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Provincial Banking
Enquiry Committee

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REPORT

OF THE

**Bihar and Orissa
Provincial Banking
Enquiry Committee**

1929-30

VOLUME I



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1. Banking Map of the Province of Bihar and Orissa facing the frontispiece.
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MAP SHOWING
THE DISTRIBUTION OF CO-OPERATIVE
SOCIETIES IN THE PROVINCE OF
BIHAR & ORISSA

Scale 1" = 64 Miles



REFERENCE TO NUMBERS

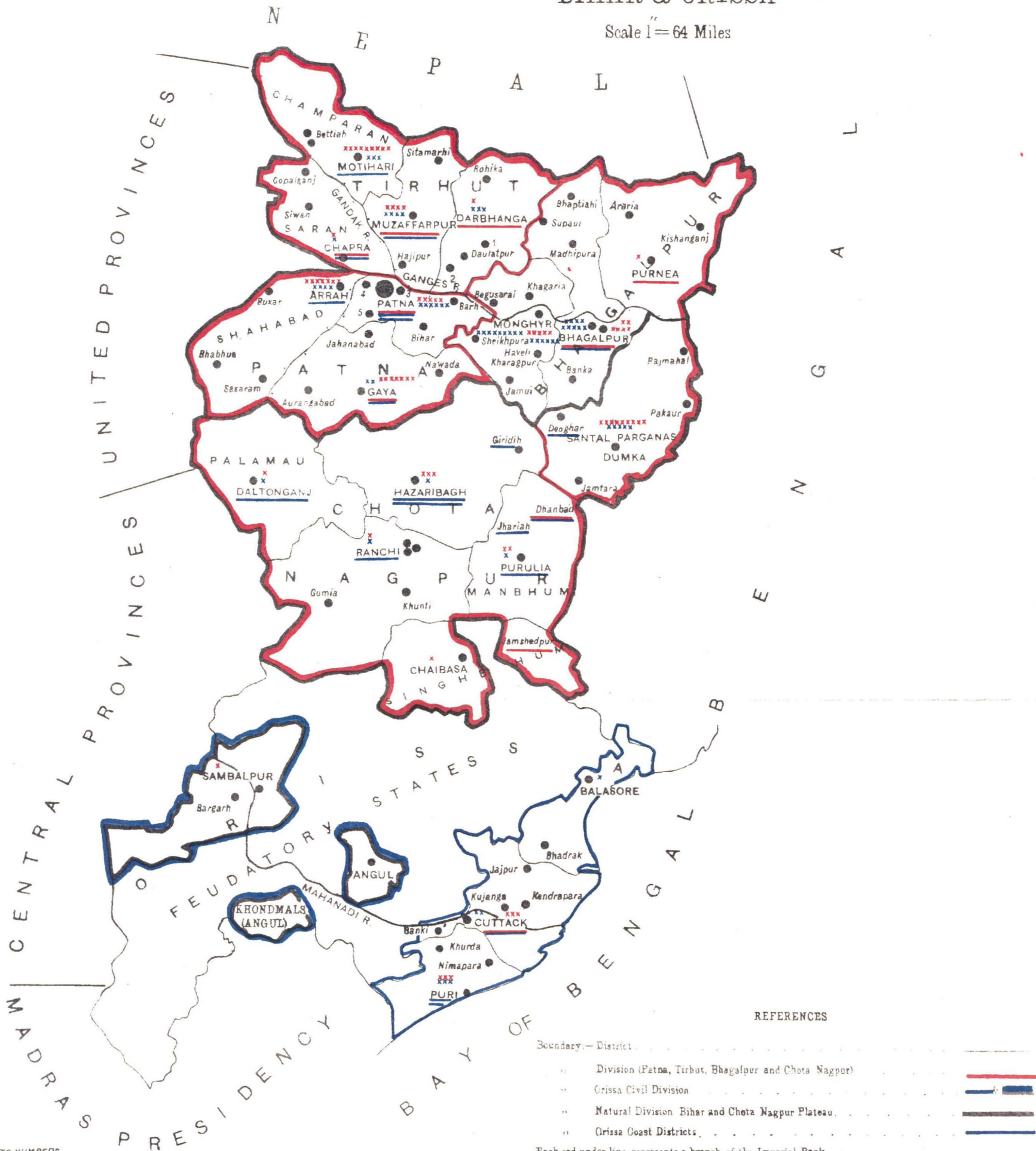
- | | |
|---------------|-------------|
| 1 KARAIKELA | 5 TIGIRIA |
| 2 NILGIRI | 6 ATHGARH |
| 3 NARSINGHPUR | 7 KHANCPARA |
| 4 BARAMBA | 8 RANPUR |

REFERENCES

Boundary:—	Division	.....
"	District	-----	
"	Sub-division	.....
"	State	.....
Sub-divisions with Co-operative Societies from 1 to 19 shown thus			
"	"	20 to 49	
"	"	50 to 99	
"	"	100 to 200	
"	"	over 200	

BANKING MAP OF THE PROVINCE OF BIHAR & ORISSA

Scale 1" = 64 Miles



REFERENCES TO NUMBERS

- 1. Laheria Sarai
- 2. Samastipur
- 3. Fatwa
- 4. Dinapore
- 5. Masaurhi

REFERENCES

- Boundary: District
- Division (Patna, Tirhut, Bhagalpur and Chota Nagpur)
- Orissa Civil Division
- Natural Division Bihar and Chota Nagpur Plateau
- Orissa Coast Districts
- Each red under line represents a branch of the Imperial Bank
- blue under line represents a branch of a Joint-stock Bank
- small black circle represents a central Co-operative Bank
- red cross represents 10 urban bankers and money lenders paying incometax
- blue cross represents 40 rural bankers and money lenders paying incometax
- The big black circle represents the B. & O. Provincial Co-operative Bank

PART I.

INTRODUCTORY.

CHAPTER I.

The Committee and its work.

1. *Constitution of the Committee.*—The Committee was constituted in accordance with the scheme laid down in the letter of the 3rd April 1929 from the Government of India to the local Governments. The main function of the Committee has been to investigate agricultural credit, marketing of crops and the finance required for it, the volume of agricultural indebtedness, its causes and effects, and the means of discharging it, agricultural enterprises and other small industries with the finance necessary for their development. Special emphasis has been laid on the examination of the working of the co-operation as a banking and marketing agency, indigenous banking and its future, and the investment habit and attraction of capital. The personnel of the Committee, as suggested by the local Government and accepted by the Government of India, was

- (1) Mr. J. A. Hubback, I.C.S., *Chairman.*
- (2) The Rev. J. Z. Hodge, *Co-operative Expert.*
- (3) Professor H. R. Batheja, I.B.S., *Indian Economist.*
- (4) Rai Bahadur Radhakrishna Jalan, *Representative of Commerce.*
- (5) Rai Bahadur Bansidhar Dhandhanian, *Indigenous Banker.*
- (6) Rai Sahib Loknath Misra, *Representative of the agricultural classes.*

Mr. Batheja performed the duties of Secretary as well as those of a member of the Committee. All members of the Committee have served throughout the period of its enquiries.

2. *Preliminary meeting at Ranchi.*—The Committee first met at Ranchi on July 29th and had the advantage of hearing from Sir George Schuster himself a resumé of the scheme of enquiry and a description of the particular functions of provincial committees. The general provincial questionnaire drawn up by the Central Committee was considered on that and the following day with the assistance of Mr. Ayangar, the Secretary of the Central Committee. Certain additional questions were suggested and the programme of work outlined by the Chairman was considered and approved. The general scheme of that programme was that personal enquiries should be carried out during the first three months by the Chairman and Secretary, as well as any other member, who could spare the time, acting as a sub-committee. They would work from four centres, Cuttack, Ranchi,

Bhagalpur and Muzaffarpur, in order to survey credit and investment-conditions in the different parts of the province. It was agreed that in view of the heterogenous character of the province no typical district could be selected for an intensive survey.

3. *Issue of the general questionnaire.*—The Committee began its labours at Cuttack on August 13th, when the Chairman and Secretary joined their duties and the office was formed. The general questionnaire, together with the additional questions framed for Bihar and Orissa, was issued to all members of the Council of State and of the Legislative Assembly representing the province, and to all members of the Bihar and Orissa Legislative Council. Copies were also sent to district officers for distribution, to chairmen of district boards and municipalities, to various heads of departments, to professors of economics, and to other officials especially those belonging to the Co-operative and Agricultural Departments. The questionnaire was widely circulated among zamindars, traders, bankers, money-lenders, manufacturers and other members of the public. To ensure publicity amongst classes not conversant with the English language, it was translated into Hindi and Oriya, and steps were taken to obtain Urdu and Bengali versions from the United Provinces and Bengal. In all 920 copies of the questionnaire were distributed in English, 385 in Hindi, 37 in Oriya, 81 in Urdu and 5 in Bengali.

4. *Use of a simple questionnaire.*—It was realised that the questionnaire was too elaborate to attract replies from any except the educated, and so in order to obtain information about rural conditions from the cultivators themselves a simple questionnaire was drawn up and translated into Hindi and Oriya. This was used in two ways. In the first place, when the sub-committee was about to visit a village, copies of the simple questionnaire in the vernacular were sent out beforehand through some person of local influence for distribution to the leading men of the central and neighbouring villages, for discussion among themselves prior to the visit. Secondly, copies were sent out for similar use to the investigators, who made village enquiries on our behalf. These included 58 Deputy and Sub-Deputy Collectors, including 10 employed in the Settlement Department, 9 officials of the Co-operative Department, 57 non-official gentlemen with most of whom we got into touch through that department, 2 professors of economics and 19 economic students. In all 687 English, 800 Hindi and 348 Oriya copies of the simple questionnaire were distributed.

5. *Special questionnaires and enquiries.*—At later stages of the enquiry special questionnaires were issued to postal officials, and to the central co-operative banks. The district officers were requested to report specially on certain points such as the use that had been made in recent years of the Land Improvement Loans Act and the Agriculturists' Loans Act, and the experience of other officials in particular those of the Income-tax Department was drawn on for various special subjects of the enquiry.

6. *The sub-committee's work in Orissa.*—The sub-committee, in most of whose activities Rai Sahib Loknath Misra joined, spent a month at Cuttack and Puri, visiting six village centres, and examining informally 28 witnesses, including the Deputy Registrar of Co-operative Societies, indigenous bankers, traders, manufacturers, commission agents, etc. The Imperial Bank and three joint stock banks were visited as well as two central co-operative banks.

7. *Work at Ranchi.*—The whole Committee then assembled at Ranchi on September 14th to review the results of the sub-committee's work and to decide on future action. The sub-committee then resumed work, in which Rai Bahadur Radha-Krishna Jalan and Mr. Hodge took part. From Ranchi 5 village centres were visited, and a special journey was made to Jhalda to investigate the lac business with the help of the leading manufacturers there. The managers of one joint stock bank and two central co-operative banks gave us the benefit of their experience, as well as the postmaster of Ranchi, a leading contractor, and numerous gentlemen engaged in the lac business, indigenous banking, local trade, etc.

8. *Meeting at Patna.*—The Committee held a third meeting at Patna on October 21st where the Ranchi results were examined. The headquarters office of the Bank of Bihar was visited by the Committee on October 22nd.

9. *The work at Bhagalpur.*—The sub-committee moved to Bhagalpur on October 23rd and stayed there till November 1st. Rai Bahadur Bansidhar Dhandhanian was able to join the sub-committee for most of its sittings at Bhagalpur. The Imperial Bank, one joint stock bank and two central co-operative banks were visited as well as the offices of two indigenous bankers. Traders in grain, oil and cloth, the Superintendent of the Government Silk Institute, silk merchants and manufacturers, rice and oil-mill managers and others attended before the sub-committee to discuss their business. Three village centres were visited.

10. *The work at Muzaffarpur.*—The sub-committee then moved to Muzaffarpur on the 1st November and remained there till the 12th November. Visits were paid to the branches of the Imperial Bank and of the Bank of Benares, as well as to the Central Co-operative Bank. Enquiries were made at three village centres. The principal indigenous bankers, importing merchants, warehousemen, shopkeepers, etc., were interviewed. A meeting was also arranged to discuss the finance of the sugar industry.

11. *The results of the sub-committee's work.*—This concluded the first stage of enquiry. The results of it will be found in Volume III entitled "Interviews and enquiries". Special attention is drawn to the note at the beginning of that volume, which indicates that it is a record of the impressions left on the minds of the members of the sub-committee.

12. *Oral evidence taken at Patna, Ranchi and Cuttack, and the Calcutta conference.*—The Committee then assembled at Patna and the

second stage of the enquiry, the taking of oral evidence of witnesses, began. The evidence of witnesses drawn from the Patna, Tirhut and Bhagalpur Divisions was taken at Patna from November 23rd to December 14th. From December 18th to December 21st sittings were held at Cuttack for recording the evidence of witnesses from Orissa. The Chairman and Secretary attended the Conference, called by the Acting Chairman of the Central Committee, in Calcutta on the 3rd and 4th January 1930. The Committee reassembled at Ranchi and took the evidence of witnesses from the Chota Nagpur Division there from January 8th to January 11th.

13. *Analysis of witnesses examined.*—At the three centres, Patna, Cuttack and Ranchi, 33, 10, and 9 witnesses were formally examined, or 52 in all. The witnesses comprised 20 Government officials other than professors of economics, 9 co-operative non-official workers, 6 bankers, money-lenders, etc., 3 professors of economics and 14 traders, zamindars and others. Their evidence, together with the written memoranda submitted by them, is printed in Volume II entitled "Evidence". In a few cases witnesses of special importance, who had not submitted a memorandum, were examined; on the other hand a few memoranda, the authors of which could not attend before the Committee for oral examination, have been printed. In that volume also will be found specimens of Hindi memoranda translated into English, and specimens of enquiries carried out in the villages by the investigators. In this volume will be found all the questionnaires issued by the Committee.

14. *Drafting and approval.*—From January 13th, onwards the preparation of the Report was taken up by the Chairman and Secretary. The draft was taken into consideration by the Committee at Patna on the 17th March 1930 and, subject to minor corrections, was passed on the 22nd March.

15. *Closing of the office. Cost of enquiry.*—The office of the Committee finally closed on 30th April 1930 when the Report was submitted to the Government of Bihar and Orissa for forwarding to the Central Committee through the Government of India. The records of the Committee are deposited with the Finance Department of the Government of Bihar and Orissa. The total cost of the Committee will be approximately Rs. 70,200.

16. *Difficulties. Lack of rural agency.*—The enquiry has not been free from difficulty. In the first place, since over the greater part of the province land revenue is permanently settled, there is no sufficient rural agency trained in the collection of statistical evidence. For the collection of information about indebtedness, the practice of money-lending in the rural areas, and the methods of marketing, we have had to rely largely on the help of voluntary investigators to whom we make our cordial acknowledgments.

17. *Absence of previous surveys.*—There is also a complete absence of any systematic survey of these matters in the past, such as would have enabled us to contrast the present position with that of an earlier

date. The Settlement Officers had their own problems of land tenure to solve, and the rigid economy, which the preparation of a record-of-rights that seldom yielded any increase of the State income, imposed upon their operations, did not permit of any elaborate investigations into the machinery of credit. Their reports, as far as they touch on such matters, deal with them on general lines without any statistical basis. Of recent years the economic staffs of the colleges have made an admirable attempt to conduct surveys through their students; but these have not as a rule been brought together, and are indeed as yet more often instructional exercises than real contributions to knowledge.

18. *Reluctance to disclose financial position.*—Another difficulty, which we believe is not by any means confined to this province, is the natural reluctance of all classes to disclose fully the details of their business or financial position. This has been largely overcome in respect of the actual cultivators, especially where the spread of the co-operative movement has accustomed them to a considerable degree of publicity. We found, too, the traders and manufacturers ready enough on the whole to help us. The banks of the western type, with the exception of the Imperial Bank which had special reasons for the line taken up, placed their experience at our disposal, though the general backwardness of banking in the province confines that experience within somewhat narrow limits. It is in regard to indigenous banking and money-lending that we feel our information is not as complete as we could wish. Though the picture of their business presented on the basis of our personal enquiries is, we believe, substantially accurate in its main outlines, we have not been able to fill in the statistical details with any certainty. In so far as we have done so, we have relied on the figures supplied by the Income-tax Department, supplemented by the experience of those of us who are engaged in this occupation.

19. *Emphasis on co-operation.*—The portion of the report devoted to the present position and the future possibilities of the co-operative organisation viewed as a banking agency may appear disproportionately large. The reason for this scale of treatment is that in a province over-whelmingly agricultural and very backward in banking, it is inside the co-operative movement that the greater part of available banking experience has been accumulated. Further the main problem in this province is the supply of adequate credit at reasonable rates to the agriculturists, and, apart from the village money-lender, the co-operative organisation is the only agency which is attempting to solve that problem. While we have considered and to some extent recommended the development of other agencies, we were obliged to examine, as fully as the time at our disposal permitted, the agency, which bids fair in course of time to assume a very strong position in the rural banking system of the province.

In conclusion it is hardly necessary to point out the difficulty of conducting a banking enquiry in a province, where banking is backward and interest in the subject undeveloped, especially when the province itself is not an economic unit, but is largely dependent for its finance and business enterprise on Calcutta.

