system was desirable.

On the whole the sales organisation in the villages was satisfactory. There were no complaints with regard to weighing, customary levies and deductions, and payments: the prevailing rates were easily ascertainable: there were always ready purchasers to be found and the rates obtained were hardly, if at all, less than those obtained in the markets. There was however one defect, and that was the entire absence of storage accommodation.

As the selling season was exceptionally short, the rates were practically stationary.

6% of the cultivators made advance sales of their entire crop, and they obtained much better prices. The crop thus sold amounted to only 5% of the outturn,

No cultivator was reported to have ginned his *Kapas* and sold lint.

Only  $\frac{1}{8}$ % of the outturn appeared to have remained unsold at the conclusion of the investigation.

No conclusions could be drawn as regards the relative importance of early and late sales nor as regards the cultivators' ability to hold up their crop in expectation of better prices.

There were no regulated and organised markets and there did not appear to be any pressing need for their establishment because of the fairly satisfactory system of purchase and sale under which gin-owners and other buyers sent or had their *dalals* or agents in the villages to make purchases there.

Disputes or *बाँझ* were very infrequent. Where they occurred, they were generally settled by a weight deduction—*कटका* though in some places the weights were lowered for the purpose.

There was no uniformity in the customary market charges. They ranged from 4 annas to Rs. 2-9-0 according to the number of the following items included :—

Brokerage—8 annas to Re. 1 per *bhar*.

*Dharmada* or charity--2 to 5 annas per *bhar*.

Discount—6 annas per cent.

Insurance—4 to 8 annas per *bhar*.

*Mehla sukhadi* *महेता सुखडी*—Commissions to clerks, etc. 4 to 8 annas per cart.

Samples or *मुठी*—1 to 3 lbs. per *bhar*.

There were good godowns at Dabhoi but at other places the storage accommodation provided in the open compound of the ginning factories seemed to be quite adequate.

Most of the markets had railway connections with Bombay.

The only suggestions which the committee would make to better the arrangement were that (1) uniform weights should be employed in the villages and that steps should be taken to standardise the levies and deductions in the market.

198. A few cotton sale co-operative societies have been working since some time past in parts of the State. The result is not highly encouraging. The annexed statement will give the idea about this. Their first difficulty is about finding out trained men to do business on their behalf with the local merchants. The managers of the existing societies are not sufficiently qualified to undertake this work, which requires aptitude for business and influence with the purchasers of cotton. It sometime happens that cotton stocked by the societies fails to obtain a reasonable price on account of the fact that the societies have not been able to inspire sufficient confidence in the mercantile community. There is only one remedy to rectify this defect. We suggest that those societies which are near one another, should combine and engage the services of an agent or two, who are well acquainted with the business of cotton and who command a good influence with the purchasers. Such agents may be taken into service only during the season. After that their services may be easily dispensed with. We feel certain that the adoption of this course of action will enable the sale societies to realise better prices for their cotton and that they will in course of time build up a sound reputation with the world of business. The members of the managing committees of the societies would also get a training in the art of selling their produce when they observe the agents working under their very eyes. We suggest that the action of the societies should not be guided by any false sense of economy in the selection of the agents required. We understand that Government is prepared to help each society to the extent of one hundred rupees for this purpose.

## A bird's eyerview of the working of co-operative cotton-sale societies.

Serial no.	Number of the co-operative cotton sale societies.	Number of members.	Weight of cotton ginned ( <i>Bhar</i> & <i>Maunds</i> ).	Weight of cotton lint ( <i>Khandi</i> and <i>Maunds</i> ).	Realised price of cotton lint (Rupees)	Weight of cotton seeds ( <i>Gaili</i> and <i>Maunds</i> ).	Realised price of cotton-seeds. (Rupees.)	Realised price of cotton per <i>Bhar</i> by members. (Rupees.)	Realised price of cotton per <i>Bhar</i> by non-members.	Profits of co-operative sale of cotton (Rupees.)
1	2	3	4	5	6	7	8	9	10	11
1	Ubhel No. 1	108	364-24	137-12	52,186	199- 1	7,806	156	151	1,825
2	Ubhel No. 2	96	282-16	110	43,394	154-20	6,108	163-12	150	3,880
3	Haldaru.	85	272- 7	103- 8	39,335	150-15	6,458	160- 9	151	2,604
4	Kapura.	32	306	110-12	47,479	172- 9	9,477	178	162	4,896
5	Valan.	87	266- 5	99- 8	37,874	147-19	5,948	155 -9	150	1,480
	Total.	408	1492- 4	561- 0	220,268	824- 4	35,787	...	...	...

The cotton sale societies are at present too few in the State and an expansion is urgently needed. We do not urge the formation of very small sale societies; nor should we urge the formation of very big sale societies. It would be sufficient if their activity is for the present restricted to the Taluka. In the event of their being too big, they would necessarily require their own ginning factory and, what is still more important they shall have to agree among themselves regarding warehousing, prices, management, brokerage, commissions, profits, etc., and we are afraid that for the present at least, we cannot recommend any unreasonable wastage of energy or money on such ambitious schemes. There is one more difficulty about the working of such big societies. We grow in our State not one quality of cotton, but a variety of it. Grading of such varieties becomes a difficult process when the produce of individual farmers has to be warehoused by co-operative societies.

Another difficulty which obstructs the progress of good sale societies is the inadequacy of other necessary facilities. A sale society for cotton will be in a very happy position if all the preliminary processes in connection with the business of cotton were concentrated at one place and were run on the same principle. Cotton requires to be ginned and pressed. A society which is concerned merely with the sale of it, finds it difficult to get satisfactory treatment from the owners of the ginning factories and the presses. So unless the sale societies take to ginning and pressing of their own, it would be very difficult for them to make any headway in their business. This requires concentration of capital and other resources. But the number of our sale societies is so small, their resources are so limited, and their experience is so inadequate that we could hardly recommend any notable advance in the near future.

In case the cotton sale societies feel a scarcity of funds, they can borrow on the security of the members or by the hypothecation of the stock of cotton from central banks and unions.



199. We enquired if it was possible to bring within co-operative marketing the sale of vegetables, and especially mangoes in the Navsari district. But we found that there was not much scope for this. The growers of the mangoes at present contract with merchants of Bombay for the disposal of their fruit and co-operative sale societies will have to be responsible for the vagaries of the weather. If the weather turned out unfavourable, they would realise nothing while in the event of a favourable season, the up-country merchants might compel them to hold up the stock and then they would lose the entire market.

200. The conditions for the marketing of tobacco are not at present uniform. The varieties grown are very diverse. Each variety has its own market. Each has its own system of weighing, testing, disposal, and price quotation. Nor is it advisable to insist on the cultivators growing a uniform pattern of tobacco. Different soils yield different kinds. So a central marketing organisation for the disposal of tobacco, which is one of the principal crops of the State is very difficult.

201. Dairy produce constitutes of the principal sources of earnings for a large number of people in the Charotar, Gir, and Okhamandal tracts of the State. Milk is sold to the merchant of the town near the village or *ghee* is prepared out of it and then it is sold to the merchant in the town by the farmer himself. The co-operative movement has not reached the marketing of dairy produce appreciably. The Registrar of co-operative societies reported that only five milk supply societies existed by the end of 1929 and that out of them only one was working satisfactorily. The question was studied by the department and efforts were made by it to organise societies for the supply of pure milk to the city of Baroda. But the consumers did not show a sustained interest in the matter. Even the existing milk supply societies found it difficult to dispose of their milk and one of them had to be wound up. The retail dealers in milk proved more service-

able to the consumers than the societies. Efforts were made in the Talukas of Petlad and Bhadrans also, to organise co-operative milk societies but without any response from the public and the producers.

202. Marketing is closely connected with weights and measures. The Baroda State adopted uniform standards for its *sher* (40 rupees weight) and *maund* all over the Raj very early in the history of the reign of the present Maharaja and it was ordered that only the weights stamped by Government should be used. reform has done a great good. But some time after the reform was introduced, complaints were received from the merchants of the Talukas of Gandevi and Navsari that as their *sher* once conformed to that in the Surat district, viz., as it once stood at Rs. 37½ weight, there was a serious dislocation in their trade and they represented that they should be allowed to trade according to the old system. Government accepted the view of the traders and the *sher* was fixed in accordance with the standard prevailing in the adjoining district of Surat. It is five year's since this request was granted. But there has been no appreciable change in the volume of local trade consequent upon it. Accordingly we recommend that the State should re-establish the old system and bring into conformity the *sher* of the two Talukas with the one which is in vogue in the whole Raj.

The marketing of each crop has its system of weights and measures. Even in adjoining places the system was different for the marketing of the same crop. For instance, one *bhar* of *Kapas* was equal to 20 *Dhadis* and 25 *maunds* in the villages of Samni and Tavra in the Baroda district while at Bhatpur, Jafarpura, and other villages near them the same equalled 24 *maunds*. A *Dhadi* in the one case equalled 50 *shers* while in the other it equalled 48 *shers*.

203. The weighing is done by a broker, who receives a commission of annas 8 or Rupee 1 a *bhar*. If he is permanently employed by the gin-owner, he is paid a lump sum for the season. It ranges from Rs. 100 to Rs. 300.

Deductions in the name of charity are usually made to the extent of annas 2 to 5 per *bhar*.

The other deductions cover charges for insurance to the extent of annas 4 to 8 per *bhar* of *Kapas*, discount of annas 6 per cent. for cash payment, *mehta sukhadi*, viz., gifts to clerks, *Hamali* or cooly-hire, etc., for samples.

In the Amreli Prant, deductions are allowed per cart and sometime per *maund* for brokerage and maintenance of charitable institutions and they amount to about Rs. 2 to Rs. 2-8-0 for every transaction worth Rs. 50 to 75. The marketing conditions at Amreli are very poor and therefore many a time the produce is taken to Kundla (Bhavnagar State) where we are informed the agriculturist has access to better facilities. We suggest the need for an immediate investigation into the causes of this bad condition of marketing at Amreli.

204. Efficient marketing presupposes good warehousing.

Warehousing. In our State crops are generally stored by individual purchasers or even producers. Crude as this appears to be at first sight, it is cheap and is also convenient. The stock is not very large. The premises are owned by the producer or the purchaser or at least they are under his possession and just in sight. In the absence of grading and uniformity of sowing by distribution of the same quality of seeds, neither the producers nor the purchasers can combine their produce or purchases and keep a large godown for joint use, and on joint hire. Again, if the stock is under his own eyes, the producer or the trader can clear an easy bargain with the purchaser, who may be the village merchant or trader or the agent of an export firm from outside. Then there are few central markets in State. Sometime it happens that the produce is first carried by rails to Bombay and then it is sent to Ahmedabad. It depends upon the ease with which the vendor finds accommodation and it usually happens at places like Miyagam, that it is more convenient to him to send the cotton to Bombay whence it is directed to Ahmedabad. The individual who stocks the

produce never makes any allowance for depreciation or cost of supervision. Under these circumstances joint or company warehousing becomes a difficult and risky business and our State does not hold out much scope for any advanced experiment in that direction. So we do not recommend the floatation of any joint scheme or company concern for warehousing or legislation in that direction. Several merchants approached us with a proposal that the State or the Baroda Bank should help them in busy seasons by liberal accommodation on the security of the warehoused stock. It was represented to us that the State or the Bank of Baroda might even pioneer a scheme for the purpose and the merchants would accede to any reasonable demand made on them for the service rendered. The Baroda Government give ample facilities at Port Okha. We suggest that the Department of Commerce and Industry and the Bank of Baroda may make special inquiries in a few centres and investigate the possibility of developing this business. We also recommend that Government should help warehousing schemes by offering land either free of charge or on lease on a nominal charge if responsible persons come forward to inaugurate them.

205. The efficiency of marketing of crops depends upon three conditions: firstly upon the intelligence of the farmer, secondly upon his financial position and thirdly on the organisation of markets. We have in the State fairly well-organised markets at Gandevi, Billimora and Sidhpur but they are confined to merchants only. Licensed weighers and brokers are attached to their guilds and goods are sold on samples. Organisations of this kind were possible at those places on account of one important fact. It was found that the Mahajans of the towns were not money-lenders and so they viewed the formation of markets with great favour. If an attempt were made to constitute similar institutions elsewhere, it would fail, because the money-lender will throw all his weight against it. The Director of Commere tried this once but he had to meet with the opposition of the Sahukars, as for instance at Songadh and Vyara.

Several places in the Baroda State have their markets in British Gujarat, while several villages in British Gujarat have their markets established in the Baroda State. This is because of the interlacing of the territories of the two powers.

For *Kapas* or cotton, organised and regulated cotton markets do not exist. The ginning and pressing factories constitute the only marketing centres for the villagers and traders. There are very few market places outside these centres where the buyers, brokers and sellers can meet to transact business. The only exception is Amreli, where a central place exists for this purpose. Consequently there are no market committees, no licensed brokers or *Adatias*, no posting of rates, no rules and regulations, no agency for the settlement of disputes, no records for arrivals and sales of crops and no Patel-houses as in various states in Kathiawar.

The rates usually follow those of Bombay. Some of the large buyers, however, keep themselves in touch with the New York and Liverpool futures. This happens in the districts of Kadi and Baroda and especially in the Kanam tract of the latter. The information thus received soon spreads in the countryside and intelligent farmers freely avail themselves of it.

206. Marketing in our State is not well-organised. There are *Dalals* or brokers for the marketing of every important crop. But we found no organisation worth mention, which could give us any information of a representative character. And still there was a tacit understanding between the several units in the marketing trade about certain usages, e. g., brokerage, weighing, agencies, commissions, etc. It is time that these usages should be systematised and made available to the producers. We were informed that there were several ways to determine the contracts in the Amreli and Kadi Prants and that marketing had its own language also. We learnt several important terms in this connection. Only the *Dalals* could follow them at present. We believe that these secret methods could

be forbidden and that the marketing trade should be required to conform to a form of practice which is intelligible to the ordinary producer. The chambers of commerce and such other mercantile associations can help the public in securing proper in this connection. The Department of Commerce and Industry may also make investigations for a few centres and publish the results.

207. We inquired if any marketing law was necessary in the State and we were told that none was needed. The reason was that the businessmen in the villages and towns were very shrewd men and that if committees of local people were constituted the members would refuse to work according to the fixed rules. It was suggested to us that Government might nominate officers instead of merchants as members of these committees. But we hesitated to accept this proposal because officers of the State were always ill-qualified to do such a work and we feared that they would delegate the authority to a few influential people. The remedy proposed would turn out worse than the disease. Under the circumstances, we think that marketing legislation would be premature for the State.

208. The efficiency of marketing depends upon means of communications. The Government of Baroda have spent large sums of money on railways and on road-building. They have appointed the Communication Board to formulate the policy for the State in connection with road-construction. Government have also awakened to the necessity of subsidiary and feeder roads all over the State and they have decided to subsidise the Prant Panchayats for the purpose.

209. We may relate one important fact in connection with the marketing of crops in the Baroda State. No comprehensive inquiry with regard to the marketing of any one of the crops mentioned in the report was ever undertaken and published by the State. The Indian Central Committee for

cotton started investigations of their own regarding the marketing of cotton in the Raj along with other parts of Gujarat. The results of these investigations were published by the Committee and we have made a free use of them in our report. The agricultural and co-operative departments of the State carried out some investigations in the marketing of fruit, tobacco, and dairy-produce but they were not comprehensive and their results were not been made available to the public. The results is that the State has no marketing survey.

The Royal Commission on Agriculture specially stressed the importance of carrying out marketing surveys all throughout India. His Highness' Government appointed a small committee to report on the best ways to carry out the recommendations of this Commission and naturally marketing came up for investigation at the hands of the members of that body. They recommended that the question of the regulation of markets should be investigated on the lines prevailing at Gandevi and Billimora and that co-operative sale and purchase should be encouraged wherever possible. We submit that a regulation of the markets of the State is impossible without a previous survey of them and therefore, we recommend that the State should order comprehensive surveys of the markets for the principal products of the Raj. This work would never be carried out in a scientific way either by the staff of the agricultural department or the department of commerce and industries. We feel that only a special officer appointed for the purpose and provided with an adequate staff will be able to carry out such a task. Of course, he will have to work with the co-operation of the departments of commerce and industries, agriculture and revenue and co-operative societies. He will study the crops of the State, the present conditions of marketing and the part which different agencies play in it, the prevailing method of financing the crops, will carefully tabulate his investigations and finally will advise the Registrar of co-operative societies and the Directors of Agriculture and Commerce as to the best way to improve the machinery of marketing.

### Recommendations.

(1) A uniform system of weights for the sale of *Kapas* is desirable. Steps should be taken to standardise the levies and deductions in the cotton-market. (Para 197).

(2) Cotton sale societies should combine and engage the services of experienced men for the disposal of their cotton during the term of the season. The activity of the cotton sale societies should be restricted to the Taluka. Ventures too big or too small are not advisable. The societies should borrow from the central banks or unions on the security of their members or by hypothecating their cotton. (Para 198).

(3) Co-operative sales of vegetables is not possible. (Para 199).

(4) A central organisation for the sale of tobacco is difficult. (Para 200).

(5) Co-operative sale of dairy produce in the State does not show scope for development. (Para 201).

(6) The *sher* in use in the Talukas of Gandevi and Navsari should be the same as it is over the whole Raj. (Para 202).

(7) Early enquiries should be instituted into the band conditions of marketing in Amreli. (Para 203).

(8) There is no scope for joint or company warehousing in the State. But the Bank of Baroda and the Department of Commerce and Industry should enquire into the practicability of affording warehousing facilities to select centres. Government should encourage warehousing schemes by offering land free of charge or on lease for a nominal charge if responsible persons come forward to undertake them. (Para 204).

(9). The organisation of markets is not possible where the produce is sold to the Sahukar. (Para 205).



(10) Marketing usages, which are secret at present, should be systematised and be made available to the producer. The Department of Commerce and Industries and the Chambers of Commerce can help in the matter. (Para 206).

(11) Marketing legislation for the State is premature. ( Para 207 ).

(12) The State should order surveys of the marketing of its important crops. A special officer should be appointed for the purpose. ( Para 209 ).

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## CHAPTER VI.

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### Indigenous Banking. The Shroff.

210. It is difficult to give a clear definition of the indigenous banker or the Shroff as he is termed; still there are distinct features in his business which mark him out as a separate entity. We may define him as one who as an individual or as a firm advances loans, receives deposits, and deals in *Hundis* or Indian exchange bills. If we accepted this definition, the village Sahukar will necessarily be left out because he rarely deals in *Hundis* as such and he seldom receives deposits with a view to advance loans as bankers do. Here we shall discuss indigenous banking or *Saruffi*.

211. Banking in India is of hoary antiquity. Credit was known in Vedic days, although interest as such is hard to notice then. In the post-Vedic period we find ample references to the institution of interest. The Indian conception of interest appears to have been much more scientific than the Christian and the Arabic ones because no Indian jurist ever proclaimed it as an evil and therefore worth prohibition by the State. The legal rate or the rate in the *Smriti* varied from 2% to 15% and later on the rate was made to vary according to the castes of the individuals to whom the loans were advanced. Thus we find that 24% was the highest rate chargeable to a Brahmin; a Kshatriya could not be subjected to more than 36%; a Vaishya could pay not more than 48% while the Shudra was chargeable to the limit of 60%. Usury was condemned but then no means were devised for relief against its effect. The *Jatakas* show money-lending to have been a fairly honest trade and Ardha Magadhi and Pali literatures show great money-

lenders as devout and distinguished followers of Mahavira and Buddha. Ancient Indian literature reveals even the existence of credit instruments. The *Artha Shastra* lays down definite rules for the hoarding and utilisation of wealth on interest. The deposits in temples were often registered on plates of gold and copper. The *Manu Smriti* lays down regulations for the recovery of loans by persuasion, by procedure of law, by art, by custom, or by passive resistance or *Dharna*. In Mahomedan times the big bankers advanced large sums of money to the Sultans and they rose to influential positions in the State. In the Mogul administration the mint was a very useful institution; it was, as it were, the artery of the empire; and in the purchase of the precious metals and in the assaying of the coins, the Shroff or the banker played a very useful part. He was, as it were, the assistant mint-master. The *Ain-e-Akbari* quotes rates for bills of exchange that passed between Surat, Ahmedabad, Sironj, Burhanpur, Multan, Lahore, Delhi, Agra, Benares, Patna, and Dacca, cities which figured largely in the commerce of the country in those days. Gujarat was the home, as it is even now, of the bankers. Travellers of diverse nationalities pay glowing tributes to the "*Vanias*"—Banias—whom they saw doing business with the merchants and banking houses of almost all countries of Asia and Europe, making exchange easy and advantageous, and every one of them repeats the observation of his predecessor that there was scarcely a nation in the world that went unrepresented at Ahmedabad. The Rajput rulers of Gujarat were proud of the large number of millionaires, who flourished at their capital, Patan, and the Sultans of Gujarat honoured the great bankers of Ahmedabad by allowing them to carry the distinctive badges of *Karodadhipatis* or the lords of one crore gold *mohors*. At Ahmedabad and afterwards at Surat, bankers speculated in exchange and an exchange-broker, a Shroff or a Nanavati occupied a very honourable place in the business community. They accompanied the armies of the State; they financed it in times of stress and they were the first people to know any impending change in the political system. They were the leaders of the

town-folk and were respected as Nagar Sheths—the Lord Mayors of the cities. The bankers of Ahmedabad, Surat and Baroda carried their influence to the far-off capitals of Agra and Delhi in the north and Satara and Poona in the south.

212. In this historical description, one feature of banking in Gujarat must find a place. The *Ant*. author of the *Mirat-e-Ahmadi*, a history of Gujarat, written after the battle of Panipat, 1761, refers to it. The bankers of Gujarat originated at the time a highly interesting banking institution. In the *pax* which was proclaimed by Akbar in northern India and which continued to the end of the seventeenth century it was easy to remit money from one place to another. Inland bills were easily available on the important cities of India. Besides, foreign bills could be easily negotiated at Surat and Ahmedabad. But when the Mogul peace broke down and when specie itself was scarce in the country, it was very difficult to obtain easy credit. Then the Gujaratis hit upon what is known as *Ant*, (અંત) which can best be translated as personal paper and which was known in Persian as *Sukta* (સુક્ટ). It partook of the character of modern acceptances. It seems to have been an old institution but it was frequently used by Daud Khan Panni, an Imperial officer, first of Gujarat and then of the Deccan. The *Ant* enabled business to be carried on without money and so popular did the institution become in later days that it continued to operate upto 1846 when various causes conspired to terminate its practice.

213. Mention was made of the bankers of Baroda and their relations with Government in a previous chapter. That banking was a flourishing institution in those days, no one can gainsay. But the way in which it was practised with the State will be clear from a perusal of the following agreement between a well-known banking house of Baroda and the Government of the Gaekwars arrived at in January 1890.

“ To you is given by this Government the business of the Potadaree from the year 1873 to the year 1878, i. e., for

five years. The articles for the agreement of which are as follows:—

1. The revenue of the Mahals will be paid to you, and orders for defraying the expenses of Government will be drawn upon you, which orders must be brought to account.
2. The stipulation for interest and *Manotee* is as follows:—

Interest for all sums received from the revenue is to be credited to the account of Government at the rate of three-quarters per cent. per mensem, and the same rate will be paid to you for all sums advanced by you on account of Government.

For all orders of Government paid by you, *Manotee* (or a premium) of two per cent. will be allowed.

3. The *Potadaree* (which is to be deducted from all drafts drawn upon you) is fixed at  $2\frac{1}{2}$  per cent. half of which is to be credited to the Government and half to be kept by yourself.
4. The probable amount of the money which will be required by Government is to be estimated, but you are not to object to advance from five to seven lacs beyond the annual estimate.
5. The interest was formerly fixed at one per cent. per mensem, but it is now reduced to three quarters per cent. It is, therefore, stipulated that no further reduction shall take place during the term this agreement is binding.

The above five articles have been agreed to by Government, and the account is to be made up at the end of every year, and Warats will be given to you in discharge of the balance for which the Company's Bhandary is given\*.

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\* The Gaekwar and his relations with the British Government, by Colonel R. Wallace (1910), pp. 308-309.

214. Various causes combined to ruin this old profession.

The decline of the profession. Causes.

The first cause was as said above, the change in the economic system. The old banker had his best custom in the State itself. But the State underwent a revolutionary change by the middle of the nineteenth century. Its military forces were stationed only on the frontiers of the empire. No financing was necessary for their movements, because there was no movement. The mint was the next institution where the banker could find an easy accommodation. But with the disappearance of the Mogul and the Maratha rules their mints also disappeared and the banker lost an important occupation and its gains by that change. The great change in the foreign trade of the country was another contributory cause. The bankers of Ahmedabad and Surat could no longer sell foreign and even inland bills because the very centre of foreign and inland trades was shifted from Dholera, Dhanduka, Cambay, Broach and Surat to Bombay and other new ports. The establishment of the joint-stock banks was the next important circumstance which took away much of the Shroff's business. These banks first established their business at the ports but with the extension of foreign trade, they opened branches in the mofussil and some of the Shroff's banking business passed into their hands. In the middle of the nineteenth century, many bankers of Gujarat took to speculation in opium and lost heavily and indigenous banking received a set-back. A similar catastrophe overtook the Shroff in 1867 at the time of the share-mania after the American War. The currency of the country was centralised and it was made uniform for all India; this deprived the Shroff of internal exchange-business. Even internal trade began to be financed by the agents of foreign firms. Then the State abolished the old system of farming out its revenues to the highest bidders.

The Shroff had lost the custom of the State, the mint and foreign trade. He was surrendering the profits of internal trade also. Now he lost another highly important source of business. The post office has been little appreciated as a remitting house. But when the British Government esta-

blished post offices at all important towns and when branches were extended to villages, it became cheaper and more convenient to remit small sums of money by money orders through post offices than by *Hundis* or notes of remittance (चीठी) from bankers or Shroffs. The loss accruing from this transfer of custom to the post office was no small one. The registration and insurance branch of the post office establishment accentuated the process. The old bankers had been doing a lot of business in insurance. That business was snatched away from them by the insurance companies, foreign and Indian. At the same time, the people were losing confidence in the indigenous banker. Often he speculated in opium, cotton, stocks and shares and lost heavily. Just at the time joint-stock banks were growing and new industries were being created. The people found the joint-stock and other banks better and safer places for keeping deposits and for doing big remittance business. The savings banks attached to the postal offices of towns and villages also tended to withdraw a large portion of people's money from the safes of the indigenous bankers. The joint-stock companies and the industrial floatations proved more attractive sources of investment to the investing public and even to the indigenous banker himself. But the tale of the declining influence of the indigenous banker remains still incomplete. In old days, the bankers of Baroda did very lucrative business in exchange on account of the prevalence of three varieties of coinage, the Mogul, the *Babashahi* and the *Kaldar*, viz., the Company's coin. These local currencies were replaced by the legal tender money of the East India Company and the Shroffs accordingly lost business in exchange and in assaying. The local *Babashai* rupee was replaced by the *Kaldar*, viz., the rupee of British India in 1900 by His Highness' Government. The introduction of paper currency prejudiced the Shroff's profession still more. Now it became cheaper and also more convenient to remit money by registered and insured post when the remittance covered large sums of money to the extent of Rs. 500 or Rs. 1,000. The only course for the remitter was to enclose a

22 B. I.

currency note, to seal the packet and then to send it by registered and insured post.

But the most potent cause which took away custom from the Shroff was the change in the old trade route in Gujarat and the consequent development in the means of communications. The old trade route lay through northern Gujarat-Dabhoi, Kadi, Pattan, Visnagar, Vadnagor, Kheralu, etc. The linking up of Ahmedabad with Palanpur on the Delta line of the B. B. & C. I. Railway, transferred business from Kadi, Vijapur and Visnagar to places like Ahmedabad and Bombay. The linking up of the whole State with Bombay speeded up the elimination of the indigenous banker.

The indigenous banker once financed local trade and industries, such as textiles and brass and copper manufactures. These occupations died out under the stress of foreign competition with the result that the Shroff's business suffered greatly.

The last event to give him a rude shock was the great famine of 1899-1900. In that year the whole of Gujarat passed through a great crisis, which first ruined the farmer, then the money-lender and lastly the Shroff.

215. During this very time the old system of self-sufficient farming was replaced by that of raising commercial crops like cotton and oil seeds. The Shroff found a new career in this business as merchant, broker, financier, gin-owner and press-owner, and mill-agent. The business satisfied two important requisites of banking, speedy turn-over and direct control of business "under one's own eyes." Many Shroffs therefore migrated to Ahmedabad and Bombay where along with banking they took to trade and to industries. If one carefully analysed the personnel of the agencies of cotton mills in Gujarat he would find nearly 60 p. c. held by the indigenous bankers or their successors. The same may be said of mill-agents in the Baroda State. The indigenous banker had once a native genius for finance and trade. Conditions changed and he adapted himself to the new environment.



At the same time a few indigenous bankers have managed to outlive this economic revolution, though their number is very small in the Baroda State.