CHAPTER II.

Special features of the province.

20. *A heterogenous province.*—The province of Bihar and Orissa, being a fortuitous agglomeration of the non-Bengali elements of the old Bengal Presidency, neither had at its inception in 1912, nor has since acquired any great degree of homogeneity. Seven languages, spoken by a quarter of a million people or more, still prevail in the province, Hindi, Oriya, Bengali, Santhali, Ho, Mundari and Oraon, besides numerous dialects or allied tongues. The evidence on which the Committee's report is based has been collected in the presence of its members in four of these languages, while our investigators have, no doubt, used all of them and many of the minor varieties.

21. *Economic divisions.*—Linguistically the province falls into three main divisions; the Ganges valley which is predominantly a Hindi-speaking tract; the Orissa coast districts with its hinterland of the Feudatory States, Angul and Sambalpur, where Oriya prevails; and the core of the central Chota Nagpur plateau, where Austriac and Dravidian languages are spoken by a considerable proportion of the population. Along the eastern border of the province Bengali is commonly spoken. The linguistic divisions do not, however, correspond accurately with the geographical divisions, since geographically the districts of Angul and Sambalpur have greater affinity to the Chota Nagpur plateau than they have to the Orissa coast districts. The geographical features are more important from an economic point of view than the prevalent languages. Consequently in this Report we propose to follow the Census Report of 1921 in treating the province as made up of Bihar proper (i.e., the districts of the Patna, Tirhut and Bhagalpur civil Divisions, excluding the district of Santal Parganas), the Chota Nagpur plateau (made up of the Chota Nagpur Division, Santal Parganas, Sambalpur and Angul), and Orissa (comprising the three Orissa coast districts). The Census distinguished further between Bihar north and south of the Ganges, but for our purposes the distinction is unnecessary.

22. *Characteristics of Bihar.*—Bihar is mainly an alluvial plain drained by the Ganges and its tributaries, bounded on the north by the foothills of the Himalayas and on the south by the Chota Nagpur plateau. It has an area of nearly 37,000 square miles and supports a population of 21½ millions. The preponderance of rural population over urban is very marked, only 43 persons per mille living in centres comprising populations of 5,000 or more. Few of the towns show much signs of expansion and some are decaying. There are practically

no minerals in Bihar and with the exception of a railway workshop and a tobacco factory no large scale industries. Industries on a minor scale such as sugar factories and rice and oil-mills are of some importance, but the great bulk of the people live by agriculture, and of the rest most live by trade or petty industries. It is usual to describe the soil of Bihar as very fertile, but that is by no means generally true. North Bihar has tracts of good light soil, which with sufficient rain and adequate manure will produce valuable crops of sugarcane, tobacco, chillies and so forth. Its rice fields under favourable conditions bear good crops, though these are not as heavy as are raised in Bengal. South Bihar, except for a narrow strip of fertile country close to the Ganges, has a poor soil; the southern portion of it frequently suffers from drought and is only saved even in normal years from a failure of the rice crop, on which it mainly depends, by public and private irrigation works. The cold weather crops of both tracts, gram, wheat, barley, the pulses and millets, as well as the oilseeds, linseed, mustard and castor, all require good rains in October and at least one good fall in January for a satisfactory yield. Bihar as a whole is hard put to it to support its heavy density of population, 642 per square mile in the north and 502 in the south, and there is considerable emigration to Bengal to help to gather the rice harvest there.

23. *Characteristics of the Chota Nagpur plateau.*—The Chota Nagpur plateau comprises roughly that part of the province that lies 500 feet above sea-level. Its peaks rise to a little above 3,000 feet, and its general characteristics are rich winding valleys, open uplands and wooded hills. It lies south of Bihar and comprises the rest of the province except the deltaic area of the three Orissa coast districts in the south-east. Excluding the Feudatory States, which occupy the greater part of the southern portion, its area is 38,000 square miles, slightly more than Bihar, but its population is only a little more than 8½ millions. It is even more markedly rural than Bihar, only 36 per mille living in towns. These, however, though small, are fairly numerous and most of them are developing. The most striking development is the rise of Jamshedpur from a village to a town of some 60,000 inhabitants in 20 years, the result of the establishment there of the Tata Iron and Steel Works. A population of some 100,000 is supported by the coal industry in Manbhum and Hazaribagh, and most of these now live in semi-urban conditions, though their concentration is not sufficient to bring them under the Census definition of urban inhabitants. Still the population is predominantly agricultural, 822 per mille of its constituents being supported in that manner. The soil varies greatly in fertility. The bottoms of the valleys usually receive plenty of moisture and bear fine crops of rice, which extend in good years well up the slopes. The crop of the higher rice land is, however, precarious, while the uplands, on which maize is the principal crop, are also dependent on seasonable rain. Much of the upland soil is incapable of bearing a crop more than once in two or even three years. A good deal of the plateau is still covered with forest, and the trees and bushes which nourish the lac insect are plentiful, making lac.

culture a very important subsidiary occupation. It is in places very rich in minerals, of which the principal are coal (by far the most important), iron-ore of very high metal content, mica manganese and copper. Although the pressure on the soil is much lower than in Bihar, being about 222 to the square mile, the natural resources cannot fully support the population. There is a great deal of emigration to the tea gardens of Assam, mainly for short periods, but some long term or even permanent.

24. *Characteristics of Orissa.*—The Orissa coast districts comprise the extreme south-east edge of the Chota Nagpur system of hills, the apron of broken country at the foot of them, the old alluvial formation of the rivers that emerge from them (the Mahanadi, the Brahmani, the Baitarani and other smaller streams), and finally the delta in formation which fringes the seacoast. Its area is about 8,250 square miles, and its population just under four millions. The urban share of the population is slightly larger than that on the Chota Nagpur plateau, being 38 per mille. It is mostly concentrated in the towns of Cuttack and Puri. The former has a number of small industries, but the latter's population is supported mainly by catering for the pilgrims to the Jagannath temple or for the visitors who come in search of health. In spite of its long coast line, the only possible place for a port is the Dhamra estuary, and that is not at present in a position to attract enough trade to justify its development. It is somewhat surprising then to find that Cuttack is the most industrialized district in the whole province, and that Puri comes third in that respect. On examination it appears that there are in Orissa a relatively large number of workers engaged in the standard rural industries, the cotton weavers, the wood workers, the potters, tailors, and barbers, the rice pounders, and grain parchers, and so on. Agriculture is, however, here as elsewhere far the most important occupation, supporting directly 719 per mille of the population. The soil of Orissa is moderately fertile and the rainfall more certain than in other parts of the province, so certain indeed that the elaborate canal system constructed between 1865 and 1875 has never paid its way. On the other hand a great part of the country is open to destructive floods, caused by heavy rain in the vast catchment areas of the three principal rivers. These occurrences, which are repeated every three or four years on an average, lower the outturn of crops materially and induce a heavy temporary emigration of labour to the mills round Calcutta. The main crop is rice, and it is indeed of supreme importance, the area under that crop being 82½ per cent. of the gross cropped area, while for the province as a whole the proportion is only 45½ per cent.

25. *Ethnological differences.*—Ethnologically the three tracts have different characteristics. In Bihar the bulk of the population is of Aryan stock, though the upper classes of Muhammadans are descended from Moghul, Pathan and Afghan invaders, while Hinduism has long ago absorbed the aboriginal races, who did not retire into the jungles. These last form the lowest castes of Hindus and comprise about one-sixth of the population. In the Orissa coast districts, too, Aryan stock

predominates. Aborigines, who have not lost their identity by absorption into Hinduism, are slightly more numerous than in Bihar, $2\frac{1}{2}$ as against 2 per cent. The lowest castes are somewhat less in evidence, forming only one-eighth of the population. On the Chota Nagpur plateau, however, things are quite different. Practically half the population are aborigines, while another 10 per cent. are low caste Hindus of aboriginal stock, absorbed long ago into Hinduism. The differences in other characteristics are paralleled by those found in the statistics of literacy. In Orissa, where there is a tradition of learning, 160 males and 9 females out of every 1,000 were literate in 1921. In Bihar the figures were 99 and 6, and in Chota Nagpur 72 and 6, and 95 and 6 for the whole province.

26. *Banking for a rural population largely illiterate.*—The study of banking problems in this province is thus concerned primarily with a rural population, of which the great bulk lives by the cultivation of the soil. Not quite one in ten of the males attain to the Census test of literacy, ability to write a letter in their own language and read the reply. Of the females six in every thousand are literate in this sense. The function of banking in such a province is mainly to provide credit during the growing of the crop, to finance the marketing of the produce which is not consumed on the spot, and to facilitate the inflow of commodities required for consumption in the villages.

27. *Land tenure and size of holding in Bihar.*—In view of the overwhelming importance of the land-owning class in this province it is desirable to explain in some detail how the land is held and what restrictions there are on its full use as a backing for credit. Here again the natural divisions of the province have special characteristics. In Bihar the superior interest in land is held by proprietors (*zamindars*), who are required to pay the land revenue demand assessed on their estates to Government, and empowered to collect rents for lands let out to cultivators and to enjoy the produce of such lands as have not so been let out. Except for a few estates, mainly those formed by accretion in the beds of the great rivers, the land revenue demand is fixed in perpetuity. The demand from land not so permanently settled is only 10 per cent. of the whole. The power of the zamindars to increase the rents payable to them and to dispossess cultivators from the lands held by them in cultivating tenancy is closely restricted by the Tenancy Act. But the residuary rights of the zamindar are valuable and yield on the average to their possessors at least nine times the land revenue they have to pay. These rights are freely transferable by sale or mortgage. The extent of a *zamindari* varies very widely, from a tract of some 5,000 square miles to a few acres. Interests are much subdivided; there are about 756,000 shareholders for 191,000 estates.

Next come the tenure-holders, who have taken land from the *zamindar*, primarily for the purpose of rent collection. These number 312,000 having shares in 293,000 tenures. The majority of these are of a permanent character, though not as a rule on a rent fixed in

perpetuity, but many are temporary leases or usufructuary mortgages of proprietary rights. The permanent tenures can be sold or mortgaged without restriction, except the need for registering the transfer on payment of a small fee.

The land is actually cultivated by *raiya*s, who hold under tenure-holders or much more frequently direct from zamindars. A small proportion of the total area is held direct from the State. Of these *raiya*s some 90 per cent. have hereditary occupancy rights, which protect them from ejection and from frequent or unconscionable enhancement of rent. As a consequence the rents have remained low, and do not average more than Rs. 4 an acre. In South Bihar, however, a good deal of the land held by occupancy *raiya*s still bears a produce rent, which can be oppressive if rigorously collected. Occupancy rights in land are, as a matter of practice, sold and mortgaged freely. Up to now the law has left the question whether a sale is binding on the landlord to custom, which is extremely difficult to prove. In the great majority of cases, however, the landlord accepts the new tenant for a fairly substantial fee. The regulation of transfer by sale has been since 1919 the main subject of a succession of abortive bills for amending the Bengal Tenancy Act, by which the relations of landlord and tenant are governed. The size of the average holding has been put at 5 acres, but the figure cannot easily be tested.

28. *Land tenure and size of holding in Chota Nagpur.*—In the districts of the Chota Nagpur plateau four different tenancy statutes are in force, one for each of the districts. Sambalpur, Santal Parganas and Angul, and the Chota Nagpur Tenancy Act, which regulates tenancy matters in the other five districts. Estates of temporarily-settled proprietors and Government estates are far more important than in Bihar, though large proprietors with a permanent settlement are to be found in most districts, and several have a number of smaller proprietors. Tenures are fairly common, but in some districts are grants to younger branches of the zamindar's family, and are consequently inalienable and resumable on failure of male heirs. The actual cultivators, who are largely drawn from aboriginal stock, are as a rule even more thoroughly protected in their occupancy rights than they are in Bihar. They are in general prevented from selling their holdings or from alienating them by mortgage for more than seven years, though in Chota Nagpur proper sale within the same estate to a member of the same tribe is permitted. Their rents are remarkably low, averaging about Re. 1 an acre. There is, however, a large proportion of poor upland, and the average holding may be put at 10 acres, of which only one-third is fit to grow rice.

29. *Land tenure and size of holding in Orissa.*—In the Orissa coast districts temporarily-settled estates are the rule and permanently-settled estates the exception. The proprietors, however, have the same privileges of free sale and mortgage as elsewhere, and save for the fact that the land revenue demand is liable to revision at intervals of 30 years there is little real difference. Shareholders are nearly as

numerous as in Bihar, and the estates are quite as small. Tenures are numerous, mainly those of a sub-proprietary character, bearing a definite part of the land revenue demand, and having practically all the rights attaching to zamindaris, including freedom of transfer. The *raiya*s or actual cultivators are again very well protected by the Orissa Tenancy Act from ejection or arbitrary increase of rent. They have very nearly complete right of sale of their occupancy holdings, subject to a payment of one-fourth of the purchase money to the landlord. They are, however, in their own interests prevented from giving their lands on usufructuary mortgage for more than nine years. The rent average is about Rs. 2-8-0 an acre, and the size of the average holding has been estimated at 4 to 5 acres.

30. *General review of land tenure.*—The rural population dependent on the land is thus, throughout the province, mainly composed of tenants having occupancy rights. As a security for credit these rights are generally good, though the uncertainty of the law about sale in Bihar and the positive restrictions on sale in Chota Nagpur detract somewhat from their value from a banking point of view. There is some, but not a great deal of, sub-infeudation by the intrusion of tenure-holders, occasionally more than one grade, between the proprietor and the occupancy *raiya*t. The proprietors and tenure-holders form an important though not relatively numerous class, which ranges from the great landlord, who is almost entirely a rent collector, to the petty proprietor, who often is an occupancy *raiya*t as well, and who depends mainly on the cultivation of his own lands. Of the 83,000 square miles comprised in the British portion of the province, 66,000 is permanently settled with proprietors, 12,000 is temporarily settled with proprietors, and in 5,000 the State itself is the proprietor.

31. *The record-of-rights.*—For the whole range of rights in land and for practically the whole province an elaborate record based on a cadastral survey has been prepared in the last forty years, and though for many districts this record is becoming out of date, yet it still serves as a starting point for investigation of title.

32. *Absence of a land revenue staff.*—Since the land revenue assessment of the greater part of the province is not subject to revision, and for nearly all the rest is only revised after periods extending to 30 years, no widespread local agency exists for the preparation of annual statistics relating to agrarian matters, such as is found in most other provinces. The lack of such an agency makes it extremely difficult to estimate the value of the crops raised, the cost of raising them, and the capital value of the various interests in the lands. The estimates given below must be used with very great caution.

33. *Value of crop.*—The gross cropped area of the province is about 30,000,000 acres, of which one-sixth, 5,000,000 acres, is cropped more than once, though much of this bears merely a catch crop, sown on the rice fields while the principal crop is growing. Thus the net cropped area is some 25,000,000 acres.

The produce of the land may be very roughly estimated in the following manner :—

Crop.	Acreage in thousands.	Percentage of total acreage.	Average yield in maunds per acre.	Price per maund.	Gross return per acre.	Total gross return in lakhs of rupees.
1	2	3	4	5	6	7
				Rs. a. p.	Rs.	
Rice ..	13,500	45	14 (paddy)	2 8 0	36	47,25
Gram and pulses ..	7,000	23	8	4 0 0	32	22,40
Other food grains ..	5,000	17	8	8 0 0	24	12,00
Oilseeds	2,000	6½	8	8 0 0	64	12,80
Sugarcane	300	1	400 (stripped cane)	0 6 0	150	4,50
Fibre ..	300	1	16	7 8 0	120	3,60
Tobacco ..	150	½	13	11 8 0	150	2,25
Other crops ..	1,750	6	..	..	40	7,00
Total ..	30,000	..	..	..	..	111,80

To this may be added about 8 per cent. for the by-products such as straw, and thus the money value of yield from the land may be placed at something not far from 120 crores. It varies very greatly from year to year by reason of the fluctuations of outturn and of price, and may well be 150 crores in a very good season and 90 crores in a very bad one. This must not, of course, be taken as an estimate of the total "dividend" on which the rural population lives. That would include the wages paid to labour for raising minerals, such as mica and even coal and iron ore, since those operations go on in the rural areas. There is a large income from lac which varies widely, but might at the present moment be put at 2½ crores, and from other forest products, such as timber, fuel, catechu, myrabolams, etc. Then there are the products of hunting and fishing, the latter of very great importance in many parts of the province, of stock rearing, and of cottage industries, of which weaving is the chief. It is outside our province to attempt an estimate of the total dividend, and it is only necessary to say that it is obviously very much greater than the very rough estimate of the value of the agricultural produce, which we have put forward above.