216. Here we may observe that the banking profession of Gujarat holds the field inspite of Gujaratis as bankers. keen competition with more modern institutions. The Bank of Bombay attempted to compete with indigenous banking at Ahmedabad twice in the latter half of the nineteenth century. Other banks followed in the wake. But they failed in beating the Shroffs of Ahmedabad and the writer of the *Ahmedabad Gazetteer* pays tribute to the banking houses of the city for this. Again the banking business of Gujarat and therefore of the Baroda State, has always remained in the hands of the children of the soil. Other centres of India were exploited by the Multanis and Marwaris ; but Gujarat, the land of trade, retained the business with her own children throughout ages and she keeps it still going with her own sons. The Gujarati has a controlling voice in the Saraffi in Bombay. Nay, he has gone out of his native land. Gujarat has sent out bankers to other parts of India. To say that they have acquitted themselves well is no exaggeration.

It is sometime assumed that banking was practised in Gujarat only by a few communities, for instance, the Vaishnav Baniyas, the Jains, and to some extent the Lavanas and Brahmins. That was not the case in old days. This is sufficiently testified by the celebrated historian of Mogul India, Khafi Khan, who saw in the beginning of the eighteenth century a large number of banking houses at Vadnagar being run by the Nagars.

217. The indigenous banker receives deposits but they are generally time-deposits. He does not accept deposits in current account much. He gives cash credits and arranges remittances by issuing and accepting *Hundis*. The withdrawals from him are by cash. He uses cheques also. His resources are limited; so, he has taken to

other forms of business-(आडो धंधो) as he terms it. He has become a corn dealer, a produce - merchant, a commission agent, a broker, a jeweller, a bullion merchant, a bailee of goods, and a store-keeper. He keeps daily accounts in call money or in deposits with other Shroffs. He commands ready accommodation from his profession, which he will never obtain in a bank. He is easy of access. He has a vast store of local knowledge. Generally his clientele is satisfied with him. He keeps his custom open at all hours and for all seasons. Week-ends and holidays are unknown to him and his staff. He conforms to the traditions of his guild. In Baroda he conforms to the rules of the Shroff Association of Bombay. His requirements as to security are not very rigid and he lends on jewellery and even on personal credit. He keeps some reserves to meet emergencies and invests even in government paper now. He is irreplaceable. The aggregate wealth at the command of his profession baffles all attempts at calculation. The turn-over of his trade is enormous. He carries with him the esteem and prestige of an age-long trade.

The indigenous banker commands great respect from the trading community. The prejudice which is usually cited, holds really against the village money-lender and not against the genuine Shroff.

The Shroff is a very sensitive business man. He cares more for his prestige than for an easier accommodation.

218. There was no association of indigenous bankers in the Baroda State sufficiently organised to represent the requirements and grievances of its members or the profession to the committee. We received representations from people in their individual capacities. The best way to approach the problem was, therefore, to seek information from the department of revenue and specially the staff of the department of income tax. We received some guidance from the experts of the latter, but then, even their information was not satisfactory. We learn from personal interviews with Shroffs that

the indigenous banker *qua* banker is fast disappearing. The business is not very paying and the banker has to take to many other businesses besides receiving deposits and advancing loans, to keep up his establishment. But a few local firms of good standing are still left. The following figures speak for themselves :

Baroda	8 to 10
Petlad	4 to 5
Sojitra	3
Vaso	1
Bhadran	1
Padra	1
Navsari	5
Mehsana	1
Bijapur	1
Dabhoi	4 to 5
Amreli	2 to 4
Visnagar	1

There is another class of indigenous bankers in the State, however, which calls for a short notice here. Many indigenous banking houses of Ahmedabad and Bombay keep their agents in the territories of the Baroda State. These agents do not dabble in any other business whatever. They accept deposits from the people at 4% and transfer them to their head offices, where they earn 8%. However, these agencies of the banking houses of the rich cities of Ahmedabad and Bombay do a good deal of remittance business on behalf of the local mercantile community. Such agencies are working especially at Billimora, Navsari, Patan and Kalol.

219. Shroffs of first class standing accept deposits at 3% in slack seasons and at 4½% in busy seasons. In the monsoon when business is very slack, the rate of interest drops to 2%. When money is tight, the rate of interest goes up to 4½% and for the busy season it mounts upto even 6%. They

The Shroff's business

advance loans to merchants and business-men, but never to agriculturists, at from 6% to 7½%. Over and above the interest they charge *Adat* or commission which varies from annas 2 to annas 8 per cent. They lend on railway-receipts also to approved customers.

A time was when loans were advanced on personal credit on a very large scale but now personal credit is going out of practice. Accommodation can be obtained from the Shroff on the security of jewellery or house. It was never the practice of these bankers to advance loans on the security of government or commercial paper; but now they do that.

It is impossible to ascertain the capital which circulates in the world of business through the hands of these people. It is more difficult and almost impossible to ascertain the profits of trade which the indigenous bankers earn. They never count depreciation charges. The work of superintendence and management is done by the person himself and its remuneration is hardly included in the cost of establishment. But the expenses of the establishment are comparatively small. And so a considerable margin of profit is left to them. Still these are hardly attractive when compared with the remunerations which are earned by heads of firms doing other kinds of business. The profits are certainly very meagre when we consider the risks which they take in running the business. The fact that the small indigenous banker is getting scarcer every day and that the number of big bankers is also dwindling is sufficient to lead us to the conclusion that the profession is not so lucrative as some imagine it to be, in the Baroda State. Still it is looked upon as the most esteemed of all professions by the business world.

The Shroff is doing considerable business even now. The management of the establishment as said just now is very cheap. But this depends upon the extent of the establishment itself. A very flourishing firm with wide-spread business in the mofussil will be required to keep a large staff consisting of *Gumastars*, servants, agents, managers, accountants, and bill collectors. We should also include in this a part of the cost of the Shroff's household, because according

to Indian custom the Shroff's home is expected to accommodate a good number of clients every day.

A time was when so much spare money remained with the Shroffs in the slack season. But that age has now passed away. With the extension of large joint-stock enterprises like cotton mills, factories, etc., and with the establishment of joint-stock banks and the opening of their branches in the districts, it has become very easy and also paying to transfer the spare money to these concerns.

The banker's way of calculating interest is very swift and easy and it shows his great mastery over practical arithmetic. The interest is calculated according to the lunar year but allowance is made for the leap year and adjustments are very easily made. Account-keeping is uniform and the *Hundis*, etc., are the same as in British Gujarat. We shall say more about this later on.

220. The Shroff is not superseded completely by the Bank of Baroda or the post office in remittance business. The continuation of the indigenous banker in this old business is due partly to the indifference of the bank which charges heavier exchange to the customer and partly to the fact that the post office cannot handle big remittance business at all. There is one more explanation for it, however. The remittance-work of the Shroff is combined with the business of accommodation also. The Shroff not only arranges for a cheaper transfer of funds from one place to another for his client; he also accommodates him according to his circumstances. A client who wanted a credit of Rs. 10,000, would obtain it from his Shroff by paying Rs. 5,000 in cash and by opening a temporary account with him for the remainder. This proves the Shroff's shrewdness. It also proves how elastic his business is.

221. The Shroffs do remittance-work by means of *Hundis*. *Hundis* are drawn almost by all merchants who do business but then their *Hundis* are negotiable only at the place of the party on whom

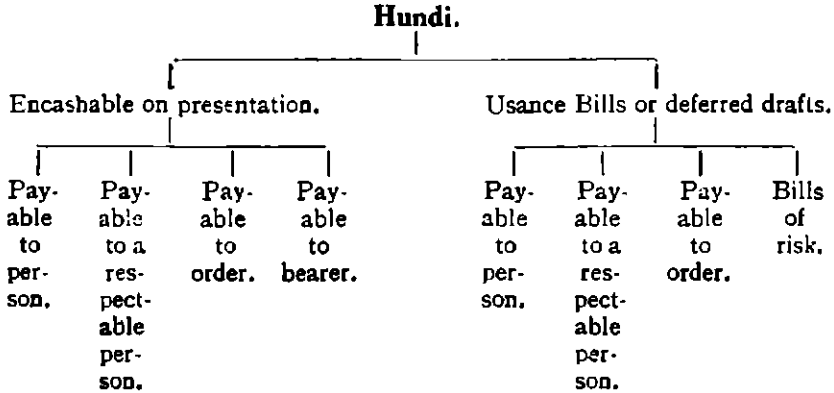
they are drawn. There are some Shroffs or firms of Shroffs, which exclusively deal in *Hundis* or exchange bills. Their number is however, very small and they are found chiefly at Baroda, Dabhoi, Petlad, Sankheda, Sojitra, Vaso, Karjan, Damnagar, Amreli, Billimora, Mehsana, Patan, Kalol, Vijapur, Navsari, Vadnagar, Sidhpur, etc.

The manner of writing *Hundis*, etc., is uniform all over Gujarat and Kathiawar. There are in all four sorts of drafts. The first is the *Hundi*. If the *Hundi* is lost, the banker writes another *Hundi*, which is known as *Penth* (પેંઠ). In the event of this second order being miscarried, he writes a third order, which is known as *Per Penth* (પરપેંઠ). The last form is known as (કાગળ) *Kagal* or letter, which is issued if its predecessor, the *Per Penth* is lost. Some *Hundis* can be cashed on due dates. Evidently the rate of exchange for them cannot be the same; it depends upon the balance of trade between the places of origin and encashment, the current rate of interest, and the conditions of the money market. The time between the date of issue and encashment depends upon the convenience of the parties concerned but generally it covers four, ten, twenty-nine or sixty days at the most. Rarely does it cover an interval of three or four months in Gujarat, although it is very common in Marwar. But in that case they require endorsement from two persons. Such *Hundis* are renewable. These *Hundis* sometime circulate freely and are accepted by the mercantile community as equivalent to money. Then they function as credit paper and enable the party concerned to get advance money. Such papers are known as *Chithis*.

*Hundis* are (જાણી) payable to a person (ધણી), payable to a respectable person (શાહ), payable to order (ફરમાવ) and (દેખવ) payable to bearer. *Hundis* are sometime drawn against goods. when they are known as જાણી *Hundis*, *Hundis* on risk. The purchaser of such a paper is responsible for damage, etc., to the goods sent. This form is now getting out of use on account of the transactions of the insurance companies.

There is no well-established clearing house in the State but the clearing business is done in a very cheap and convenient manner by the indigenous bankers.

The following table will make the matter clear:—



Generally the *Hundis* are paid off according to the conditions embodied in them but if there is some delay in payment, the party who is the cause of the delay, pays interest for the interval. In case the *Hundi* stands (चल) uncashed by the person against whom it is written, the person from whom it first originated asks an agent of his at the place of encashment to pay it off. When the holder does not get the payment under any circumstance, the person who paid for the *Hundi* at the place of its origin gets his refund with interest. He also pays damages ranging from one to two per cent. But this occurs very rarely.

There are brokers for *Hundis*.

Very brisk business is done in this form of remittance. A dishonoured *Hundi* brings the Shroff into disgrace. So he keeps running credits at different places and the ramifications of first-class firms are very extensive. It is not possible to describe in this brief outline the various sides of this business but it may be mentioned here that the profits accruing from it are fairly large and that by moving money from one place to another and by keeping the small traders and industrialists in possession of necessary funds by means of

overdrafts, the Shroffs serve a very useful purpose and they compete against banks with very great success. A careful survey of only this function of the Shroffs convinces us of the indispensibility of the system and we must warn its critics against any attempt to prejudice its interests.

### Samples of Hundis etc.

#### Hundi. हुंडी.

स्वस्ति श्री \_\_\_\_\_ (गाम) महाशुभस्थाने पूज्याराध्य परीख \_\_\_\_\_  
 (नाम) जोग श्री गाम \_\_\_\_\_ थी लीखीतंग \_\_\_\_\_ (नाम) ना प्रणाम  
 वांचशो. जत अत्रेधी राख्या \_\_\_\_\_ (नाम) पासेथी रु. अंके रुपिया  
 अंक पूरा तेनी मुदत हुंडी पहोंच्या पळी तरतनी नामे शाह जोग नाणुं हुंडीनी  
 रीतनुं घर ठाम ठेकाणुं जोई चोक्कस करी आपजो. निशानी ते जे कागळ मध्ये  
 लखाशुं. संवत

दा. \_\_\_\_\_ (नाम.)

at the back of the paper,

नीमे रुपिया \_\_\_\_\_ थकी बमणा  
 रुपिया \_\_\_\_\_ पूरा करी आपजो.

रु.

The name of the party on whom  
 the Hnndi is drawn, with the  
 party's address.

#### Penth. पेंठ.

स्वस्ति श्री \_\_\_\_\_ महा शुभस्थाने पूज्याराध्य जोग श्री \_\_\_\_\_  
 (गाम) थी लीखीतंग \_\_\_\_\_ (नाम) ना प्रणाम वांचजो. जत तमारा  
 उपर हुंडी एक रु. अंके राख्या \_\_\_\_\_ पासेथी मुदत  
 तरतनी लखी मितिनी लखी आपी छे. ते हुंडी राख्यावाळो धणी कहे छे के गेरवळे  
 पडी छे तेथी आ पेंठ तमारा उपरनी लखी आपी छे. माटे तमो रोजमेळ, खातावही,  
 आवरो नुंध विगरे जोई तपासी जो ते हुंडी नहि शंकारी आपी होय तो आ पेंठ  
 शीकारी आपजो. अमो तमोने सनदो वे मळी एक सनद मजरे आपीशुं अने जो हुंडी  
 शीकारी आपी होय तो आ पेंठ वांचीने फाडी नाखजो. मिति \_\_\_\_\_

दा. \_\_\_\_\_ (नाम)



At the back of this

नीमे रुपिया \_\_\_\_\_ यकी बमणा रुपिया

पूरा करी आपजो. \_\_\_\_\_ पेंठ छे.

Address of the party on whom  
the *Penth* is drawn.

**Per Penth परपेंठ.**

स्वस्ति श्री \_\_\_\_\_ महाशुभस्थाने शेट \_\_\_\_\_ जोग लीखीतंग  
श्री शेट \_\_\_\_\_ ना जेगोपाळ वांचजो. जत अमोए तमारो  
उपर हुंडो १ रु. अंके रुपिया \_\_\_\_\_ नी राख्या \_\_\_\_\_ नी मुदत  
तुर्तनी लखी मिति \_\_\_\_\_ नी लखेली तथा ते पञ्जी तेनी पेंठ १ लखी मिति \_\_\_\_\_  
नी लखेली ते बन्ने सनंदो गेरवले गइ छे. एम राख्यावाळा धणी कहे छे. तेशी आ  
परपेंठ लखी आपी छे. ते देखाड यथेथी तमो तमारो मेळ, नोंध, आवरो खातावही  
विगेरे तमाम चंपडा तपामी जो हुंडो तथा पेंठ शीकारी नाणां न आप्यां होय तो आ  
परपेंठ शीकारी नाणां आपजो. जो हुंडो अगर पेंठ शीकारी नाणां आप्यां होय तो आ  
परपेंठ रद्द छे. वांचाने फाडो नाखजो. तमारे अमारे सनंदो त्रण थई पण एकवार मजरे  
आपीशुं. एज लखी मिति.

दा. \_\_\_\_\_

At the back of this

नीमे रुपिया \_\_\_\_\_ यकी बमणा

रुपिया \_\_\_\_\_ पूरा करी आपजो

परपेंठ छे.

Address of the party.

**Chitbi चिठी**

स्वस्ति श्री \_\_\_\_\_ महाशुभस्थाने पूज्याराधे शेट \_\_\_\_\_ जोग  
श्री \_\_\_\_\_ श्री लीखीतंग \_\_\_\_\_ ना जे गोपाळ वांचशोजो जत लव-  
वानुं के आ चिठी लई आवनार \_\_\_\_\_ ने रु. \_\_\_\_\_ अंके रुपिया \_\_\_\_\_  
आपशो अने ते अमारे खाते उधारी जवाव लखशो. एज. मिति

दा. \_\_\_\_\_ (नाम.)

222. Excepting in the big towns the indigenous banker is leaderless and without organisation. His methods of business are not modern. The accounting is not up-to-date. There is no regular auditing. The balance-sheets of the Pedhi are neither published nor are they open to inspection. The Shroff is a stranger to the high structure of banking and finance at the capitals of the world. He is ill-linked with the banking system of his own land. He stands isolated in the determination of the currency and exchange policy of the land and he influences its course very little. His revival seems difficult if not impossible except in a new rôle. He should be advised to make himself amenable to organisation and adjustment with modern banking. The problem of problems in Indian banking is how to set him in its structure.

The indigenous banker first needs more finance. All over the State he complained of this. The allegation against the Bank of Baroda is that it withdraws a large amount of money from the mofussil, and transfers it to Bombay. At present not much co-operation exists between the Shroff and the bank. The bank demands from him double name paper which he is most unwilling to give as it is against his professional honour. If by some means the difficulties were got over and the relations between the two were systematised, it would result in an expansion of credit facilities in the mofussil and will greatly benefit agriculture, trade, and commerce. The indigenous banker should, therefore, be brought within the orbit of the general banking machinery of the State.

A proposal was made to us that the State should revive its old connection with the Shroff, and that it should help agriculture, trade and industry by advancing loans through him. But we reject this suggestion for the only reason that we cannot go back to old days.

We have however an institution, the Bank of Baroda, through which the Shroff can be linked with State finance and we would request Government to accelerate this process by requiring the Bank of Baroda to give practical effect to it at

once. This very suggestion was made once by the economic development committee in 1919, but no action seems to have been taken upon it. We recommend that the Bank of Baroda should be asked to select a Shroff or a group of Shroffs in every important centre of trade as its agent or agents on certain conditions to which they should be asked to agree. They should give a guarantee that on no account would they engage themselves in any speculative business. As a pledge of their *bonafides*, the Shroffs should deposit with the Bank of Baroda a reasonable sum of money, should promise not to combine banking with any other business, should keep separate accounts, should allow them to be inspected by certified or approved auditors, should not charge more than a prescribed per cent. over the Bank's discount rate, and should advance loans at rates not very high as compared with the one charged by the bank. The bank on its own part should treat the drafts of the Shroffs on the same footing on which it treats those from other banks and should allow a small commission on the loans it advances to business men through them for the risk they take.

The result of this would be that the mofussil would be kept well-financed during busy seasons, the Shroffs would be doing a larger and more lucrative business, the deposits with them would increase as they would carry with them the confidence and prestige of the Bank of Baroda, the connection of the mofussil with the Bank of Baroda would be cheaper with the Shroff as an agent of it than with the opening of a branch there, and the volume of the Shroff's business would expand, as the turnover would be greater. The time-limit for this agreement may be left to the parties although a limit of five years will suffice in the beginning. It should be open to the bank to dispense with the agency of any Shroff if he is found to have betrayed its confidence.

223. We offer another suggestion. The Shroff was and is even now a bill-broker. He can easily widen his scope in accordance with changed conditions. He can help the purchaser of goods to obtain funds by giving his guarantee to

The Shroff as a bill-broker.

the seller. He can accept import bills on behalf of importers. He can purchase export bills from exporters. His acceptances will be easily accepted by the banks if he is known to them.

224. Again, the Shroffs may guarantee to the banks bills or *Hundis* of their own acquaintances. As guarantee broker. They may not be endorsers technically but may have standing agreements with the banks that they will be responsible for the bills which they bring in. They may in this way, be regarded as specialists in credit acting on behalf of the banks. They will be doing the work of the bill-brokers, so well-known in the banking system of the United Kingdom.

225. There is one more recommendation which we would like to make to aid this profession. Our State still maintains treasuries at many Taluka head-quarters. We saw above how these treasuries were once under the control of the Shroffs of the places and how the old financial policy of the State was regulated under the joint co-operation of the revenue department, the Potedar, and the indigenious banker. We suggest that the local Shroffs may be given the usual remittance facilities at the Taluka centres by officers in charge of the treasuries at a low charge.

226. The Shroff needs no legal protection and he has sought none from the State hitherto. The Insolvency Act is his chief protection but a good Shroff is always most reluctant to seek its aid. Again, we must remember that insolvency is discovered by the public very late. Bankruptcy is generally a slow process and the Shroff, shrewd businessman as he is, generally cuts it short by regulating his business in accordance with his condition. Often it happens that he recuperates his loss by other means. If he declares insolvency, it is because he has turned from banking to speculation.

227. Is it possible to help the Shroffs in any other way ? We considered one suggestion. It was that the Shroffs should combine into partnerships and carry on their business with larger funds and on modern methods.

Wanted a Shroff's association in the State.

We doubt if this suggestion would appeal to the Shroffs themselves. There is hardly any scope for such combination in Gujarat. Were there any, the Shroffs, shrewd as they are, would have certainly availed themselves of it and shown the way to others. But we think there is one way to improve the status and condition of the Shroff of the Baroda State. We alluded to the absence of any organisation of the Shroffs of the State which could formulate a policy for the profession and which could give a lead to its members. We suggest that the Shroffs of the State should form themselves into an association which would devise rules of conduct for the guidance of its members for purpose of business and which would speak with authority on problems connected with its interests. We would very much wish that this association could carry sufficient influence with the Bank of Baroda, with the co-operative societies, with the State, and with business interests outside it so that its advice might be utilised in making indigenous banking an integral part of the banking structure of the community.

228 . We want the Shroff to play a greater part in the banking activities of the State. We want him to give up his isolation and some of the old methods of business and to integrate himself with the structure of finance which has evolved round him in the course of the last fifty years. We wish him to visualise the future of agriculture, trade and industry. He can do this and much more than that only by sustained efforts at improvement and especially at sound organisation. We do not want him to be replaced by the joint-stock bank, although most of the indigenous bankers of England were absorbed in the stream of joint-stock banking at the time of the Industrial Revolution, nor do we desire that by consenting to be a bill-broker or an agent of the bank, he should lose

Conclusion.

his present hold on business, trade and industry. In Gujarat he has survived the age of keen competition and it would be a disaster if he were eliminated or relegated to a subordinate position. It should be the look-out of the Shroff and also of the State to see that this contingency did not arise. The one important way to avoid this disaster is by expanding the trade and industry of the State so that the Shroff's business might grow and prosper. He is an asset which the community can never afford to ignore.

#### **Recommendations.**

(1) The Shroff needs more funds, which can be obtained by him if he is linked up with the Bank of Baroda. He should be made an agent of it under certain conditions ( Para 222 ).

(2) The Shroff should work as broker for import bills and export bills. He should also act as guarantee broker for inland bills ( Paras 223-224 ).

(3) Special remittance facilities should be given to the Shroffs of the Talukas by treasury officers ( Para 225 ).

(4) The Shroff does not seek any legal help from the State nor does he need any ( Para 226 ).

(5) The Shroffs of the State should form themselves into an association. ( Para 227 ).

## CHAPTER VII.

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### **Joint-Stock Banking: The Bank of Baroda Limited.**

229. We now proceed to discuss the growth and progress of joint-stock banking in the State. The Only one joint-stock Bank in Baroda. Pratapsingh Commercial Bank Ltd., founded in 1917, did not work well and so it was wound up in 1920. The Bank of Baroda Ltd. is therefore the only joint-stock bank in the State ; so we devote this chapter to the consideration of that institution only.

230. Hobson in his "*Evolution of Capitalism*", page 17 observes that "the whole industrial movement might be regarded from the financial or monetary stand-point." All Banking and modern industrialism in Baroda. modern industries and trades are carried on by an elaborate credit system and the manufactures and transport facilities of the present age have become possible only on account of the unprecedented expansion of the credit and capital resources of the community. The economic system of the Baroda State was rural before the age of machinery was ushered into Gujarat and especially into Ahmedabad soon after the Sepoy Mutiny. The administrative system of the State was also ill-suited to the introduction and expansion of modern methods in the production and circulation of commodities. But with the accession of the present Maharaja to the throne, a new era dawned upon the State. Geological, industrial, and agricultural surveys were made. The administrative machinery was modernised. Efforts were made to revive the dying industries of the land. Loans were advanced to industrialists and merchants to enable them to start new concerns. Special facilities were held out to intending out-siders to settle

in the State and to pioneer industries on the modern system. The visits of His Highness the Maharaja to foreign countries and especially to the United States of America constituted by themselves sources of great impetus to the industrial advancement of the State. Addressing his audience on the occasion of the opening ceremony of the Industrial Exhibition at Ahmedabad in December 1902, His Highness related his experience of such a tour in the following words :—

“ My mind went back to the *bazar* in my city of Baroda, the craftsmen working at their old insolated trades with the methods which have sufficed them for centuries without a change, the low irregular houses, the dreamy life drifting between them, and then contrasted with all the keen and merciless tide which was sweeping and eddying round me, drawing its need from a thousand machines like these and gathering its comforts from the four corners of the world.”

He added a note of warning to those assembled that it was very difficult for so impersonal an entity as Government to get capable managers or efficient supervisors to look after new ventures and he asked the people to take the initiative themselves, and to seek the assistance of the State only when absolutely necessary.

231. With the inauguration in 1907 of the department of commerce and industries and the appointment of a specially trained officer at the head of it, a new page opened in the history of banking in Baroda. Mr. Whitenack who was in charge of the department then saw that “ a good deal of money was hoarded in small sums and that it remained more or less unproductive.” He noticed another grave handicap. With the closing of the old Dukans, the State had started investing the major portion of its resources both public and private, outside its jurisdiction, namely in the Bank of Bombay, while local industries were starving for want of capital. It was also felt that the Baroda Pedhi was inadequate to meet the modern require-

On the way to found the Bank of Baroda. Inadequacy of financial facilities.



ments of trade and industries, and that the Shroffs and Pedhis provided insufficient facilities for safe custody, deposit, and loans.

232. It was therefore proposed that a fresh start should be made to develop the banking institutions of the State. At first negotiations were opened with the Bank of Bombay which asked that Government should keep Rs. 8 lacs with its branch at Baroda free of interest for ten years and that the State treasuries should be transferred to it. The governing board of the institution further demanded that the State should keep with the Bank Rs. 3 lacs without interest for three years by way of remuneration. These proposals of the Bank of Bombay were found unacceptable by the department of finance and so the negotiations were closed. In the meantime the now defunct Indian Specie Bank asked for permission to open a branch at Baroda without any condition. This permission was granted. The lead as usual had come from the State itself. But the mercantile community of Baroda got alarmed at the proposal of the Indian Specie Bank to open a branch of its own at Baroda. Its leading members memorialised to Government that they would be only too willing to be partners to a scheme to bank up the financial resources of the State if Government showed their willingness to support it and they submitted a tentative scheme of their own for the consideration of the Maharaja.

The banking conscience of the mercantile community of Baroda was now sufficiently roused. The dangers of any outside banking institution opening a branch at Baroda were realised. With the true instinct of good businessmen they saw that if they became a party to the acceptance of such a scheme, they should be prepared to see the branch develop into nothing short of a feeder to its parent at Bombay and that in the near future it would suck up all the resources of the State and its people to the lasting benefit of the trade and industries of Bombay only.

On the other hand it was urged that a bank started by local men out of local resources and aided by the State

would surely function as a national bank, that it would be easy to carry its operations even to the remotest corners of His Highness' territories by making its branches bring banking facilities within the easy reach of all classes of people, that the funds of such an institution would circulate more effectively from district to district, and that in course of time its branches could be utilised by the State for the movement of its own funds, thus replacing the Taluka treasuries.

233. The department of finance informed Government that a considerable proportion of the State Bank and an Apex Bank. cash balance of the State, ( calculated as Rs. 48 lacs for the year 1905-06 ) which was deposited with the Bank of Bombay and so was beyond the reach of the business-world of His Highness' dominions would become available to it through a local bank without subjecting the State to any loss whatever. Again the State kept an average fund of Rs. 18 lacs in its central treasury without interest the whole year round at Baroda. That fund could also be made available to nourish trade and industry. The economic adviser to the Government went a step further. He once proposed that the people's bank which the State and the local merchants were contemplating to start, should be required to set aside a decent proportion of its investment, at last one-fourth, for advancing loans to agriculturists so that it should function as an agricultural bank just as a sister institution had been doing in Prussia and Egypt. "And" wrote Mr. Whitenack, "should Government care to make the bank agency responsible for Tagavi loans, or should Government desire to make note issue to increase the currency, a State bank will be necessary. The proposed Bank of Baroda will serve as a foundation upon which many desirable reforms may be built up."

234. After some consultation the leading merchants of Baroda agreed to bring into existence a joint-stock and at the same time a state-subsidised banking concern in Baroda with the assistance of well-known financiers from

The Bank of Baroda Ltd.

Bombay and Ahmedabad, namely the late Sir Vithaldas Thackershi, ( Sir ) Lallubhai Shamaldas, and the late Dewan Bahadur Ambalal Sakerlal Desai of Ahmedabad and Sheth Chimanlal Nagindas of the same place. They agreed to issue the prospectus for the Bank of Baroda Ltd., under the patronage of and largely supported by, the Government of His Highness the Maharaja Gaekwad to operate throughout Gujarat and Kathiawar and in Bombay and to be registered under the Baroda Companies Act III of 1897. The authorised and subscribed capital of the Bank was to be Rs. 20 lacs divided into 20,000 shares of Rs. 100 each out of which Rs. 10 lacs were required to be immediately paid up. It was said that the main operations of the Bank would be carried on in Baroda but it was intended to open branches in Bombay and other centres of trade and industry in Gujarat, so that the struggling enterprises of those parts might not have to depend for capital upon Bombay. It was intended to be a premier banking institution in Gujarat. It received the following concessions from the Baroda Government:—

“(1) The Baroda Government would deposit with the Bank without any interest an amount equal to one-fourth of the paid-up capital not exceeding two and a half lacs of rupees.

(2) The Baroda Government would maintain deposits with the Bank equal in amount to three-fourths of the paid-up capital, but not to exceed Rs. 7½ lacs in any case, at the rate of four per cent per annum if and when considered necessary by the Directors, provided that the Bank maintained at all times within the State assets equal to the amount so deposited.

(3) These two concessions were to hold good for a period of fifteen years.

(4) The Baroda Government would pay to the Bank annually one-half of the salaries and expenses of management for a period of five years on condition that the Bank engaged an expert manager and with the further proviso that the sum so paid should not exceed Rs. 10,000 per annum.

(5) The State would turn over to the Bank from time to time such portion of the State's banking business ( i. e. the receipt, remittance, collection and payment of money or securities and other matter usually transacted by Bankers for their customers ) as the prosperity and condition of the Bank may warrant and as may be agreed to between the Government and the Directors.

(6) The Government would appoint auditors to audit the books including the ascertainment of assets under clause 2 above and accounts pertaining to its own business with the Bank, such audit to be at the expense of Government. It should interpose no other supervision or interference with the Bank's affairs."

The Bank of Baroda, Ltd. was registered under the Baroda Companies Act of 1897 and was opened by His Highness the Maharaja on the 9th July 1908 at Baroda.

The prospectus of the Bank said:— "*Though the main operations of the Bank will be carried on in Baroda*, it is intended to open branches in Bombay and other centres of trade and industry in Gujarat, so that the struggling industries of those parts may not have to depend for capital upon Bombay."

The object in allowing the bank to be started in Baroda was to encourage and promote the application of capital to industries as far as possible within the State itself and to study closely local credit and local requirements in order that its management might be able to render help to local merchants with greater confidence than any out-side institution could have ever done.

As His Highness the Maharaja was pleased to observe at the time of opening it, "the Government had no immediate need of such an institution and it was instituted to satisfy only a popular demand frequently made." It was expected that the "new experiment should in fulness of time become the fore-runner of many agencies of a popular type for the spread of commercial and industrial prosperity and

that it would be logically followed up in its train by the organisation of a strong and healthy system of agricultural banks." In brief the institution originated in the desire of the people and the Government to accelerate the commercial and industrial progress of the State and specially to help its indigenous industries and to train the people in practical banking.

235. The Bank commenced its operations from July 1908.

New proposals and a  
new agreement. Exactly a year after, proposals were ad-  
dressed to His Highness the Maharaja's  
Government by Sir Vithaldas Thakarshi that the manage-  
ment of the Bank should be allowed to increase the  
capital to Rs. one crore and that the treasury and the general  
banking work of the State should be transferred to it. It  
was represented that the Bank was feeling the competition of  
the other sister institutions in Bombay and their agencies in  
Gujarat and that if the authorised capital was raised to Rs. 1  
crore and the Bank allowed to collect Rs. 10 lacs more from  
the share-holders, the reserve of Rs. 90 lacs would have the  
result of inspiring unshakeable confidence in the clientele of  
the institution. It was urged that the acceptance of the other  
part of the representation, namely the transfer of all the  
banking business of the State to the Bank by Government  
would in the long run expand its business and it would  
be regarded by the outside world as a pledge of the sympathy  
of His Highness and his administration. The Bank promis-  
ed, in its turn, to start branches in the four districts of the  
Raj and to open safety vaults of approved construction at the  
places. But the Accountant General thought it undesirable  
to allow the Bank to raise its capital to one crore only a year  
after it had commenced working and allow a large unpaid  
liability. He advised at the same time to accept the other  
part of the scheme. Government had been keeping  
its surplus funds with banks in Bombay and those funds  
could be conveniently transferred to a branch of the  
Bank at the same place. He added that the Taluka treasuries  
of the State were very small and the balances with them very  
meagre and that the State could be advised to transfer only

a part of its treasury-work to the Bank, namely the work of disbursing the salaries. He asked Government to impose certain conditions on the Bank before these concessions were granted to it. Eventually the agreement with the Bank was revised in the following manner in April 1910 :—

- (1) "The whole treasury-work, that is all the work of receiving money and making payments in cash hitherto done in the Huzur Treasury should be transferred to the Bank."
- (2) "A minimum balance of Rs. 5½ lacs would always be kept in the Bank in current account without interest."
- (3-4) All withdrawals from current account would be without notice. The Bank shall allow interest on current account at the rate of 2% on all the sums upto Rs. 3 lacs over the minimum balance of Rs. 5½ lacs. But the Accountant General shall have the discretion to keep money in the Bank by way of fixed deposits.
- (5) The Bank shall remit money free of charge on behalf of the State to Ahmedabad, Broach, Surat, and Bombay whenever required by the Accountant General. The latter was at the same time free to transmit money through any other channel, if the Bank refused commission at market rates.
- (6) The Accountant General shall be at liberty to keep surplus money in other banks in current account or fixed deposits or otherwise by way of investment provided that no payments shall be made from any current account other than that with the Bank without the sanction of the Minister.
- (7) The Account Books of the Bank shall be open to audit and examination by any officer or officers appointed by His Highness' Government. But any objection made by the Bank to such appointment would be duly considered by Government.

- (8) The Bank shall be responsible for all loss or damage in respect of money entrusted to its charge and shall indemnify His Highness' Government against all such loss or damage.
- (9) The Bank shall make and receive payments of small amounts in *Babashahi* copper coins.
- (10) The Bank shall always keep a sufficient cash balance in coins of all descriptions for making payments.
- (11) The Bank shall supply all information and statements which the Accountant General may require for the purpose of preparing the State accounts and in order to carry out the orders of Government in regard to the arrangements sanctioned.
- (12) As the present measure was experimental, His Highness' Government reserved to itself full powers to reconsider the case and the agreement and the promises made, after a period of 5 years.
- (13) These arrangements were to come into force as soon as the full amount of the Bank's capital, viz. Rs. 20,00,000 twenty lacs was subscribed.

236. These arrangements were revised in 1915. The revised terms were that the new arrangements should continue for a period of seven years more, that the Bank should pay interest to Government at the rate of  $2\frac{1}{2}$  per cent, instead of at 2 per cent. and it should allow interest on the current account upto Rs. 10 lacs over the minimum balance of Rs.  $5\frac{1}{2}$  lacs.

237. After the expiry of the stipulated term, the arrangement was again continued till July 1932. In accordance with this, the treasury work of the State has been entrusted to the branches at Navsari, Mehsana, Amreli,

Period extended in 1922.

25 B. I.

Dwarka, Kadi, Patan, Dabhoi, Petlad, Kalol, Sidhapur, and Karjan. Hitherto Government had been keeping Rs. 10 lacs at a low rate of interest with the Bank on the ground that the concern was in need of considerable financial patronage. But by 1922 it had acquired a sound position in the world of finance and so at first it was considered inadvisable to continue the same patronage after the lapse of the stipulated period. However His Highness the Maharaja was pleased to order that the deposits might be continued with the Bank till July 1932 on condition that it paid interest on the whole amount at the rate which it might be allowing for other fixed deposits.

At present on cheques of Rs. 10,000 and above on Bombay paid into the Bank, the Bank allows to the State a commission of  $3\frac{3}{4}\%$  that is, nine pies. The Bank also does the work of foreign remittance for the State. Government appoint auditors every year to see that the deposits of Rs 10 lacs are properly safe-guarded and invested within the State.

Now an account is kept at the head office of the Bank with a minimum balance of Rs. 12,10,000 for doing treasury work and interest at  $2\frac{1}{2}\%$  is allowed over this amount.

238. In February 1918 the capital of the company was increased to Rs. 60 lacs by the creation of 40,000 shares of Rs. 100 each. In 1913 the Bank of Baroda was recognised as a depository for the trust funds of the State and a suitable change was made in the Trust Act. ( Act of Samvat 1963 ).

239. The following is the latest published balance-sheet of the Bank for the year ending in December 1929.

Balance-sheet, December 1929.



THE BANK OF BARODA LIMITED.

Balance-sheet as on 31st December 1929.

Liabilities.	Rs.	Rs.	Assets.	Rs.
Authorized capital 60,000 shares of Rs. 100 each.	} 60,00,000-0-0		Cash Credit and Overdrafts	72,42,195- 2-6
Issued capital 60,000 shares of Rs. 100 each.		} 60,00,000-0-0	Loans.	1,95,35,610- 8-6
Subscribed capital ...	60,00,000-0-0			Bills discounted.
Paid up capital 60,000 shares @ Rs. 50 each	} ... ..	30,00,000- 0-0	Particulars required by the Baroda Companies' Act II of 1918.	2,68,05,930-11-0
Reserve fund ..		... ..	23,50,000- 0-0	(1) Debts considered good and in respect of which the Bank is fu- lly secured Rs. 1,99,65,208-4-11
Provident fund ...	... ..	2,76,114-14-1	This amount includes debts fully secured, due by persons or com- panies in which a Director of the Bank is a partner or Guarantor.—	
Rebate on bills discounted	... ..	363-11-0	Rs. 8,71,076-5-1	
Fixed deposits ...	... ..	3,62,87,671- 7-7		

THE BANK OF BARODA LIMITED—(Continued.)

Liabilities.	Rs.	Assets.	Rs.
Current, savings bank and other Accounts.	2,10,90,968-15-0	(2) Debts considered good secured by the personal liability of one or more parties in addition to the personal security of the debtors. — Rs. 35,10,722-7-6	
Unclaimed Dividends ... ..	23,250- 7-2		
Due to Branches ... ..	1,12,936- 5-1		
PROFIT AND LOSS ACCOUNT.		This amount includes:—	
Balance as per previous Balance Sheet ... ..	2,80,462-13-4	Debts due by Joint-Stock Companies guaranteed by their Agents, a Director of the Bank being a Member of the Firm of Agents— Rs. 3,03, 202-12-0	
Less :—Appropriations...	2,42,500- 0-0		
	37,962-13-4	Debts due by persons or Companies for whom a Director of the Bank is guarantor.— Rs. 5,66,519-15-9	
Profit for the current year.	3,94,698-14-1		
Total ...	4,32,661-11-5		
Less;—Ad-interim dividend paid @ 10% p. a. for the half year ended 30th June 1929 ... ..	1,50,000- 0-0	(3) Debts due by Joint-Stock Companies considered good for security other than the debtors' personal security.— Rs. 32,68,173-14-5	
	2,82,661-11-5		

**Contingent Liabilities :—**  
Rs. 35,620 on shares of  
Joint-Stock Companies.

Total ...	6,34,23,967- 7-4
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(4) Debts considered good for which the Bank holds no security other than the debtor's personal security..... Rs. 61,826-0-2

(5) Debts consider doubtful. Nil.

(6) Debts due by Directors or other Officers of the Bank personally.  
Nil.

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Rs. 2,68,05,930-11-0

Due by branches ... .. 1,79,680- 1-10

Buildings at Baroda and Bombay at cost less depreciation ... .. 17,22,166-14-11

Office Furniture and Fittings ... .. 1,43,117-13-11

Stamps ... .. 332- 5- 0

Investments ;—Government securities. ... .. Rs. 1,52,23,094-12-9

Railway and other Debentures, ordinary and preference shares of public Companies.—

Rs. 1,11,60,599-4-3

THE BANK OF BARODA LIMITED—(Continued,)

Liabilities.	Rs.	Assets.	Rs.
		Market value of above investments Rs. 2,62,34,274-4-8	2,63,83,694- 1- 0
		Cash at Head Office and Branches and with Banks in current accounts.	81,89,045- 7- 8
Total ...	6,34,23,967- 7-4	Total Rupees ...	6,34,23,967- 7- 4

240. We give in the subjoined table the position of the bank regarding deposits, working capital, profits and expenses of management from 1910 to 1929. In 1929, the working capital, deposits and the expenses went up. But significantly the profits were less.

**Statement about deposits, reserve fund, total working capital, net profits and expenses of management for the Bank of Baroda for the years 1910, 1915, 1920, 1925, 1929.**

Year.	Capital paid up.	Deposits.	Reserve fund.	Total working capital.	Net profits.	Expenses of management.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1910	10,00,000	Fixed. 10,000- 0- 0 Others. 49,31,969-12- 0 49,41,969-12- 0	10,000	59,49,699- 1- 3	1,19,388-14- 9	32,290- 1- 3
1915	10,00,000	Fixed. 61,03,430- 9- 3 Others. 43,30,418- 9- 3 1,04,33,849- 5- 9	375,000	1,19,70,975- 0- 2	1,72,535-12- 5	1,26,089-12- 4
1920	23,86,280	Fixed. 3,57,80,201-15- 3 Others. 1,59,49,015- 2- 6 5,17,29,217- 1- 9	14,00,000	5,59,53,730- 5- 0	5,82,604- 2-11	3,06,860-15- 0
1925	30,00,000	Fixed. 3,59,23,097- 8- 8 Others. 1,73,98,269- 4- 0 5,33,21,366-12- 8	21,50,000	5,88,29,496-10- 6	4,85,500- 1- 6	4,83,503-10-11
1929	30,00,000	Fixed. 3,62,87,671- 7- 7 Others. 2,10,90,968-15- 0 5,73,78,640- 6- 7	23,50,000	6,31,41,305-11-11	3,94,698-14- 1	4,99,470-15- 4

241. It is now twenty-two years since the Baroda Bank started its career. Let it be borne in mind that it is the only institution of its kind operating in Gujarat and Kathiawar, and as a matter of fact, in Western India, if we excluded the town and Island of Bombay. Ahmedabad, in spite of its great wealth and its textile industry, boasts of no such institution. Surat with its proverbial influx of capital from Bombay, Burma, Africa and the Continent of Europe has only a branch of the Imperial Bank of India. The Bank of Baroda may be fittingly described as the premier financing house functioning in Gujarat and Kathiawar. The Bank has been working since 1908: it has therefore seen many vicissitudes; it passed through quiet business during 1907-16; it experienced the great boom of the war-period and its noon-tide; it is now witnessing the aftermath of it.

It has opened fifteen branches, four outside the Baroda territory, namely at Bombay, Surat, Ahmedabad and Bhavnagar and eleven in the dominions of His Highness, namely at Navsari, Mehsana, Sidhpur, Petlad, Dabhoi, Patan, Kadi, Karjan, Kalol, Amreli, and Dwarka. No joint-stock concern in Western India has such wide-spread branch-banking as the Bank of Baroda. It has increased its paid-up capital from Rs. 10 lacs to Rs. 30 lacs. It had a reserve fund of Rs. 23,50,000 by the end of 1929 and its total working capital was nearly Rs. 6,31,41,000. It has succeeded in attracting deposits, current, fixed, and savings totalling Rs. 5,73,78,640. By the end of December 1929, the total amount of deposits, current and savings bank at the head office at Baroda and at branches within the State stood at Rs. 3,39,84,894.

The Bank has entered into special arrangements with a few Shroff of the State whereby it discounts bills and transmits funds and this business is slowly increasing. Its business in long-term *hundis* at Ahmedabad is known to be fairly good. It advances loans to merchants, who are accommodated on their giving endorsement of approved parties. It is known to

have financed a few cotton mills both in and outside the State. Once it invariably financed cotton to the extent of Rs. 17 lacs a year but of recent years as the cotton merchants of Bombay, it is alleged, have been advancing funds against the standing crops, the business has slipped out of its control. It does a running business in foreign drafts especially at Navsari and Petlad, drawn from Africa on London by people who have gone there. It has been doing an increasing business in giving credits for import trade to millowners and merchants. It does exchange business in general for its clients. Several credits have been opened by it in London on account of the Baroda State and a number of drafts are drawn on London on its accounts. The Bank sometime affords accommodation to the Central Co-operative Bank, Baroda, which finances the co-operative societies in the district of Baroda. It has popularised the cheque even in the vernacular. Lastly it encourages thrift by allowing savings bank accounts. Much of this progress of the Bank is due to assistance from Government.

242. In the answers which we received to our questionnaire from merchants and others, it was represented to us that the Bank of Baroda, notwithstanding the facilities which Government accorded to it out of public funds, had not helped the people as it ought to have; that much of the complaint against the shortage of money experienced by the business world was due to the head office and its branches in the mofussil withdrawing a large part of the funds from the market to Bombay and such other outside-centres of trade; that the agencies accepted deposits more eagerly than they lent them; and that their part in the finance of local trade, industry and finance was very meagre. It was represented to us that the Bank demanded second endorsements with scrupulous rigidity, that it did not co-operate much with indigenous bankers, that its rate of interest was rather high, that loans were given for only short terms, that the Bank was slow to start branches at some centres, that it had failed in creating a banking habit in the community and



that it had not fulfilled the expectations held of it in regard to the development of the banking education of the people of the State. It may be mentioned here that most of these complaints were made to the Economic Development Committee in 1919 which discussed them in details in chapter VI paras 411-422 of its Report.

243. The most important complaint was that the branches of the Bank in the State were mere agencies which received deposits to remit them to the usual trade centres e. g. Bombay and Ahmedabad.

Branch banking by the Bank of Baroda.

We carefully went into this question and we found that there was much truth in the complaint. Out of Rs. 573 lacs as deposits Rs. 340 lacs were received from the Baroda State and its people. Of the total investments of the Bank Rs. 152 lacs were invested in gilt-edged securities, Rs. 111 lacs in industrial paper, and Rs. 268 lacs in loans. Of the latter only Rs. 41 lacs were loaned out in the State, of which Rs. 26 lacs were given in the city of Baroda and Rs. 15 lacs in areas covered by the branches in the State. Of the latter most were large loans given to a few industries. The same loans could have been given from the head-quarters. Local loans were negligible. Looking to the size and importance of the Baroda State this business was certainly inadequate.

The complaint was fully dealt with by the Economic Development Committee (Report, Para 415) and we cannot do better than quote its findings with which we entirely concur. That Committee reported that "Unfortunately the present system of branch banking is very defective. The branches are primarily intended for receiving deposits which are taken to the head office and invested in places best suited to the Bank's business. No special efforts are made to lend funds in the area of operation of the branch. Usually a junior clerk is placed in charge of it, who is not trained in banking but is a second rate accountant. It is not his function to develop the business of the Bank. It is true he forwards to

the head office loan-applications with his opinion. But a manager sitting at a distance cannot fairly judge the credit of an absent client. Therefore the merchants get discouraged. Under the present system it is impossible that people in the mofussil can get full advantage of the bank. We therefore suggest that the Bank of Baroda should follow the Canadian system of branch banking and employ trained bankers and give them some independent powers of negotiating small loans. In this connection we beg to quote a small paragraph from the "*Annals of the American Academy of Political and Social Science*" volume XXXVI No. 3 pp. 157-159 (*Banking Problems*):-

'There is wide difference between the operations of a branch of this kind and those of a newly opened office of a large Canadian Bank. The Canadian manager starts to lend at discount at once. In fact, that is the main part of his business except in the little towns and villages in quiet agricultural districts in Eastern Canada. The matter of the Bank having funds to lend for the regular business of the local borrowers does not trouble him at all, scarcely even during periods of stringency. The only things he concerns himself about are the solvency and reliability of the borrower and the legitimacy of the transaction in which the bank's money is to be embarked. Provided the term of the loan is short, the manager of a good bank in a small place acts on his responsibility in lending upto say \$ 1,000. At a large branch he would lend upto a higher figure. A credit of \$ 1,000 covers fairly well all the requirements of the less important traders at a country village. For amounts exceeding that sum credits are applied for; and if the applicant is in a satisfactory position the head office will authorize the local manager to take his paper upto an agreed-upon maximum, subject to certain rules and stipulations. Then the discounted paper is invariably held by the branch itself, if it is payable locally, and the Canadian banks do not rediscount. So if a borrower in a Candian village goes to his bank with \$ 500 to pay off his note a month ahead of its maturity, the manager can always produce the note on the instant from the bill case. He does

not have to ask the man to wait till he can get it back from the head-office.'

'Deposits are a secondary consideration. Of course all branches strive to build up their deposit balances as the deposits constitute the main source whence the funds for lending are derived. But the energies of the branch manager are mainly directed towards the acquisition of desirable discount-account; and the bulk of the correspondence with the head office pertains to that department of the Bank's business. It is found also that a policy of this kind results incidentally in the quickest development and growth of deposits. That is to say a branch that provides fully for the borrowing need of the community in which it is located, at moderate rates, will usually be much more successful in building up its deposits than it would be if it starved the local borrowers and tried to develop the local deposit department only.'

'In time of great stringency, the regular customers of the branch get their credits from head office very much as usual but they are required to keep their borrowings within as small a compass as possible, and are discouraged from embarking in new ventures or extensions necessitating borrowed money. Also the branch-manager is asked to refrain from canvassing or campaigning for important new discount accounts until the money situation relaxes.'

"If this system is followed, we believe the people of the State would get better banking facilities.....  
.....Since it is not possible to have new independent banks all over the State, it is better that the Bank of Baroda should extend the sphere of operations and try to reach all the important industrial centres.....  
For want of business demands the Bank has to invest nearly four-fifths of its funds outside the State. It is desirable for the economic development of the State that this amount should as far as possible, remain within it. At present, some of the business people are unwilling to have branches of the Bank at their places. They are afraid that the Bank will take away local deposits and create scarcity of funds. We there-

fore, suggest that negotiations may be opened with the Bank and some arrangement be made so that more branches be started in the State which should work on the Canadian system and interest themselves in the development of local trade and industry. If this system is adopted, small merchants and traders would easily get the benefit."

244. The Bank of Baroda can play a very important part in the regulation of foreign business in the State. Port Okha opens up a promising and a very lucrative business to the Bank if it attends to it with zeal and earnestness. The port connects Kathiawar with North Gujarat and North India on the one side and the rest of the world on the other and there is every possibility for the Bank developing a large trade in exports and imports. The Baroda Government have accorded warehousing, unloading, loading and clearing facilities to merchants. They have also arranged for them financial accommodation with the Bank of Baroda by allowing to the latter a small commission out of the moderate interest charges.

Under these circumstances when the Bank of Baroda opens a branch at Okha, it is hoped that the management of it will be entrusted to the care of a man who has knowledge of produce and import business and who is capable of taking initiative.

245. With a competent branch-manager well-versed in the theory and practice of banking, and with a discretion wide enough for the immediate requirements of the office, it would not be impossible for the Bank to establish a more intimate touch with the local business world. At present the local mercantile community view the branch with jealousy. We submit that the best way to get in touch with local business is to associate small local committees with the branches. At present local committees are appointed for Baroda, Bombay and Ahmedabad out of the directorate but not at other places. These committees should be constituted from among the leading representatives

of trade, commerce and industry, of the areas covered by the activities of the branch. We urge that with the establishment of such committees and the consequent delegation of more powers, the branch bank will be transformed into a vigorous financing agency for the mofussil. The local committees will be of use in another direction. They will be helpful in attracting more deposits and they will inspire confidence in the public about the Bank.

246. But the branch bank will not improve only by these ways. Government should render help also. We were informed that the present tendency was to concentrate all the funds paid from the mofussil at one centre, namely the head office at Baroda or at Bombay with the result that the branches felt a shortage of money in busy seasons, and the merchants sought accommodation elsewhere. We gathered that the merchants of Amreli found easier accommodation with the Imperial Bank at Rajkot in spite of the presence of a branch of the Baroda Bank at their very doors. The fact was that the current and other deposits of the branches were insufficient to meet the needs of the merchants of Amreli, Dabhoi, Mehsana, Kadi, Navsari etc. during busy seasons. In old days when the treasury work of the State was not transferred to the Bank of Baroda, the funds there were more easily available to the businessmen. But now the Government funds are immediately moved to Bombay or Ahmedabad with the result noted above. The State charges interest to the Bank from the day the funds are deposited with the branch. As there is no demand for money from trade at the branch at the time of the receipt of the funds, they are immediately transferred to other centres where they can be made to earn interest. Soon after that, however, there is demand for money from traders. But at that time the funds with the branches are very inadequate and to bring them from outside would be costly to the Bank. The result is that the local merchants are compelled to seek accommodation with the nearest branches of the

Accumulation of funds at the head office not advisable. Branches should not be denuded of their funds during busy seasons. Necessity for Government help.

Imperial Bank of India. We understand that the Bank wanted allowance in time from the Accountant General. We leave this matter to be adjusted between him and the Bank.

247. The association of local committees may not be possible at all places. Again a place may be a good centre of trade and yet the opening of a branch and the association of a local committee may not be very lucrative. In that case we suggest another course of action. The Bank was advised by the Economic Development Committee to appoint some reliable local Shroffs as its agents and to help the trade and business of the place through them. No action seems to have been taken to carry out this recommendation although it was made a decade ago. We suggest that the Bank should give practical effect to it now. It should not be difficult to get respectable Shroffs as agents. We discussed this question in details in our chapter on "Indigenous Banking".

248. There is one more feature about the working of the Bank which we should not allow to pass unnoticed. The Directorate of the Bank is constituted in a way, which is not very well-calculated to promote the interests of the trade and industries of the Baroda State. Usually the whole trading and commercial community of the Baroda State is represented by three individuals all of whom happen to be from the city of Baroda. The rest are from Bombay and Ahmedabad, or Bhavnagar. H. H. the Maharaja nominates an officer on the directorate. The other directors are not familiar with local requirements. Under these circumstances the development of the trade and industry of the Baroda State does not receive from the Bank that attention which it was once thought, it would receive at its hands. The selection of the Directors except one is within the discretion of the shareholders of the Company and we have no desire to influence their choice but we submit that

the directorate should be representative of local interests as far as possible. Then only the evolution of a common economic and financial policy will be possible in the State.

Let it be borne in mind that the Directors and Manager of the Bank are the trustees not only for the shareholders, but also for the depositors and the Government which keep the funds of the public and the trusts in its custody.

249. There are many places in the Baroda State which would be doing better business if they were served with more efficient financing agencies than at present. In the evidence which we received, we were told by several local merchants and businessmen that Government should provide them with a more well-organised banking system. The Gandevi Taluka goes unprovided for in its banking requirements. There are places in the Kadi district which require better financial accommodation. The Bank of Baroda has therefore ample scope to develop branch business. But the Bank informed us that some branches were not remunerative. In that case it would be unfair to the Bank to ask it to work them or to start new ones which would not pay even their expenses. We would therefore recommend that the Bank should close such branches after negotiations with Government. Of course in that case Government will have to resume the treasury work at the places.

Possibilities for more branches to be explored. No chance for small joint-stock banks in Baroda.

We went carefully into the question of the organisation of small joint-stock banks in the State. But in view of the predominant position occupied by the Bank of Baroda and of the inability or unwillingness of the people to successfully inaugurate and manage such undertakings we do not see any chance for such banks being worked with success even if Government subsidised them. Attempts should therefore be made to make the Bank of Baroda more popular and useful than at present.

250. There was another complaint against the Bank and it came mostly from the old Shroffs  
 System of loans. that the Bank demanded two names on pro-notes. This could be justified on the ordinary banking principle but in actual practice it is not adhered to even in England. This will be seen from the following quotation from W. Leaf's work on *Banking* (Home University Library) —

We have had some figures taken out, and I confess they were something of a surprise to me. They refer of course, to the loans we make for current business purposes. They show that of the total number of borrowers no less than 28% had their loans unsecured, and a further 13% only gave partial security. In other words, 41% of the farmers who borrowed of us received credit on that personal knowledge by our managers of their character and business, which we are accused of totally ignoring. And I should like to add, to the honour of our managers and their judgment that it is a call of business which we most willingly undertake for it is one in which we make very small losses."

Mr. Leaf was once the Chairman of the Westminster Bank Ltd. and President of the Institute of Bankers.

251. Another complaint against the Bank was that it had not succeeded in popularising banking among the people. The Bank should provide for an easier transfer of funds from one branch to another by its clients. At present the Bank charges a commission on such transfers if they are sought to be made by drafts. We believe that this practice is unbusiness-like and that it prevents people from seeking accommodation. Again the head office of the Bank appeared to have been fairly well-equipped with the staff to advise people on investments. But the same was not the case with the branches in the mofussil. We hold that in the mofussil also there is a fairly numerous class of people who would welcome advice from the management of the branch office



on the possibilities of sound investment and who would invest their savings in industrial and such other concerns through the Bank on payment of a small commission. We learnt one more interesting fact about the activity of the Bank in regard to this. We were informed that the charges which the Bank preferred for doing this work were high as compared with those of other institutions and that in every transaction of this character, it charged postal, registration and insurance expenses. We submit that there is ample scope for a reduction in the charges. The adoption of such a policy will popularise the Bank with the public and attract its members to it for other forms of business eventually. We recommend another important activity to the Bank. It is high time that the Bank should be prepared to take up the management of trust-property. Banks in other countries get enormous business of this kind. In India the possibilities for such a work are not so vast as in the West. But still we venture to suggest that with an intelligent and educated public as that of Baroda, the Bank would get a fairly good custom if it was known that it was doing that kind of work. We understand that this question is under the consideration of the Bank. The directorate and the management of the Bank should develop a greater intimacy with the branches and their managers and specially with the mercantile community. The Bank may popularise its activities in many other ways also. Holding of conferences with the managers and directors of the various co-operative banks in the State is one way. Paying occasional visits to the branches and developing familiar intercourse with the traders are the other ways.