34. *Cost of raising the crop.*—The cost of raising the crop is even more difficult to determine. It comprises first the cost of the seed; then the cost of upkeep and replacement of bullocks and implements; then the labour required for preparing the land for the crop and for harvesting it; then the cost of the manure. The seed cost can be ascertained without great difficulty, given the price of the grain in

question. The price of bullocks varies greatly throughout the province and so do their capacity for work and their stamina. The labour is very largely that of the occupancy-*raiyat* and his family, and where it is not usually paid for, in part at least, in kind and as a share of the harvest. The need for manure naturally varies markedly with the type of soil and the crop to be raised, and the degree, to which the need is actually met, with the enterprise of the cultivator and the ease of obtaining supplies. Numerous estimates of the cost of cultivation have been made at different times by Settlement Officers for the districts in their charge, but the prudent among them urge great caution in using their results. A general impression of such estimates leads to the conclusion that the cost of raising the crop is probably not more than half the value of the crop raised and probably not less than one-third of that value. It might then be put very tentatively at 45 crores.

35. *Value of proprietary rights.*—The value of proprietary rights in the province can again only be put forward as a rough guess. These do not come into the market, except as the result of a long course of borrowing, and the price realised in such circumstances is no real guide to the value. Still less trustworthy is the price obtained at auction sales for default of payment of revenue. These generally produce about 20 times the revenue demand, or something about Rs. 10 to Rs. 20 an acre. It seems probable that the annual return in the permanently-settled estates is about 10 times the revenue demand, and though the temporarily-settled estates are nominally settled on 50 or even 55 per cent. of the calculated assets, these are taken so leniently that in actual practice the demand is not more than one-fourth of the true assets, if it is as much. In the three Orissa coast districts the present local cess demand is based on a supposed gross rental of 86½ lakhs. When both the assessments have been brought up to date in the course of the next two years, it is probable that the gross rental for cess purposes will be 120 lakhs and the land revenue 30 lakhs.

At a very rough estimate, based on the cess valuation figures, it may be put forward that in the Bihar districts the average annual value of the proprietary right is Rs. 8 per acre of net sown area, in Orissa it is Rs. 4, and in Chota Nagpur Rs. 2. In the last tract many of the proprietors derive very considerable outside revenue from forests and minerals. To capitalize these values a basis of 16 years might be taken.

36. *Value of riyati rights.*—We are on more secure ground in the matter of the value of the occupancy right of *riyats*. The sales of such rights are nearly all registered and the area and purchase price recorded and compiled. In the period 1923—1928 the sale of 1,125,000 acres has been so recorded. Throughout the period the average price obtained has been Rs. 156 per acre. A very important feature of the statistics is the steady increase in the average from Rs. 127 in 1923 to Rs. 181 in 1928. In 1928 the average for Bihar was Rs. 192, for

the Orissa coast districts Rs. 138 and for the Chota Nagpur plateau Rs. 91 an acre. The first two figures may be taken as representing fairly closely the market value of average land for cultivation, though the Orissa figure is depressed by the heavier transfer fee of 25 per cent. to which the landlord is legally entitled, while the Bihar figure is depressed by the uncertainty of obtaining recognition of the transfer in the present state of the law. The Chota Nagpur figure is based on very few transactions, and there is not nearly such a free market there as in the rest of the province. The rapid rise in the average price obtained for *raiyati* holdings within the last thirty years may be seen from the following table, in which the "Settlement" figures are those of the transactions of the *ten years* prior to the year of record, while the "Registration" figures are those for the year of record.

	Registration.		Settlement.	
	Year.	Average price per acre.	Year.	Average price per acre.
		Rs.		Rs.
Patna Division	.. 1928..	236	1908—1916	108
Saran .. } Champanan)	.. 1928..	237	1914—1919	107
Monghyr.. } Bhagalpur } Purnea .. }	.. 1928..	113	1902—1909	35
Cuttack .. } Balasore .. } Puri .. }	.. 1928..	138	1907—1912 1923—1928	55 92

Part of this remarkable rise is no doubt due to the depreciation of money, that had already begun before the War. But much of it must undoubtedly be attributed to the investment of savings in purchase of land, of which we have had ample evidence from all parts of the province. It may be generally stated that there has been a rise in the real market value of the *raiyati* right of about 50 per cent. in the last 25 years.

CHAPTER III.

Existing credit and investment agencies.

37. *Classification of agencies.*—As a preliminary to the study of banking organisation of the province in the broadest sense, it will be useful to make a rapid survey of the existing credit and investment agencies therein. The chief agencies for financing the agriculture, trade, industry and other miscellaneous needs of the province and collecting its savings are :—

- (1) The Imperial Bank.
- (2) The joint stock banks.
- (3) Co-operative banks.
- (4) Shroffs or indigenous bankers.
- (5) Professional money-lenders.
- (6) Merchants and dealers.
- (7) Export and import houses.
- (8) Commission and managing agents.
- (9) Zamindars and factories.
- (10) Government and post-offices.
- (11) Insurance companies.
- (12) Miscellaneous.

38. *The Imperial Bank.*—The Imperial Bank in virtue of its official position, though not on account of its volume of business in this province, commands our attention first. It is the banker of Government and most of the public bodies in this province, and as such transacts Government treasury business in all places in the province where it has a branch. As a result of the provision in the Imperial Bank of India Act of 1920 compelling it to open 100 branches in different places, it has opened 9 new branches in this province in addition to the one already existing at Patna before the passing of the Act. These branches have been located at Cuttack, Bhagalpur, Purnea, Muzaffarpur, Darbhanga, Chapra, Gaya, Jamshedpur and Dhaubad.

On account of their official connection the branches have been able to attract 185 lakhs of private deposits free or at low rates of interest. Either owing to the conservative policy pursued by agents of the absence

of suitable openings for investment or the restrictions imposed by the Imperial Bank of India Act, the branches do not put to much local use the funds so collected, with the result that they are exported to the commercial centres outside the province. The total advances of the Imperial Bank to provincial borrowers in the year 1929 amounted to 242 lakhs and the total sum outstanding on 31st December of the same year was only 22 $\frac{3}{4}$ lakhs. We cannot say how much of this total finance of 22 $\frac{3}{4}$ was lent at any particular time to trade, agriculture and industry, but all indications show that most of this money was utilised in financing trade against goods and produce and lending against Government securities and very little was directly advanced to agriculture and industry. In fact the part played by the Imperial Bank in financing them in this province may be said to be insignificant.

Its remittance business, however, is important and is much appreciated by the public. As a banker's bank it gives very little help to co-operative and none to joint stock banks. Thus its main functions seem to be to supply remittance facilities to all classes of the public, to act as a treasurer for Government, to lend to some extent against produce, inland bills and Government securities, and to transfer the surplus deposits which cannot be utilised in these classes of business elsewhere.

39. *The joint stock banks.*—Joint stock banking is not greatly developed in this province. There are only ten other banks besides the Imperial Bank operating within its limits. Of these, three—the Allahabad Bank, the Central Bank of India and the Benares Bank have their headquarters outside the province, and the remaining seven are domiciled in it. Five of the latter namely the Hazaribagh Bank, the Deoghar Bank, the Cuttack Bank, the Puri Bank and the Jagannath Bank have no branches at all, while of the two which have—the Bank of Bihar and the Chota Nagpur Banking Association—only the former has a paid-up capital of more than one lakh. We have not been able to get much information about the Hazaribagh and Deoghar Banks beyond the fact that they are very small and that they exist. The Cuttack and Puri Banks are strictly speaking loan offices like those which exist in large numbers in Bengal and are the result of Bengali enterprise in the days when Bihar and Orissa was a part of that province. The Jagannath Bank, an Oriya private institution, is more a trader's bank than a loan office but carries on business practically on the same lines. In no case does the paid-up capital exceed Rs. 30,000 and their reserves are correspondingly small, the largest being Rs. 50,000. The remaining two banks—the Bank of Bihar and the Chota Nagpur Banking Association have a combined capital and reserve of Rs. 4 $\frac{1}{2}$ and Rs. 5 $\frac{1}{2}$ lakhs respectively. The Bank of Bihar with its headquarters at Patna has offices at Patna, Gaya, Chapra, Motihari, Arrah and Benares of which only one is situated outside the province. The Chota Nagpur Banking Association, originally started as a loan office with its headquarters at Hazaribagh, has offices at Hazaribagh, Giridih, Ranchi, Daltonganj, Purulia and Dhanbad—all within the province.

The Allahabad Bank and the Central Bank of India are represented by one branch each at Patna and Jheriah respectively while the Benares Bank is represented by two branches at Bhagalpur and Muzaffarpur. The total number of local joint stock bank offices in the province thus amounts to 16 and if we add the four branches of outside banks and the ten branches of the Imperial Bank also the total number of bank offices is 30. This gives one bank office for every 3,000 square miles or for every million and a quarter of the population of the province. Roughly, it may be said that on the average three districts have four bank offices, though taking actual figures there are still four districts in the province, three in Orissa and one in the Bhagalpur division, which are without any banking office at all. On the other hand there are six district headquarters, Gaya, Bhagalpur, Muzaffarpur, Hazaribagh, Puri and Cuttack, which have two joint stock bank offices each, while Patna has three. The Chota Nagpur division has the largest number of these offices, namely 10, Patna division has 6, Tirhut division 6, and the remaining two divisions 4 each. These figures illustrate the unimportance of joint stock banking in this province, but even these figures give an exaggerated impression of the banking facilities available. Some of these banks are very small and a proper idea of their inadequacy can only be obtained by taking the figures of their paid-up and working capital. We have not been able to obtain accurate figures of the working capital of the three branches of outside banks working within the province, but their total deposit business amounts to something about 70 lakhs while their loans do not exceed 40 lakhs. The total paid-up capital and reserve and working capital of the seven local banks is not more than Rs. 12 and Rs. 85 lakhs respectively while their total deposits amount to Rs. 70 lakhs nearly all of which is lent within the province. The nature of the business of joint stock banks varies with their size. As explained above the small banks are really loan offices which advance money to the professional and agricultural classes at high rates of interest ranging from 12 to 18 or even 22 per cent. The bigger banks, whether of local or of outside origin, perform the usual functions of a commercial bank in India, i.e., finance trade and to a smaller extent industry, but the local banks still retain their early associations with landed proprietors to whom they advance money against their property, though they find this class of business increasingly unprofitable. The joint stock banks have no special links with the Imperial and the co-operative banks, nor do they finance to a great extent indigenous bankers by discounting their *hundis*.

40. *Co-operative banks*.—As if to make up for the backwardness of joint stock banking, co-operative banking has relatively made great progress in this province. This may perhaps be expected in a province which is largely rural in character and has the lowest percentage of urban population in the whole of India. In 1928 there were one provincial, 66 central and 8,619 primary credit societies within its limits. Roughly speaking, there is one central co-operative bank for each subdivision though there are some subdivisions which are without

a single central bank and others which have two. The Provincial Co-operative Bank which is the apex bank and finances the whole co-operative movement in the province has a paid-up share capital of Rs. 5 lakhs, a reserve of Rs. 3½ lakhs and a working capital of Rs. 66½ lakhs. The 66 central banks taken together have a paid-up capital of Rs. 22½ lakhs, a reserve fund of Rs. 12 lakhs and a working capital of Rs. 2¼ crores. The 8,649 credit societies have 247,527 members with a paid-up capital of Rs. 21 lakhs, a reserve of Rs. 29 lakhs and working capital of Rs. 2¾ crores. If these figures are compared with the figures of the business of the Imperial and joint stock banks it will be seen that co-operative banks play a more important part in meeting the financial requirements of the province than all the organised banks working within its area.

They are, however, highly specialised institutions and do not perform all the functions of full-fledged banks. Under the Act and the rules of the Co-operative Department they are debarred from transacting remittance and agency business and lending to any one who is not a member of a co-operative society. Since there are only 373 non-agricultural co-operative societies in the whole province the main function of co-operative banks consists in supplying agricultural credit. Their number and distribution is therefore not a suitable index of the extent of general banking facilities available in this province. The deposit business of the central banks is, however, really important. Owing to their close association with Government and their high rates of interest, they have been able to attract a large amount of middle class savings which would ordinarily have found their way to the post-office, the joint stock banks or the indigenous bankers. Their total borrowings and deposits in the year 1928 amounted to Rs. 192 lakhs, of which only Rs. 3 lakhs came from the primary societies, while Rs. 149 lakhs were investments of private individuals. How much of this money is new in the sense that it would not have been forthcoming but for the existence of co-operative banks in the heart of the interior, and how much of it can be utilised with advantage in agriculture without sacrificing the interest of trade and industry will be discussed in subsequent chapters. It is sufficient for our present purpose to state that the co-operative movement has been an invaluable agency in spreading the banking habit and on its investment side has proved to be a formidable competitor of other banking agencies.

41. *Shroffs and money-lenders.*—Of these the most important in this province, both from the point of view of number and volume of business is the indigenous banker and the money-lender. There is some confusion about the sense in which the former term is used. We prefer to use it in the sense of one who performs a true banking function, i.e., in addition to lending money, uses the machinery of credit to raise money by accepting deposits or drawing and discounting *hundis* in the money-market. To avoid further misunderstanding we prefer to call him by the time-honoured name of *shroff* and shall restrict the word *money-lender* to one who lends his own money and

normally does not attract deposits or deals in *hundis*. Money-lenders may be divided into two classes—urban and rural—and these again may be further subdivided into large and small according as they pay or do not pay income-tax.

42. *Statistics of money-lenders.*—It is difficult to give any reliable statistics of the number and volume of business of indigenous bankers and money-lenders. Their money-lending business is inextricably mixed up with a number of allied occupations such as zamindari, dealing in cloth, grain and precious metals and oil and flour-milling. There are very few who have separate banking departments for which they keep separate accounts. Others generally have mixed trading and money-lending transactions, and all that can be said about them is that in some cases money-lending predominates over other activities and that in others trade, etc., are more important. Persons who do the former class of business may be called professional money-lenders while those who engage in the latter class may be called subsidiary money-lenders. No separate figures are available for each of these classes of bankers or money-lenders. The census of 1921 enumerated only 15,000 actual workers under the heading "Banks, Establishments of credit, exchange and insurance" in this province. This gives no real indication of the total number of shroffs and money-lenders. All the evidence points to the conclusion that their number is very much larger. For example, the figure for Muzaffarpur district is only 299, whereas a competent witness put the figure for one subdivision of that district at 500. Everyone who has spare cash engages in his spare moments in money-lending. In the absence of any other figures it is very difficult to estimate the total number of persons engaged in money-lending whether as a main or a subsidiary occupation, but it probably does not fall short of 100,000.

43. *Big money-lenders.*—The Income-Tax Department, however, has supplied us with figures showing the number of persons who have been assessed to income-tax on account of profits on money-lending to be 3,216. Those figures necessarily refer only to those money-lenders who do not earn less than Rs. 2,000 per year. Presuming that the net return on the capital of big money-lenders after paying all expenses and bad debts does not exceed 10 per cent. as we shall show later on, the capital of such assesseees cannot be less than Rs. 20,000. It does not, however, follow that all the 3,216 assesseees are big money-lenders having a capital of Rs. 20,000 or more as some of them may have been brought within the provisions of Income-tax law not because they earn anything like Rs. 2,000 per year exclusively from money-lending but because they earn that sum or more from other occupations in conjunction with it. On the other hand, it is well known, and the Income-tax Commissioner admitted in his oral evidence that a large number of persons, specially money-lenders, evade the payment of income-tax altogether. If we set off the overestimate in one direction against the underestimate in the other, we shall probably be not far wrong in thinking that the income-tax figure of 3,216 as the total number of bankers and money-lenders having a capital of Rs. 20,000 or more

operating in this province is fairly correct. Out of a total of 3,216 large shroffs and money-lenders 686 are urban and 2,530 are rural. There is roughly a shroff or big money-lender in every 25 square miles and one for every 10,000 inhabitants of the province. The total capital estimated by the Income-tax Department to be sunk in money-lending exclusive of other allied activities of trade and industry and assessed to income-tax is Rs. 11 crores. In view of the well-known practices adopted in evading the income-tax, this also would seem to be an underestimate; but we have been assured by bankers who ought to know that it is not far from truth. The total capital of big urban money-lenders is estimated to be about Rs. 5½ crores while that of the big rural money-lenders is estimated at the same sum. This gives an average capital of Rs. 21,000 for each rural banker and of Rs. 80,000 for each urban banker or Rs. 34,500 for all big money-lenders. It will be seen from these figures that the shroff and the big money-lender as a banking agency is far more important than all the other organised banking agencies put together. Leaving aside the contribution of the small urban and rural money-lenders which for the latter alone is estimated at a total sum of Rs. 136 crores, of which about Rs. 34 crores is renewed every year, they find the major portion of the capital for financing trade, industry and not a small portion for agriculture. They serve a wider area and carry on their business according to methods which their customers understand best.