The Bank may be of service to its customers by undertaking executorships of wills and the administration of family trusts, preparing income-tax returns and claims for exemption from it, and becoming as it were, the business address during foreign travel. These are the various ways to approach the customer in the most literal sense, by placing its services as near his front door and as cheap as possible. True that just now the State does not offer a very extensive field for such activities but a beginning may be made and we

dare say, the scope for such activities will be considerably enlarged in the future.

252. Bagehot in his *Lambard Street* cites the advantages of a trader using borrowed capital rather than confining himself to his own resources. The banking system of a country is very closely related to the floating of enterprises, the trading in and the issue of shares and debentures, etc. Of course no banking system of a community can ever create credit out of nothing. The larger part of the increase in the capital of a community is a result of industrial production. But it is at the same time true that "the first increment of capital can be turned into industrial channel as re-investment only through the medium of the banking agency." Industrial and banking developments have therefore close relationships and each acts and reacts upon the other. Judged from this standard the Bank of Baroda has done fairly well but much remains still to be done. It has yet to become a dynamic force in the development of the trade, commerce and industries of the State and in the inculcation of the habit of modern banking in the business world of Baroda.

We believe the Bank of Baroda has a great future before it. When it was started it was expected that in course of time it would develop into a central bank with different financing agencies, commercial, co-operative and agricultural, working under its direction. Government have taken a keen interest in the development of trade, industries and agriculture and they are always prepared to find funds to meet their requirements for long or short-term credit. They have also recognised that industrial credit should be given as far as possible through the Bank of Baroda. They have several schemes for the economic development of the State, as for instance the scheme for land mortgage which would include in its scope the liquidation of the old debts of the cultivators, the financing of agricultural improvement, and the expansion of public utilities. All these schemes would materialise only if the Bank of Baroda took a more intelligent and sympathetic attitude. We would draw the

attention of the management of the Bank to this phase of the economic policy of the State. We do realise that an institution like the Bank of Baroda cannot interest itself in several types of banking, agricultural and industrial, all at once. At the same time we submit that commercial banks do take a much wider interest in industrial undertakings in other countries. It is no use following the beaten track. There is no government so very keen to develop the country's resources as that of His Highness. Again a time might come for Baroda to modify its currency policy. Then the position which the Bank of Baroda should occupy in the State would be practically the same as the one visualised by the Governor of the Bank of England for a State Bank in his evidence before the Royal Commission on Indian Exchange and Currency. He said; "It should have the whole right of note issue, it should be the channel, and the sole channel for the output and intake of legal tender currency. It should be the holder of all the Government balances; the holder of all reserves of the other banks and branches of banks in the country. It should be the agent, so to speak, through which the financial operations at home and abroad of the Government would be performed. It would further be the duty of a central bank to effect, so far as it could, suitable contraction and suitable expansion of credit in addition to aiming generally at stability, and to maintain that stability within as well as without. When necessary it would be the ultimate source from which emergency credit might be obtained in the form of re-discounting of approved bills, or advances on approved short securities or Government papers."

There are obvious limitations to the complete attainment of such a position by the Bank of Baroda but within those limitations we should ask it to help the State and people of Baroda not only to visualise such a position for it but make it a reality. It is in a happy position and it has a great future before it.

#### **Recommendations.**

(1) The branches of the Bank of Baroda should work on the Canadian system, providing fully for the borrowing needs of the local communities. ( Para 243 ).

(2) The Bank of Baroda can help in the development of Port Okha by opening a branch at that place under a competent hand. ( Para 244 ).

(3) Committees should be appointed from amongst local traders in association with branches to develop local trade and industry. ( Para 245 ).

(4) Accumulation of funds at the head office or at Bombay is not desirable. The branches must have enough funds to meet the demand of traders in the busy season. If the Bank wants allowance in time for this, it can be arranged by it by negotiation with the Accountant General. ( Para 246 ).

(5) Local Shroffs should be associated as agents with the Bank. ( Para 247 ).

(6) The Directorate of the Bank should be representative of local interests as far as possible. ( Para 248 ).

(7) The Bank should negotiate with Government for closing those branches which do not pay themselves. Otherwise the possibility of opening more branches in the State should be explored. ( Para 249 ).

(8) The system of granting loans on the security of two names only on pro-notes should be revised and the Bank should lend more freely on personal credit. ( Para 250 ).

(9) The Bank should provide for an easier transfer of funds from one branch to another branch. ( Para 251 ).

(10) The branches should be able to advise people on investments. ( Para 251 ).

(11) The Bank should take up the management of trust-property at an early date. ( Para 251 ).

(12) The manager and directors should hold conferences with managers of co-operative banks and unions and leaders of trade and industry in the State. ( Para 251 ).

(13) The Bank should undertake to execute wills, administer family trusts, prepare income-tax returns, etc. ( Para 251 ).

(14) The Bank of Baroda may in the future attain the status of a State Bank. ( Para 252 ).

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## CHAPTER VIII.

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### Trade and Remittance.

253. Now we take up the finance of trade in the State. This is considered in two broad divisions—financing in the State for (1) exports and (2) imports.

Export and Import Trade.

254. A statement of the exports and imports of the State is given in Appendices 4 and 5. We classify the exports into three classes—exports of food-stuff, export of commercial crops and export of manufactured goods. We said in the second chapter that food-stuffs produced in the State were mostly consumed within the State. Trade movements in these commodities are therefore merely local and finance is mostly supplied by local merchants themselves, by means of *Hundis* and rarely through the Bank of Baroda and its branches, or through the branches of the Imperial Bank of India.

Export trade.

255. Commercial crops constitute the next item in the export trade of the State. The most important among these are cotton, tobacco and seeds. Cotton sales are financed by ginners or buyers from Ahmedabad and Bombay. The use of trade bills by consumers for financing the purchase of these raw materials or their acceptance is quite unknown. Remittances are made by means of *hundis* but the seller of cotton usually receives cash for his deliveries. This transfer of funds and credits is done by (1) Shroffs (2) various branches of the Imperial Bank of India Ltd., situated near the Baroda state territories and (3) branches of the Bank of Baroda Ltd., the share of the Shroffs being the largest. In the case of crops sent to Bombay, it is purchased by the local agents of

Export of commercial crops.

the large cotton-shipping houses of Bombay or consigned by local dealers and traders to their agents in Bombay known as Jathawala જાથાવાલા, warehousemen who advance moneys on cotton warehoused by them. For local purchases made by large houses, payment is made by them in cash to the ginners or traders from whom the cotton is purchased.

256. An almost identical practice prevails in the export of seeds from the district of Kadi. A fair amount of this business is being done through Port Okha but as the despatches are on account of large shippers the question of finance does not arise. The local sellers are paid in cash or *hundi* or by a cheque at their option.

Export of seeds from the Kadi district.

257. Tobacco is handled by merchants as any other commodity as far as the producer is concerned and by payment by *hundis* when the tobacco is to be despatched outside.

Export of Tobacco.

258. We observe that the Bank of Baroda does not offer good facilities for such transactions as its charges are very high. The share of the Imperial Bank of India in this business is however, fairly large.

The share of banks in this business.

259. Goods manufactured in the Baroda State are exported outside. The financing of these goods is done by the manufacturers themselves and consists mostly of *hundis* sent alone or accompanied by railway receipts. This depends on the credit of the distant customers. To some extent this trade is handled by banks in negotiating the *hundis* presented for realisation but it is not clear whether the banks ever advance moneys to the customers in exchange for such documents.

Export of manufactured goods.

260. The import trade of the State is as important as its export trade. This may be divided into imports of food-stuffs, raw materials and manufactured goods. These latter may further be subdivided into locally manufactured goods and foreign imports.

Import trade.

261. The purchase of food stuff is made through *adatiyas*, (आदतिया) or commission agents in the various centres who despatch goods and who charge small commissions. They draw upon the buyers in the State *hundis* accompanied by the relative railway receipts or by separate *hundis* depending on the credit of the local buyers. Sometime the *hundis* are sent for collection through the Bank of Baroda.

262. There is very little or no direct import from overseas and the method of finance employed is the same as with Bombay importers, i. e. it is by opening an advance letter of credit by agreeing to accept and honour bills of exchange accompanied by shipping documents. Such bills may be payable on demnad but usually they are for payment within sixty or ninety days after sight, documents being made deliverable on acceptance or payment. The Bank of Baroda is doing this business for some of its clients.

263. Most of the purchases are, however, made through agents in Bombay who obtain supplies from wholesale importers or stockists. The local merchant sends to his agent called an *Adaliya*—a commission agent in Bombay a list of his requirements. The agent who is also an expert buyer buys the requirements in the cheapest market, assembles the entire order and despatches it to the local merchant. For these services he charges a small commission and expenses. The local merchant has current accounts with him on which interest is charged. The commission agent is also a Shroff in most cases. Remittances are made by means of *hundis*. As regards purchases of piece-goods and similar articles in Bombay and Ahmedabad, the buyer makes his own purchases and effects remittances through a bank by issuing cheques or by *hundis*. The payment by cheque is coming more into vogue but *hundis* are preferred as they are not subjected to the formal scrutiny about signatures which frequently leads to delay and trouble.

264. The sketch of the finance of trade given above will convey an idea of the important part played by the Shroff. In fact we meet with him at every step in the fabric of trade finance in the State. He is ready to accommodate his client at every stage and therefore his methods are more elastic and suitable to small traders and merchants. The Imperial Bank is the next financing agency. The share of the Bank of Baroda is the least in this respect. The central co-operative banks and unions do not handle remittance work worth notice.

265. There is scope for development in the case of the last institutions but it will necessitate their keeping sufficient funds with banks in Bombay and Ahmedabad and an expert staff to handle the business. The Urban Bank of Vaso does some business of this type but it is an exception. We were informed that one of the difficulties in the way of merchants obtaining credit from the Bank of Baroda was the high rate of exchange charged by that institution. We are inclined to the view that the Bank should take an increasing part in the finance of trade. We dwelt upon this subject in our chapter on the Bank of Baroda and so we need not repeat our observations here.

266. The other way to strengthen the financing of trade, internal and external, is to better the position of the Shroff. We discussed this subject in ample details in our chapter on Indigenous Banking in the State.

267. We venture to make one suggestion in this respect. Government have done away with the stamp-duty on bank cheques but the duty on मुद्रती *Mudali Hundis* still remains. We recommend that the Shroff should receive the same concession as the banks and that the present stamp duty on *Mudali Hundis* should be abolished.



268. It was represented to us that in British India uniform forms were available for *Mudali Hundis* of the descriptions of Rs. 100, Rs. 200, Rs. 500, and Rs. 1000. Uniform forms will lessen the inconvenience of business-men. We therefore recommend that Government should issue stamped forms for *Hundis* payable so many days after sight.

269. The treasuries of the Baroda State did some remittance business for the merchants of the State when they had surplus funds to dispose of and a small charge was made. This gave good facilities to the merchants in far-off places like Amreli. We think that this business may be extended and we would advise the Accountant General to look into this matter and see if some more facilities may be given to local trade.

#### Recommendations.

- (1) Co-operative banks and urban unions should do remittance business ( Para 265 ).
  - (2) The position of the Shroff as a remitting agency should be strengthened ( Para 266 ).
  - (3) The stamp duty on *Mudali Hundis* should be removed ( Para 267 ).
  - (4) Government should provide uniform forms for *hundis* payable some days after sight. (Para 268).
  - (5) The treasuries in the Talukas should help in remitting money. ( Para 269 ).
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## CHAPTER IX

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### **Industrial Finance.**

270. In paras 48-56 of this Report, we gave a short summary of the steps taken by His Preliminary. Highness' Government for the development of industries and the results thereof. We do not propose to traverse the same ground again. Suffice it to say that as a result of that policy new industries are steadily growing enabling a larger employment of capital and labour in the State.

271. We now proceed to discuss the various industries in the State in relation to banking. Financing of industries. They may be divided for the purpose as under :—

- I. Large-scale industries.
- II. Small-scale industries.
- III. Cottage industries ( under which head will be included subsidiary industries for agriculturists ).

272. There are 32 large industrial establishments working at present. Except the railway workshop (which is entirely financed by the State) and the two large dyeing factories at Petlad, most of them are joint-stock concerns. They derive their finance from three sources viz. (1) share capital, (ii) fixed deposits at interest from the investing public and (iii) banks.

273. The formation of joint-stock companies for the organisation of industries is of recent growth. Therefore new industries in the State find it difficult to get the necessary subscription of their share capital, with the result that many of them have to borrow funds for capital expenditure. Most of the textile mills in the Raj are under-capitalised. Apart from open subscription some of the mills obtain share subscription by another device. The managing agents surrender a part of their commissions to the underwriters of a substantial portion of the share capital. This sometimes takes the form of an anna for shares of the nominal value of a lac of rupees. This system is very common in Ahmedabad where people with money do the work of underwriting. We have no such class in Baroda and it is very rare that such underwriting is done for Baroda enterprises except for those that are promoted by financiers from Ahmedabad. This happened in the case of the mills at Kalol, Kadi and Petlad. As industries succeed in the Raj, it is expected that such a class would be formed in Baroda from among local financiers. Usually ordinary shares are issued; sometimes preference shares are also issued; but the latter are issued only when more capital is wanted for extensions or to meet capital deficits.

274. Following the model of Germany banks can help considerably in this direction. In Germany the banks subscribe to the share capital of approved undertakings and retain it as their own investments or distribute a part of it among their clients. For these services banks are represented on the directorate of the companies so helped and by obtaining proxies from their clients and other shareholders they always maintain a sufficient majority to exercise an effective control on the working of the company. Another factor leading to the safety of the banks and the honest working of such concerns is the rigorous control imposed on them by company legislation. In every public joint-stock company there is a supervising body, independent of the board of

directors, which exercises a very salutary control. These banks also function as financiers when the first capital has been spent and also when new developments demand more money. As the same banks finance several similar concerns they acquire the necessary technical direction and are often instrumental in co-ordinating industries in the same group, eliminating considerable waste and duplication. The only criticism directed against this system of financing is that the bankers are dominating industry to an increasing extent. But this criticism is irrelevant to the consideration of the success of an industrial enterprise in as much as the real test lies in the fact whether a concern is successful or not.

The Bank of Baroda Ltd. may follow this system to the advantage both of the Bank and of industry in the State. We do not propose that this underwriting may be done for all kinds of industries but we recommend that it should be confined to undertakings like cotton mills which are of proved value when sponsored by people with experience and status. This may be done in addition to the grant of long term credit from the State as hitherto and subsequently where conditions warrant by the creation of a special hypothek bank for the purpose of granting long-term credit to industries. This institution would scrutinise all propositions for help, would tender efficient advice to enterprising industrialists, and would mobilise the existing financial resources of the State and the public in pursuit of a common and well-thought-out industrial policy.

275. The second method of financing usually adopted is to receive fixed deposits from private investors at a reasonable rate of interest. This appears to be quite a favourite form of raising capital and depends mostly on the influence of the managing agents and the stability and financial conditions of the concerns they manage. From the figures available and mentioned in our chapter on Investment Banking, it appears that an amount exceeding Rs. 1,36,90,000 has been received by joint-stock companies as deposits. This has been possible

because at least half of the managing agents had once been Shroffs whose business it was to attract and receive deposits. Such deposits supply funds needed for capital expenditure as well as for the running of the concern. It may be observed however that at certain times they may be withdrawn owing to reasons which have nothing to do with the industry itself. This must be considered as a great handicap but it is inherent in the system and nothing can be done until industrial finance receives at the hands of the banks the treatment it deserves. For so long as capital debts exist this weakness will persist in our industrial system and banks will have to go to the assistance of industry at any time.

276. This method of financing lacks elasticity and is based on distrust which has some foundation in the fact that the managing agents of the company do not take the banks into confidence and are also liable to abuse the trust reposed in them. Generally speaking the bank is prepared to accommodate local industries by supplying them with working capital.

277. The financing of industries by banks takes three forms. Loans required to supply the working capital are advanced on promissory notes signed by the concern and endorsed by the agents, or they are obtained by the hypothecation of liquid assets. When larger amounts are required sometime a negative lien is created on the whole property of the company or sometime it is taken in mortgage.

278. The other method of financing such concerns is by the issue of debentures. But there is no machinery whereby debentures can be placed on the market. There are instances where debentures bearing 8% were issued at a discount of 5% to 10%. Such a financing is not economical and no business unless it is extraordinarily well-placed can bear such heavy burdens. The lack of confidence in debentures may in some degree be due also to the lack of promptness on the

part of debenture-trustees to take action at the proper time. In some cases debenture-trustees appear on the scene only after the company has gone into liquidation. A timely action on their part might have saved a company from ruin or at any rate from further loss. In any case with a well-developed banking system this difficulty could be somewhat overcome.

279. Although as mentioned above, the banks sometimes secure a first floating charge on a company's liquid assets, they do not seem to have attempted the finance of raw materials from the time they are purchased or of the finished articles upto the place of their disposal. The purchase of raw materials can be financed either by the bank retaining them in its own custody at the risk and on account of the buyer or by accepting trust receipts. The latter means an undertaking by the buyer that he holds the goods in trust for the banker and that he will on sale or use hold the receipts for and on behalf of the bank. This method is in vogue among exchange banks in their relation to approved customers in Bombay and Calcutta but they are extensively used in America and on the Continent and in the cotton and woollen manufacturing trades in England. Sometimes this financing is given in the form of trade-bills.

While describing these methods we do not wish to suggest that all of them may be adopted immediately by the banks but we do wish to point out that the existing banks follow a timid policy to the detriment of the industry at large and also of their own proper functions. This is partly due to lack of confidence between the bank and the borrowers. It can be overcome only by continuous dealings.

280. As described in the early chapters the Baroda Government have always taken an active interest in the promotion of industries in the State, specially by way of rendering financial assistance from the treasury.

State aid in money.  
A brief history.

281. In the absence of proper banking facilities in the State, His Highness has considered it a part of the duty of his Government to grant loans to industrial enterprises on reasonable terms. In 1891-92 a sum of Rs. 1,50,000 was placed at the disposal of the Revenue Commissioner to be loaned at 3 per cent to new industries. This sum was however, increased to Rs. 3 lakhs, in the year 1892-93. In the four years after the inauguration of this policy, a sum of Rs. 2,32,000 was loaned to thirteen merchants. Most of these concerns were flour, rice and oil mills, the rest being small ventures manufacturing scents, oils, soaps, etc. Unfortunately, as most of them failed in a few years, the loans had to be recalled, the State suffering a loss of a few thousands in the whole undertaking. Some of the concerns were not *bona-fide*; they were started just to get Government assistance which was given by enthusiastic officers without adequate inquiries either into the nature of the industry or the security offered.

282. Discouraged by the failure of these ventures the State granted no more loans for a few years. In the year 1908-09 when better-class merchants came forward to start important industries, the loan-system was revived and Rs. 2,90,000 were advanced to three concerns, two of them being cotton mills. The Bank of Baroda was organised in the year 1908. As loans matured, they were paid and the concerns went to that institution for financial assistance. The necessity for granting financial assistance from the State was however realised soon and in 1915 a sum of Rs. 15,00,000 was earmarked for the purpose.

283. In order that this help may be properly given rules were prepared and embodied in the Rules for the Department of Commerce, Industries and Labour. Pertinent portions of these rules are given in Appendix 6.

284. In order that the concern receiving State help may not be put to inconvenience for working capital it is generally held that all these loans may be given through the Bank of Baroda. The Bank gets  $1\frac{1}{2}\%$  commission for the risk it undertakes, the State depositing the necessary funds with the Bank at  $3\frac{1}{4}\%$  or such other rate as may be fixed from time to time.

The working of the system.

In the case of joint-stock concerns loans that are given directly take the form of debentures and in other cases the property of the concern is mortgaged. In the early period shares of joint-stock concerns were taken by way of help but that practice has been discontinued, as it was not desirable to risk public funds without tangible securities.

285. The following statement shows the details of the financial aid which the State gave to various industrial concerns since the revival of the policy.

Details of financial aid from the State.



**Statement showing the number and amount of loans sanctioned, with their classification, etc.**

Classification of the concerns.	Through the Bank of Baroda.		Direct by the purchase of debentures.		Direct by Government.		Total.		Remarks.
	No of concerns.	Amount of loan. Rs.	No. of concerns.	Amount of loan. Rs.	No of concerns.	Amount of loan. Rs.	No. of concerns.	Amount of loan. Rs.	
1	2	3	4	5	6	7	8	9	10
<b>A. Loans sanctioned and granted.</b>									
Tramways ...	...	...	...	...	1	50,000	1	50,000	Out of these 12 concerns
Oil-mills ...	2	1,60,000	...	...	...	...	2	1,60,000	5 were successful.
Brick and tile works.	1	50,000	...	...	...	...	1	50,000	5 „ failures.
Textile Mill ...	...	...	1	7,00,000	...	...	1	7,00,000	2 went into liquidation and were re-organised.
Cement ...	...	...	1	10,00,000	...	...	1	10,00,000	

Fishery ...	...	...	...	...
Tannery. .	...	...	...	...
Textile and Oil mills.	...	...	...	...
Handloom- weaving.	...	...	...	...
Metal-works ...	...	...	...	...
<b>Total</b> ...	<b>3</b>	<b>2,10,000</b>	<b>2</b>	<b>17,00,000</b>
<b>B. Loans sanctioned but not availed of.</b>				
Textile mills ...	8	41,00,000	...	...
Cement factory...	...	...	1	10,00,000
Oil-mill & alkali works.	...	...	1	7,00,000
<b>Total</b> ...	<b>8</b>	<b>41,00,000</b>	<b>2</b>	<b>17,00,000</b>
<b>Grand total</b> ...	<b>11</b>	<b>43,10,000</b>	<b>4</b>	<b>34,00,000</b>

1	600	1	600
1	2,500	1	2,500
1	25,000	1	25,000
1	5,000	1	5,000
2	20,000	2	20,000
7	1,03,100	12	20,13,100
...	...	8	41,00,000
...	...	1	10,00,000
...	...	1	7,00,000
...	...	10	58,00,000
7	1,03,100	22	78,13,100

These concerns did not avail themselves of the loans sanctioned as they did not fulfil the conditions or were not organised at all.

As for the losses under the system, so far there was only one case where Rs. 3,37,500 were lost due mostly to issue of a second set of debentures of the same series against the original understanding.

Recently this policy has been kept in abeyance and loans are given in exceptional cases.

Looking to past experience Government would be well-advised to reconsider the position and resume its original policy especially as regards cotton mills. We recommend cotton mills because that industry is no longer in an experimental stage. It has proved its stability and value and trained men are easily available. The State can at once begin by taking up debentures at low rate of interest, say at  $4\frac{1}{2}\%$  to 5% p.c. to the extent of  $\frac{1}{3}$  to  $\frac{1}{2}$  of the value of the assets of the company on which they are to be secured. The margin of safety would be quite ample for any emergency. The valuation of assets also will not present any difficulties as it is made on well-known principles. The rate of interest should be 5%. The debenture loan must be a long-term credit, for about 10 to 25 years. In our opinion this would be the safest form of investment and we recommend an acceptance of this suggestion. Later on, when the business increases, and if a hypothek bank is organised, this duty may be transferred to it. The Baroda State must take an active interest in these matters and should regard the employment of its surplus funds within the territory as its most legitimate function.

We recommend this policy of giving long-term loans to industries on another ground. As observed above, it has been found difficult to get the necessary share capital for meeting capital expenditure on machinery, buildings, etc. If long-term loans are available this difficulty can be somewhat overcome.

The success of this scheme will however depend upon the active co-operation and sympathy of the Bank of Baroda which we hope the State will get fairly well.

If this policy is adopted we may look forward to an increase in the number of cotton mills within the Kadi district. It has been estimated that about 20% of the mill labourers in Ahmedabad are drawn from that district. They would be glad to have an opportunity to work nearer their homes and possibly under healthier conditions.

286. Under this head are included such concerns as oil, rice and flour mills, metal works, soap  
 II. Small Industries. factories, and cotton ginning and pressing factories. These are spread all over the State and number about 400. They are steadily growing as people get more experience with the handling of machinery. Most of these are engaged in preparing raw materials for the market. Although these industries are found all over the State generally there are places like Navsari and Billimora where they are found in a fairly good number.

287. These concerns are mostly proprietary ones and are  
 Their finance. financed by the owners either with their own capital or by arrangement with some Shroffs with whom they maintain accounts. The Shroff charges an interest rate varying from 6% to 9% p.c. He undertakes remittances and payments. He also receives and collects outstandings by negotiating *hundis*. For all purchases and sales a small commission of  $\frac{1}{2}$ % is charged on the turnover. In actual practice the interest charged and the commission of  $\frac{1}{2}$ % together do not amount to more than 10 to 12% per annum. The Shroff knows the proprietor personally and can keep a close watch on his own investment.

288. The large joint-stock banks have not taken any  
 The part of the bank, interest in these industries. Such indus-  
 joint-stock and urban. tries are varied and are small and they offer, when financed on a large scale, a well-distributed risk. The banks do not seem to have realised this advantage. Theoretically there is no difference between what the Shroff does and what the bank should do. Our recommendation amounts to the bank or its branches

bringing themselves to the level of the small man. The real defect, we believe, lies in the present personnel and their lack of scientific training in banking. A trained and sympathetic banker would at once realise that not only all such business is legitimate but that it is worth while going after because it lessens his risk by distribution. He will also see that the concerns maintain proper accounts and that they are properly audited, so that in course of time honest and businesslike men may be selected and helped and the incompetent ones weeded out.

But we do not expect an early change in the methods of present-day banks and we have therefore to go to another organisation for a remedy. We feel that small urban banks, strengthened properly by Government assistance, will meet the situation admirably. We have before us the Vaso Co-operative Bank and the Anyonya Co-operative Society अण्योन्य सहकारी मंडळी of Baroda but these societies give loans to small borrowers including traders, artisans, contractors, and men similarly placed and not to industries. The proposed urban banks will therefore require to be organised with this end in view. Government should help in this by granting initial expenses, by getting men specially trained in large banks and by the grant of facilities for deposits and cash credits similar to those granted to co-operative central banks and unions, but for longer periods and on easier terms.

289. Another source for such finance is the State itself, especially for long-term loans at moderate rates of interest. This is being done to help new industries such as calico printing, poultry breeding, hand spinning, etc. The principle may, with advantage, be extended and loans should be granted more liberally to new and promising ventures.

290. But for a long time to come, these industries would continue to be financed by the indigenous banker as he is in close touch with the promoter and he knows the ways of the business. If the Saraffi

The Shroff.

of the State is properly linked up with the Bank of Baroda the scarcity of funds that is felt at present may be partially met.

291. The term, cottage-industry, is very difficult to define but it should include all occupations which can be carried on by the worker in his own home and singly or with the assistance of his own family. These include such various occupations as hand-loom weaving, tanning, working in metal, wood, leather and textiles—practically all occupations followed by artisans.

292. A good industrial census of the State should attempt to separate the skilled carpenters, mechanics, blacksmiths, shoe-makers and engineers engaged in factories from those on the list of cottage industries. The results of the census of 1921 reported that 88,360 out of a total of 104,633 industrial workers were home workers. In the decade following, a part of this population must have gone over to power-driven concerns or to other occupations but it may be assumed that the cottage industries are not entirely wiped out from the State, and that they give employment to many people. The hand-spinning of cotton was revived to a certain extent in 1921 and recently it has obtained a fresh lease of life. But otherwise the introduction of machinery has ousted many home occupations. The work of pounding and husking of rice and of wheat grinding and oil milling has now been transferred to power in all important towns. As the Industrial Commission put it. "The weaver has taken to mill-yarn, the dyer to synthetic dyes, the brass and copper-smith to sheet metal, the black-smith to iron rolled in convenient sections." The transition from hand power to machine is getting more and more certain. In spite of this the hand-loom industry has not lost ground entirely and the recent revival has been quite considerable. One reason for the hold this industry has, is the variety of work turned out by it. Here there is no competition from the mass production of the large textile mills.

Similarly there are other handicrafts which are likely to survive competition from machine-made articles because the market for them is limited, and because the sizes and designs are so various as to make mass-production impracticable. Among these handicrafts figure prominently, the weaving of carpets and calico printing at Padra, Kathor and Vaso, Sankheda, the lacquer work of Sankheda, the wood-carving of Vijapur, the brass and silver work of Visnagar, the silk and gold thread-weaving of Patan and Baroda.

293. The following statistics from the census report of 1921 give an almost complete idea as to the distribution of the various occupations throughout the State :—

Statistics about cottage industries in the State.