44. *The shroffs and their business.*—It is not possible to state with any degree of accuracy how many of them are strictly bankers or shroffs, i.e., accept deposits and discount *hundis*. To some extent most money-lenders and traders keep the deposits of friends, relations and clients in places where investment facilities are not developed and even in those where they are, but a genuine shroff is one whose credit is so high in the money market that he is able to attract deposits from or discount *hundis* with ordinary members of the public. In this sense the total number of persons doing *shroffi* business in this province will not exceed 150 while those who are pure shroffs, i.e., those who do not mix up banking with any other business will not be more than 10. There is historical evidence to show that there were more of them in the days of the East India Company and in the pre-British period, but owing to a number of circumstances which will be described in subsequent chapters, their deposit business has steadily declined though their *hundi* business still survives. They tend to become either pure money-lenders or mix up banking with other kinds of business such as trading in cloth and grain. Sometimes the process is reversed. A successful cloth and grain dealer begins to deal in *hundis* and in course of time combines banking with his original occupation. It is chiefly in this form that the shroff still exists in this province. He is found mostly in the large trade centres of Bhagalpur, Monghyr, Patna, Muzaffarpur, Jheriah, Dhanbad, Ranchi, Sambalpur and Cuttack where the *hundi* as an instrument of credit and remittance is still largely used and where his success in trade and industry still enables him to raise

public deposits. We have found it almost impossible to estimate the amount of such deposits and the volume of *hundi* business owing to the reluctance of the bankers to give us any information on these points, but two members of our committee have put the deposit and *hundi* business of Patna City alone at Rs. 8 and Rs. 18 lakhs respectively. In Bhagalpur town two firms alone attract about Rs. 25 lakhs of public deposits. If any inference can be drawn from these scanty figures, it would appear that the total amount of money raised by shroffs in this province by accepting deposits and discounting *hundis* with the Imperial and joint stock banks or with each other does not exceed Rs. 2 crores. The shroffs in this province are mostly Marwaris, though in the coalfields and the Cuttack rice area there are some Cutchis and Gujratis as well. All of them carry on their business as a joint family concern on an unlimited liability basis. The professional money-lenders carry on their business on the same lines. The great majority of these, however, are natives of the province.

45. *Merchants and dealers.*—The export and import trade of the province is financed by merchants and dealers partly with their own capital and partly with capital borrowed from bigger merchants, bankers, manufacturers and import and export houses of Calcutta. They belong to the same classes as shroffs and money-lenders and carry on their business in much the same way. They differ from them only in the extent of their money-lending operations. In their case, these operations are strictly subsidiary to their main occupation, but with continued success they may easily make it their main activity. The dividing line, therefore, between the merchant and the money-lender is extremely thin. The merchant besides buying and selling goods on credit, lends money directly when he cannot invest it with advantage in his business. He prefers to invest in short date *hundis* but sometimes also gives long-term loans against registered documents. Most of his advances, however, consist in selling goods on credit against book entries called *khata pcta*. It is estimated that the total amount of money invested in trade in Patna and Bhagalpur divisions alone is about Rs. 14 crores. Assuming the trade finance of the other three divisions amounts to Rs. 16 crores, the total amount of money invested in the trade of the province by traders and bankers is Rs. 30 crores.

46. *Import and export houses.*—The popular impression that the import and export houses of Calcutta and Bombay finance to a great extent the import and export trade by giving credit to mufassal merchants and making advances to producers is not in accord with the facts in this province. Formerly the importers of petrol, kerosine oil and motor-cars, etc., used to get a limited amount of credit from the import houses of Calcutta. But nowadays the latter insist on deposits against which goods are delivered, so that no real element of credit is involved. In the export trade, the system of giving advances to cultivators or grain merchants, which seems to prevail in other provinces where commercial crops are more important, is hardly to be found except in Orissa where rice and jute are still bought on that basis.

There too advances called *dadans* are given to grain dealers and *beparis* to ensure a steady supply of grain at a price fixed in advance or to be fixed afterwards. Importers of sewing machines, typewriters etc., market their goods through their own agents, and the only credit which they give is through the use of the hire-purchase system. Petrol and kerosine oil companies give credit to dealers only up to fifteen days against the security of their deposits on which a certain agreed interest, generally 6 per cent., is paid. There is no uniform rule, and practice varies with each article. It is impossible to estimate the amount of money advanced in this fashion.

47. *Commission and managing agents.*—The part played by commission and managing agents of Calcutta, Bombay and Cawnpore in financing the trade and industry of the province is more important. The former supply most of the goods imported into it on a credit basis, and charge in addition to their commission $7\frac{1}{2}$ to 9 per cent. on outstanding balances. They also advance money against grain, oilseeds, lac and other products of the province which they sell on behalf of their customers. The managing agents of companies operating in this province, such as lac, mica, sugar and electric companies perform a similar, though much less important, credit function with respect to industry. They lend temporary surplus funds under their management to any one of them that needs short-term accommodation at less than market rates, and when these are not available secure accommodation for them in the open market at about 1 per cent. above the bank rate. Both the commission and managing agents raise funds for their mufassal business at their headquarters, the former generally from the indigenous money-market, and the latter from exchange and joint stock banks. We have no statistical data for estimating the amount of credit supplied in this way to the trade and organised industry of this province.

48. *Zamindars and factories.*—A small amount of money is also advanced by zamindars and sugar, indigo, tobacco and lac factories to cultivators. *beparis* and mufassal dealers for either growing the raw produce or selling the finished product. Few of them lend money *qua* money-lenders, but advance it in the course of their business operations, though there are some zamindars who are professional money-lenders as well. The connection of the zamindar with the cultivator is close and intimate and this connection provides special facilities for realisation of dues from tenants. Many zamindars therefore combine zamindari with money-lending, specially in the Bhagalpur and Tirhut divisions. There are still some regular *kist kothis* and private banks for the purpose. They generally advance to their tenants only. These institutions are, however, speedily disappearing, as the zamindars, being generally improvident, are not overburdened with a superfluity of cash which they might lend to their tenants. If they have it, they generally invest it in land. Some sugar factories in Tirhut give advances to the extent of Rs. 1 to Rs. 2 lakhs a year to cultivators to ensure a regular supply of sugarcane. The lac factories of Chota Nagpur finance

the *beparis* called *paikars* who buy lac from the cultivators at the *hâts*. Other factories, such as oil and flour mills, give credit to dealers for the purpose of selling their finished goods. We have not been able to get figures of the amount of such advances nor have we any separate figures showing the amount of money-lending carried on by zamindars.

49. *Government.*—Government supplies a limited amount of credit to agriculture under the Agriculturists' Loans and Land Improvement Loans Act, to industries under the State Aid to Industries Act, to public authorities like district boards, municipalities, etc., and to its officers under some special circumstances. The part played by Government in financing agriculture and industry will be described at length in subsequent chapters. Here only the figures of advances made to agriculture and industry need be given. The total loans made by Government under the Land Improvements and Agricultural Loans Acts in the year 1928-29 amounted to 9 lakhs while the total outstandings were 14 lakhs. The corresponding figures for the same year under the State Aid to Industries Act are Rs. 79,000 and two lakhs.

Unlike public bodies in Europe and some of the biggest corporations in India, the municipalities and district boards in this province have not sufficient credit or have not attempted to float loans for financing schemes of development in the open market. They therefore depend upon Government to advance them money at low rates of interest and on easy terms of repayment. Local development being a matter of public policy full market rates are not charged on these advances. Such loans, however, are neither frequent nor large, the total amount outstanding in the year 1928-29 being 85 lakhs, of which 60 lakhs is owed by the Jharia Water Board, responsible for supply of water to the coalfields.

Government also advance small sums of money to its own officers against the security of their provident funds in special circumstances and for the purchase of motor cars. These advances generally carry interest at the rate of 5 per cent. and are recovered in easy instalments from the salaries of borrowing officers. Government also maintain provident fund accounts carrying interest varying with the Government's borrowing rate in the market in order to provide facilities for investment for its employees. The total amount of such investments by Government servants in this province amounts to 107 lakhs.

50. *The post-office.*—The part played by Government post-offices in providing investment facilities to the public is far more important. They transact all banking business except lending and are in fact the biggest deposit agency in the whole province. At present there are 21 district offices, 452 sub-offices, 189 departmental branch offices and 1,029 extra-departmental branch offices in the province. Out of these all the district and sub-offices and departmental branch offices and

337 extra-departmental branch offices are allowed to open savings bank accounts, sell cash certificate and transact money-order business while 558 more of the last do only money-order business in addition to their ordinary postal work. Another investment facility provided by them but reserved for Government servants only is life insurance up to a maximum limit of Rs. 10,000. Roughly speaking, there is a postal savings bank for every 166 square miles and every 57,000 of the population. The total amount of money invested in postal savings bank and postal cash certificates in the Bihar and Orissa circle on 31st March 1929 was Rs. 2½ crores and Rs. 2 crores respectively.

These floating and fixed deposits as they may be called are far larger than anything which the other banking agencies can show. They are slowly and steadily increasing every year. In the year 1928-29, Rs. 1.60 lakhs were deposited in the savings bank and Rs. 1.35 lakhs were withdrawn leaving a net annual saving of Rs. 25 lakhs. Fresh cash certificates worth Rs. 20½ lakhs were issued in the same year.

The post-office is the greatest remittance agency in the province not even excepting the Treasury and the Imperial Bank. It remits money directly by means of money-orders and the V. P. P. system and indirectly by providing facilities for despatching half notes through its system of insured letters. In the year 1928-29 money-orders worth Rs. 6½ crores were issued and worth Rs. 7½ crores were paid, Rs. 75 lakhs were collected on V.P.P. articles and insurance worth Rs. 13 crores, most of it on letters containing notes, was effected. The total postal remittance business therefore amounts to about Rs. 28 crores. The fresh life insurance business of the post-office in this province in the year 1928-29 was 5½ lakhs and the annual premiums paid on the total business in force amounted to 2 lakhs. None of the funds collected by the post-office, mostly from the middle classes, are available for financing the trade, industry and agriculture of the province.

51. *Insurance companies.*—The same remarks are applicable to the premiums paid to insurance companies. All those which operate in this province have their headquarters outside. Nowadays the habit of life insurance has spread rapidly amongst the middle classes who find it to be the safest and most convenient form of investment and borrowing. Some companies lend money against the security of policies to what extent cannot be ascertained definitely. The total life insurance fund of the province is, however, not so large as its size and population would warrant. It has been estimated, with what degree of accuracy we cannot say, by the representative of the Bihar and Orissa Chamber of Commerce that it amounts to Rs. 2 crores and that the annual premiums paid by this province approximate to Rs. 40 lakhs.

52. *Miscellaneous.*—In addition to the well-recognised channels of investment and lending described above, there is a good deal of friendly lending and borrowing amongst private persons for which in the

nature of things no exact statistics are available. The same want of information exists about that large class of lending transactions against the security of gold and silver ornaments carried on by widows and private persons which is said to prevail in almost every village and town. How much capital of this province is invested in stocks and shares and Government securities is equally impossible to estimate.

53. *Summary.*—From this rapid survey of the existing credit and investment agencies of this province it is obvious that its banking system, if it can be at all called a system, is extremely lopsided. In a well-balanced banking system the loans of one bank constitute the deposits of another and in a well-knit money-market funds flow freely from places where they are collected to points where they are needed, to the maximum advantage of national trade, industry and agriculture. In this province owing to want of cohesion and strong links binding one element of the banking system to another, such a market does not exist. Its chief agencies for attracting deposits are the Imperial Bank, the co-operative banks, the post-office and insurance companies, but they either do not lend at all or have generally more than what they can lend with advantage. On the other hand, the joint stock banks and the indigenous bankers are the chief financing agencies for all kinds of economic activities, but owing to a number of causes which will be discussed subsequently, they are not able to attract anything like the funds they require to perform their functions adequately. At the same time, they have no access to the surplus of the other element of the banking system, though there is some slight and indirect connection via Calcutta. The net result is that the financial irrigation of the agriculture, trade and industry of the province falls short of its requirements. We shall discuss these and other defects of the banking system in greater detail in subsequent chapters and consider what methods can be adopted for removing them.

Two maps facing the frontispiece illustrate the distribution of banking agencies and the growth of co-operative societies in this province.

PART II.

CREDIT FOR AGRICULTURE, MINOR INDUSTRIES AND INTERNAL TRADE.

CHAPTER IV.

Rural borrowing.

54. *Objects of borrowing.*—The agriculturist requires finance—

- (i) for growing his crop, including the provision of food, clothes and shelter for himself and his family during the process;
- (ii) for the upkeep of his equipment of live and dead stock in an efficient condition and for improving his farm and stock,
- (iii) for the social ceremonies, which births, marriages and deaths occasion,
- (iv) for the extension of his business by purchase of land and for trade, as well as for recourse to the courts to defend his property or to enforce his claims,
- (v) for meeting the demands of his creditors, which have accumulated from previous years and for reducing his indebtedness whenever it is profitable and possible to do so.

55. *Relative importance of objects in total indebtedness.*—An accurate estimate of the relative importance of these objects cannot be given without a very much more elaborate enquiry than we could conduct. The statistics set forth in the succeeding chapter, however, indicate that it will not be wildly out to assign the *existing indebtedness* of the rural producing population in the following proportions. Out of every rupee owed five annas has been borrowed for repayment of old debts or has accumulated as interest thereon; four annas has been taken for growing the crop, for providing food, clothes and shelter, or for payment of the annual rent charge; two annas for upkeep of equipment or for improvement of the farm and stock; two annas for social ceremonies; three annas for extension or protection of business.

56. *Relative importance in annual borrowing.*—It is also of importance to know, if it is possible to discover, for what purpose the sums *annually borrowed* are taken. This estimate is even more insecurely based than that just given, but in the absence of anything better it may be set forth.

Out of every rupee borrowed four annas is borrowed for payment of old debt or the interest thereon; six annas for growing the crop, for providing food, clothes and shelter or for the annual rent charge; one and a half annas for the upkeep of equipment or for improvement of the farm and stock; two annas for social ceremonies; two and a half annas for extension or protection of business. The proportions necessarily differ from those given in the preceding paragraph, since the loans taken for different purposes have in practice different periods of currency.

57. *Uniformity of methods of borrowing for all purposes.*—In the Province of Bihar and Orissa the agriculturist and his creditor make little distinction between the several objects of credit, when seeking or providing finance. The only important distinction is that, in Chota Nagpur and Orissa, finance for maintenance of the family, for payment of labourers and for seed is frequently provided in the shape of grain and repaid in that form. In Bihar lending in kind is much less common and repayment even of such loans is, as a rule, effected in cash. It will, therefore, be unnecessary to distinguish between the various objects of borrowing in discussing the sources and conditions of credit.

58. *Sources of borrowing.*—Of the sources from which the agriculturist obtains his credit by far the most important is still the village money-lender, i.e., the small capitalist, who lives permanently in the village and whose forefathers have, as a rule, for centuries carried on the business.

Throughout the Province he is generally a *bania* by caste, even in the aboriginal villages of Chota Nagpur. But the ranks of the village money-lender are nowadays swelled by a considerable number of men of other castes, especially Babhans in Bihar and Brahmins in Orissa, while in Chota Nagpur the aboriginal Mundas and Oraons are taking to the business. There is some evidence that the importance of the ordinary *raiya* as a money-lender is increasing everywhere, and it is generally the case that every man and woman, who saves a little money, invests a great part of it in such business. In fact in the villages there are few, except the poorer field labourers, who follow the advice of Polonius (so subversive of modern business), and are neither borrowers nor lenders.

The *bania* ordinarily combines shopkeeping with money-lending and so is found in the larger and not in the smaller villages. Yet there cannot be many villages in the Province that have not got a *bania* within a few miles.

59. *Isolation of rural from urban finance.*—A very important feature of the business carried on by the village money-lender is that he lends almost entirely from his own capital, which ranges from Rs. 500 or even lower to Rs. 50,000 or occasionally higher. He collects hardly any deposits and seldom seeks loans from the larger money-lenders and shroffs of the towns. It may be stated with great confidence that the influence of urban finance on ordinary rural credit is confined, with few exceptions, to some five or ten miles round the towns.

60. *Itinerant money-lenders.*—Far less important in the bulk of their business are the itinerant money-lenders, though their exorbitant rates of interest and the rigour with which they collect their debts have given them a notorious prominence in the scheme of rural credit. These are the Kabulis or Moghals from Afghanistan and the North-West Frontier Province, and the Atiths, Gossains or Nagas from the western districts of Bihar, viz., Shahabad and Saran. It is unnecessary to describe at length the Kabulis, whose activities are well-known throughout Northern India. In this Province their business in the rural areas is partly the provision of money to the very needy borrower, but much more frequently the sale of warm clothing at the beginning of the cold season on harsh credit terms. They are to be found throughout Bihar and Chota Nagpur but more rarely in Orissa. In Chota Nagpur many of them settle down in a village for three or four years at a time. Their funds are probably obtained, as a rule, from more wealthy members of their community in Calcutta and other big centres, but on this point our evidence is scanty. There is, however, little doubt that this source of finance is occasionally supplemented by trading loans from professional men of the locality in which they operate. Their method of enforcing repayment is abuse and occasionally the *lathi*, and it is popularly supposed that the lower ranks of the police are bribed to turn a blind eye on their activities.

Along with these may be classed the Atiths or Gossains, who are known in Ranchi district as Nagas. They are Hindus from Saran and Shahabad, who usually adopt the dress of a religious mendicant. Orissa is spared their activities, which, though less violent than those of the Kabuli, are quite as oppressive and ruinous to those who are unfortunate or foolish enough to become their clients. We were told that some of them supplement their trading capital by borrowing from co-operative societies, of which they are members, in their own districts. It would be well for the good name of the co-operative organisation if this allegation were thoroughly investigated. Others trade partly on capital collected from smaller money-lenders of their home district. They seldom, if ever settle in their sphere of operation, but return to their homes after placing out their money and collecting their dues. They generally pay two visits a year to their debtors, one when the main rice harvest is ready and one when the *rabi* crops are being reaped.