**Statistics of the cottage and rural industries  
of the State in 1921.**

*Textile Industries.*

No. of hand-loom.	10,568
No. of hand-loom (with fly shuttles).	220
No. of spinning wheels.	12,044
„ „ hand-ginning machines.	1,510
No. of families engaged in dyeing and calico printing.	749

*Leather Industries.*

No. of tanneries.	5,584
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*Wood working industries.*

No. of factories for making of cabinets, wheels etc. and employing more than 2 carpenters.	1,090
No. of families engaged in basket making.	2,083

*Metal Industries.*

No. of iron foundries worked by 2 or more blacksmiths.	1,036
No. of families engaged in brass working.	252
No. of families engaged in bell metal working.	134



*Earthenware Industries.*

No. of families of potters. 6,470

*Industries connected with chemical and analogous products.*

No. of oil presses worked by men or bullock-power. 2,475

*Food Industries.*

No. of cream separators. 59

No. of dairies for *ghee* and butter. 8

No. of fisheries. 1,031

No. of sugar cane presses worked by men or bullock power. 384

*Industries of dress and toilet.*

No. of tailoring families with sewing machines. 2,625

No. of sewing machines. 2,810

Occupations or means of livelihood, showing the number of persons who returned some occupations as their principal or subsidiary ones.

Occupation.	Total No. of persons engaged principally.		Total No. of persons engaged as subsidiary.	Total.
	Males.	Females.		
1	2	3	4	5
Blanket weaving ..	39	18	46	103
Drummers ... ..	807	71	64	942
Tape weavers ... ..	494	45	456	695

294. Government once carried out the industrial surveys of a few of these occupations as also of some of the towns where they flourished but we feel that they should embrace all the most important industries of the State. It would enable Govern-

ment to appreciate the needs of such industries and to formulate a policy for their advancement.

295. We may now proceed to examine how these industries are financed. The artisan is financed by (1) the money-lender or (2) the wholesaler dealing in wares produced by him. Money-lenders come in in those trades where the artisan is his own retailer but this number is very small. The money is required for buying raw materials and for maintaining a stock of finished articles awaiting disposal. The artisan divides his time between his work and his efforts to secure sales. The remedies that we wish to suggest should free the artisan from the money-lender and from the necessity of being his own salesman. The wholesaler is a money-lender and a merchant combined into one. The hand-loom industry is an illustration of this method of finance. The wholesale merchants supply the necessary raw materials and obtain the finished works to given designs, the payment of remuneration being by piece-work. An advance is given to the artisan to meet his own expenses with the result that the weaver is constantly tied down to the merchant. In many cases the rate of interest is exorbitant going as far as 25% made up in several ways. In order to get him out of this difficulty one will have to provide firstly the necessary finance, secondly an efficient organisation for purchasing raw materials cheaply and, thirdly an organisation which will give him a ready market for his production. This would require a close watching of the market and an understanding of the demand of the consumer for new patterns and designs. But this is not an easy task, the more so when it is considered that we have to deal with an ignorant and illiterate class of workers who are apathetic and who are not capable of understanding the direction in which their welfare lies. This state of affairs brought failure to the several efforts made to ameliorate their conditions. Those efforts included the starting of co-operative credit societies. About thirty-nine societies of weavers were organised but most of them proved failures, the reason being that they offered only a partial solution of the difficulties.

Financing of cottage industries: Difficulties.

They did not relieve the worker from the necessity of seeking a market for himself. The workers were found unwilling to start co-operative stores for the purchase of raw materials. Efforts were then made to admit workers as members of urban banks. But even that did not succeed.

The story of tanners and the way in which they obtain their finance also runs parallel to that of the hand-loom weavers. Eleven societies were started but none of them is working satisfactorily.

296. We now proceed to examine the efforts which should  
 Suggestions. be made by the State to improve the  
 situation. For the present demonstra-  
 tions are arranged for three industries: I-hand-spinning and  
 hand-loom weaving, II-calico-printing, III-lacquer-work.

We suggest that arrangements may be made for demon-  
 stration in improved methods in tools and appliances for  
 various industries such as carpentry and smithy. If the  
 artisans chose to buy these implements, arrangements may  
 be made to sell them by the instalment system. It may be  
 mentioned that the main problem in the development of the  
 cottage industry is to raise the worker from the position of a  
 piece-worker for the merchant or money-lender to that of a  
 master-craftsman working on his own behalf.

We suggest the following remedies:—

- I. Careful surveys of selected localities where the artisans are working should be made jointly by the members of the co-operative and commerce departments. They should include the financial position of the industry as well its technical defects.
- II. As far as possible co-operative societies should be organised for these classes. They should deal with the supply of raw materials and arrange the disposal of the finished products. These societies would require special assistance

from Government in shape of loans at low rate of interest and subsidies for the employment of competent men to guide them in the initial stage. When a number of societies are started in a Taluka, a Taluka union may be organised and the supply of stores and the marketing of manufactured articles may be transferred to it. A larger unit will always be able to do the work better than the small village-societies. These unions will also require special subsidies from Government.

We were told that the experience of the co-operative banks in the finance of the 'weaver and tanners' societies was not very happy and that they were always reluctant to advance loans to these societies. But if the method mentioned above is adopted we have no doubt that the societies would be better organised and the banks would not have any difficulties in taking up their finance.

- III. The department of industries should arrange for special demonstrations. The part played by the State in the finance of the hand-loom industry is considerable. Money is given repayable in easy instalments to purchase improved looms etc. Uptil now Rs. 6960 have thus been given as loans. Government have also advanced loans to two hand-loom weaving factories. These methods of State-help may with advantage be extended to other trades.

297. In order to facilitate marketing it has been suggested that exhibitions be organised. They have their own value but they are not likely to reach the distant buyer. We believe that the creation of specialised fairs might achieve this purpose. We are informed that in some weaving centres outside the State a novel method of marketing has come into vogue. The weavers

who are concentrated in the locality in large numbers bring their finished articles in the evening where several buyers also gather together and business is thus transacted. This is a very good solution where the artisans are working in such large numbers as to make it worth while for buyers to be present. Other ways are to organise and maintain large sale depôts on behalf of the co-operatives, and to advance money on finished articles with a sufficient margin for commercial risk. These should be first organised and subsidised by the State and then handed over to co-operative societies or a union of them. Unless the success of such an organisation is demonstrated, no one will venture into it of his own accord.

298. The next question for consideration is that of subsidiary industries. They are classed in the above discussion as small industries but they warrant special treatment. They are occupations suitable for agriculturists and for non-agriculturists in their leisure time. Hand spinning is the most important occupation.

Subsidiary industries.  
A Cottage Industries  
Institute.

Middle and upper classes of society have ample leisure and can put in some work. To ask them to do it may be equivalent to appeal to their sentiment. It may be taken as a corrective against their apathy for manual work. But for those who have nothing else to do during their spare hours it is certainly an economic gain to take to handspinning. There are thousands of men and especially women in the country, chiefly in the areas of dry cultivation who remain unemployed for long periods and who can take to handspinning as a profitable occupation for the supply of all the coarse cloth they want. We are glad to observe that the Baroda Government are encouraging this industry in co-operation with the All-India Spinning Association and have started some centres in the district of Kadi.

The educated middle classes have no industry to which they can turn for subsidiary income. Hosiery affords an example of such an occupation. Recently a number of industrial homes have been started at Baroda, Petlad, Patan,

Amreli, Navsari, Visnagar etc., where the women-folk of the middle class are trained in needle work, embroidery, book binding, tape weaving, and such other domestic crafts. But the range of industries selected is still very small and some others could be added like hosiery, toy-making, tailoring, etc. These homes are financed by philanthropists and are subsidised by Her Highness the Maharani Saheb. However they need some finance to purchase sewing and other machines and raw materials. Government may give some assistance in this direction in the initial stages. But later on when the workers are trained and are in a position to do some independent business cooperative societies may be organised to enable them to buy raw material, dispose of their manufactures and get adequate finance. These societies may be worked under the auspices of the Homes and may be financed by them or by the banks.

We understand that the Department of Industries has on its programme the organisation of a Cottage Industries Institute. The main object of the institution would be to make experiments in different industries and when successful to arrange for their demonstrations. Already three industries have been taken up, handloom weaving, calico printing and lacquer work and with success. So we recommend that more industries should be taken up.

299. As regards subsidiary occupations for agriculturists a distinction should be made in our opinion between dry farming and irrigated farming. The latter is undoubtedly a full time job and does not permit any subsidiary industry except dairying.

300. But irrigated agriculture is not universally practised in the State and there are large tracts of land where the agriculturist remains idle during several hours of the day and months of the year. It is during this time that the agriculturist and his family can be profitably employed. The agriculturist does seek some employment

but there are very few avenues open to him. Wood-felling, making of *bidis* (for which there is a market as far as Burina,) gardening, match-making, hand loom-weaving etc. are some of the other industries. Most of them require both financing and organisation for sale. Their financing does not in any way differ from what we recommended for the support of small industries.

301. Of all these industries dairying requires some special mention. Gujarat is the home of the Dairy. dairy-industry and there is ample scope for its development, both in the improvement in the breed of milch-cattle and in the preparation of dairy products for the market. The report of the cattle committee appointed by His Highness' Government in 1925 has indicated the lines on which the local breed may be improved and we understand that action is being taken to carry out the suggestions. At the same time Government have sanctioned a sum of Rs. 25 000 to be loaned to special cattle-societies to enable the members to buy more cattle and thus add to their income. Already twenty five societies have been organised and the whole amount of Rs. 25,000 was given to members of eighteen societies. It is too early to appreciate the result of this experiment but if it succeeds and if the cultivators are induced to keep more and better types of cattle, the experiment should be continued.

But the dairy industry as a whole still requires development, especially that of Charotar. Large quantities of milk are converted into cream and are sent outside for the manufacture of butter. If financial assistance and technical guidance are given to the producers, co-operative creameries and butter factories could be started in several places in the State.

302. Before we close our report on industrial finance we have one remark to make. In our chapter on the finance of agriculture we suggested that effect should be given to the recommendations of the Land Mortgage Bank Committee and that a land A hypothek bank.

mortgage bank should be started. But the needs of industries for long-term finance will still remain unprovided for. We would not advise Government to undertake this work for all the time. We would rather wish that they should help to create a special bank of the type of the hypothek bank of Japan. It will raise capital by the issue of long-term bonds and loan out money to deserving institutions for the promotion of new industries and the extension of existing ones. It is true, the volume of business would be small to begin with, but once the institution was started it would grow as its clientele developed. It would not be a costly venture in the beginning and may be started under the auspices of the Bank of Baroda Ltd. In the meanwhile Government should continue the present policy of financing industries with long-term loans.

#### **Recommendations.**

(1) As industries succeed in the Raj it is expected that a class of underwriters would be formed in Baroda from local financiers. ( para 273 ).

(2) The banks should subscribe to the share capital of undertakings as in Germany. They should have a voice in the control of the concerns. They may finance new developments in the concerns also. ( para 274 ).

(3) The Bank of Baroda should follow this practice, especially in the case of the cotton industry. A hypothek bank may be subsequently brought into existence. (para 274).

(4) The system of deposit-receiving by industrial concerns will continue as long as banks do not help them liberally. ( para 275 ).

(5) The same criticism applies to finance through debentures. ( para 278 ).

(6) Banks should assist industries in the purchase of the raw material and also in the disposal of the finished product ( para 279 ).

(7) Government should resume its original policy specially as regards cotton mills. The State can help by taking



up debentures at low rate of interest to the extent of a part of the assets of the company. The debenture loan should be a long-term credit. Eventually the work may be taken up by the hypothek bank. ( para 285)

(8) Joint-stock banks should take more interest in small industries. But before this is done, it is necessary to start urban banks with help from Government. ( para 288).

(9) The State should show more sympathy for small industries. (para 289).

(10) The Shroff can be more useful to the small industries if he is made an agent of the Bank of Baroda. ( para 290).

(11) A good industrial census should separate artisans working in homes from those working in factories. (para 292).

Industrial surveys of all cottage industries should be ordered by Government. ( para 294).

(12) The small weaver needs help in finance, in the purchase of the raw material and in the disposal of his ware. ( para 295).

(13) Arrangements should be made for demonstration in improved methods, in tools and appliances for various industries. Implements may be sold to artisans by the instalment system. ( para 296).

(14) The departments of commerce and industry and co-operation should carry out careful surveys of the places where the artisans reside. ( para 296).

(15) Co-operative societies should be organised for them with State aid. They may be placed after some time under the direction of a Taluka union. ( para 297).

(16) The marketing of the artisan's wares can be helped by the organisation of exhibitions, special fairs or large sale-depots. Government should help in this. ( para 297).

(17) Hand-spinning is a profitable occupation in areas of dry cultivation. The department of commerce should extend its activities to more cottage industries. ( para 298).

(18) Industrial homes with a large selection of industries will be useful to middle classes. These homes should be helped by the State. Eventually they should be amalgamated with artisans' co-operative societies. (para 298).

(19) The department of commerce and industries should expedite the foundation of the proposed cottage Industries Institute. ( para 298 ).

(20) The dairy-industry of the State requires help in the shape of technical guidance. Co-operative creameries should be started. ( para 301).

(21) A hypothek bank may be started under the auspices of the Bank of Baroda in the future. ( para 302).

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## CHAPTER X.

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### **Investment Banking.**

303. **Investment banking** is different from commercial banking. The latter is chiefly "concerned with the gathering together of the ~~short-time~~ funds of the community and making them available to finance the current purposes of the commercial world". The other kind of banking, which is the subject-matter of this chapter, "utilises that portion of the annual income of the community which it refrains from devoting to the satisfaction of its current wants". It includes savings banks, trust companies, building and loan associations, retail bond-houses, insurance companies, investment trusts, etc. It is true that in modern practice commercial houses and other companies also accept savings deposits and many investment banking institutions perform the functions of commercial banks. But the distinction between the two, commercial banking, which we discussed in the earlier chapters, and investment banking, is important and must be borne in mind.

304. The description given above of the functioning of investment banking in its principal forms sufficiently demonstrates its social utility. It is on account of this that the governments of all advanced states make special efforts to provide their people with such institutions by passing legislative measures and by encouraging individuals who take up the same work from purely benevolent intentions. Unfortu-

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\* Banking Process by R. G. Rodkey (Macmillan Co. 1928).

nately in India and also in Baroda the level of the knowledge of modern banking is not very high. The initiative for such a policy was therefore taken in British India.

In the following pages we give a picture of investment banking as we found it in the Baroda State. We also offer our suggestions for future development,

A fairly good number of the people of the Baroda State are an intelligent, hardworking and frugal class of men, and a decent portion of them concentrates on trade, commerce and industry, which yield a reasonable margin of profits. The savings from their earnings are invested with the Bank of Baroda, the Sahukars, the co-operative societies, the agricultural banks, limited companies in the State, gilt-edged securities, local government bonds and industrial paper in British India, savings banks in British India and in Baroda, postal cash certificates, and insurance companies.

305. We take the Bank of Baroda first. As we pointed out in our chapter on that institution it

(1) **The Bank of Baroda.** has opened eleven branches in the State. These offices had current, fixed and savings accounts amounting by the end of December 1929 to Rs, 3,39,84,894. A part of these deposits may have been received from the people of the surrounding territories in British Gujarat and Indian States. However there is no harm in assuming that the greater portion of them is drawn from the Baroda State. The complaint is that much of this amount is taken outside and is therefore prevented from being utilised for local purposes.

306. The village money-lender and the Shroff are

(2) **The Shroffs.** important institutions for investment banking in the State. They are the oldest institutions and in spite of many competing agencies do fairly good business. They receive considerable amounts of money as deposits on interest which varies from nil to 6%. Mostly the funds of castes and religious trusts are deposited with them because they control them or because the public feels confidence in them. Some Shroffs transfer

their funds to Ahmedabad and Bombay where they maintain *Adals* (आडल). The Shroffs do not acknowledge receipt of the deposits; they consider it against their credit to do so. But the business of the Shroffs is on the decline and with the slow disappearance of some of the old houses by bankruptcy or migration and with the opening of safer and more remunerative avenues for investment the deposits with them are diminishing.

307. Next we may place the co-operative societies, unions, urban banks, central banks and agricultural banks which receive deposits from the members and also from the public. Of course none of these institutions except the Bhadran Agricultural Bank and some of the urban societies has any savings bank account but that does not imply that they do not encourage saving habits amongst the people. These institutions have rendered good service to the public. Workers in the co-operative movement agree that they have attracted savings which were hitherto lying idle and sometimes buried. Statements exhibiting the amounts of the deposits from members and non-members for these societies were shown in the chapter on co-operation.

308. The next important agency that receives people's savings is the savings bank. Its social importance has been universally acknowledged. It does enormous service to the individual. It provides safety on account of the fact that its investments are of the most conservative types. The yield of it is comparatively small, ranging from 3% to 4%. But as the individual saver is not in a position to appraise the quality and the safety of the securities in which he may invest his savings, the savings bank is the institution to which he can look forward for not only a skilful investment of his principal but also for a fair yield from it. Again if he were at liberty to invest his savings according to his judgment, he might "put all his eggs in one basket" with the result that he might suffer from the loss of the whole while the

savings bank can distribute the risks by seeking investments in a variety of concerns. Further the depositor withdraws on advance notice to the bank. So the latter keeps only a very small percentage of its total deposits uninvested and "it can be safely asserted that at least 95% of its total funds may be kept in permanent investments, thus enabling it to keep them in long-time capitalistic enterprises on which a large rate of return might be earned".

The institution of the savings bank renders service also to society. It makes the accumulations of small savings available for the opening of public utility services like irrigation works, tramways, railways, electric services, etc.

Savings banks should be established in order (1) that they render the opportunity for saving as easy as possible; (2) that they encourage savings; (3) that these savings are secure (4) that savings even in small quantities may be accepted

Again in order to enable a wider class of people to have access to the savings bank, it is necessary that numerous receiving offices should be established and kept open, if possible, every day at convenient hours. The institution of such offices, however, is difficult in rural districts where there are few people qualified to manage them.

We now examine the system of the savings bank prevailing in the Baroda State and see how it serves this purpose.

309. The Government of Baroda maintain one savings bank of their own at the town of Gandevi in the Navsari Taluka. We ascertained from the Accountant General that this institution was prospering well and that the deposits with it from the public were increasing every year. The following table gives the record of this institution for the last three years :—

The Savings Bank  
in the Baroda State.

Samvat year.	Credit.	Debit.	Balance.
	Rs.	Rs.	Rs.
1982	8,885-12- 9	2,985-12- 9	5,900- 0- 0
1983	7,283- 5- 4	6,549- 3- 8	6,634- 1- 8
1984	11,932-11- 5	7,475- 0- 0	11,091-13- 1

This savings bank or बचत पेढी as it is styled allows interest at the rate of  $3\frac{3}{4}$  % on the minimum balance which the depositor has from the fourth day of a month to its close. But no interest is allowed for sums less than Re. 1 and more than Rs. 5000 in the case of majors and Rs. 1000 in the case of minors. A special feature of the business conducted by the bank is that it receives as deposits trust-funds and it is empowered to accept as deposits funds on behalf of municipalities, local boards, and village panchayats. The time for working is from 1 p.m. to 4 p.m. Payment by cash only is allowed. The medium of account-keeping is the vernacular. All these features have a tendency to make it more popular than the Government of India Post Office Savings Banks. Again the institution is attached to the treasury of the Mahal and so the cost of administration is the lowest.

We have at present only one savings bank of this type while we have in all forty-two Mahals in the State. The Bank of Baroda has hitherto opened eleven branches in the Mahals. It would take time to add more to the existing number. So we feel that there is a good scope for encouraging investments from the public in the thirty-one Talukas of the State, where the Bank of Baroda has not still reached and where it is not hoped that it would reach in the very near future. The savings bank attached to the Mahal treasury will compete successfully with the postal savings bank as it has been shown by experiment at the town of Gandevi.

The success of the institution will depend upon the administration in the Mahal and upon the confidence its members will be able to inspire in the mind of the investing public. If properly developed, it can help in the transmission of funds from one place to another and even in the receipt of taxes. We therefore recommend that attempts should be made to start more savings banks in those parts of the State where the Bank of Baroda has not opened branches.

We make our recommendation with the last qualification because we find that an agreement exists with the Bank of Baroda at present, debarring the State from opening savings banks at those places where it has branches. In the absence of such an agreement, we would have recommended the opening of savings banks at every important place in the State, irrespective of there being a branch of the Bank there. We may however add that the agreement just referred to is against sound banking. The experience of the world is that the larger the number of banking institutions, the greater the service they would perform to society. Banking is of different kinds and every form of it appeals to a special class of people. Some prefer co-operative banking, some prefer joint-stock banking; others would like to have access to savings banks. We therefore suggest that when the agreement with the Bank of Baroda comes up for revision, this particular clause should be removed and Government should be at liberty to open a savings bank at any place of their choice.

Large funds will accumulate with the savings banks and we have every hope that the finance department of the State will find ample scope for their investment in productive purposes in the Raj. There is ample scope for development in the State and any amount of money can be usefully employed.

310. The Accountant General receives several trust and endowment funds which are usually invested in securities outside the State. He may open a special public trust office in his department,



to handle such funds and use them for the development of the State. It may not be necessary to attempt this innovation immediately but we would suggest that the department should seriously think of it at the proper time.

311. Among the institutions that promote savings are (5) Thrift Societies etc. thrift societies organised by the co-operative department. There were in all 35 such societies with 577 members and the total amount of savings collected by them was Rs. 5,311. They flow in dribblets from month to month and are invested in co-operative banks. The deposits remain with the societies for ten years and they increase by 50% when returned after that period. Most of these societies are found in the *Kalipara* areas and are very popular among the women there. We feel that this class of societies should be popular with the labouring classes, with women of the tracts inhabited by Dhankas, with people in the Talukas of Petlad and Bhadrans and the district of Kadi who carry on the dairy industry, in short with all those classes of people whose earnings are small.

312. In this connection we would draw the attention of Mutual Savings Banks. Government to the institution of Mutual Savings Banks started in some of the European countries with a guarantee of minimum capital from some philanthropists. After paying the usual interest the profits remain with the banks. They may be taken to the reserve-fund or for the payment of bonus or dividends. The funds are invested in approved securities such as government or municipal bonds, first mortgages, etc. These banks are very useful to salaried men, wage-earners, etc. They pay even dividends out of their profits. It is true that it takes a long time to develop such institutions but once they are established they grow and they perform a very useful service to society.

There is much scope for such banks in some of the important towns of the Baroda State, especially in the city

of Baroda. The Bowery Savings Bank of New York would be a model to follow. This institution has developed into a very important bank in the course of a century.

313. Joint-stock concerns receive deposits from the public in the State. The total of such deposits received by the joint stock companies (except the Bank of Baroda) registered in the Baroda State was Rs. 1,36,90,000 at the end of the year 1929.

This kind of investment is made possible by the liberal policy of His Highness the Maharaja who helps new industries and we feel confident that if the same policy is pursued with vigour and soundness, more industries would grow in Baroda, affording greater opportunities for the investment of the surplus funds of the people. In the absence of such opportunities a large number of people will send away their monies outside the State. For instance, we found that the textile mills of Ahmedabad, of Bombay and even of distant Solapur had absorbed large funds in this way.

Under existing conditions no objection can be taken to such investments. It is difficult even now to get the necessary share capital for block account and the agents of the companies are compelled to raise the amount of the deficit by their private influence. But looking from a purely banking point of view this kind of investment is good neither for the industry nor for the investor. It exposes the industry to a sudden withdrawal of deposits in times of depression and consequently puts the agents in a very embarrassing position. Many an agent has suffered by this. Very often the depositor is not in a position to judge of the soundness of a concern and usually goes by the reputation of the agent. As a matter of fact this sort of finance should be provided by fixed capital; and preferably by long-term loans or debentures. But we have no banking institution in Baroda which could finance industry in this way.

314. The Government of India post office savings banks opened by the Indian Government in the Baroda State with His Highness the Maharaja's permission offer good investment facilities to the public of the State. The Economic Development Committee reported 90 such institutions with Rs. 39,80,000 as deposits in the year 1913.

The accompanying statement shows the number of accounts in the post office savings banks during 1916-21 :—

Year.	Number of accounts in the post office savings banks in the State.
1916-17	24,864
1917-18	24,244
1918-19	23,693
1919-20	24,239
1920-21	24,796

The next table shows the number of savings banks in the State, the total number of depositors, the deposits and the working of the accounts by the end of March, 1929.

**Information regarding business done by Government of India Post Office Savings Banks  
in the Baroda State, 1928-29.**

Name of the division of office.	No. of savings banks.	No. of savings bank holders.	Total amount to credit at the close of the year ending 31-3-1928.	Deposits during the year ending. 31-3-1929	Withdrawals during the year ending. 31-3-1929	Total balance on 31-3-1929
			Rs.	Rs.	Rs.	Rs.
Salher B. O. (Nasik Dn.)	1	15	548- 8-10	1,050 - 4- 0	1,038- 0- 0	560-12- 0
Bhavnagar Division ...	10	881	91,329- 4- 6	57,485- 4- 0	54,962-11- 0	96,799-10- 2
Ahmedabad ,, ...	42	12825	7,16,079- 8- 4	6,26,064-15- 0	3,98,632- 3- 0	9,43,489- 4- 4
Baroda H. O. ...	68	9098	18,47,930- 5- 9	10,57,108- 6- 0	8,02,249- 7- 7	21,02,789- 4- 2
Kaira ,, ...	20	2244	2,56,816-13- 2	2,41,178-14- 3	2,00,886-14- 0	2,97,108-13- 5
Rajkot Division ...	4	554	64,082-13- 0	43,671-14- 7	29,345- 9-10	80,401- 3- 3
Surat ,, ...	46	8437	17,22,729- 3- 7	6,87,222-13- 8	5,16,422-14- 7	19,65,400-11- 6
<b>Total ...</b>	<b>191</b>	<b>34054</b>	<b>46,99,516- 9- 2</b>	<b>27,14,142- 7- 6</b>	<b>20,03,537-12- 0</b>	<b>54,86,549-10-10</b>

In the last nine years, the savings banks recorded a rise of 9258 accounts giving an average of about 1000 per year.

The figures for 1928-29 are interesting from another standpoint. There were deposits to the extent of Rs. 27,14,142-7-6 and withdrawals to the extent of Rs. 20,03,537-12-0. This leads to one important conclusion, namely that the business done by the banks was brisk enough.

The table also reveals the strength of the investing habit of the people of the various districts of the Raj, the Baroda and Navsari Prants being the most conspicuous in the whole group.

These banks perform some service to the people of the State. They encourage in the people the habit of saving and they afford facilities for the safe deposit of their savings. They can be made to render even much better service to trade if they adopted the system of postal cheques thereby facilitating the transfer of funds from one office to another or from one account to another. This issue may be investigated by the Central Banking Inquiry Committee. The postal systems of European countries render many other useful services to the public, e. g. they receive payment of taxes from the people. The business of the savings banks there has grown so much that several states have thought it necessary to regulate it by legislative enactments.

315. The Government of India started the institution of the post office cash certificate in 1922. We give below a statement relating to this form of investment in the Baroda State:—

(8) Post Office Cash Certificates.

**Statement regarding cash certificates purchased during the last five years in the Baroda State.**

Name of division or office.	1924-25.	1925-26.	1926-27.	1927-28.	1928-29.
	Rs.	Rs.	Rs.	Rs.	Rs.
Bhavnagar Division ...	37,177- 8	35,653- 3	50,196- 4	18,078- 4	14,656- 0
Ahmedabad ,, ...	3,21,892- 3	3,77,126-12	2,48,771- 4	2,33,000- 4	3,75,097- 4
Baroda H. O. ... ..	5,10,573- 6	7,08,783-15	4,20,583- 4	2,74,426- 4	3,11,333-12
Kaira H. O. ... ..	1,28,935- 0	1,94,095- 8	1,17,531-10	1,32,864- 8	1,17,000- 0
Rajkot Division ... ..	...	16,000- 7	32,539- 7	5,271- 4	13,756-12
Surat ,, ... ..	3,16,405- 0	4,15,866- 8	3,37,668- 0	3,44,369- 0	3,48,538- 0
<b>Total</b> ...	<b>13,14,983- 1</b>	<b>14,47,526- 5</b>	<b>12,07,289-13</b>	<b>10,08,009- 8</b>	<b>11,80,381-12</b>

It will be seen from the above how huge funds were withdrawn from the Baroda State to assist in the promotion of public utility works in British India. The same could have been utilised by the Government of Baroda for economic development. It also shows how eager the public is to see its savings safely invested in the certificates yielding good returns. Making allowances for the conversion of some of the cash certificates since the date of their first issue, we may safely assert that the British-Indian Government took away from us nearly Rs. 1½ crores, inclusive of savings bank deposits. It was suggested to us in the course of our inquiry that if the Baroda Government issued similar certificates, they would get money from the public even at a lower rate of interest. The reason is obvious. The credit of the Baroda State stands very high. It has no debts ; on the other hand it has made substantial investments of its savings. So if the State needed money, it would be easy for it to get it at a low rate of interest. We would recommend that the State should borrow from the public whenever money is required for public utility services.

316. The securities of the Indian and Provincial Governments and of municipalities and corporations in British India offer very important avenues for investment to the people of the Baroda State. The extent of such investments must be enormous, running into several crores of rupees. The State itself has invested rupees one crore and a few lacs in them and in industrial and public utility concerns.

(9) Gilt-edged securities, Municipal bonds, etc.

317. The paucity of institutions for the encouragement of thrift and for the investment of savings tells in another way also so far as our State goes. There is a growing class of people in the Raj who get their lives insured with foreign or Indian insurance companies. Almost all the servants or the State now appreciate the benefits of life insurance. Even merchants and agriculturists realise its value. But there is

(10) Insurance Societies.

hardly any flourishing life insurance institution in the State. There is no fire insurance company. Nor is there any good provident society in the Raj. The result is that all the money which is paid as premia to outside companies, is drained away from us and only a part of it returns to us in the shape of realisations of policies or compensations for accidents.

There is one small institution, the Bombay, Baroda Assurance Company however, which does some life insurance business in the Baroda State. It has a few agencies of its own all over India and Burma and it has succeeded in canvassing good business through them. The agent of this institution represented to us that if it were supported by the State by way of purchasing a good number of its shares it would in course of time develop into a prosperous indigenous insurance house in Baroda. The request is deserving of careful consideration from Government. The form of the assistance may be decided by Government on the merits of the case.

The importance of this question will be realised if it is borne in mind that there are at present more than thirty insurance companies doing business in the State through their accredited agencies and that they are collecting about Rs. ten lacs as premia every year. The funds which these outside companies collect from us are invested in municipal, port trust, local and state bonds and they help in the economic development of British India and foreign countries. The enormous extent of these investments can be seen from the accompanying table which shows the assets of a leading assurance company in Canada by the end of 1928.

The diversion of these huge funds elsewhere serves not only as a handicap to the development of schemes for betterment services in our State. It entails additional losses also. We lose in stamp duties, court-fees and income-tax and the State pays refunds in income-tax to policy-holders.



**Analysis of assets, by the end of December 1928, of the  
Sun Life Assurance Company of Canada.**

Particulars.	Market value.
1. Government bonds ... ..	\$ 29,687,103
2. Municipal bonds ... ..	\$ 13,581,787
3. Rail-roads ... ..	7,780,197
4. Navigation companies ... ..	471,947
5. Public utility companies ... ..	114,301,923
6. Telephone, telegraph & cable ... ..	27,742,829
7. Industrial companies ... ..	182,638,577
8. Bank and trust companies stocks ... ..	9,669,740
9. Bonds secured by first mortgage on real estate ... ..	3,516,173
10. Loans secured by collateral ... ..	} \$ 103,628,181
11. First mortgage on real estate ... ..	
12. Real estate owned ... ..	
13. Loans on companies policies ... ..	
14. Cash in banks and on hand ... ..	
15. Reserves as deposit with and amounts due from, other companies under reinsurance contracts... ..	
16. Sundry assets ... ..	

The following figures will be still more interesting, as they show how even this foreign company invests its collections—possibly Indian collections—in the securities of Indian and Provincial Governments and of local bodies :—

Description.	Rate of interest.	Maturity date.	Market value. \$
Agra and Oudh ... ..	6	1931-41	1,231,350,00
Bombay Development Loan.	6½	1935	529,100,00
Government of India ..	3½	Perpetual.	148,555,00
do. ...	3-6	1929-55	1,729,166,49
Government of Mysore	5-6½	1931	196,100,00
Bombay Municipality	4	1935-49	35,630,00
„ Improvement Trust.	4	1969-70	71,744,40
„ Port Trust ...	4-6	1929-75	182,052,90
Calcutta Improvement Trust.	6	1952	78,840,00
„ Corporation	6½	1938-51	68,157,70
„ Port	5-7	1931-88	261,175,00
Karachi „ Trust	4-6	1940-52	133,152,00
Rangoon Municipality	5½	1956	105,672,00

318. A sound insurance organisation is therefore a great necessity for the preservation of our savings, the development of our resources and the expansion of our revenues. In other states it supports every sound rail-road, helps public utility services, loans millions on farms, invests large sums of money in municipal securities, puts hundreds of millions into buildings which make up as it were "the sky-line of New York and other cities," and is rightly described "as a new per capita product not only in the vast accumulation of active capital but also in human comfort, social stability, and social power."

We showed above that the initiative for investment in insurance is sufficiently large with the people of the Baroda

State, thanks to the enlightened policy of His Highness the Maharaja with regard to free and compulsory education and to the frugal habits of the people. It would be therefore, a sound policy if the State afforded unstinted encouragement to the ~~up~~-build of indigenous insurance concerns. It would make them self-sufficing within a very short time and it would go a great way in stopping the drain of capital to foreign countries and to British India.

319. With a view that Government servants should receive an appreciable sum of money on retirement from service, a scheme of life insurance was introduced in Baroda in 1925-26 on the analogy of the one adopted by the Mysore State. An officer of the department of finance was deputed to Bangalore to study its working. The work was then entrusted to the Accounts Department and a committee was appointed, with the Accountant General as President.

Opening of an insurance branch by the Baroda State.

It was a purely life insurance scheme. 10% of the pay of the insured servant was deducted every month and then a policy which entitled him to receive the insured amount at the age of fifty-six or earlier at death was assured to him. The amount of insurance varied according to the age of the insured and the monthly premium. The private insurance companies offered a variety of schemes. Accordingly Government introduced four schemes for servants of the civil departments (including the Police) and four schemes for men of the military department. Every one who entered service after the 1st August 1925 had to get himself insured. For those who had accepted service before that date, insurance was optional.

320. During the year 1925-26, 682 applications were received out of which 636 were accepted and 446 policies were issued. In this connection, a new fund called the Insurance Fund was created to which the amounts of the premia of the policies were credited from time to time. The total amount thus

The insurance fund.

credited for the fund by the end of the year 1926 was Rs. 5,278-1-4. The expenses towards medical examinations and establishment charges were defrayed from this fund and the balance was invested to earn interest. As a tentative measure for two years, Government allowed interest at 4% per annum on the monthly balance of these funds, lying in the treasuries.

During the year 1927, 1365 new applications were received, out of which 1246 were accepted and 998 additional policies for Rs. 6,48,742 were issued. The total policies in force at the end of the year 1927 were for Rs. 8,84,762. The total amount credited to the insurance fund during the year was Rs. 25,762 and the expense towards medical examination, payments to the survivors of the policy holders etc. was Rs. 6,338. The balance was Rs. 2,400.

In the next year 468 applications were received out of which 447 were accepted and 748 additional policies for Rs. 5,02,528 were issued. The total policies in force at the end of the year were 1,773 for Rs. 12,53,453. The total amount credited to the insurance fund during the year was Rs. 38,628 and the expense towards medical examination, payments to the survivors of the policy holders etc. was Rs. 17,742. The balance at the end of the year was Rs. 44,888.

321. The scheme was ordered to be abolished for Government servants drawing Rs. 100 and less p.m. in 1927-28 and for all servants in 1928-29. It was done on the complaint of some of the low-paid servants who considered the scheme as a great burden. But apart from this if the acceptance of such heavy responsibility on behalf of the insured sounded as unwise and ill-suited to the financial commitments of the State, it was open to it to revive it in some other shape. We just alluded to the request of the Bombay Baroda Assurance Company, a local concern for assistance from the State. We feel that if the State arranged for the compulsory insurance

of the lives of its servants with a local concern or with a concern operating in the State from British India under certain special conditions, it would be a great relief to the services.

At present the foreign companies do not accept insurance below Rs. 1,000. Evidently such a tradition can never enable the companies to reach the lower middle classes and the poor people in the villages. But an institution, working in the State under the patronage and advice of Government will very easily command business in small towns and even in villages and will reach all classes of people. We even submit that the machinery of administration may be utilised for the purpose.

322. There are various other schemes to encourage investment habits among people and we may just refer to some of the most familiar ones only in order to show how great the scope is for their development in the State. There is the scheme of the village savings bank where a numbered box of small size locked and sealed with a slit for dropping coins or notes, is supplied by the village officer or the secretary of the village panchayat, who is paid a small commission for the trouble he takes to look after the work. This institution is like the penny bank in vogue in England and may get very popular with schools, colleges, labour unions, clerical establishments, etc. The Mysore State has recently started Collecting Savings Banks at important towns. It has also introduced a scheme of five year deposits or cash certificates carrying interest at 5% and at the end of June 1928, a sum of nearly Rs. 10 lacs was collected in this way.

The Tanjore District Co-operative Bank offers facilities for investment to the poor by enabling them to deposit a fixed sum of money as provident deposit against physical incapacity and old age, for their families in case of death or provision for children's education, daughters' marriages, etc. The deposits are monthly and in whole rupees, the minimum monthly deposit being Re. 1. The rate of interest depends on the money market.

A host of other institutions may be mentioned as for instance, Friendly Societies, Penny Banks, Mutual Aid Societies etc.

323. Of course there are obvious difficulties in the way of a very rapid development of investment banking investment habit in the people. The first is their poverty and their chronic indebtedness. The next cause is their illiteracy. Then the habit of investment and banking is always of slow growth. It is the result of advanced social and economic conditions. Society in the Baroda State is generally based upon the joint-family system and its constitution does not encourage habits of insurance because the joint family itself is considered as the best institution for insurance against all possible mishaps to its members. The economic conditions of the people also determine the character of their investment and banking institutions and only since the last thirty years it is that a change has come over them in the Baroda State. It depends also upon the customs of castes, races, and creeds. The Mussalman is opposed to earning interest and so he invests his earnings in land. The Patidar is wedded too much to the land which absorbs all his earnings. He invests on agricultural improvements much less than on the purchase of new lands. The Bania and the Brahmin invest in commercial and industrial concerns. The small earnings of the artisan classes are generally absorbed in the purchase of gold and silver, which are turned into ornaments for their woman-folk. Almost every Indian would like to see his first savings devoted to the purchase of a house to live in, however modest that comfort may eventually turn out. The farmer utilises his savings by advancing loans to fellow brethren or buying more land. The lower classes have hardly anything to save.

324. Thus, the paucity of institutions for investment is explained by the peculiar social and economic circumstances of the people and any multiplication of the former will have to be preceded

Conclusion.

by a general transformation of the latter. This in its own turn depends upon the policy, financial and educational, of the State. And yet there is always a surplus of money which awaits investment. We wish that this surplus was diverted to productive purposes and that it found investment in the State itself. We pointed out in our chapter on industrial finance how we were able to attract a large part of people's savings to our own territories by allowing liberal subsidies to pioneer industries and by affording them all the necessary facilities. We also pointed out how a huge portion of the savings of our people found an outlet outside and how the tempting offers of the Imperial Government in the shape of the gilt-edged securities and especially the post office certificates, not to speak of the tenders for treasury bills, etc., attracted away Rs. one crore and twenty lacs from us by the end of the last year. The problem before us is, therefore, to stop this drain of our resources and to attract more capital from outside. The best way to secure these two ends is to create a sufficient number of industrial enterprises in the State and to launch into existence sound betterment schemes, which would improve the economic conditions of the people.

On the one hand we have a plethora of money which we do not know how to employ. On the other hand we have industries and areas in the State which remain undeveloped for want of funds. The problem before us is how to create an adjustment between these apparently conflicting experiences—how to employ the surplus that is at present taken out in development schemes, which would return a fair yield.

#### **Recommendations.**

(1) Savings banks should be attached by Government to the treasuries of the Mahals where the Bank of Baroda has not opened branches. They would help in the transmission of funds. They may also receive taxes.

The present agreement that the State cannot open savings banks at places where the Bank of Baroda has opened

branches should be abrogated at the time of its revision. (Para 309).

(2) The Accountant General may open a public trust office and utilise the funds he receives as endowment and trust money for productive purposes. ( Para 310).

(3) Thrift societies should be started for all those classes of people whose earnings are small. (Para 311).

(4) Mutual savings banks may be started in towns and specially in Baroda. (Para 312).

(5) The Government of Baroda can borrow money from the public at a cheap rate of interest if it wants it for public utility services. ( Para 315).

(6) Government should help the Bombay and Baroda Assurance Company, the only local insurance house in the State. ( Para 317).

(7) The State should arrange for the compulsory insurance of the lives of its servants with a local concern or the agency of an outside concern under certain conditions. (Para 321).

(8) The State may introduce village banks, Collecting Savings Banks and cash-certificates as in Mysore, provident deposits institutions as in Tanjore, etc. (Para 322).

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## CHAPTER XI.

### Regulation of Banking.

325. We were asked to investigate "into the existing conditions of banking in the State and to consider what steps, if any, were feasible and desirable in regard to the regulation of banking with a view to protecting the interest of the public."

Regulation of Banking.

In the preceding chapters we discussed banking in the State in its most important branches namely the money-lender, the Shroff, the government as agricultural and industrial financier, the agricultural banks, the Bank of Baroda, and co-operative societies and banks. We shall now discuss the subject of regulation as it relates to the money lender or the Sahukar, the Shroff or the indigenous banker, the joint-stock bank and lastly the co-operative banking institutions in the State. We can discuss regulation only in its relation to these financing agencies because we have no exchange bank or any other type of banking with us.

326. First we take the village money-lender. Since it is impossible and at the same time undesirable to abolish private money-lending it has been suggested that certain restrictions may be imposed on the method of money-lending as conducted by the Sahukars.

Proposed restrictions on money-lenders.

The following are some of the important proposals.—

- I. That none should be allowed to lend money to a farmer without license.
- II. That the books of the Sahukar should be registered.

- III. That the creditor must give, or offer to give, receipt of the payment made by the agriculturist.
- IV. If asked, the creditor must submit an account of his *Khata* (खाता).
- V. That a pass-book like that of the savings bank, should be given by the Sahukar to show the condition of the account.
- VI. That some kind of usury legislation should be passed to restrict the operations of the money-lenders.

327. Before we examine these in details, we would state in brief the various measures introduced by the State to protect the ryot against unrestricted and unscrupulous money-lending. These may be summarised as under:—

- (1) Interest Act: This Act was passed in the year 1891. Under it no court can allow more than 12 per cent. interest. When more than 12 per cent. is charged the contract is not adjudged null and void, but the court does not allow more than 12 per cent interest
- (2) The rule of *Dam-dupat* is enforced in all money suits; but its operation is made applicable from the period of the last settlement of the accounts; it does not apply to the transaction from the very beginning.
- (3) Under section 174 (c) of the Civil Procedure Code a certain class of backward agriculturists can have their accounts looked into by courts even when they purport to have been finally settled by the parties. By the same section, the cultivator is permitted to sue for accounts.
- (4) In the execution of decrees against a cultivator, his land paying assessment upto Rs. 50, his house,

his cattle and the grain which are absolutely needed for agriculture and for maintenance, cannot be attached.

- (5) No agriculturist can be arrested in the working season. The agriculturist can also ask for payment by instalment before or after the sum is decreed.

We shall now examine these provisions in some details and find out how far they have given protection to the cultivators.

328. The law allows 12 per cent. interest but there are hundreds of transactions in which more than 12 per cent. interest is charged and is not shown in the books. This restriction is got over in two ways; sometimes a discount of one to ten or even twenty per cent. is charged and is not shown in the books; sometimes *Jalaps*—advance—contracts are made for the repayment of the loan in kind, calculated at the lowest market rate. It is difficult to detect the former transaction but the latter can be detected. For such contracts no regular rate of interest is charged and the transaction is obscured by re-payment in grain which the law, as it stands at present cannot take cognisance of. These (*Jalap*) transactions are very numerous and are largely resorted to by the poor classes of cultivators. Sometime even the better class of farmers resort to them. They are extremely hard, the interest charged ranging from 100 to 200 per cent. We therefore, suggest that the Interest Act should be amended and should include the *Jalap* contracts in its operations as is done in the Usury Act in British India. Unless this is done, the object of passing the Interest Act would not be fully achieved. We realise that even if such an amendment is made the Sahukar can get over the law in a thousand ways but we feel that the transactions can be looked into by the court and their money-value ascertained at fair market rates. It will have a great deterrent effect.

329. We inquired of the judicial department if the system of *Jalap* was on the increase or decrease and requested the staff to suggest any restriction they would like to impose on it if it was on the increase. The opinions sent by the judges of the district courts were almost unanimous. We were informed that the system was still very common in the districts of Baroda, Navsari and Kadi, but that generally it was on the decrease. The contracts were legal contracts and hence as long as the law allowed them the courts had to recognise them. We found that in the Kadi Prant, the money sought to be recovered from the agriculturist was twice or thrice the original loan and that the period covered by the loan hardly exceeded eight or twelve months. A district judge suggested that the contracts should be made compulsorily registrable at nominal cost. But we could not accept this view. Nor could we agree to the views of other judicial officers who urged for the immediate abolition of such transactions, because they could be easily evaded and because most of them were oral contracts only. That would not remedy the evil at all; we are inclined to the view taken of the same matter by the Chief Justice and the judges of the *Varishtha* or High Court that no interference from the State is necessary and that the ordinary law is quite sufficient to safeguard the interests of the debtor. We should rather recommend that the *Jalap* contracts should be brought under the operation of the Interest Act.

330. The rule of *Dam Dupat* is thoroughly useless. The money-lenders are very careful and they always make it a point to settle the accounts almost every year, and the law seldom assists the people. However, it has one good effect; the creditor is always reminded of his debts even though they may run from year to year, and large accumulations are avoided.

331. Sometime before 1919, the judicial officers were requested to send their opinions on the working of section 116 in the Civil Procedure Code, regarding the inspection of accounts. The Economic Development Committee

scrutinised their replies. They reported that in most of the cases, decrees were made without the inspection of the old accounts as the defendant had not asked for inspection. The fact is that the ryot is mostly illiterate and does not call for intercession while the court very seldom cares to look into the transaction from the beginning, without being asked to do it. The law imposes no such obligation on the judge. It is only when the defendant raises an objection that the courts make inquiries and in some cases with good results. Still section 110 of the procedure is very useful and we recommend that it would be extended to all agriculturists and not only to a few backward classes. At the same time, definite instructions should be laid down, as to how the accounts should be settled. Unless these improvements were made, no adequate relief could be given as contemplated in the Interest Act.

332. In the inquiry mentioned above, information was collected as to the number of suits filed by the debtors for accounts. It appeared that only one suit was filed during 1900-1919. Looking to the helpless condition of the Khedut, it is not possible that he would take advantage of this section to any extent. If he has cash certainly the Sahukar is ready to receive it. But the law as to the method of settling the accounts is not definite and no useful purpose would be achieved by filing a suit for accounts. However, it is a useful section and may be retained. It may be of great use when a contumacious Sahukar is unwilling to show accounts and when some provision is made for the liquidation of the old debts.

333. In answer to a question on this matter addressed to the judicial department, a suggestion was made to us that the State should pass a law to enforce uniformity in keeping accounts on money-lenders and that the account books should be supplied by Government if it was seriously intended to control their dishonest transactions. We are afraid the

acceptance of the suggestion would in no way remedy the existing evil; on the other hand it would only aggravate it. There is one special difficulty about it. We have in our State a large number of money-lenders. Gujarat and Kathiawar stand in the numerical strength of this class next after Rajputana. The profession of money-lending is combined with several other professions. Consequently it would be very difficult if not absolutely impossible for the State to regulate account-keeping by it and the enforcement of it would, it is apprehended, only defeat its own purpose. The State will have to maintain a large staff of inspectors and both the money-lenders and the agriculturists would resent their fishing inquiries, as merchants do in the case of the income-tax department. The inspectorial service would not be scrupulously honest and the evil of money-lending would only be aggravated because the cost of the possible collusion between the inspector and the money-lender would be eventually transferred to the poor borrower.

334. We addressed a question to the judicial department regarding the effects of judicial procedure on the rates of interest charged by the Sahukar. The Chief Justice and the judges of the high court sent it as their unanimous opinion that the money-lender did take a lot of time in recovering his loan from the Khedut and that often he did not recover it at all, with the result that the agriculturist had to pay a higher rate of interest. They at the same time added that it was not the method of judicial procedure but the risk involved in the business and the law that were responsible for the higher rate of interest charged by the Sahukar. The fact is that the borrower tries to evade or lengthen the period of payment by having recourse to the various provisions of the law and that as long as the law is there, it has to be administered. The Chief Justice says that this question is under consideration. We suggest that it should be taken up for an early decision both in the interest of the Khedut and of sound money-lending business. We may observe here that the *નાના કાચાને*

नियम or the Act for the Summary Disposal of Small Suits has gone a long way to remedy the evil of the prolongation of suits.

335. A certain amount of cultivator's land, his corn and his house are exempted from the effects of the execution of decrees of the revenue as well as judicial courts. Upto 1904, this rule was confined to the decrees of the revenue court only; and therefore, it had no material effect, as the judicial courts could execute decrees without any restrictions. In 1904, this anomaly was removed by the extension of the rule to the execution of the decrees of judicial courts also. The innovation affected the Sahukar's interest directly. If the land came under the minimum requirement and ~~if~~ it was in the possession of the farmer at the time of the execution of the decree, it could not be sold for the satisfaction of the claim even though previously mortgaged. It also affected the credit of the cultivators. Soon after, more suits were filed against them than before 1904 and there was a large number of execution-proceedings also.

Simultaneously with this change in law, the mode of money-lending was a good deal modified by the money-lenders with a view to frustrate its object. Since that time mortgages without possession have gone out of vogue while sales show an appreciable rise. Mortgages with possession are also rising. This may probably be accounted for by the Sahukars demanding a more tangible security than before. Many of the sales are more of the nature of mortgages with conditional sales, than out-and-out sales. The condition of the mortgage is oral and cases are known where it was not observed and where it could not be enforced in law.

The operation of this rule has curtailed the credit of the cultivator but it has not saved his land from the effects of execution. The rule says that land paying assessment of Rs. 50 or below it may be exempted; thus it fixes the maximum; but the court has the power to lower it if it thinks it proper.

In the execution proceedings of judicial courts, this is a fruitful source of litigation. The revenue officers are always anxious to collect as much of the land revenue arrears as possible and they are never over-liberal in exempting land from execution.

We propose that this concession should be removed. Our reason is this: we said it so many times that no useful purpose would be served in adopting special measures for the preservation of cultivators, who are thriftless and uneconomic and that the sooner they left the land the better it would be for all. They should rather leave agriculture and earn a better living elsewhere than eke out a miserable existence from land. It may even be suggested that this class should not be given any special facilities in the form of Tagavi, etc. Legislation of the nature mentioned above and the policy of Government were based on the belief that land required more men and that cultivators of every sort should be encouraged to remain on it, with the result that all types of inefficient farmers—men who owned a *bigha* or two of land, who had no adequate agricultural stock or implements, whose cultivation was poor and who stuck to land and created congestion without any benefit to them or to society, increased in number. But the land in the State cannot maintain all the agricultural population in comfort. If the inefficient cultivators walked out of the profession and if the holdings were reconstituted, a prosperous peasantry could be created; the liberated farmers would find a better living by getting themselves employed in industries and public works. Moreover the law does not prevent the owner from disposing of the minimum land by private transaction. So we recommend that the provision regarding maintenance so far as land is concerned should be removed from the statute book. The Chief Justice and the judges of the high court support our view.

336. All these suggestions presuppose that the Sahukar is a dishonest man and that he cheats the people in his transactions. Can we say this with truth of all our Sahukars ?

Difficulty of the problem.

So far as our observation goes, we are not prepared to



endorse any such sweeping condemnation of the methods of the money-lender. No doubt there are black sheep in this trade as in many others but the rogueries of the Sahukar are not of such a nature as to merit this sweeping allegation. Even if Government imposed the suggested restrictions, they would not have any effect upon the ways of an unscrupulous money-lender. He will find out thousands of ways to evade the rules and restrictions. It is impossible to carry out all transactions under the supervision of a *Panch* or a jury and when the Sahukar and the farmer meet, no amount of restrictions would be of any avail to the latter. There are thousands of ways of getting over them. Such restrictions have always added to the burden of the weaker party, for the Sahukar would inevitably impose stricter terms. We have therefore, no faith in any restrictive legislation. Any such step would make the farmer's business more difficult and costly. The fact is that the Sahukar is a necessary evil and has to be tolerated.

The real remedy in dealing with the Sahukar is to create a system of agricultural banking in honest competition against him. The co-operative credit society has compelled the Sahukar to change his ways to a certain extent. In villages where co-operative credit societies are working satisfactorily, the Sahukar has been forced to reduce his rate of interest and has been found willing to place deposits with the societies. No amount of legislation could have brought about such a change. On the other hand, whenever legislative measures were undertaken to deal with usury, they had good effects only for some time; when the farmers entered into fresh transactions they had to accept harsher and harder terms.

337. Next after the village money-lender comes the co-operative bank. Much of the work of the co-operative banks is placed under state legislation but that legislation makes no provision for the efficient equipment of their managing staff. We submit that rules may be added to the existing ones to the effect that hereafter none should be engaged as manager of a co-

35 B. I.

operative bank, who has not received previous training in a recognised institution or who has not served for some time an apprenticeship in a recognised banking house. We also suggest that the Bank of Baroda and the central co-operative banks may be recognised as institutions whose certificate that the applicant has served for a satisfactory period some term of apprenticeship should validate his appointment in any co-operative institution in the State. No rule exists at present which defines the qualifications of an applicant for a responsible post in a co-operative bank. The result is that the banks are more often staffed with men, who have little knowledge about co-operative banking. We, therefore, recommend that rules should be devised which should fix the minimum qualifications for responsible and important appointments in co-operative banks. Co-operative banking is getting more and more complicated and needs specialised training.

338. From the co-operative bank we pass on to the Shroff or the indigenous banker. We  
 The Shroff. may mention here one interesting fact in connection with this subject. Throughout the replies which we received to our questionnaire and the interviews which we had with merchants and bankers, no protest was made to us against the methods of business pursued by the Shroff. On the other hand we found a general agreement that the Shroff's business was clean and that it called for no control or interference from the legislature or the executive. We accept this view. We know that Shroffs have failed in the past and will fail in the future. But the Shroff himself is now being evicted out of his old business by many competitive financing agencies; he does not call or advertise for deposits from the public and his services in the finance of trade and industries are considered honourable. We pointed out his importance in the structure of finance in big and small towns in our chapter on "Indigenous Banking." We see no reason why the useful part which he plays there should be regulated by the State.

There is one relieving feature about this which we must mention. The technical side of the Shroff's business in the Baroda State is being conducted after the custom fixed by the *Mahajans* or Associations of Shroffs at Ahmedabad and Bombay. We once alluded to the absence of such an association in our State and we recommended that our Shroffs should form themselves into a similar institution in order to regulate their business after a common standard and to be able to make a joint representation about their grievances and requirements. Just now we said that any regulation of the business of the Shroff by the State would be impracticable and inadvisable. And if at all it is necessary it would be better if it were brought about by the association of the Shroffs themselves. The *Mahajans* of old functioned as regulating institutions. There was a central *Mahajan* or guild which had a controlling authority on the activities of the several guilds each of which operated for its own profession. These institutions had the sanction of public opinion behind them and it was only on very rare occasions that they invoked the intercession of the State to get their decision enforced. The result was that there was very little friction between the two. We would very much like to see the old custom revived in our State. It should depend upon the members of the several *Mahajans* themselves and we would not recommend any interference with their discretion from the State.

339. We have in the State joint-stock companies which accept deposits from the public but  
 Deposits in joint-stock companies. which do very little of any banking business. Nor was there any special complaint against the practice; on the other hand we found that they were greatly trusted by the public and the recent political and economic developments in the country point to the possibility of most of them doing more lucrative business and therefore attracting even larger funds for deposits. It would, therefore, be very impolitic and uneconomic to restrict their operations, even though they, by their action may compete with the Bank of Baroda and the co-operative

banks. However we should record one painful experience in this connection. We found in the course of our investigations into this matter that there were some joint-stock concerns purporting to function as insurance companies, benefit societies, etc. which secured a fairly good business by way of deposits in British India and which sought registration in the State with a view to extend their activities in its territories. Most of them were frauds on the public. They worked as loan-associations under the guise of insurance schemes and provident societies. We therefore advise Government that the law relating to companies should be amended and that greater control should be established on the operations—specially the deposit-receiving business of defrauding institutions. The Registrar should be empowered to refuse registration to companies which appear to him on *prima facie* ground to operate against public interest and policy with the proviso that the aggrieved party should have the right of appeal to the high court against the decision.

340. No other institution than the Bank of Baroda transacts business falling to a joint-stock bank in the State. We therefore, do not deem it advisable to recommend to the authorities the enactment of any general banking law.