In Hazaribagh district some Muhammadan money-lenders, who have their homes in Gaya, came under the notice of the Sub-Committee.

but they are not, we believe, to be found elsewhere. We have met with very few cases of agriculturists, who admit that they are indebted either to Kabulis or to Atiths, and the experience of our investigators, as far as they have recorded it, confirms the impression that the total amount of business done by these persons is insignificant compared with that of the ordinary village money-lender. We would put it at much less than one per cent. of the whole rural credit business.

61. *Co-operative societies.*—To these two sources of credit, the village and the itinerant money-lenders, the organisation of co-operative credit societies has in the last twenty-five years added a source of steadily growing importance. Yet, if the statistics which will be given in the following chapters can be trusted, it has not yet assumed a vital position in the economy of rural finance. It probably does not provide more than two per cent. of the total sum required annually, and its share of the total indebtedness is somewhat less still. It is claimed, though perhaps with more vehemence than show of evidence, that it has materially reduced the rate of interest charged by other credit agencies. Since the organisation, its merits and defects and the possible scope for its development in the near future will be treated at length in a later part of this Report, it is unnecessary to say more here.

62. *Other sources of credit.*—There is a certain amount of petty money-lending of a friendly character, usually without interest, among those of the same caste or tribe. This kind of lending has some importance in the aboriginal tracts of Chota Nagpur.

In Bihar several zamindars carry on a money-lending business with their tenants as clients, some of them to the marked advantage of both parties. But there are nowadays few regular *kist-kothis*, with a widespread business, such as appear to have been fairly common some years ago.

The joint stock banks play little direct part and the Imperial Bank less still in the supply of credit to the agriculturist. A few banks lend to proprietors and very occasionally to the more substantial cultivators, but they are becoming more and more cautious in this business.

63. *Government loans.*—*The Land Improvement Loans Act.*—Finally Government can and does, to a limited extent, assist the agriculturist directly with credit on much lower interest than any other agency. The Land Improvement Loans Act authorises the advance of State funds for long periods to enable agriculturists to carry out improvements. The benefits of that Act have been mainly confined to proprietors, though in Chota Nagpur some loans have been given to groups of *ruiyats*. It appears that its provisions are not widely known, and where they are known people are somewhat unwilling to face the risks, which strict realisation on due dates involve, and dislike the delay and uncertainty, that follow on the careful enquiries, which the Act enjoins on the officers entrusted

with its administration. Where improvements requiring a substantial capital are possible (and there are not so many places in the Province, where such improvements are in present conditions practicable, as is often supposed), some effort might well be made to make greater use of this Act, by initiative on the part of the local officers, by reducing to a minimum the delay and petty vexations of the enquiries, and where such bodies are or can be organised, by enlisting the help of co-operative societies. The due dates for repayment should be arranged, as indeed they usually are, on the clear understanding that it is the profits of the improvement and not the old assets of the borrowers that should provide the funds for meeting the instalments. It is possible that joint liability, which is always somewhat formidable to the borrowers, might be split up so that it is limited to groups rather than extended over the whole body of borrowers. The amount of Land Improvement Loans advanced in the last five years has been no more than Rs. 3,53 of which Orissa got Rs. 5, Chota Nagpur Rs. 1,92 and Bihar Rs. 1,56.

64. *The Agriculturists' Loans Act.*—The Agriculturists' Loans Act empowers Government to advance from State funds loans (usually designated *takavi*) to owners and occupiers of arable land for the relief of distress, the purchase of seed or cattle and other agricultural objects. In practice in this Province of recent years its use has been restricted almost entirely to meeting the emergencies occasioned by drought or flood. These we are satisfied it has met adequately on the whole, and little evidence of administrative defects either in distribution or realisation has come to our notice.

65. *Inadequacy of the rate of loan on acreage.*—At the same time it must be remarked that the rate, at which the requirements of an affected tract are usually calculated, appears to us somewhat low. It was the general impression of the local officers we have examined that Government regards a rate of more than Rs. 5 an acre as excessive. We have no evidence that this impression is correct. It is found, further, that there is some reluctance to submit supplementary estimates for *takavi*, when it is found that the affected area is greater than it was at first taken to be. This is especially the case in flood relief. Consequently the original grant is spread thinner, and the individual agriculturist gets sometimes as little as Rs. 2-8-0 on each acre of his holding. Here we are confident that the local officers have misapprehended the policy of Government, which certainly is to give the relief, considered sufficient, to all who require it. There are two ways of looking at the problem. In the first place a local Government, with such an inadequate income as that of Bihar and Orissa, though it maintains an adequate Famine Insurance Fund to supply the funds required, has yet to avoid by all prudent means the permanent loss to the State which over financing must cause. Secondly it is against the interest of the *rajyats* to give them larger loans than they can reasonably be expected to repay from the profits of two or three

succeeding harvests. At the same time, it seems to us that the reported sale price of land indicates a net average profit of not less than Rs. 15 an acre per annum, and that it is not unreasonable to advance at least Rs. 10 on each acre to meet an emergency. We fear that restriction to Rs. 5 or less per acre must in many cases involve resort to the money-lender at exorbitant rates of interest.

66. *Longer period for repayment.*—The ordinary practice is to lay down that the loans are to be repaid after the next main harvest, or at latest after two main harvests. Actually the recovery from calamity is seldom so rapid as to permit full repayment after one harvest. We think that the ordinary terms should be repayment by instalments spread over the harvests of two years, and in exceptional circumstances extension to a third year might be given.

67. *Possible overlooking of small affected areas.*—It should also be considered whether, while calamities which cover large tracts of country set promptly in motion the machinery of relief, there is not some danger of minor occurrences, affecting smaller areas, but often causing acute distress therein, being overlooked. The danger here arises, we think, more in the case of drought than of flood. Indeed we had evidence of the cultivators of a small tract in Puri district, where a flood had occurred, being offered *takari*, which they declined to accept. But a succession of bad years owing to failure of the rains may more easily escape notice owing to the longer time over which the causes of distress operate. In most of the Province the rainfall is apt to be patchy, and a small tract may now and again meet with a run of bad luck. We recommend that local officers be instructed to keep a careful look-out for such cases.

68. *Extension of the Act to replacement of brood lac.*—Yet one more minor point may be mentioned. It appears that unseasonable weather sometimes makes very serious inroads on the stock of brood lac, and replacement has to be made from distant sources and at considerable expense. We understand that the Act as it stands does not permit loans to be granted for this purpose, and we think it is desirable that it should be extended to do so. Such loans would have been very useful in the Manbhūm district a few years ago.

69. *Act unsuitable for use in normal circumstances.*—We are not in favour of using this Act more extensively in normal circumstances. It is impossible for Government to take up the enormous task of providing directly the whole of the annual loan requirements of the agriculturists, and sporadic attempts to meet a minute portion of that whole are futile if not mischievous. The discussion of the part which Government might play indirectly through the use of the co-operative or other agencies, including their employment in the distribution of *takari* in emergencies is reserved for a later chapter.

70. *Figures of takari distributed.*—The total amount of *takari* distributed in the last five years was Rs. 41,71. Of this Orissa has got

Rs. 14.44 mainly for relieving the effects of floods. Chota Nagpur Rs. 4.76, of which the bulk has gone to mitigate drought in Santal Parganas, and Bihar Rs. 22.51 mainly for drought in Bhagalpur and flood in Darbhanga.

The finance supplied to the agriculturists under the two Acts thus amounts to about Rs. 9 lakhs a year out of an estimated total indebtedness of the rural population excluding landlords, of 134 crores, and an annual borrowing of about 33½ crores. It is clear that Government does not play a very prominent part as an ordinary credit agency for rural finance, though in emergencies its prompt assistance is still of first rate importance.

71. *Rates of interest.—Orissa.*—The rates of interest charged when the ordinary village money-lender lends to the ordinary cultivator (and these cover the vast majority of rural credit transactions) do not vary much from district to district within the tract, but are definitely peculiar to the tract. In the Orissa coast districts much of the annual borrowing for seed and maintenance is in kind. The general rate is 25 per cent. payable soon after the harvest, the loan running for a period of four to eight months only. For seed grain, however, 50 per cent. is frequently demanded. On the other hand an occasional rate of 20 per cent. is met with. For cash loans the rate of 18¾ per cent. for the full year is not infrequent, but the general rate is either 25 or 37½ per cent. depending on the credit-worthiness of the borrower. For loans on registered bonds without specific security rates of 15 to 25 per cent. are met with, while for regular mortgages the rate sometimes falls to 12 per cent. Sudden emergencies, such as the need of money for the railway fare to go to Calcutta in search of work (a common feature of rural life in these districts) may tempt a money-lender to put the rate up to 50 per cent. to cover the risk of the emigrant not returning to his home. The little business that is done by other agencies than the ordinary village *mahajan* is done on terms, which vary widely from 18¾ to 75 per cent. The village co-operative societies lend to their members at 15½ per cent. as a rule, though a few have managed to get the rate down to 12½ per cent. Government *takari*, of which a succession of floods have called out a good deal in recent years, is given, as elsewhere, on a rate of 6¼ per cent. and at this rate the Maharaja of Burdwan lends in his Kujang estate when floods occur. It appears that some of the courts have declined to allow compound interest in suits for paddy loans brought before them, and the Committee had direct evidence that the agriculturists were beginning to object to its payment.

72. *Chota Nagpur.*—On the Chota Nagpur plateau, too, grain borrowing is common, but here the rates are very much higher than in Orissa. The ordinary rate is 50 per cent., and 100 per cent. is usually charged for seed, and here again the full rate is taken, even when repayment is made promptly at the harvest. In Angul, however, and to a less extent in Sambalpur (both districts in which Oriya culture predominates) a rate of 25 per cent. is not uncommon, and this is the rate adopted

by the co-operative grain *golas*, which have met with considerable success in both these districts as well as in Santal Parganas. The rates for cash loans are also distinctly higher. Nothing below 24 per cent. has been reported, 37½ per cent. is common, and 50 or even 75 per cent. is not unknown for ordinary transactions in the village. The exceptions are again Sambalpur, Angul and Santal Parganas. In the two former districts the rate ranges from 25 to 37½ per cent. In Santal Parganas 25 per cent. is the statutory maximum, and there is good evidence that it is effective, though no doubt very needy borrowers occasionally pay more. The itinerant money-lenders, who are much more in evidence here than in Orissa, though their business is insignificant in the total volume of borrowing, get 50 per cent. as a rule, but very occasionally as much as 150 per cent. The ordinary co-operative societies in Ranchi still require 18¾ per cent. from their members, though the Catholic Mission society takes only 9¾ per cent. In the other districts of the plateau 15½ per cent. is the usual rate.

73. *Bihar*.—In the Bihar tract grain-lending is comparatively rare nowadays, and where it occurs, it is usually booked as a cash transaction both at the time that the borrower takes the grain and the time at which he returns it. The rates for ordinary grain-lending vary from 18¾ to 100, the last being for seed, but 50 is the most common and then 25. For cash loans the village *mahajan* in most districts seldom takes more than 25 per cent. and as a rule is content with 18¾, 15 or even 12½, though rates of 37½ are occasionally found for small loans to persons with little credit. The exceptions are Shahabad on the one hand and Bhagalpur and Monghyr on the other. In Shahabad rates are especially low, ranging from 6 to 24 only, while in Bhagalpur and Monghyr the range is from 12 to 75 with a prevailing rate of 37½. Itinerant money-lenders, mainly *Kabulis*, are occasionally to be found who charge 75 to 125. The co-operative societies work as a rule on a rate of 12½, though in Bhagalpur and Monghyr 15½ is still the rule. A few societies in Patna and Champaran lend at 11½.

74. *Summary of interest rates*.—It is desirable to summarise the information, which as it stands gives a somewhat blurred picture. The prevailing rate for grain loans (which in practice are mainly paddy loans) is 25 per cent. in the Oriya-speaking districts and 50 in the others. For seed double the prevailing rate is charged. These rates have to be paid over a period which does not usually exceed eight months, and a failure means as a rule compound interest. It must, however, be remembered that the borrower gets the benefit, if any, of the drop in price between July when he borrows and January when he repays. The cash rate for Orissa averages 25 per cent. or a little higher. That for the Chota Nagpur plateau is mainly 37½ and this rate extends into the southern parts of Monghyr and Bhagalpur. Elsewhere in Bihar the far more moderate rate of 18¾ prevails. It is clear that poverty and ignorance combined operate to maintain a high rate, and the growth of education and wealth brings it down materially. The co-operative societies have adjusted fairly closely their

rates to the prevailing rates of the different tracts, and offer rates of half those prevalent in Chota Nagpur, five-eighths of those prevalent in Orissa and three-quarters of those prevalent in Bihar. Leaving on one side for the present the debt of the landless population and of the landlords, Orissa cultivators pay in the year about one and a half crores in interest, those of Chota Nagpur five crores, and those of Bihar twenty crores.

75. *Period of loans.*—The period for grain loans has already been stated as ranging around six months, and the bulk of them are repaid in that period. Cash loans are given as a rule for an indefinite period, though when hand-notes are taken a period of two to three years is usual. Mortgages are usually for a period of from three to nine years, but in Chota Nagpur the favourite form of usufructuary mortgage (*zarpehgi* or *rehan*) is only legal if for five years, while the less favoured form (*bhugut bandhu*), in which not only the interest but the principal is met from the usufruct, the legal term is seven years, extended to fifteen years, when the mortgagee is a co-operative society.

It should, however, be realised that the ordinary process is first to take a loan on a mere entry in the money-lender's books. If repayment is irregular, a hand-note is demanded, and finally when there is a prospect of the hand-note becoming barred by limitation, a mortgage is arranged, sometimes after an examination of the position by the village *panchayet*, which usually results in some concession to the borrower. Indeed mortgages are seldom taken at anything like the rate charged on the original loan, and often the interest paid at that stage is no greater in total than it is at the earlier stages, in spite of the way in which the principal has swelled. Usufructuary mortgages seem to bring in specially low returns, competent witnesses placing them at 9 or even only 6 per cent. of the debt.

76. *Questionable conditions of lending.*—There is evidence that the practices, which figure prominently in most accounts of village money-lending (and indeed they are often loosely stated to be in vogue in all classes of indigenous finance) still persist. Such is the demand for advance interest, or the demand for a present for doing business at all, known as *girah kholai* (purse opening), which may be called disguised, but on the whole legitimate, additions to the interest. There is no evidence that the passing of the Usurious Loans Act has so far tempted the money-lender so to disguise his rate of interest to an increasing extent, as opponents of control of interest rates assert he is bound to do. Indeed the trend of evidence was to the effect that such practices were becoming obsolete. Our witnesses told us that much more questionable practices are still in vogue, such as the taking of thumb impressions on blank paper with a view to insertion of an arbitrary amount at a later date if the debtor became irregular in payment of interest, the general manipulation of the account to the disadvantage of the debtor, and the insertion in written documents of sums in considerable excess of the actual money lent. Some witnesses

even went so far as to say that a village money-lender, who did not resort to such practices, was the rare exception. We are not, however, inclined to accept this as a fair picture. Such misdeeds, when they come to light in court or in an examination of debts, preparatory to the formation of a credit society, are apt to leave an exaggerated impression on the mind. The enquiries of the sub-committee gave a different impression. Though the point was invariably put to them, it was quite exceptional for the assembled *raiyats* to complain of any such malpractices, though they were ready enough to complain of the high rate of interest and occasional harshness in enforcing repayment. A detailed examination of the reports of our village investigators confirms this impression. Like ourselves they seldom found that the *raiyats* complained against their *mahajans* of actual malpractices. Where a mention of such malpractices occurred in a report, it was usually couched in such terms as to raise a strong suspicion that it was the reproduction of stock invectives against the money-lender, and not the record of complaints actually made to the investigator. Though we fully believe that there are many dishonest money-lenders, we are not convinced that dishonesty is the rule and honest, if sometimes hard, dealing the exception.

77. *The big rural money-lenders.*—The standard of honesty rises rapidly, we believe, with the magnitude of the capital employed. When the class who pay income-tax is reached, the man, whom Homer described as rich and blameless, appears. He has a reputation to lose and deals in the main with a clientele that can be less easily deceived. There are some 2,500 of these, of whom some 57 per cent. use a capital in money-lending of less than Rs. 20,000, 27 per cent. between Rs. 20,000 and Rs. 50,000, 11 per cent. between Rs. 50,000 and Rs. 1,00,000, and 5 per cent. over Rs. 1,00,000. Though, no doubt, many of them supply general credit needs in the villages and also engage in trade, their principal lending operations are with the landlords. The indebtedness of the landlords has been estimated at Rs. 24 crores for the whole Province, of which perhaps Rs. 10 crores is owed to this class of money-lender, of the balance Rs. 9 crores being owed to urban financiers, and Rs. 5 crores in small parcels to the ordinary rural money-lenders. The distinction between the ordinary rural money-lender and the class described in this paragraph is not a clear cut one, but it is, we think, sufficiently definite to justify special treatment.