341. Now we take up the Bank of Baroda. The Bank is the only institution of its kind not only in the territories of the Baroda State but in the whole of Gujarat and Kathiawar and it attracts to its savings, current and fixed accounts large deposits. Some of the funds of the State are kept with it under certain stipulations by Government. Under such circumstances it has in course of time developed into a very influential and at the same time highly privileged finance-house in Western India. Privileges carry with them responsibilities also. We should, therefore, suggest a few improvements into the traditional conduct of affairs by the Bank. The Bank prepares its balance-sheet every six months. We desire that

The Bank of Baroda Ltd. A more detailed balance-sheet to be published every six months.

it published a duly audited balance-sheet each half year, as some other banks do in British India, and that this publication should be required of it, not only for the information of its share-holders but also for the information of its depositors and specially of the general public. This publication should be as wide as possible and in the vernacular. Of course, it goes without saying that the publication should not be formal only but that it should be of such a character as to afford to any intelligent depositor a fair idea of the Bank's financial position. We trust that the management of the Bank would welcome this suggestion, as it would result in a greater contact being established between them and the public. Confidence is the *sine qua non* of every banking operation and only frequent and intelligent publicity can create it

The balance-sheet which is being issued by the Bank at the end of the official year needs a more detailed narration than at present. It should show the amount of advances re-payable on demand, those repayable otherwise than on demand, those amounts advanced on the security of real estate and of moveable property, namely government paper, insurance policies, industrial paper, commercial paper, and goods and merchandise. The best way to exact this reform from the Bank would be to get the law relating to companies revised.

342. We desire to make one more suggestion. At present H. H. the Maharaja nominates his personal representative on the directorate. But we may observe here that viewed from the standpoint of the financial commitments of the State with the Bank and the unique privileges accorded to it, this representation on the board of directors is very meagre. What we want is not more regulation of the Bank by the State but more representation of the State on its administrative body. We feel that consistently with its responsibility to the public whose funds it keeps under the custody of the Bank the State should have a greater

More representation on  
the Board of Directors  
of the Bank.

voice in its administration. So we suggest that when the agreement with the Bank comes up for revision in 1932, Government should nominate one member as director. This director need not be an official. He may be a prominent businessman from the State or outside.

343. These suggestions are made with a view to increase the usefulness of the Bank of Baroda, to make it play a greater part in the development of the trade and industry of the State and to turn it into a real national institution for Baroda. We feel that the Bank of Baroda would be able to render better service to the State and people of Baroda if the suggestions which were made here and in an earlier chapter were carried out in a friendly spirit by it. We were guided in urging the innovations by one consideration only—namely the good of the public. We have accordingly scrupulously refrained from offering any suggestion calculated to interfere with the internal management of the Bank or its freedom of action in transacting business. We have not the slightest intention to officialise it.

No intention to officialise the Bank or to fetter its freedom.

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national institution for Baroda. We feel that the Bank of Baroda would be able to render better service to the State and people of Baroda if the suggestions which were made here and in an earlier chapter were carried out in a friendly spirit by it. We were guided in urging the innovations by one consideration only—namely the good of the public. We have accordingly scrupulously refrained from offering any suggestion calculated to interfere with the internal management of the Bank or its freedom of action in transacting business. We have not the slightest intention to officialise it.

#### **Recommendations.**

(1) The Interest Act should be so amended as to include *Jalap* contracts. (Paras 328–329).

(2) It is not advisable to make the *Jalap* contracts compulsorily registrable even at nominal cost. They cannot be abolished. (Para 329).

(3) Section 116 of the Civil Procedure Code, regarding inspection of accounts, should be extended to all agriculturists and definite instructions should be issued as to how the accounts are to be settled. (Para 333).

(4) Government should not insist on the Sahukars keeping uniform accounts nor should Government provide them with uniform account books. (Para 333).

(5) Money-lending can never be inspected by specially appointed officials. (Para 333).

(6) The law should be amended to avoid its delays. ( Para 334 ).

(7) The provision in the law exempting the Khedut's land etc. from the effects of an execution decree should be annulled. ( Para 335 ).

(8) We have no faith in restrictive legislation. The only way to control money-lending by the Sahukar is to create an effective competitive agency against him in the village. ( Para 336 ).

(9) Rules should be made to provide for the appointment of qualified men as managers of co-operative banks. (Para 337).

(10) No control over the business of the Shroff is needed because he does not call for deposits from the public and because his profession is generally honest. The business may be regulated by an association of Shroffs as in old days. ( Para 338 ).

(11) Receiving deposits by joint-stock companies needs no restriction. But the law relating to the registration of companies should be amended to prevent fraudulent concerns from seeking business in the State. The Registrar should have the power of refusing registration to such concerns with a proviso that the latter should have the right of appeal to the high court. ( Para 339 ).

(12) There is no need to enact a general banking law in the State. ( Para 340 ).

(13) The Bank of Baroda should publish its balance-sheet every six months for the information of the public and not only of its share-holders. The balance-sheet should be more detailed than at present. (Para 341).

(14) When the agreement with the Bank of Baroda comes up for revision in 1932, the State should insist on nominating one director on the board. He should be an expert either from the State or from outside. ( Para 342 ).

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## CHAPTER XII

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### **Banking Education.**

344. The last subject for our inquiry was Banking Education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of banking".

345. Throughout our inquiry we were struck at the banking "illiteracy" of the people. There is but one institution in the State which imparts some instruction in banking and it is the Kala Bhavan or the School of Technology. This institution holds a class in banking and accountancy but the facilities provided there are very inadequate and the candidates who receive instructions are hardly qualified to take up subordinate posts in banks. The fact is that there are certain inevitable difficulties in the development of banking education in the State. We have but one joint-stock bank. The number of co-operative banks in the State is very limited and they are only just coming into prominence. The resources of these financing agencies are very inadequate. They cannot afford to engage in their establishments highly-paid or highly trained servants. Nor can they finance the education of their staff even at a moderate cost as similar institutions do elsewhere. In brief the problem of banking education in the Baroda State has its own limitations. Our inquiry and suggestions will, therefore bear the stamp of these limitations.



346. We pointed out in our chapter on co-operative banking how the inadequacy of training of its personnel was responsible for the slow progress of the co-operative movement in the State. The secretaries and members of the managing committees of primary societies and even most honourary organisers are ignorant of banking. The managers of co-operative banks do not understand banking and co-operation much. No departmental rule exists to regulate the recruitment for appointments in these institutions. We suggested a few remedial measures to correct this defect in the last chapter. But a mere insistence on the banks and societies appointing qualified people will not suffice. No institution exists in the State to train men in co-operative banking. Government are in the habit of sending out a few select men to Surat, Bombay, or Gurdaspur in the Punjab to receive training in co-operation and they imbibe a few hints on co-operative banking in the course of the lectures, which cover about six or eight weeks. This is hardly adequate for the end in view. Sometime the Registrar of co-operative societies, an auditor or the secretary of the *Sahakara Sangha* arranges a running tour and addresses a crowd of youngsters for a few days in the week which is generally the occasion for a co-operative conference or gathering and then they are sent out as secretaries of primary societies, No class is ever held for imparting instructions in co-operative banking to the staff of the banks. The *Sahakara Sangha* is by constitution unfit to take up such a work on a large scale at present and the cost of such a venture will be prohibitive. At the same time we cannot afford to be under the permanent tutelage of institutions situated outside the State. We must make our own arrangements and we must strive to be self-sufficient in this respect.

347. We, therefore, suggest that the staff in the Kala Bhavan should be strengthened and that a special provision should be made in that institution to impart instructions in banking. A banking expert may be appointed there. He should be required to train classes in

the subjects of rural economics, elementary economics, indigenous account-keeping, banking, accountancy, and co-operative law. The courses should be brief and simple and the medium of instruction should be the vernacular. The qualification for admission to the classes and the standard for passing the examination should not be very high. In course of time, and after sufficient experience has been gathered, books may also be prepared in the vernacular to be used as texts in the class. The same person may be asked to advise the co-operative department on banking and he may be invited even to supervise the working of co-operative banking in the State.

348. The Bank of Baroda may be asked to help in this work by training apprentices, who might be absorbed in co-operative banks.

Help from the Bank of Baroda.

349. The suggestions outlined above are intended for the training of secretaries for primary societies and accountants in co-operative banks. We do not suggest any such independent provision for the training of managers and their assistants in the co-operative banks of the State. We recommended once that in future only those should be appointed for the posts, who have passed through some recognised test in banking, and that men, who have taken the B. Com. degree of an Indian university or who hold diploma from a recognised institution, should be preferred to those who have no knowledge of banking whatever. For the supply of men for higher appointments in the few institutions we have, we can conveniently and with less cost draft from outside and can count upon the work of universities, guilds, institutes, etc.

Training of managers, etc., of co-operative banks and of the staff of the department. The cost.

We cannot suggest the foundation of any independent institution in the State for the training of the managers of the central banks, etc. and the staff of the co-operative department because our needs are limited and because the cost of such a

scheme will be prohibitive. But we suggest that the members of our staff should be allowed to attend courses of lectures at outside institutions and that the more experienced and competent persons from amongst them should be sent out for practical training to different parts of India and even to foreign lands.

The cost of the training of the secretaries and managing committees of primary societies and honorary organisers may be partly met by the institutions, the *Sahakara Sangha* and the central banks. The cost of the training of the staff of the banks may be borne partly by the banks. In all cases Government should help liberally. The whole cost of the training of the staff of the department should be borne by Government.

350. Just above we said that for the training of men who are responsible for the management of primary societies, the Baroda State should be made independent of outside institutions. We desire to say the same about the whole of India in the matter of co-operative banking itself. We submit for the consideration of the Central Committee that there is a great need for founding a college where instruction would be imparted in co-operative banking and which would satisfy the needs of the whole country, including Indian States.

351. The above suggestions, however, will not remedy the evil of banking ignorance in the State. It is necessary that the interest of the staff in the subject should continue during service also and that they should be in up-to-date touch with the progress of banking.

352. We would suggest in this connection the provision of an ample library on banking in the different banking institutions of the State. The shortage of funds will, of course, be brought forward as an argument against this but if the banks concerned make it a rule to devote a part of their annual profits, however small, to the purchase of a few standard books on banking literature,

Wanted a college for  
co-operative banking  
in India.

Other suggestions.

Library.

we feel certain that in course of time every institution will have a well equipped store-house of knowledge on banking. The Curator of the Central Library, Baroda, may be of some use in the matter. The cost of the proposal can be minimised if the managers or the directors of the institutions keep a circulating library for the purpose. Books may be selected by a small committee and they may be kept on the list for perusal by those interested in the subject.

353. The knowledge and information relating to banking in all its aspects can be improved by Special periodicals. other ways also. The Bank of Baroda and the Central Co-operative Bank may conduct annuals or six-monthlies, bringing together the banking experience of the world in a critical and well-digested resume. The Central Bank of India issues its own magazine, and we would very much wish that that practice was taken up by the Bank of Baroda. In fact, we found the staff of our joint-stock and co-operative banks very little interested in the periodical literature relating to their own subjects and the library resources at the head office and in the mofussil were hopelessly disappointing. It seemed that the managements of the institutions were not sufficiently alive to the importance of the subject. We feel that with a little more of earnestness and imagination on their part much can be done to improve the present deplorable state of banking information in the State.

354. The auditors and the Registrar of co-operative societies can render help in the development of the schemes sketched above. Departmental co-operation.

355. We want to emphasise one more point in connection with banking education. It is desirable that a few young men of merit should be sent to Europe or preferably America, Men to be sent for foreign training. for training in international exchange, currency and banking. We should add that only men of high qualifications should be encouraged to go abroad and that deputing men of abilities much below the average would serve no good. Such men

can then be employed in the Bank of Baroda and the central banks. They would turn out more successful than those who are appointed without regard to their qualifications, who sometimes do not understand even the language of the country and who hardly know the clientele of the banks at first hand.

356. Indigenous banking is learnt by tradition and apprenticeship. We have nothing to report on education in that subject, excepting that training in a short course on indigenous account-keeping and *hundi* business may be required of those who take up service in the Bank of Baroda and the co-operative banks. The banks themselves should arrange for instruction in the subject. The Kala Bhavan may also assist in the same.

#### **Recommendations.**

1. The State must be independent regarding the training of secretaries, etc of primary societies. ( Para 346 ).

2. A specialist in banking should be appointed in the Kala Bhavan. He should advise the co-operative department on banking and he may even supervise co-operative banking in the State ( Para 347 ).

3. The Bank of Baroda should train apprentices. ( Para 348 ).

4. For the training of the managers of co-operative banks, etc. and the departmental staff we should rely upon outside institutions. Our men may be deputed abroad for the same purpose. ( Para 349 ).

5. The Central Banking Inquiry Committee should consider the scheme of a co-operative college for India. ( Para 350 ).

6. A good library on banking is a crying need in the State. ( Para 352 ).

7. Banks should run special periodicals. ( Para 353 ).

8. Men should be sent out to foreign lands for training in banking, international exchange and currency. ( Para 355 ).

9. Indigenous account keeping should be taught in the Kala-Bhavan, the co-operative banks and the Bank of Baroda. ( Para 356 ).

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## CHAPTER XIII.

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### Concluding Remarks.

357. The problem of banking was discussed in the preceding pages from a special stand-point. The banker of the present age is different from the old money-lender. His business is on a larger scale and he satisfies a social demand—he encourages agriculture, trade and industry, directing them into new and different channels. He performs therefore a social utility service. It was from this stand-point that we enquired into the banking problems of the State.

358. We pointed out in the course of our findings how close the connection was between the administration of the State and the Shroffs of old before the age of economic transition. In fact we were rather struck at the perseverance with which the governments of successive Maharajas from the beginning to the close of the nineteenth century pursued the policy of running big financial houses or *Dukans* and associating prominent Shroffs with them. The advent of the new order dissolved this combination. Soon after the accession of the present Maharaja to the throne, efforts were made to establish the connection of the State with banking on a modern basis. We pointed out the circumstances which led to the partial supersession of the Shroff by joint-stock banks, postal savings banks and other financial agencies. This led to a better recognition of its own responsibility to the cause of agricultural and industrial development by the State. The departments of agriculture, commerce and industries and co-operative societies, the agricultural and industrial banks and the grant of Tagavi and

loans to agriculturists and industrialists and the foundation of the Bank of Baroda were the results of the policy.

We next pointed out the defects of the new banking system. We said that Tagavi and agricultural and co-operative banks had not replaced the age-long institution of the village money-lender, that co-operative banking had not reached even a fringe of the agricultural population of the State, and that the Bank of Baroda had proved inadequate in satisfying all the requirements of agriculture, trade, commerce and industry.

Suggestions were made to remove the defects of the new order. We viewed the different systems of banking operating in our midst as parts of one single unit. The village money-lender, the primary society, the union and the central bank, the Shroff and lastly the Bank of Baroda were studied as parts of an integral banking system catering to the financial requirements of the whole State. It was shown that the Sahukar in the village had to be tolerated as long as he was not replaced by the primary society. We submitted that the Shroff must remain as a very useful, reliable and honest financier for the Sahukar in the village and as an efficient remitting and financing agency in the countryside and the small towns. But it was pointed out that to make him more useful it was necessary that he should be linked up with joint-stock banking viz. he should be made the agent of the Bank of Baroda if he so desired. We suggested the foundation of co-operative urban banks for the financing of small crafts and trades. At the same time a much closer co-operation was recommended between the unions, central banks, primary societies and Government. Recommendations were made for improving the business conducted by the agricultural banks. The early foundation of a land mortgage bank possibly under the auspices of the Bank of Baroda was urged. Then we described the various ways by which the Bank of Baroda might become more serviceable to the people of the State. The Bank was asked to develop more intimate association with the mercantile community, to

appoint trained agents at the branch offices and to take a clearer perspective of the banking needs of the State. It was suggested that eventually it should be turned into an apex bank for co-operative societies and banks or a State Bank to meet the needs of commerce and industry. In our chapter on "Investment Banking" we recommended an effective mobilisation of the savings of the people, by no means small, by the starting of more savings banks and by encouraging insurance and such other schemes in order that the money might be utilised for the benefit of the public. The last chapters contained suggestions regarding regulation of banking and facilities for education in banking in the State. Our recommendations in regard to the latter had to be modest because our needs for it were such.

We kept but one aim before us in making our recommendations. It was to improve and strengthen the existing institutions. We specially avoided suggesting novel schemes of banking as we realised that the time had not arrived for making entirely new experiments.

359. The Baroda State is not endowed with large mineral resources but its agricultural wealth is fair and could be very well-developed. Lines for development. Ways and means. The whole of that industry requires re-organisation from a modern stand-point. The scattered holdings can be consolidated; better seeds, modern labour-saving implements for tillage and new methods for preparing the produce for the market can be introduced. By the introduction of co-operative methods it is possible to increase productiveness of the State. All the commercial crops can be used up or manufactured locally. To quote one instance, nearly 50 p.c. of the cotton is exported outside the State. More textile mills can be started, specially in the Navsari district where climatic conditions are very favourable. The same may be said of other products. Government have organised various departments for the development of these resources; they can play a still greater part in this work. We have an excellent network of railway communications and a large programme of feeder roads is under way.



The requirements of Baroda are many. It needs more railways and better and more roads. Many of the villages are not linked with marketing centres. The amenities of urban and rural life are inadequate. Only a few towns are served with drainage systems. Many a town in the State is crying out for an efficient system of water-works. In brief there is a great scope for rural and municipal development.

The Baroda State possesses all the essentials for a great agricultural and industrial development. Its peasantry is industrious and frugal. Its cultivating classes in the districts of Kadi, Baroda and Navsari are well-versed in the technique of their profession. Its craftsmen are fairly efficient. It has enterprising bankers. It is the home of great traders and merchants. In brief, the aptitude of its people for efficient agriculture, commerce, trade and industry is unquestioned.

Nor is the State poor in financial resources. The Bank of Baroda invests about Rs. three crores outside. The postal cash certificates and the savings banks attached to the post offices absorbed about Rs. 1½ crores in the course of the last five years. The investments of the State and its people outside Baroda run into several crores. We wish the State could use these huge funds for the betterment of the condition of the people. True, Government have succeeded in attracting outside capital to some extent. The cement, salt and textile industries bear witness to that. But they have not made elaborate attempts to attract the small savings of the public for investment in productive and other public utility services in the State. It is time that they appreciated the importance of this feature in national banking and availed themselves of it to the lasting benefit of the people.

What is needed is a complete co-ordination between the requirements for betterment services and the schemes for financing them.

360. The technical and financial side of the schemes referred to above will be examined by the Development Commissioner. The Baroda State has a Development Board which has been recently re-organised so as to include in it the

heads of the departments of education, sanitation, medicine, agriculture, forest, commerce and co-operative societies and professors connected with the teaching of economics, chemistry, physics, botany and biology in the Baroda College. This board works at present through sectional committees. We wish that a more permanent shape is given to this important institution and that its utility to the Development Department is considerably enhanced. The board should be serviceable to the State in regard to the development of agriculture and industry and in creating a general awakening of public interest and keeping it alive. It should in our opinion be of the same service which the National Economic Councils perform in the United States of America, Germany and England. The Board may occasionally requisition the services of men of experience and knowledge from outside for some specific purposes. It might also be of advantage to appoint to this Board representatives from the public on behalf of agricultural, commercial and industrial interests.

361. This question brings us to the consideration of another equally important matter. We  
 Statistics and Surveys. alluded to the agricultural, economic and sociological surveys which Government ordered the departments of revenue, commerce and industries to carry out. In a recent communication Government desire that the surveys should include the economic conditions of different classes of people in the State with the view that better means might be devised for their financial improvement. Now, if the surveys are to be made the bases of schemes for the financial improvement of the people it is necessary that they should carry with them scientific precision. But we observe that the existing practice to hand over such an important work to the busy officers of the departments of revenue and co-operation is far from satisfactory. It requires considerable knowledge of economics, statistics and sociology, and patience to be able to collect and arrange the facts. The present system of carrying out the surveys needs overhauling and unless Government placed it under the direction of

a competent staff, the work turned out would be perfunctory and amateurish and would fail to give a correct idea of the conditions of the people. We therefore recommend that the statistics and economic surveys of the State should be placed under the direction of an expert staff.

362. The growth of banking in a state is closely interwoven with (1) scientific research, (2) tariff Banking, Tariff and Currency. (3) currency. The Baroda State has no freedom in regulating its high tariff policy. Baroda is a part of India and the tariff policy of the whole country is determined by the British-Indian administration. The State has no voice in the determination of this policy. We are not concerned with a detailed examination of this question in our report but we feel that the development of the banking institutions and the expansion of the agriculture and industry of the State will for ever remain incomplete as long as they are not adequately correlated with a tariff which operates in the best interests of the country. We do not accept the view that the tariff requirements of an Indian State are different from those of British India and that free trade is more suited to the States than to British India. Rather we are emphatic in our view that the question of tariff should be considered as an integral one and that nothing but incalculable harm would ensue by viewing it in two distinct parts, one for British India and the other for Indian States. We strongly feel that the question should not be decided by one party only and that the Baroda Government must be consulted on the matter.

The currency of the Baroda State is the same as that of British India. Any dislocation in the conditions of banking and exchange in British India is certain to react upon the trade and commerce of Baroda and notwithstanding the efforts which the Baroda Government may make to bring to perfection their banking institutions, they would never attain it if they were not related to a sound currency policy of the Government of India. We mention this interdependence with a purpose. We desire that early steps should be taken

by the Indian Government to give to India an effective gold standard, so that her currency might be directly linked up with those of the leading countries of the world.

Generally, questions pertaining to banking, currency and exchange are considered by the Indian Government without reference to Indian States. But we understand that the views of the Indian States on the matter of banking will be duly attended to by the Chamber of Princes and that, that body will ultimately make its representation to the Government of India. We urge that at the time of preparing this joint representation the views of the Baroda Government should be adequately formulated and that in the negotiations with the British-Indian administration they should be allowed the privilege of a separate consultation. We may go a step further.. We venture to suggest that the Central Banking Inquiry Committee should co-opt members from Indian States to know the opinion of the latter.

#### **Recommendations.**

(1) The Development Board should be made more useful. Experts may be invited to its committees from outside even. ( Para 360 ).

(2) The collection of statistics and the preparation of surveys of the economic conditions of the people should be placed under the direction of an expert staff. ( Para 361 ).

(3) The State should insist on having an effective voice in the determination of the policy about banking, currency and exchange by the Indian Government. ( Para 362 ).

#### **Conclusion.**

363. The Report on "Agricultural Indebtedness", submitted to Government about twenty years ago said : " The problem before us is a complex one. It is not a question of regularity of seasons or improvement in the particular phase of agriculture ; it is not a question of irrigation or the form of tenure; it is not a question of relief of indebtedness or a particular type of banking suitable for our needs. It is an all comprehensive problem that includes all these topics and many more;

it is a question of the general economic uplift. It is a question of ethical uplift and of social progress. Looking from a broader and higher stand-point it is a question of securing comfortable living for two millions of our population. It is a question of developing those moral and ethical standards and characteristics among the people that will make their economic betterment possible."

The purpose of a sound banking system is to make this economic betterment the cheapest and the most easily accessible. We shall consider our labours amply paid if we are assured that we have shown the way to it in these pages.

Baroda, dated 29th July 1930.

MANILAL B. NANAVATI,

*President.*

S. M. PAGAR.

MATUBHAI H. KANTAWALA. \*

MAHASUKBHAI CHUNILAL SHETH.

CHOTALAL KILACHAND.

A. B. PANDYA,

*Secretary.*

K. H. KAMDAR,

*Joint Secretary.*

R. R. PAWAR.

DINSHAW R. DABOO.

J. M. MEHTA.

K. H. KAMDAR.

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\* Subject to a minute of dissent on the following page.

### **Minute of dissent.**

I have signed the main report because I agree with my colleagues in their historical treatment of banking in Baroda, and because I agree with some of their conclusions. I have to thank the Chairman and members of the Committee for listening to my view-point with patience, and for altering wherever possible their remarks and conclusions. In some places they went out of their way to bring their views into line with mine. I appreciate their kindness to me. But the difference between their ideas and mine is so fundamental in some respects, that I would be failing in my duty to them and to myself, if I did not sufficiently give expression to my view-point.

The present inquiry is only the part and parcel of the larger inquiry in British India, called into being with a definite purpose. It is evident therefore that this committee has set to itself two functions (1) to express its opinions about the main national inquiry in no uncertain terms, and (2) to refer to the special problems of Baroda. I am afraid that we have slightly mistaken the nature of this inquiry, by arrogating to ourselves the functions of an independent local inquiry. We began well: with our inspiring and illuminating chapter on banking by the State, we tried to come in contact with the special problems of Baroda; but at the same time a ready reference to the platitudinous writings of Western economists warped our judgment, and immediately we began to feel that India is Canada or England or U. S. A. But it will not be fair for me to comment in this strain. Suffice it for me to refer to the two main purposes of this inquiry.

What are the banking needs of Baroda or for that matter of India? The report bears ample testimony to the want of funds. This is a constant complaint everywhere. No banking system of any country or State can be sound, if its finances are manipulated, and its resources allowed to be depleted. The banking inquiry in British India may or may not be for the collection of materials justifying the creation of a Reserve Bank. But no Reserve Bank can assist or further banking in India so long, as the paper currency and other reserves of India are invested abroad: similarly no bank can usefully serve the State so long as the available surplus balances of the State are invested outside. All the resources of the State should be at the disposal of the people: the lakhs that are invested in treasury bills or Government papers or bonds or shares should be available to redeem the mortgaged fields and pastures of the farmers and shepherds, or should be available to finance the industrial needs of the urban population.

Another reason why there is ever-increasing deficiency of funds in this country is to be found in the maintenance of the present ratio of 1s. 6d. Exchange should only mean the cost of shipping coins or gold from one country to another, to pay for the excess of trade in any one direction: this cost is always automatically adjusted by bills offering. But the problem is further complicated if the currency of the two countries is different. Gold currency in one country and silver in another will require to be adjusted not only to the exigencies of trade, but also to the fluctuations in their relative value. There is no reason why India should have a rupee coin. If India is a part of the British Empire, we should have as our currency, the same coin as obtains in England viz. the sovereign. Uniformity of currency means not only a stabilised exchange, but a scientifically and economically sound exchange. The Baroda State abolished its Babashai coins to obtain uniformity with British India. It can therefore with all the greater logic and consistency request the British Government of India to have a similar uniform currency for the whole Empire.

To sum up, it is for the State

- (1) To invest such funds as are available in Baroda, and
- (2) to request the British Government (a) to do likewise, as also (b) to introduce gold currency in the shape of sovereigns in the whole of India.

Having said this, I now pass on to one ~~another~~ difference of opinion between myself and my colleagues. The report has a full chapter devoted to the Bank of Baroda Ltd; it further criticises in various other chapters the working of that Bank. I have been connected with that institution for about eighteen years, and I have no hesitation in saying that the criticisms made are wholly unwarranted and unjustifiable. My colleagues start with a pre-conceived notion that the Bank of Baroda is a State Bank, which it is not. They should have directed their inquiries towards joint-stock banking in the State generally, and referred to other similar institutions; but for reasons unknown to me, they have chosen to criticise in detail the working of the Bank of Baroda Ltd. specifically by name. And consequently I must as a Director of that Bank reply in detail to those criticisms.

As soon as this Bank started work, the Government of Baroda asked it to raise the share capital, if any treasury work was to be handed over to it. Capital was shy in Baroda: the state was not even willing to take up shares. The Bank practically owes its present position to one bold director, who prevailed upon his brother to take up all the new shares. Once again the time came to raise fresh capital. It was not fully taken up, and the Directors and the General Manager had to take up a considerable portion. This is just to show that while we are thankful to the Government of His Highness for their continued support and patronage, we cannot forget the fact that the Directors, who are often criticised as being unimaginative in their conceptions, had foresight and boldness enough to visualize a bright future, and had confidence enough in themselves as well as in the State, so far as the evolution of a consistent policy was concerned.



The sudden and phenomenal success of the Bank caused some people to be jealous: there were naturally vested interests in the Kothi and at Mandvi: they soon became our determined enemies, and the constant complaints can be traced to either of these strongholds.

Having explained the history of these complaints I now refer to ~~them~~ in detail. My colleagues mention particularly three, as follows :—

- (1) That the Bank only takes deposits at branches and does not accommodate.
- (2) That the Bank is more keen on business outside the State.
- (3) That the Bank gives no advances on personal security.

Let us examine them one by one.

Out of the money deposited by clients, the current and savings bank accounts are liable to be operated upon, and likely to be withdrawn. Most of the former belong to Government Departments and are meant for disbursement (over a period). The only amounts available for investments are those received as fixed or short deposits. It is said that we do not lend at branches; to-day we have lent sixteen lakhs and odd at the various branches, excepting Okha, where we have also lent, and where we are going to open. This is a fairly high figure, when we look to the very poor business at some places. And at times we have exceeded this figure in the past.

Similarly in Baroda City we have lent about rupees twenty five lakhs today. May I say that these two items are practically as much as can be well absorbed by the present trade and industry of the State? To lend blindly and to lose is not a fair proposition for any bank. And yet the Bank of Baroda Ltd. has often gone out of its way to help local trade and industries.

The complaint about taking deposits and lending them outside ignores one other fact. The report says that the Bank

is a premier institution in Western India ; and consequently a glance at the item of deposits in its balance-sheet will be misleading. These are not wholly from within the State. Various other Indian States come here to deposit their money. The deposits also include sums from other States' railways, big business firms and private individuals outside Baroda.