78. *Profits of rural money-lending.*—We have been unable to collect any really satisfactory evidence of the rate of profit which ordinary rural money-lending gives. It would require a large organisation to examine the books of a sufficient number of persons to arrive at a safe average, and the task would be rendered peculiarly difficult by the mixing of lending operations with trade. Taking the province as a whole the rate of interest which the cultivators engage to pay is about 20 per cent. After making allowance for bad debts, the cost of litigation and remissions, we think it will not be far wrong to put the net profit at

15 per cent., out of which the money-lender pays himself his management charges.

The big rural money-lenders in their transactions with the landlord class charge a distinctly lower rate of interest, which may be put for the whole province at 14 per cent. The deduction for bad debts, litigation and remissions must also be put lower, since their loans are much more largely backed by mortgages. An average profit of 10 per cent. is probably about right, the smaller men getting as much as 12 per cent., while the very substantial get only 9 per cent. on their capital.

79. *The principal defect in rural borrowing.*—The main objection to the village money-lender from the point of view of the borrower is the high rate of interest he charges. On the other hand he seldom presses for early repayment of the principal, he supplies credit needs promptly and with a minimum of formality, and he not infrequently remits a part of his full dues when the occasion demands it. Until the cultivator can train himself or be trained to limit his borrowing to the absolute minimum that he requires, to seize every opportunity of reducing his indebtedness and to pay the interest he has agreed on promptly, i.e., exercise more common sense and more common honesty, the two pillars of finance, it is unlikely that the village money-lender will cease to be, what he is at present, an essential agent in the production of crops. The question, whether he can be brought to fill that position with less disadvantage to the rest of the rural population will be discussed in a later chapter.

80. *Borrowing of landlords.*—This chapter has up to now been devoted to the methods of borrowing adopted by the ordinary cultivators, who form the great majority of the rural population. A few words may be added about the landlords, who are numerically a much smaller class, but still a very important element. An estimate of their total indebtedness is given in paragraph 94. The details of the borrowing rates of this class will be found in Chapter XVI, where the possibility of starting a special land mortgage bank is discussed. It is sufficient to say here that they are generally lower than the rates at which the *raiya*s borrow, but are still high, 20 per cent. being the average in Orissa, 18 per cent. in Chota Nagpur, and 12½ per cent. in Bihar. About one-half of the debts of this class in Orissa and Chota Nagpur is owed to rural money-lenders and about three-quarters in Bihar. Thus even with landlords the rural money-lender is more important than the urban money-lender, and only the owners of large properties, who require very substantial loans, resort to the latter.

CHAPTER V.

Rural indebtedness.

81. *The method of estimating.*—The only way of obtaining an estimate of indebtedness with a reasonable degree of precision is by ascertaining the actual indebtedness of a sufficient number of individuals, sufficiently widely dispersed over the Province. The difficulties of the task are (1) to secure a competent agency, (2) to make sure that the agency so commands the confidence of the individuals questioned, as to obtain approximately correct replies, and (3) to see that the individuals questioned are a fair sample of the population under survey. To meet these difficulties we invited the assistance of officers of the executive service, of gentlemen connected with the co-operative movement, and, through college professors, of economics students. These were asked to conduct surveys in villages, where they lived or in which they already had some local influence. We are satisfied that on the whole the first two difficulties have been overcome in this way, though naturally some of the investigators were unable to make adequate surveys of indebtedness.

82. *The geographical distribution of the sample.*—How far a fair sample of the population has been taken may be gathered from the distribution of the surveys which have been used in compiling the statistics set forth in this chapter.

BIHAR.				
<i>Patna Division.</i>				
Patna	...	...	...	10
Gaya	...	...	...	4
<i>Tirhut Division.</i>				
Muzaffarpur	...	...	...	6
Champanan	...	...	...	3
Saran	...	...	...	6
Darbhanga	...	...	...	2
<i>Bhagalpur Division.</i>				
Bhagalpur	...	...	...	8
Monghyr	...	...	...	8
Total			...	47

CHOTA NAGPUR PLATEAU.

Chota Nagpur Division.

Ranchi	...	...	...	10
Hazaribagh	...	...	...	4
Singhbhum	...	...	...	4
Palamau	...	...	...	9
Manbhum	..	...	...	1

Orissa Division.

Sambalpur	8
Angul	5

Bhagalpur Division.

Santal Parganas	9
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Total	50
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ORISSA COAST DISTRICTS.

Orissa Division.

Cuttack	7
Puri	13
Balasore	6

Total	26
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For only two districts, Shahabad and Purnea in Bihar, have no surveys, which could be used, been carried out. The distribution of the surveys seems to us to have been adequate to obtain a sample which fairly covers the population in its geographical aspect.

83. *Economic distribution.*—It is not quite so easy to judge whether the persons, who have appeared before the investigators, fairly represent the whole of the rural population in its economic aspects. The rural population of 32½ millions, out of a total population of 34 millions, is made up as follows :—

	Millions.
Ordinary cultivators	21.50
Field labourers and farm servants	5.00
Foresters, stock-raisers, fishers and hunters	.50
Landlords	.32
Agents of landlords	.18
Mining and industry	2.00
Trade and transport	1.25
Public administration and liberal arts	.50
Miscellaneous	1.50
Total	32.75

The distribution of the rural population among the tracts of the Province is set out in the following table, in which the figures are thousands of households :—

	Ordinary cultivators.	Landlords.	Others.
1	2	3	4
Bihar	2,567	45	1,303
Chota Nagpur plateau	1,204	5	429
Orissa coast districts	497	8	317

The investigators were asked to include, as far as possible, every householder in the village. They have certainly been able to sample adequately the ordinary cultivators and the field labourers. Industry covers village weavers, potters, smiths, barbers, carpenters, etc., while transport and trade takes in the *beparis* and carters, the village money-lender (who is generally a shopkeeper) and so on, and these would all come under survey. Even the foresters, stock-raisers, etc., as well as the village watchmen, priests and temple-servers, who come under the class "Public administration and Liberal Arts", would scarcely escape notice. One million of "Miscellaneous" are unclassified labourers and workmen living in the villages and consequently would be likely to appear before the investigators. It is likely that landlords' agents have also appeared, and in any case they are only one half per cent. of the whole, and are unlikely to be heavily indebted. It is only the landlords who may have slipped through the net, though of these a few may have stated their indebtedness. The indebtedness of the proprietors of the very large estates has not been disclosed at all, but these do not number more than 400. The indebtedness of the smaller proprietors and tenure-holders appears to a very slight degree in the statistics and for those a special survey has been conducted.

In addition to the surveys carried out by our investigators a sub-committee conducted personal enquiries at six centres in Orissa, five in Chota Nagpur and six in Bihar. From its record of indebtedness both landlords and landless persons were deliberately excluded.

84. *Definition of terms used to describe the degree of precision.*— Before considering what deductions can be drawn from the data thus collected, it is necessary to make an excursion into the province of mathematical statistics and to define certain terms which are used below for brevity. An average, or mean, of figures obtained by sampling is, by itself, of little value without some indication of the limits within which

the true mean (i.e., that which a complete census of the subject of sampling would give) probably lies. This indication is obtained by calculating the "spread" of the individual items of the sampling about the mean, and is expressed by the value of the quantity known as the "standard deviation". It can be established that for the great majority of subjects suitable for sampling the probable accuracy of the mean obtained can be stated with precision. Thus the odds are very nearly 21 to 1 against the true mean being greater or less than the observed mean (i.e., that derive from the samples) by more than twice the standard deviation of the observed mean. It is proposed to express this by saying that it is "unlikely" that the true mean is more than a certain figure or less than another figure. Further the odds are very nearly 369 to 1 against the true mean being greater or less than the observed mean by more than three times its standard deviation. It is proposed to express this by saying that it is "very unlikely" that the true mean is more than a certain figure or less than another figure.

85. *Average indebtedness in Orissa.*—Assuming that our investigators have got reasonably correct figures of individual debts, and that a fair sample of indebtedness in the different tracts of the Province has been taken, their results may now be stated as follows. In the Orissa coast districts the observed average indebtedness of a household derived from 2,710 observations is Rs. 73. It is "unlikely" that the true average is more than Rs. 81 or less than Rs. 65. It is "very unlikely" that it is more than Rs. 85 or less than Rs. 61.

86. *Average indebtedness in Chota Nagpur.*—In the districts of the Chota Nagpur plateau, where 3,077 persons stated their indebtedness the observed average is Rs. 92. It is "unlikely" that the true average is more than Rs. 110 or less than Rs. 74, and it is "very unlikely" that it is more than Rs. 119 or less than Rs. 63.

87. *Average indebtedness in Bihar.*—In the Bihar districts 3,617 statements were taken, a number, which is lower, relative to the total population, than that of the observations in the other two tracts. But, what is of more immediate importance, the "spread" of the individual items of indebtedness in Bihar is considerably greater, and this renders the determination of the true average more uncertain. The observed average is Rs. 282. It is "unlikely" that it is more than Rs. 307 or less than Rs. 257. It is "very unlikely" that it is more than Rs. 319½ or less than Rs. 244½.

88. *The results of the sub-committee's enquiries.*—The figures collected by the members of the Committee themselves in Orissa and Chota Nagpur may be used as a check on those of the investigators. Those collected in Bihar are too few to be of any value. In Orissa 251 householders stated their indebtedness. The observed average was Rs. 130. The true average is "unlikely" to be more than Rs. 158 or less than Rs. 102; it is "very unlikely" to be more than Rs. 172 or less than Rs. 88. In Chota Nagpur 349 statements were taken. The

observed average was Rs. 152. The true average is "unlikely" to be more than Rs. 180 or less than Rs. 124. It is "very unlikely" to be more than Rs. 194 or less than Rs. 110. It must be remembered that in these enquiries landlords and landless persons were deliberately excluded.

89. *Comparison between the investigators' and the sub-committee's results.*—The ordinary cultivators, who formed almost the whole subject of the personal enquiries of the Committee, contribute about 65½ per cent. of the rural population, the landlords about 1 per cent. The remaining 33½ per cent. are made up of (1) field and miscellaneous labourers who account for nearly two-thirds, and (2) the other classes set forth in paragraph 83 of which the most important are the small handicraft workers, the traders and the carters. For the landlords the average indebtedness observed in the special survey, described in paragraph 94 below, is taken and for the others an average of Rs. 10. The total indebtedness of the 822,000 rural households of Orissa may be judged from the following statement:—

	Based on observed average.	Based on lowest likely average.	Based on observed average.	Based on lowest likely average.
1	2	3	4	5
	Committee's figures in lakhs.		Investigators' figures in lakhs.	
Ordinary cultivators ...	6,46	5,17	} 5,96	6,59
Others excluding landlords	32	32		
Landlords ...	64	64	64	64
Total ...	7,42	6,13	6,60	7,23

[By the "lowest likely average" is meant the figure, above which it is "unlikely" (i.e. 21 to 1 against) that the true average lies. The "highest likely average" has the corresponding meaning.]

There is seen to be a considerable overlap between columns 3 and 5, which confirms the substantial accuracy and sufficiency of the results of both the enquiries. A figure of 7 crores would seem to be a fairly close estimate.

On similar observations and assumptions the figures for the Chota Nagpur plateau, where there are 1,638,000 rural households, are as follows :—

	Based on observed average.	Based on lowest likely average.	Based on observed average.	Based on highest likely average.
1	2	3	4	5
	<i>Committee's figures in lakhs.</i>		<i>Investigators' figures in lakhs.</i>	
Ordinary cultivators ...	18,30	14,93	} 15,03	17,97
Others excluding landlords	43	43		
Landlords ...	5,04	5,04	5,04	5,04
Total ...	23,77	20,40	20,07	23,01

The overlap here between columns 3 and 5 is even greater than in Orissa. A figure of 21 crores may be taken.

For Bihar there is no such check on the investigators' data for the rural population excluding the landlords, and all that can be said is that the most likely figure based on them is 109 crores for 3,870,000 households and that it is "unlikely" to be more than 119 crores or less than 99 crores. To this must be added something for the omission to question the landlords. The special enquiry suggests an average indebtedness for this class of Rs. 4,000 and the figure to be added would be 18 crores, bringing the total for Bihar rural indebtedness up to 127 crores.

90. *The total indebtedness of the province.*—For the whole province the rural indebtedness may be put with some confidence at 155 crores. Of this it would be reasonable to put down 24 crores to the landlords, 2 crores to the other rural households excluding ordinary cultivators, and 129 crores to the ordinary cultivators.

It may be interesting to note that Mr. Darling's figure for indebtedness per head of rural population in the Punjab (Rs. 76) if applied to Bihar and Orissa would give 250 crores, or 60 per cent. above the indebtedness to which our figures seem to point.

91. *Proportions indebted to various degrees.*—For many purposes, however, it is of greater importance to know what proportion of the population is indebted to a certain degree than it is to know what that elusive abstraction "the average household" owes. For information on the former point reliance can be placed on the following table, which shows how many of the persons actually examined have debts lying within certain intervals. It must be remembered that the investigators examined, as far as they could, all classes found in the villages, while the members of the Committee examined only the "ordinary cultivators", i.e., persons who hold land on a cultivating tenancy. This accounts at once for the higher proportion found in the investigators' figure for no debt or for very small debt, and justifies the estimate of an average indebtedness of Rs. 10 for the landless rural population.

	Investigators.			Committee.	
	Oriam coast districts.	Chota Nagpur plateau.	Bihar.	Oriam coast districts.	Chota Nagpur plateau.
Total number	2,710	3,077	3,617	251	349
Debt nil	794	799	1,001	53	67
1 to 35	752	1,021	383	26	46
36 to 70	445	489	358	58	47
71 to 105	260	239	308	29	52
106 to 140	100	90	126	14	26
141 to 175	102	73	176	14	22
176 to 210	73	86	198	16	23
211 to 245	90	102	310	21	27
246 to 280	34	48	160	9	11
281 to 315	17	40	122	4	4
316 to 350	9	30	98	1	10
351 to 385	11	15	47	1	5
386 to 420	6	7	48	1	3
421 to 455	4	5	37	0	1
456 to 1,050	4	6	46	1	2

	Investigators.			Committee.	
	Orissa coast districts.	Chota Nagpur plateau.	Bihar.	Orissa coast districts.	Chota Nagpur plateau.
1,051 to 2,100	6	16	128	4	2
2,101 to 3,150	1	3	31	0	1
3,151 to 4,200	0	8	17	0	0
4,201 to 5,250	2	1	12	0	0
5,251 to 6,300	1	2	5	0	0
6,301 to 7,350	0	0	2	0	0
7,351 to 8,400	0	0	0	0	0
8,401 to 9,450	0	1	1	0	0
9,451 to 10,500	0	0	0	0	0
Figures above 10,500	nil	20,000	11,273 12,200 14,700 15,000	nil	nil

The percentage of the households falling within different categories of indebtedness may be expressed in the following way :—

	Investigators.			Committee.	
	Orissa coast districts.	Chota Nagpur plateau.	Bihar.	Orissa coast districts.	Chota Nagpur plateau.
Free from debt	29	26	27½	21	19
Lightly indebted (From Rs. 1 to Rs. 105)	54	57	29	45	42
Moderately indebted (From Rs. 106 to Rs. 210).	10	8	14	17½	20
Heavily indebted (From Rs. 211 to Rs. 1,050.	4½	8	24	15	18
Very heavily indebted (above Rs. 1,050)...	½	1	5½	1½	1

[These percentages are reasonably accurate. It is "very unlikely" that any will be more than 3 out, and for most of them a much small error would be "very unlikely".]

92. *Comparison with figures for co-operative members.*—Before leaving this subject an attempt may be made to reconcile the estimate of indebtedness given above with the indebtedness reported by the central co-operative banks. These were asked, through the Registrar of Co-operative Societies, to give us the figures for the members of agricultural credit societies affiliated to them, compiled from the registers of assets and liabilities (*haisiyat*). Fifty-five banks attempted to comply with our request, but of these nine showed a total indebtedness lower than the debt owed to the primary societies, an obviously impossible state of affairs. Such a serious degree of error either in record or in compilation throws considerable doubt on the statistics as a whole. But we give below the results after excluding the figures of the nine banks, that were clearly wrong :—

—	Members.	Total debt.	Average debts.
		Rs.	Rs.
Bihar	79,176	1,56,88,000	198
Chota Nagpur plateau ...	18,972	10,34,000	78
Orissa coast districts ...	25,996	32,34,000	124

The members of these societies are in the main drawn from those persons of the rural population, who are ordinarily in need of credit but who are not hopelessly involved. If they do not have to borrow they have little incentive to join a society, while if their position is very bad they are unlikely to be admitted to membership. As a rough approximation it may be supposed that the members are drawn from the classes that owe something but do not owe more than Rs. 1,000, i.e., the three middle classes of the table in the preceding paragraph. It is found that the average indebtedness of these three classes, indicated by the reports of our investigators, is Rs. 223 for Bihar, Rs. 96 for the Chota Nagpur plateau, and Rs. 88 for Orissa.

93. *Adjustment required for annual borrowing.*—It is evident that since practically all these statistics were collected between the end of August and the end of November, and the main crop of the province, rice, does not begin to be ready for marketing until December, the indebtedness displayed is at its peak, and is reduced by March or April approximately to the extent of the annual repayment, which may be

taken to be equal to the annual borrowing. Two methods of approach have been adopted to form an estimate of the proportion between annual borrowing and total indebtedness. The investigators were asked to report both figures, and the central co-operative banks were asked to state (i) the amount given by rural credit societies in loan to their members during the last three years, and (ii) the amount outstanding against the rural credit societies in the books of the banks. Of the investigators' figures, many had to be rejected owing to a misinterpretation of the meaning of annual borrowing or obvious inability to collect the information. Even the figures that have been used are based for annual borrowing on guesses of varying degree of probability. They yield the following results:—

Tract.	Annual borrowing.	Total indebtedness.	Percentage.
	Rs.	Rs.	
Bihar	97,048	3,72,870	26
Chota Nagpur plateau	51,114	2,27,516	22½
Orissa coast districts	43,240	1,44,808	30
Whole province	1,91,402	7,45,194	25½

Of the central co-operative banks some were unable to give figures in answer to one or other of the questions. Excluding these altogether the following results emerge:—

Tract.	Annual borrowing.	Total indebtedness.	Percentage.
	Rs.	Rs.	
Bihar	22,37,482	65,10,668	34
Chota Nagpur plateau	5,18,746	13,32,000	39
Orissa coast districts	7,15,730	29,36,476	24
Whole province	34,71,958	1,07,78,144	32

The central banks aim, with some degree of success, at prompt realisation of their loans, and further there is undoubtedly an appreciable amount of loan outstanding against the individual members on the books of the rural credit societies. For both these reasons the percentage of annual borrowing on total indebtedness, as given in the second table, is probably set too high, if it is regarded as a guide to the true percentage for borrowing from all sources of rural credit. We are of opinion that annual borrowing is most probably about one-fourth of the total indebtedness, and that it does not vary much between the three tracts of the province. We are confirmed in this estimate by the evidence of

individual witnesses, whose opinion can be trusted. The figures for total indebtedness of the *ordinary cultivators* are thus liable to a seasonal fluctuation, equal to about one-fourth of the figure given above, which may be regarded as the peak indebtedness. /

94. *Indebtedness of landlords.*—It is still necessary to justify the estimate of indebtedness put down for the landlord class. To sample the indebtedness of this class, i.e., those who are returned in the Census as deriving their income from the rent of agricultural land, is distinctly more difficult than to sample the indebtedness of the rest of the rural population. The landlord is not met with in large numbers, as a matter of course, in the village, nor is he ready to disclose his indebtedness at a public enquiry before a crowd of those whom he considers his inferiors. Further the income of landlords is greater and varies more than that of the others, and their indebtedness is consequently higher and spread much wider. To get over the difficulty it was decided to ask the Subdivisional Officers to hold confidential enquiries among those, whose names appear on the electoral rolls of the general rural constituencies in virtue of proprietors' and tenure-holders' qualifications. The Committee is greatly obliged to these officers for carrying through a very delicate task, which apart from its statistical value has evidently stimulated interest among this class in the Banking Enquiry and specially in the possibility of land mortgage banks. In the Orissa coast districts enquiries were successfully conducted in 6 out of the 7 subdivisions, in Chota Nagpur in 19 out of 22, and in Bihar in 25 out of 33. The following table summarises the results :—

	Orissa coast districts.	Chota Nagpur plateau.	Bihar.
Total number	272	445	749
Free from debt	136	180	258
1—315	57		
316—630	25	83	137
631—945	13		
946—1,890	14	38	75
1,891—2,835	9	27	54
2,836—3,780	2	20	45
3,781—4,725	3	14	30
4,726—5,670	2	8	23
5,671—6,615	3	13	16
6,616—7,560	1	5	10
7,561—8,505	1	3	7
8,506—9,450	0	2	3
9,451—10,395	1	10	9
10,396—11,340	1	3	8
11,341—12,285	0	5	7

			Orissa coast districts.	Chota Nagpur plateau.	Bihar.
12,286—13,230	..	...	0	1	2
13,231—14,175	...	..	0	1	6
14,176—15,120	...	...	1	1	3
15,121—16,065	..	...	0	1	2
16,066—17,010	...	...	0	1	0
17,011—17,955	..	...	0	0	0
17,956—18,900	...	...	0	1	2
18,901—19,845	...	...	0	0	0
19,846—20,790	...	...	0	2	2
20,791—21,735	...	...	1	0	2
21,736—22,680	...	...	0	0	1
22,681—23,625	...	...	0	3	2
23,626—24,570	...	...	0	0	2
24,571—25,515	...	...	1	2	7
25,516—26,460	...	...	0	1	1
26,461—27,405	...	...	0	1	1
27,406—28,350	..	...	0	0	0
28,351—29,295	...	...	0	0	0
29,296—30,240	...	...	0	1	5

Figures above 30,240.

Orissa coast 1,00,000 districts.

Chota Nagpur plateau.	30,890	35,000	65,000	99,200	3,67,849	5,00,000
	32,000	60,000	84,531	1,00,000	3,77,142	7,94,048
						12,00,000
Bihar	...	33,000	36,700	45,000	60,000	1,40,000
		35,000	40,000	46,000	75,000	1,75,000
		35,000	40,000	47,700	86,700	2,00,000
		35,000	40,000	60,000	1,00,000	2,29,000
		36,000	45,000	60,000	1,30,000	2,72,000

95. *Orissa landlords.*—This table shows at once how very great the "spread" of landlords' indebtedness is, especially in Chota Nagpur and Bihar. The Orissa figures give an average of about Rs. 1,200 and it is "unlikely" to be less than Rs. 800 or more than Rs. 1,500. The 272 persons who reported their indebtedness represent about 18 per cent. of the full number of electors on the rolls, some 1,500. But there appear to be some 8,000 households of rural rent-receivers in the Orissa coast districts, and clearly some 6,500 of these have not got the qualification, or at least are registered on the property they hold as *raiya*s. It is probable that these have distinctly less property than the class actually sampled, and in view of their numbers, it would be reasonable to reduce the estimate of the average indebtedness to Rs. 800.

96. *Chota Nagpur landlords.*—For Chota Nagpur the average comes out at about Rs. 11,000. The Chota Nagpur landlord is as a rule quite distinct from the *raiya*s and is known to be very improvident as a class, so the figure is not surprising. The degree of precision is considerably less than it is in Orissa, although about 8 per cent. of the whole class of electors (5,500) has been sampled. It is not "unlikely" that the true average is as little as Rs. 5,000 or as much as Rs. 17,000. The electoral roll figure for the tract agrees fairly closely with the Census figure for landlords, and so there is no need to make any adjustment on that ground, and the figure of Rs. 11,000 may be taken. While the general level of indebtedness is much higher than it is in Orissa, it is swelled to an inordinate degree by the very large debts of a few individuals.

97. *Bihar landlords.*—The Bihar figures have also to be received with a good deal of caution. As they stand they indicate an average of about Rs. 8,400, but more Subdivisional Officers have found the difficulties of the enquiry insuperable than elsewhere, and both the number of electors of this class and the number of landlords recorded in the Census is much larger. The sampling covered only 4 per cent. of the electors (18,000), while only 2 out of every 9 "Census landlords" are electors. The average, on the basis of the sampling, might well be as low as Rs. 4,000 or as high as Rs. 13,000 without being "unlikely". In view of the large number of landlords who apparently do not reach the electoral qualification it will be safest to take it at Rs. 4,000.

98. *Possible dangers in applying the ordinary statistical theory.*—It may be remarked that the distribution of indebtedness both in Chota Nagpur and Bihar is so far removed from the normal curve of error that it is probable that the deductions regarding the probable error of the average do not strictly apply for the number of samples taken. On the other hand the sampling covered in all three tracts a considerable fraction of the total number of persons subject to it, and this tends towards precision of the average.

99. *Proportions of indebtedness to various degrees.*—The figures given in the table at any rate represent fairly well the proportion of landlords whose indebtedness lies within given limits, and this may be an

extremely useful piece of information, if it is decided to establish land mortgage banks for this class. This aspect of the statistics is summarized below :—

	Orissa coast districts percentage.	Chota Nagpur plateau percentage.	Bihar percentage.
Free from debt	50	40½	35
Lightly indebted 1—945 ...	35	18½	17
Moderately indebted 946—6,615	12	27	33
Heavily indebted 6,615—25,000	2½	10	10
Very heavily indebted above 25,000.	½	4	5

It must, of course, be remembered that weight of indebtedness is a relative term, and a small landlord, who owes Rs. 1,000 may be very heavily indebted, while a great landlord who owes Rs. 1,00,000 may be quite solvent. About 85 per cent. of the debt is secured by mortgage.

100. *Indebtedness secured by registered mortgage.*—An attempt was made through the investigators to determine the proportion of the total indebtedness excluding that of landlords, which is covered by registered mortgages on the land. The results given below have some value, but cannot be implicitly trusted as the investigators could not be expected to examine the documents in all cases, nor could they be sure of the figure they gave for the total indebtedness of the village under investigation :—

Tract.	Total indebtedness.	Secured by mortgage.	Percentage.
1	2	3	4.
	Rs.	Rs.	
Bihar	3,02,531	1,57,344	45½
Chota Nagpur plateau ...	79,796	9,729	12
Orissa coast districts ...	1,27,601	57,560	45
Whole province	5,09,930	2,05,003	40

The lower figure for Chota Nagpur is no doubt due to restrictions on mortgage, but the amount of evidence collected in that tract is insufficient.

The Registration Department have supplied figures for the last ten years of the value of mortgages of all kinds of immovable property registered in the Province. These may be summarized thus :—

Year.	Bihar (lakhs).	Chota Nagpur pl tean (laks).	Orissa coast districts (laks).	Whole province (laks).
1	2	3	4	5
1919	4,99	36	41	5,76
1920	4,85	42	44	5,70
1921	5,47	85	95	6,16
1922	5,60	99	90	6,49
1923	5,55	36	29	6,19
1924	5,39	42	30	6,11
1925	5,79	29	33	6,42
1926	5,95	51	4	6,80
1927	7,17	59	42	8,19
1928	7,32	69	39	8,30

Assuming that the estimates of indebtedness already given in paragraphs 85—87 are correct, and that the percentage of the indebtedness covered by land mortgage to the total indebtedness given in the preceding paragraph can be trusted, it seems that mortgages run on the average for eight years in Bihar and in Orissa and for only four years in Chota Nagpur. For the whole Province the period would be six years.

101. *Is mortgage debt increasing?*—The figures given in the preceding paragraph might seem to indicate that indebtedness is increasing somewhat rapidly. But, seeing that the sale price of land has increased between 1923 and 1928 by 43 per cent., it is not surprising that the value of registered mortgages should have increased by 32½ per cent. in the same period. The number of transactions has remained fairly constant between 297,000 and 222,000 and was indeed higher in 1919 than it has been in any subsequent year.

102. *Mortgages with possession.*—The Registration Department's figures are for all classes of mortgages of which only a portion are mortgages with possession. It has not been possible to institute a fresh enquiry into the prevalence of such mortgages, but the Settlement Reports give trustworthy, if somewhat antiquated, information. (The

dates following the name of the district are those of the middle year of the settlement operations) :—

Tract.	District.	Percentage of <i>raiyyati</i> land mortgaged.	Percentage mortgaged to money-lender.
Bihar	Champan (1915) ..	6	3·5
	Saran (1918) ...	10	3
	Shahabad (1912) ...	2	·2
	Gaya (1914) ...	2	·1
	Patna (1910) ...	2·5	·2
Chota Nagpur ...	Ranchi (1906) ...	1·2	?
	Manbhum (1921) ...	4	·2
Orissa ...	Balasore (1924) ..	·84	·12
	Puri (1926) ...	·15	·62
	Cuttack (1927) ...	·60	·07

103. *The encroachment of the money-lender.*—Save in Saran and Champan the encroachment of the money-lender on the land of the ordinary cultivator appears to be insignificant. The investigators' reports for Orissa, however, suggest that 20 per cent. of the occupied area has passed by sale in the last twenty years. The figures are based on mere estimates furnished by the villagers questioned and may be wide of the mark. No doubt also most of the sales are by *raiyyat* to *raiyyat*. An adequate appreciation of the position will be available shortly when the revenue settlement is completed in Orissa.

Where the non-agricultural money-lender acquires the land of the *raiyyat* there is little doubt that there is a loss of agricultural efficiency. The ordinary practice is for the money-lender to sublet on a rent of not less than half the produce, and the actual cultivator has a much reduced incentive to raise a good crop. In Gaya district, where produce rents are taken from the occupancy *raiyyats* in two-thirds of the total area, it was found by comparison of the results of the widespread crop cutting experiments, made during the settlement operations, that the yield of rice per acre was at least 10 per cent. below the yield for the cash-rented area. Further it was found that at least 10 per cent. more of the produce-rented area was left fallow than the percentage observed in cash-rent holdings.

104. *Security for other debt.*—Practically all of the debt, which is not secured by mortgage, i.e., 60 per cent. of the whole, is incurred on the general security of all the assets, except of course the right in the land itself, without specific pledge. It is realised as a rule on the crop of the year. The ordinary practice in Orissa and Chota Nagpur is to borrow

small sums on a mere entry in the money-lender's books. A larger loan, say from Rs. 20 to Rs. 200 requires a hand-note. Loans above Rs. 200, either original or accumulated debt, require a mortgage. In Bihar the limits are distinctly higher, perhaps double those given for the rest of the Province. Naturally, however, the question of what security is taken is decided by the money-lender not merely on the amount required but on the credit-worthiness of the borrower. In the last few years most co-operative societies have required as collateral security a mortgage of the land of the borrowing member for all loans of Rs. 100 or more and this has, no doubt, somewhat increased the proportion of debt secured by mortgage.

105. *Purposes for which debt has been incurred.*—The evidence on the purposes for which debt is incurred has been difficult to obtain, and conclusions deduced from it cannot be pressed with any great confidence. The investigators, as a rule, admitted the imperfection of their reports on this point. The central banks, who have obtained their information from the records of individual transactions, should be in a better position to classify the loan debt, but it was frankly admitted by several co-operative witnesses that loans ostensibly taken for one purpose are sometimes used for another. Further the central banks attempt with some success to restrict loans to the more productive purposes, and their members undoubtedly resort to other credit agencies to satisfy their need for unproductive loans.

The investigators' figures are as follows :—

	Bihar.	Chota Nagpur plateau.	Orissa coast districts.	Whole Province.
1	2	3	4	5
Total amount covered by reports ...	Rs. 3,75,000	Rs. 1,82,000	Rs. 1,57,000	Rs. 7,24,000
	Per cent.	Per cent.	Per cent.	Per cent.
1. Repayment of earlier debt's ...	19½	16	17	18
2. Social occasions ...	15½	22	25	19
3. Maintenance, house-building and repairs.	18	11	18	16½
4. Rent ...	8	2½	5	6
5. Cultivation and purchase of seeds and manure.	9	6	7	7
6. Purchase of cattle and improvements	4	14½	10	8
7. Non-payment of interest ...	18	2	3	12
8. Litigation, purchase of land and trade	3	25	6	9
9. Education ...	0	½	0	0
10. Unclassified ...	5	½	10	4½

The figures supplied by the central co-operative banks have a somewhat different classification, but have been rearranged, as adequately as possible, to suit the classification given above. They are based on the loans actually granted by the rural credit societies to their members during the years 1926—1928.

	Bihar.	Chota Nagpur plateau.	Orissa coast districts.	Whole Province.
1	2	3	4	5
Total loan, in thousands ...	68,81	16,08	22,56	1,07,45
	Per cent.	Per cent.	Per cent.	Per cent.
1. Repayment of earlier debts (including redemption of land).	31	26	40½	33
2. Social occasions ...	5	1	4½	4
3. Maintenance, house-building and repairs.	4	10	6½	5½
4. Rent	10	1½	2½	7
5. Cultivation and purchase of seeds and manure.	7	1½	5½	8
6. (a) Purchase of cattle	12	27	7½	13½
6. (b) Improvements	1	7½	1½	2
7. Non-payment of interest ...	None reported			
8. (a) Litigation	0	0	0	0
8. (b) Purchase of land	8	3	13½	8½
8. (c) Trade	18	5½	11	14½
9. Education	0	0	0	0
10. Unclassified	4	4½	4	4

106. *Analysis of results.*—These results differ very materially from those obtained by the investigators, and there is no easy means of reconciling them. It seems to be established that about 30 per cent. of the total borrowing is for "Repayment of earlier debts and the interest thereon". Borrowing for "Social occasions" accounts probably for 20 per cent. of the debt, though members of co-operative societies do not borrow nearly as much from their societies. It is, however, most likely

that they supplement from other sources, or divert to this purpose loans obtained on other pretexts. These two are the main purposes of borrowing unproductively and account for nearly half the debt. It may be noted that the Sub-Committee's personal enquiries suggest 39 per cent. for Orissa, and 46 per cent. for Chota Nagpur, confirming roughly the figures already quoted. "Maintenance" is responsible for about 15 per cent. of the debt. The co-operative figure is much lower and this, probably reflects the delays in granting loans, to which many witnesses have testified. A loan for "Maintenance" is generally wanted at short notice and if a member cannot count on promptitude in his society he is apt to go elsewhere. The figures for "Rent" agree closely. It is an unimportant reason for borrowing in Chota Nagpur and Orissa, but of some importance in Bihar, where rents are on the whole higher. "Cultivation etc." again gives an almost identical figure in the two statements. It is, like "Maintenance", a purpose of more importance in annual borrowing than in total indebtedness, since seed loans taken in kind are generally repaid on the next harvest. The co-operator appears to borrow more for "Purchase of cattle and improvements" than the general population. Some banks, for example Daltonganj and Angul, do a great deal of business in cattle loans, and appear to meet the needs of members, who are rather graziers than ordinary cultivators. The amount borrowed for improvements is very small. Borrowing for "Litigation" is remarkably rare according to the investigators as well as the co-operative banks. For "Trade" a good deal is borrowed, many *raiyats* nowadays having taken up the functions of the *bepari* who collects village produce and sells it at the large markets. Particular instances of this came to the notice of the Committee in the marketing of tobacco in Muzaffarpur, of timber in Champaran, and cocoanuts in Orissa. "Purchase of land" is also of some importance, though it is difficult to believe that borrowing, even at the relatively low rates which the co-operative societies offer, can be economically sound now that the return from the land bought is such a small percentage on the purchase price.