It must be remembered that the Directors and management of a bank, when considering advances, realize that the money they control is entirely the property of the shareholders, whose interests they must first protect. And consequently they must lend to those who offer better terms with better security.

In our zeal to invest in Baroda, we have gone out of our way, and many times against the advice of our General Manager. In such cases the Directors had a sorrowful experience, as they burnt their fingers. On the other hand, I believe sincerely that we ought to be partial to Baroda.

It is said we do not lend against a single pronote as they do in England and America. The practice in those countries is sound. Such an advance is given only to a merchant who wholly banks with the Bank, and allows all his business transactions to be made through that Bank. Such clients are rare in India, and rarer in Baroda. Yet we have been lending off and on to approved clients on a single pronote. (Vide our last balance sheet).

It is alleged that we do not help in developing commerce in the State; and my colleagues have asked for an instance. I remember very well, being connected with the cotton trade, the various loans made in the season to the cotton factories over and above those mentioned already. Do they not develop the resources of the State ? At one time they amounted to lakhs.

The Alembic Chemical Company practically owes its present position to the Bank. Is it not an instance of which any bank may well be proud ?

There is some complaint about exchange business on Bombay; but this is too trivial a matter to be considered

here. No bank can afford to keep its funds idle for any length of time, and then agree to do business on terms which will never pay. Exchange is based on the cost of transmission of funds.

Various branches have been opened to meet the demands of the State treasury; surely it cannot be maintained, there is a very good business to be had at such places as Dwarka and Karjan. To the Bank, some branches are losing concerns. And how can you expect the Bank to develop business there ?

A complaint has been made about the qualifications of our agents who have been called junior clerks. Well, they have been clerks in their previous career, but they have since received proper training in the Head Office, and had been lower officers before they were sent out. Surely no one can expect a Doctor in economics returned from America or England to be posted as an agent at Dwarka or Karjan.

It has been emphasised by the committee that our branch agents have no authority to grant advances without reference to the Head Office.

In reply to this, I should like it to be noted that in Scotland, where banking has been in progress for centuries, Branch Managers have still to receive the sanction of the Head Office before granting advances. It is also so with the Imperial, Central and India and other Banks here.

To offer advices to clients about investments is a dangerous proposition, and I can say from experience that it will cause bad blood.

The Bank recognises signatures in the vernacular on cheques; and the Baroda Bank deserves the main credit for popularising cheques, currency notes, and the banking habit throughout the State.

The Bank will be shortly opening a branch at Port Okha under the charge of a competent agent.

There are two points now left, to which I must draw the attention of my colleagues, the State and the people. The

scheme of the Reserve Bank if carried out will require the Baroda Bank to deposit with the Reserve Bank free of interest  $7\frac{1}{2}\%$  of its current and savings accounts, and  $2\frac{1}{2}\%$  of its fixed deposits. This means the Bank of Baroda will have to deposit free Rs. 24 lakhs and lose interest thereon. It will amount to a yearly loss of Rs.  $1\frac{1}{4}$  lakhs at least.

Finally I have to give one warning. Let there be no attempt to officialize the Bank. Any such attempt will strangle it. Let it be remembered always that the Bank is a private institution, and that it has achieved a phenomenal success. And the credit for that goes as much to H. H. the Maharaja Saheb as to the management. The reasons for this success lies in the unfettered discretion vested in the Board, and in the independent nature of its composition. Any attempt to tamper with the one or with the other will defeat its own object. Let the Bank go on its career, sure in its strength and confident of support from the State. And as years roll on, and as more and more money is invested by the State to develop trade and commerce and to help agriculture, we may find this Bank functioning as an apex or national Bank for the State and perhaps for the whole of Gujarāt, embracing within its fold, co-operative banking and land mortgage schemes, just as much as purely financial banking. May it be said of this Committee, that it helped to bring that day earlier !

Saturday 28th June 1930.

MATUBHAI H. KANTAVALA.

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**Remarks of the President on the Note of Dissent submitted  
by Mr. Kantavala.**

I have considered Mr. Kantavala's note of dissent with all the care that it deserves. All that he says was before the Committee and, as he himself admits, considerable modifications were made in the light of the criticism offered and the information given by him about the working methods of the Bank of Baroda Ltd. There is no blame laid on the Bank management which is admittedly run on very conservative lines. The suggestions of the Committee are based on a desire to see it develop on modern banking lines, in doing which the Committee had nothing but the good of the Bank and of the people of the State at heart. In his dissent Mr. Kantavala has raised many issues about the Bank's management to which effective replies can be given. I too have been associated in one way or another with the Bank from its beginning and lately as its Director, but I do not propose to give any reply to the various points raised by him as I consider that this is outside the scope of the inquiry and in the interests of the Bank it is not desirable to enter into details.  
Dated 2nd August, 1930.

MANILAL B. NANAVATI.  
*President.*

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## APPENDIX I.

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### General Questionnaire.

#### I. Agricultural Credit and Credit Facilities for Small Industries.

1. Describe the present system by which the agriculturist in your district obtains finance :—

- (a) for expenses during cultivation;
- (b) for capital and permanent improvements; and
- (c) for other special needs, e. g. failure of monsoon, for land revenue, etc.

What are the rates of interest charged in your district in respect of advances, the period for which loans are taken, the nature of the security given and accepted (e. g. standing crops etc.) and other conditions attaching to the grant of such loans ?

Describe the part played in agricultural finance by Government, the joint-stock banks, co-operative banks, the indigenous banks and bankers, professional money-lenders, merchants and dealers, and other organisations giving credit ( e. g. companies trading in fertilisers etc. )

Can you give an estimate of the total amount of capital required for the various purposes stated above for your district ?

Is any information available as to the extent of finance provided annually in kind ?

State defects, if any, in the present system and the reasons for the existence of such defects. Do you suggest any remedies ?

Is there co-ordination among the various credit agencies including Government, and is there scope for improvement in that direction ?

2. Describe the present method of marketing principal crops in your district.

What in your opinion are the possibilities of forming pools and of co-operative effort generally in marketing produce ?

Describe the credit facilities required for the financing of products during marketing and the facilities actually existing.

In regard to such facilities is there any special difference as between internal trade and foreign trade ?

What are the part played by the different classes of banks and bankers and merchants and dealers during the process of marketing ?

What are the existing facilities available to the public including banks and bankers for internal remittance ?

State any defects in the existing system and any suggestions for improvement.

Describe the part played by negotiable instruments in the internal trade of the district.

Have you any suggestions to make for the more extensive use of bills, e. g. by reductions of duty on bills ?

What are the different classes of *hundis* current in your part of the country ? What are the peculiarities of each ? Please give sample wording.

Have you any suggestions for the amendment of the Negotiable Instruments Act by which the public and the bankers handling *hundis* might be better protected or benefited ?

Are *hundis* emanating from your locality discounted in your local centre or are they sent to a provincial centre and discounted there, or are they held by middlemen, merchants or commission agents ?

What different kinds of instruments of ownership of goods and produce (e. g. railway receipts) and documents are employed for raising money during the process of marketing?

Are any difficulties experienced in the use of these instruments and have you any suggestions to make with a view to removing those difficulties?

What in your opinion are the possibilities of operating licensed warehouses in your district either on the lines of the system which exists in the United States of America or otherwise?

Do you think there is any need for Government assistance in the matter?

3. Give some idea of the number of small subsidiary industries allied or supplementary to agriculture existing in your district such as rice milling, dairy farming, *gud* making, garden produce, cotton ginneries, sugar refineries, hand spinning etc.

Can you suggest methods by which any such industries could be encouraged and by which the producer might be enabled to get a better return for his produce?

Can you suggest any enterprises which may give employment to the farmer during seasons when he cannot make full use of his time on his farm and thus enable him to supplement his income and to raise his standard of living?

What would be the best method of securing working capital and proper marketing facilities for such enterprises?

What financial machinery do you suggest for this purpose?

4. State what you know of the relations that exist between the co-operative banks and the other banks in the country, namely, the joint-stock banks and the indigenons banks.

Describe any existing difficulties in the matter of finance in the case of co-operative societies both in regard to short and long term capital.

Can you give an estimate of the amount of extra capital required for financing co-operative movement in your district or province??



Is there any competition in your district or province between the co-operative banks and joint-stock banks?

If so to what extent and in what direction?

Have you any views regarding the possibility and desirability of granting financial concessions in order to stimulate the growth of the co-operative movement ( e. g. by extension of special exemption from income-tax to genuine co-operative societies, inclusion of debentures issued by provincial co-operative banks in the list of trustee securities, etc. )?

To what extent has the co-operative movement succeeded in meeting the financial needs of the agriculturist, the small trader and industrialist in your district? How far, in your opinion, is the movement capable of meeting the financial needs of these classes?

5. Can you state why the Interest Act ( No. VI of samvat 1978 ) is not being availed of in this district? What measures would you suggest for greater use being made thereof?

Would you suggest the enactment of legislation such as the English Money Lenders' Act or the proposed Money Lenders' Bill for the Punjab?

## II. Indigenous Banking.

(Note:—By indigenous banking is meant all banks and bankers other than the Imperial Bank of India, the exchange banks, joint-stock banks and co-operative banks. It includes any individual or private firm receiving deposits, dealing in *hundis* or lending money.)

1. State what you know about the growth of the cheque-habit.

What has been the effect of the abolition of stamp duty on cheques?

What classes of population use cheques? Have you any suggestions to make for further promoting the cheque habit (e. g. payment of Government servants and bank employees by cheques)?

Have you any suggestions to make regarding the use of vernacular scripts in banking ?

2. State what you know of the various forms of *hundis* and other credit instruments used by the indigenous banks and bankers and the extent of their use. Give sample copies of any of the *hundis*, promissory notes, deposit receipts, etc. used in your locality.

3. State what you know of the indigenous banker's methods of granting loans and allowing cash credits and the terms and nature of these loans and cash credits.

4. Is it the general practice with indigenous bankers to insist on advances being drawn in the shape of commodities purchased through them or repayed in goods sold through their agency ?

What are the rates of interest either in money or in kind which the agricultural community has to pay at present to the indigenous banker ?

In what manner do you suggest these rates could be brought down by better organisation ?

Would the reduction of such rates confer great benefit on the agricultural community and increase its resources thereby leading either to an improvement in the standard of living or enabling them to spend more on agricultural improvements, better agricultural implements etc. ?

After making allowance for the legal expenses, management charges, losses through default and losses through foreclosure, can you give an idea of the net return to the indigenous banks and bankers on their capital ?

5. Is there a prejudice in your locality against the indigenous bankers ?

Are these bankers sufficiently protected in law ?

Is there any legal or other facility which can be extended to them ?

Are the dealings of these class of bankers with their clientele conducted on sound lines ?

If not, indicate the existing defects, making suggestion for remedying them.

6. Would you suggest any means of making this class of bankers more serviceable to the community ?

Could you suggest any means by which indigenous banking system in India could be improved and consolidated ?

Do you recommend any special facilities to be given to this class for the purpose?

What is the general system of accounts keeping and to what extent are accounts open to inspection or verification by customers?

What do you think would be the attitude of the indigenous banking community towards the introduction of any measures for regulating their operations and for giving publicity to the same?

7. Please state whether the indigenous banks and bankers are able to meet all demands for accommodations or whether they are obliged to refuse any either on account of the unacceptable nature of the security offered or owing to insufficiency of their working capital?

8. How in your opinion should the indigenous banking system be linked with the central money market and provincial capitals?

Would you suggest the establishment of a branch of a joint-stock bank, or a branch of a central reserve bank, or a local bank with local directorate, or an urban co-operative bank, in each district with which the indigenous banking system may be connected?

In what manner could such a bank inspire the confidence of the indigenous bankers and be able to utilise the local knowledge and experience of the latter?

How is the competition of such a bank with the indigenous bankers to be avoided?

9. Do you think there is a large amount of money in the districts in the hands of indigenous bankers which does not find employment throughout the year ?

Do you think that owing to this cause any large amount of money is flowing to the provincial capital either for long or for short periods?

Do you think any kind of improvement in the organisation of lending or borrowing can be made by which these funds instead of flowing to the provincial capitals would find remunerative employment in the districts and thereby benefit the districts?

### **III. Investment Habit and Attraction of capital.**

1. What are the existing banking resources in the district?

Can you state the amount of additional capital, if any, required?

Do you advise Baroda Government opening savings banks at the Taluka Treasuries? Do you think they would be taken advantage of in competition with the Postal Savings Banks?

What has been the influence of co-operative societies in this respect?

Are the public provided with facilities for the investment of their savings?

Can the existing facilities be improved in any way or extended in the smaller interior places? How far does the Bank of Baroda Ltd. meet the banking requirements of your district? Do you suggest any ways by which its usefulness to trade and industry could be increased ?

2. Do savings banks afford all possible facilities to the public?

What classes of population resort to such forms of investment?

3. State the existing facilities for purchase and sale of securities other than Government securities, afforded by the various financial agencies.

Can you indicate clearly the habits of various groups of people in your district with reference to moneys which come into their hands by sale of produce or through any other cause? Where do they keep this money and for what purposes and in what manner do they use it?

Do the farmers lend to fellow agriculturists and on what terms? How do they invest surplus money in a prosperous year? Give any information you can regarding the amount, growth and distribution of capital among the indigenous population.

4. Do you support the view that the banking and investment habit in the State is of very slow growth?

If so, to what causes do you attribute it?

5. Have you any suggestions regarding the development of banking in the State?

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## APPENDIX II.

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### **Questionnaire on Co-operative Banking.**

1. What are the defects in the working of the co-operative ( primary ) credit societies ? Please enumerate them.

What remedies do you propose for their rectification ?

Has the co-operative enterprise succeeded in teaching the agriculturists, artisans and others the value of thrift and self-reliance ?

2. Are the societies adequately financed so far as the current needs of their members are concerned ? If not, why not ? What remedies would you suggest to improve the situation ?

How far are the financing agencies responsible for this situation ?

Do you find any administrative difficulties or restrictions which are responsible for under-finance ?

What safeguards would you suggest if larger investments are permitted to co-operative societies ?

Should the reserve funds of societies be invested outside the movement, say, in cash-certificates, or in some other way ?

3. Are the societies getting deposits ? If yes, to what extent and in how many cases ?

Is it possible to attract more deposits from the public ? If yes, what means would you suggest ?

4. How is the system of compulsory deposits working ? Do you think it should be continued ? If yes, would you approve of a part of the deposits being separately invested so that the amount may be available in case of need ?

5. Do you approve of the share-system in place of fees to attract more owned capital? In this case would you still continue compulsory deposits?

6. Is the number of financing agencies enough to serve the areas under their charge? Do you need more banks? If so, where?

Have the banks enough funds to meet the requirements of the societies?

Do you offer any suggestion to improve the marketing of produce by co-operative efforts? If yes, for what crops and in what ways? How would you finance these operations?

7. What is your experience of the thrift societies? Are they working regularly? How would you popularise them? How are their funds invested?

8. Is there any class of people to whom the co-operative credit society is not reaching or not likely to reach? What agencies would you propose for financing their needs?

9. How are the Central Banks and unions using their surplus funds?

How do they meet their needs for more funds?

What are their relations with the Bank of Baroda Ltd.?

Do you suggest any means by which these institutions could be brought closer for mutual benefit?

Do you advise the conversion of the existing Khetivadi Pedhis into co-operative societies or do you think that they should still be allowed to deal with individuals?

If you agree to the latter, would you place any restrictions on their dealings?

10. Do you suggest opening of savings accounts in A class societies and if yes, with what safe-guards?

11. What is your opinion about the existing Urban Banks? What class of people are they serving? Is it possible for them to meet the needs of small businessmen and

artisans? What measures should be taken to develop this side of co-operative business?

12. What is the relation of the co-operative movement with indigenous bankers and Shroffs? Are they of any use or assistance to the movement?

Is it possible to utilise them in the movement?

13. What financial facilities are necessary for meeting the requirements of agriculturists besides credit—mere loans—for agricultural improvement?

What suggestions have you to offer in this direction?

To what extent do co-operative societies lend short-term loans against mortgages?

14. Have you any suggestions to make for general improvement in the working of the societies?

Have you any suggestion to make for improvement in the administration of the movement by Government?

15. Do you like the institution of the honorary organisers? Are they doing useful work? Are they all well-trained?

16. What suggestions have you to offer for the appointment of (सचमंत्री) Group Secretaries? Are they doing useful service? If not, how should they be replaced and by whom?

17. What should be the relations of the co-operative banks with the societies so far as their supervision is concerned?

18. Do you suggest any remedy to improve the information of the directorate and staff of the existing societies and banks on the theory and practice of co-operative banking?



### APPENDIX III.

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#### **Questionnaire addressed to Judicial Authorities.**

(1) It has been suggested to us that the money-lender takes a lot of time to recover his loans from the borrowers and so he charges higher rates of interest from them.

How far is this allegation against the money-lender true?

How far are the methods of judicial administration responsible for this?

Would you suggest any remedial measures to meet this?

(2) What is your opinion about the method of keeping accounts by indigenous bankers? Do you advise the state to take any action with regard to this?

(3) Is the system of Jalap on the increase or decrease? Should there be any restrictions on it, if it is on the increase? Kindly suggest the nature of the restrictions you would like to impose.

(4) How far have the backward classes availed themselves of the law relating to inspection of past accounts?

Should this law be extended to other classes?

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**APPENDIX No. IV.**  
**Rail-borne Statistics of the Baroda State from 1926-27 to 1928-29. (Net weight in Indian Maunds.)**

Articles.	1926-27.		1927-28.		1928-29.	
	Export.	Import.	Export.	Import.	Export.	Import.
Apparel ... ..	183	1,768	309	2,436	439	2,985
Bones ... ..	164	2,867	18,627	5,773	18,796	9,911
Coal and Coke (Railway purposes).	2,081	1,468,383	...	1,239,663	...	1,212,533
"  "  (Other purposes) ...	8,358	2,003,509	16,908	1,488,549	10,451	1,647,511
Cotton, Raw ... ..	1,857,603	468,954	1,398,245	232,685	1,088,491	229,461
Cotton, Manufactured ... ..	115,084	147,853	144,784	95,305	134,052	159,086
Chemicals (excepting Salt-peter)...	2,312	39,817	3,620	87,787	3,900	52,971
Drugs ... ..	9,874	22,315	12,071	30,963	14,455	14,751
Dyes and Tans ... ..	18,755	38,756	18,738	26,469	16,265	37,154
Fodder ... ..	653,009	284,017	736,140	48,601	626,069	33,587
Fruits and Vegetables (Fresh) ...	186,312	175,804	312,232	173,959	238,092	246,918
Grains and other Cereals ... ..	303,817	2,358,693	705,850	2,330,685	405,243	24,07,900
Gram and Pulse ... ..	294,753	458,173	921,589	264,912	715,327	280,539
Hides and skins ... ..	9,014	13,525	11,261	7,679	11,027	12,868
Horns ... ..	314	...	513	15	246	1
Hemp and other Fibres (exclud- ing Jute) ... ..	987	2,574	454	3,042	673	2,330
Jute-Raw, Gunny bags and Jute Cloth ... ..	36,287	48,093	50,034	58,121	38,975	71,227

**Rail-borne Statistics of the Baroda State from 1926-27 to 1928-29. (Net weight in Indian Maunds.)**

Articles.	1926-27		1927-28		1928-29.	
	Export.	Import.	Export.	Import.	Export.	Import
Lac... ..	93	145	379	3	23	24
Leather, Un-wrought and wrought (excluding Boots and Shoes) ...	9,856	7,568	7,048	6,707	5,345	2,665
Liquors ... ..	3,984	9,013	2,669	13,719	3,029	8,105
Metals ... ..	47,003	854,917	53,205	709,022	63,935	525,466
Mineral Substances ... ..	257,017	1,228,328	303,544	1,074,899	204,791	1,150,876
Oils (excluding Kerosene) ...	2,518	364,783	89,426	90,765	24,641	391,211
.. (Kerosene) ... ..	48,714	84,584	10,746	311,092	85,172	95,661
Oil-seeds ... ..	918,322	756,518	169,055	1,247,123	1,048,614	986,810
Opium ... ..	...	...	...	...	...	...
Paper and Paste Board ... ..	315	24,307	583	13,133	652	25,333
Provisions ... ..	71,314	298,767	77,165	188,134	83,171	212,915
Railway Plant and Rolling Stock.	83,817	136,352	21,162	134,683	18,183	11,297
Salt ... ..	1,012	383,813	1,569	309,862	983	350,068
Salt-Petre and other Saline sub- stances ... ..	312	5,864	536	7,378	235	8,885
Silk, Raw and Manufactured ...	...	5	15	320	...	9

Spices ... ..	48,317	115,852
Sugar ... ..	26,362	783,584
Tea ... ..	1,384	19,297
Tobacco—Manufactured....	8,574	27,583
.. Un-manufactured ...	189,343	31,054
Wood, Timber and Manufactured.	457,812	1,863,903
Wool, Raw and Manufactured ...	11,307	9,318
All other Articles of Merchandise.	1,683,392	2,007,856
Total ...	8,642,620	16,329,166
Treasure :—		
Gold ... ..		
Silver Coins ( Government Rupee ) in oz. ... ..		27,483
Silver Bullion, in oz. ....	...	83,358
Nickle, Copper and Bronze Coins, in oz. ... ..	...	...
Total ...	...	110,841
Animals (No.) ...	98,457	45,017

53,721	117,339	33,724	115,776
32,205	996,974	20,501	889,421
1,014	15,896	2,708	21,146
3,593	7,926	4,849	16,432
222,317	25,378	255,742	30,171
846,337	1,374,151	7,26,792	1,164,291
11,923	128,826	10,900	10,532
1,565,338	2,046,019	19,08,806	2,288,169
8,224,945	14,916,253	7,625,297	14,726,617
...		...	1,940
14,340	452,370	...	1,966,920
...	...	...	293,435
...	...	...	145,590
14,340	452,370	...	2,407,885
84,239	43,221	147,366	58,934

APPENDIX V.

Sea-Borne Statistics of the Baroda State from 1926-27 to 1928-29. (Net weight in Indian Maunds.)

Articles.	1926-27.		1927-28.		1928-29.	
	Export.	Import.	Export.	Import.	Export.	Import.
Apparel ... ..	...	...	...	...	...	860,160
Coal ... ..	66,681	42,034	731	54,003	728	827
Cotton seeds ... ..	...	...	...	...	70	154,719
Cotton—raw... ..	10	105	1,975	21	...	64
Cotton—manufactured ... ..	10,670	66	9	1,269	...	56
Chemicals and Drugs ... ..	...	7,453	840	210,710	...	100,412
Dyes and Tans ... ..	...	...	...	...	...	3,962
Fodder ... ..	16,135	60	13,475	...	222	...
Fruits and Vegetables ( fresh ) ... ..	...	23,068	3,934	51,131	7,161	50,350
Grain and Pulse ... ..	5,232	142,745	150,976	167,186	192,620	164,271
Hides and Skins (No.) ... ..	132,918	...	...	...	...	...
Horns ... ..	...	...	...	...	22	...
Hemp and other fibres ... ..	2,734	310	71	140	1,100	9,701
Gunny bags ( tute ) ... ..	...	...	...	...	...	164
Leather ... ..	...	...	...	34	5	...
Mahura Flowers and Liquor ... ..	...	...	...	...	1,121	45
Metals ... ..	32,938	3,475	14,211	658,861	35	598,662

Mineral substances...	...	...	...
Oil ( including Kerosene )...	...	1,111	12,924
Oil-seeds ... ..	...	25,691	156,386
Papers ... ..	...	...	13,491
Provisions ... ..	...	2,592	1,860
Salt ... ..	...	13,000	1,900
Sealing Wax ... ..	...	...	...
Silk, raw and manufactured ... ..	...	...	...
Spices ... ..	...	125,369	6,602
Sugar ... ..	...	1,224	90,597
Tobacco ... ..	...	161	1,719
Firewood ... ..	...	1,101	53,241
Timber, wood and manufactured...	...	29,878	73,307
Wool ... ..	...	1,886	...
Fish, fresh and salted ... ..	...	8,304	33,803
All other articles of Merchandise...	...	634,719	304,982
	Total...	1,112,354	969,228
Treasure in oz. ... ..	...	...	...
Animals ( Nos. ) ... ..	...	...	...

...	...	...	...
56,364	8,013	63,225	4,649
125,752	18,409	294,297	11,542
86	17,148	...	18,172
1,000	77,141	18,941	60,039
24,000	...	323,064	...
...	...	34	...
...	...	...	2
2,057	62,023	3,747	393,245
2,803	16,818	3,747	342,100
385	2,090	318	525
46,395	54,353	89,025	58,481
4,950	18,162	<del>29,833</del>	54,328
807	...	988	...
12,346	24,092	6,406	15,784
445,290	179,604	423,002	568,387
884,457	1,620,277	1,450,711	3,170,645
...	...	...	...
...	...	...	...



## APPENDIX VI.

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### Rules for Industrial Loans.

1. Applicants applying for concessions in the form of financial help shall be found to observe or abide by the following or such other conditions as may be prescribed:—

Conditions to be observed by Applicants for concessions.

- (a) The mills, factories and other industrial concerns, organised by Joint-Stock Companies shall have to be registered in the Baroda State according to the State Companies Act.
- (b) Government shall have a right to appoint their own Auditor or Auditors to audit account of the concern to which financial help from the Government treasury is directly given, till the Government loan is not fully recovered, for which no fees will be charged. The concerns shall be bound to give the Government Auditor sufficient facilities in inspecting their books, accounts and documents.
- (c) Government shall have a right to nominate their own Director on the Board of the concern and he shall be included in the Board of Directors.
- (d) The concern shall be bound to pay all the taxes unless special exemption is given.
- (e) The applicants shall be bound to construct the buildings and begin substantial work within such periods as may be settled in the grant of concessions.

- (f) The applicants shall be bound to execute documents on duly stamped paper in the form prescribed or approved. All expenses re : stamp, execution, registration and drafting and incidental thereto shall be borne by the applicant.
- (g) The applicant shall bind himself to obtain the written sanction of Government before transferring wholly or partially all or any of his rights under the concessions granted.
- (h) The applicant shall be bound to deposit such sum of money as the Director of Commerce and Industries may deem necessary for consideration of his application.
- (i) The concern receiving State help shall employ as far as possible, as workmen and officials persons domiciled in the State.
- (j) Factories and industries receiving concessions shall be bound to procure, as far as possible, for building purposes and equipment the materials and things produced in the State.
- (k) The concerns receiving concessions shall submit half-yearly reports re : profit and loss, production and output, at such intervals as may be prescribed.
- (l) Such concerns shall report to the Director of Commerce additions and alterations in plant equipment and buildings and the financial aspects involved therein and send their balance-sheet when issued.
- (m) All dues outstanding against concessionaires shall be liable to be recovered as arrears of land revenue.

2. Loans may be given to concerns when the financial conditions of the State allow such concessions to be shown. In granting loans the following principles shall be observed :—

The policy of granting loans.

- (1) No loan shall be granted of an amount exceeding 50% of the net value of the assets of the industrial business or enterprise, after deducting the amount of existing encumbrances.
- (2) Every loan shall be secured by legal mortgage or charge upon the whole or specified assets of the business or enterprise.
- (3) The concern to which a loan is proposed may be allowed to issue debentures on such conditions and carrying such rate of interest and stipulation of instalments as may be settled by Government.
- (4) Conditions may be made that in the event of carelessness or fraudulent transactions on the part of Agents and Directors, Government may take possession of the concern for management or to pay off its debts.
- (5) Conditions may be put in, that the concern may not create a subsequent charge except with the permission of the Huzur.
- (6) The instalments and the rates of interest may be settled according to the conditions of the market.
- (7) The applicant for the loan shall bind himself to insure the mortgage property for the loan given and deposit with the Government the insurance policy for the same. The mortgage property should be insured with the consent of the Director of Commerce with a sound insurance company until the loan is paid off.

3. The Director of Commerce and Industry will, if necessary, make preliminary inquiry re : the details of the applications submitted to him according to Section 25 and after formulating his proposals as laid down in Section 27 he will obtain opinion of the Finance Committee wherein State financial help is to be given to the applicant and in other cases the opinion of the Department concerned will be obtained, if necessary and then the Director of Commerce will submit the whole matter with his own opinion to the Government for final orders.

4. (1) When any person applies for financial help exceeding a sum of Rs. 5,000, the question shall be first considered by the Finance Committee consisting of the following members:—

- (1) The Legal Remembrancer,
- (2) The Accountant General,
- (3) The Director of Commerce and Industries,
- (4) C. E. Randle, Esqr., General Manager, Bank of Baroda, or  
such other person who may be nominated by the Huzur from time to time.

(2) Three members of the Committee shall form the quorum.

5. The Committee shall investigate all the details relating to the application and communicate their opinion to the Huzur through the Director of Commerce.

6. In case of applications for financial help for loans not exceeding Rs. 5,000 such applications shall not be submitted to the Finance Committee but they shall be considered by the Director of Commerce who may reject them or submit them to the Huzur with the opinion of the Accountant General.

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