107. *Causes of indebtedness*.—Thus the most important single cause of existing indebtedness is past borrowing, since something like one-third of the outstanding debt has been borrowed for repayment of old debt or has accumulated through failure to pay interest. It is impossible to discover for what purposes these old debts were incurred, but presumably they were taken in the same proportion as now displayed, and hence at any time in the past the old indebtedness occasioned fresh borrowing of about one-third of the total indebtedness. The main reason for this need of constant reborrowing is, we believe, the high rate of interest charged, and to get this down by all possible means is properly the principal aim.

Next in importance come social ceremonies, and though the ordinary cultivator is probably not so extravagant over these, as he is sometimes pictured, or as the middle and upper classes are, there is more wasteful expenditure here than his economic position warrants.

The remedy for this is steady pressure by the co-operative societies, which may influence public opinion outside as well as inside the movement. No doubt some expenditure of this kind is natural and proper. Without it village life would be featureless. But an average debt of some Rs. 40 per household is too high a price to pay.

Next comes the charge for maintaining the household while the crop is made, and for its cultivation. No doubt all over the world the majority of farmers have to borrow to carry over the last few months before their main harvest comes in. But here the period is long and the rate of interest high. Indeed much of this debt is borrowed in grain and bears interest of 50 per cent. in some six months. The risk of partial or complete failure of the crop owing to failure of the monsoon or excessive rainfall accentuates the need and the danger of borrowing, while the small size of most of the individual holdings precludes a quick recovery from embarrassment. The pressure of real poverty comes in here, and the help both of agricultural science to better the yield of the land and of co-operative organisation to supply credit at far cheaper rates is urgently required.

The pressure of taxation is not a serious cause of indebtedness. The ordinary cultivator pays a few annas a year for the upkeep of the village police, and a small sum in indirect taxation. His main contribution to State revenues is through rent, which is about Rs. 3 an acre, and of this some 80 or 90 per cent. is absorbed by the landlord. He pays 1½ anna an acre to local authorities for roads, education, hospitals, etc.

108. *Effects of indebtedness.*—Apart from the general discouragement to enterprise and at times the pinch of poverty, which a chronic state of indebtedness among a considerable proportion of the agriculturists no doubt produces, it is often alleged that it places them almost unreservedly in the hands of their creditors. It is probably true that many debtors have to placate their *mahajans* with gifts from time to time, but these are of trifling value. (In certain circumstances a debtor works off a part of his debt by labour or loan of cattle for ploughing the creditor's fields. But this is, we believe, unusual among the land-owning debtors. This evil, as far as it exists, is mainly confined to agricultural labourers, who bind themselves to work for a particular master until a debt is repaid. This is known as the *kamiuti* system, and though we have received evidence that its abuses have to some extent been mitigated, there is little doubt that they persist.) It is, however, scarcely pertinent to our enquiry, since no improvement of credit facilities, in near prospect is likely to touch this class.

109. *Restrictions on marketing.*—The really important allegation regarding the effect of indebtedness on the economic condition of the producer is that he is obliged by reason of his indebtedness to sell his produce to a particular creditor, at a particular time, and at a particular

price. The Agricultural Commission's Report gives the impression that this allegation is true *generally* as the following extracts show :—

" There can be no doubt that it must often be his indebtedness which compels him to resort to the village trader and to accept the terms dictated by the latter." (Page 383.)

" Where they are so bound to the money-lender that all their produce must be sold to him and all their purchases made from him—." (Page 445.)

We are satisfied both from the enquiries made by our investigators and from those made by members of the Committee themselves, that the picture, which such passages suggest, perhaps unintentionally, is incorrect for Bihar and Orissa.

It is no doubt true that a portion of the crop has usually to be sold by indebted *raiya*s soon after the harvest to satisfy their creditors in part, when it might have been more profitable to hold for a later date. But this is, by no means, the universal destiny of the surplus over and above present needs nor is it invariably the case that an appreciable profit could have been made by withholding the produce from the market. The picture is even more erroneous in implying that the producer is bound to sell to his creditor at an unfairly low price. In very remote areas such as parts of Palamau and Hazaribagh the system of *dadan* or advance on condition of sale at a fixed price is still found. But in far the greater part of the Province it is practically unknown, and the worst that can be said is that a few producers, who are very heavily indebted, are morally though not legally bound to sell to their creditors. Even then they usually get the market price of the day and of the locality. The normal system of marketing is, we are convinced, a free one, in which producers, whether indebted or not, have a fair choice of buyers and get a fair price.

110. *Possibility of debt clearance.*—The picture that has been drawn of the dead weight of indebtedness, under which the cultivator has to struggle, suggests that all available wealth in the country should be immediately mobilized to remove it. There are, however, a few practical considerations that have to be borne in mind. In the first place it is exceedingly doubtful, whether redemption of existing debt *unless it is preceded, or at least accompanied by a substantial reduction of interest rates for current borrowing* will confer any permanent benefit on the peasant. So long as he has to borrow for his year to year needs at even the relatively low rate prevalent in Bihar, 18½ per cent., he will be likely to slip back into indebtedness of the same magnitude in a few years, even if he does not do so during the period of redemption by borrowing to meet the instalments, which the debt redemption scheme must impose upon him. In Orissa it will be more difficult to avoid this relapse and in Chota Nagpur more difficult still.

111. *An experiment in Ranchi district.*—There is first-hand evidence in the last named tract. From 1906 to 1913 a determined attempt to

redeem debt was made by Government in a large part of the Ranchi district. The details of the scheme and its progress are given in a very interesting memorandum by Mr. Houlton, the present Settlement Officer, which is printed in the Evidence Volume. It was confined entirely to the Mundas, an aboriginal tribe, and mainly to the more substantial cultivators among them, viz., those who had themselves, or were the descendants of those who had, founded new villages in the course of the development of the district. The rate of interest on the loans given to clear off existing mortgage debt was only $6\frac{1}{2}$ per cent. The scheme was evolved under the direct inspiration of the Lieutenant-Governor (Sir Andrew Fraser), and was carried out under the close supervision of the Commissioner and Deputy Commissioner. Care was taken to leave outside the scheme cultivators who were beyond aid. The period of repayment was adjusted to the proportion which the debt bore to the value of the holding. The scheme was tried out on a moderately large scale; in all about Rs. $1\frac{1}{2}$ lakhs was advanced. Yet in 1912 it was decided to proceed no further with it. It was generally accepted to be a failure, principally owing to the fact that many of the cultivators could not maintain regularity of repayment and ultimately contracted fresh debts from the village money-lenders in order to pay off the Government instalments. According to the evidence of Mr. Houlton, only one half of the recipients of the loans have been benefited by the scheme, while one half have sunk into greater indebtedness than that from which they were rescued. In the absence of definite information on the period fixed for individual cases, it is impossible to say whether the credit given was sufficiently long to enable a reasonably thrifty cultivator to repay out of the profits of his holding including the land redeemed. But it is, at least, evident that where he was not able or competent to do so, he was driven to borrow at high rates of interest. In any case the experience gathered in the course of our enquiry demonstrates that most cultivators have to borrow to some extent for seasonal needs, and as long as that borrowing is extremely expensive the margin for repayment of debt is gravely restricted.

112. *Organisation necessary.*—Further it is manifest that it is neither practicable nor expedient to divert a large part of the available wealth of the country into this channel, until an adequate organisation for carrying out debt clearance has been built up. It is claimed by some witnesses that the co-operative societies already supply that organisation at least in skeleton form, and it is only necessary to broaden and improve it to solve the whole problem of indebtedness. The validity of that claim will be examined in a later chapter, where the need and possibility of supplementing the co-operative movement will be discussed. It is sufficient to say here that we have great doubts whether co-operation on its present lines will ever supply a complete solution by itself.

CHAPTER VI

Marketing.

113. *Basis of statistical information.*—It is necessary, before attempting to describe the details of marketing, to give some idea of the relative importance of the commodities marketed.

This can only be obtained indirectly, chiefly by considering an estimate of the quantity and value of the commodity produced, along with such information as may be available of the quantity and value moved out of the province. In Chapter II will be found a rough estimate of the agricultural produce. In this chapter the figures used for export as well as for import are taken from the annual reports on trade carried by rail and river for 1917 to 1922, supplemented by the annual reports on the trans-frontier trade with Nepal for 1920 to 1925. Both these reports have been discontinued from the last dates mentioned, and no later figures are available.

114. *Proportion of rice marketed.*—It must always be remembered that the great majority of cultivators grow for sustenance and not for sale. We take the most widely grown crop first, rice. In an average year 125,000,000 maunds of cleaned rice are grown, and there is a net import of 2,000,000. Assuming an annual consumption of $3\frac{1}{2}$ maunds a head (including of course children and infants), which is eked out by the use of other food-grains, vegetables and a small ration of meat, milk, or fish, it may be estimated that the 22 millions of ordinary cultivators consume, *without any marketing at all*, 60 per cent. of the total quantity available. The rest of the rural population, $10\frac{1}{2}$ millions, consume another 29 per cent., and this mostly goes no further than the rural markets, which are held at places about 6 miles apart. Indeed a very considerable part of this never reaches a market, but is paid over as a grain wage to labourers and village artisans. Thus only 11 per cent. goes forward to feed the urban population and to set some $3\frac{1}{2}$ million maunds of export against $5\frac{1}{2}$ million maunds of import. The trade in rice or paddy that reaches the primary markets may be put in the neighbourhood of Rs. 20 crores, of which about Rs. $5\frac{1}{2}$ crores goes on to the big markets, and perhaps Rs. 1 crore is railed or shipped out of the province.

115. *Other commodities.*—It is not possible to give as much information on the proportion of other commodities that are marketed. But it appears that out of 56 million maunds of gram and pulses produced, some 5 million maunds are exported out of the province, while about 1 million maunds are imported. For the other food crops, some 3

million maunds, out of 40 million maunds produced, are exported, while $1\frac{1}{2}$ million maunds are imported. Of oil-seeds 16 million maunds are produced, 4 million exported and 1 million imported. We have no means of estimating the production of sugar, but it appears that some $2\frac{1}{2}$ million maunds is exported, of which $1\frac{1}{2}$ million maunds is in the shape of *gur*, *rab*, etc., while unrefined and refined sugar probably share the other million equally. Of fibres the only important one is jute, of which about 2 million maunds are exported, and this must be very nearly all the crop. Tobacco is exported to the extent of 1 million maunds in the raw form, with another 120,000 maunds of manufactured tobacco, though a good deal of this is made up of imported leaf required for blending. Of other commodities, excluding those like coal and iron with which we are not concerned, the most important is lac, which is exported to the extent of about 350,000 maunds. It has already been noted that these figures are based on statistics for the period 1917—1925. There have probably been some notable changes, especially in the increase of sugar and tobacco production and export, and in the proportion of oil-seeds converted into oil within the province.

116. *Estimate of value at each stage of marketing.*—As a very rough estimate we place below the value of these commodities handled by the first buyer, i.e., the *bepari*, who buys from the producer in the village or the local *hât*, by the second buyer, who purchases in the local *hât* and sells in the towns or big markets, and by the third buyer, who buys for export from the province or who manufactures and exports. The figures are in crores of rupees.

	First buyer.	Second buyer.	Third buyer..
Rice	20	$5\frac{1}{2}$	1
Gram and pulses	15	8	2
Other food-grains	6	3	1
Oil-seeds	8	7	$3\frac{1}{2}$
Sugar	0	6	4
Jute	3	3	3
Tobacco	2	2	$1\frac{1}{2}$
Other crops	5	3	1
Lac	$2\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$
Total	$61\frac{1}{2}$	40	$19\frac{1}{2}$

Taking into account the very numerous other commodities that are produced in the rural areas and are marketed in decreasing quantities in the succeeding stages, it might be stated that the first stage deals with Rs. 75 crores worth, the second with Rs. 50 crores worth and the third with Rs. 25 crores worth.

117. *Limitations of the survey of marketing.*—We have not found it possible to examine the methods of marketing of all these commodities,

but have concentrated on rice, sugar, jute, tobacco and lac, and even there we feel that our investigations are anything but complete. There is, no doubt, a crying need for a thorough market survey such as the Royal Agricultural Commission recommended in paragraph 347 of their Report. But we place on record our impressions, which may be of value until such time as a more thorough survey can be carried out.

118. *Rice marketing methods.*—The principal staple of the province is rice, and the annual value of that crop is probably about 43 per cent. of the total crop value of the year. The great bulk of the crop is, however, consumed by the producers themselves or paid out in wages to the labourers or village artisans, and consequently its importance as a market commodity is not so great as would appear at first sight. Even in a good year scarcely 5 per cent. is exported over the borders of the province, and this is balanced by imports of somewhat greater magnitude in a bad season. Still the quantity which comes into the markets, primary and secondary, is certainly much greater than any other single crop provides, and the methods by which it is bought and sold are of first rate importance.

The producers store their crop in their houses, after paying out on the threshing floor a good proportion of the dues of their labourers and of the village artisans, as well as the rent of the landlord where that is paid in kind, as it still is in a substantial portion of the province. They draw on these stores throughout the year for their own consumption, but sell some soon after harvest to meet the demands of their creditors, or hand over the grain itself where the loan was taken and has to be paid in kind. Small parcels are sold from time to time to get money for purchase of necessities such as cloth, salt and spices, or petty luxuries. Much of this surplus is brought to the primary markets by the producers themselves in small lots, but probably the greater part is collected by petty traders (*beparis*), who purchase in the villages. These are frequently also producers themselves. The rice, or the unhusked paddy, is sold again in the primary markets to larger dealers, who are sometimes, but not as a rule, agents of merchants on a large scale, and thus the grain finds its way to the secondary markets at the main road junctions, the district headquarters towns, or railway centres. The primary markets are usually to be found every 6 miles. In Bihar there is, as a rule, a large mart every 15 miles, where grain can be stored in a warehouse, and it is generally to these that the larger producers and the *beparis* take their grain rather than to the local *hâts*, where commodities of all kinds are bought and sold once a week.

119. *Nationality of traders.*—The *beparis* and the larger dealers who buy in the rural marts are mainly natives of the district, and, though the *bania* caste predominates, other Hindu castes and Muslims have a considerable share in the business. In Bihar and on the Chota Nagpur plateau the large scale merchants are mainly Marwaris, established in the towns for a century or two. In the Orissa coast districts they are mainly Kuchi Muslims having business connections with Bombay, but local Oriyas have some share.

120. *Effect of indebtedness.*—The evidence collected by the Committee negatives the impression, which is frequently presented as a fact, that the producers are wholly in the hands of a dishonest and rapacious crew of middlemen, to whom they are obliged to sell their grain at ruinous prices. Some cultivators deeply in debt are, at the risk of failing to obtain further credit when they need it, obliged to sell to their creditor, but even then the price is nearly always the market price of the day. This price is generally well known, being passed along by casual meetings on the road.

121. *Advances.*—There is very little of the *dadan* (advance) system of *salé* to be found in primary rice marketing. In Orissa we found rice merchants who sometimes make advances direct to the *raiya*s. If these are on contract to deliver at a particular price and a fixed date no interest is charged, but if the contract is for delivery at the market price of the time of delivery interest at 12 to 18½ per cent. is charged, or less if the quantity involved is large. For the more remote parts of Chota Nagpur a similar system is in vogue, while it is of course the fact that *beparis* are sometimes financed by advances from warehousemen. But generally speaking the producer has a fair choice of buyers in active competition, or can get such a choice by carrying his produce a few miles. Nor is there much trustworthy evidence of market tricks, such as use of false weights or unfair deductions for admixture.

122. *Profits of middlemen.*—There is yet another charge, which is brought against the marketing system of India generally, that has to be examined in regard to Bihar and Orissa. That is that the greater part of the value of the crop is absorbed by a chain of middlemen, who gain greatly either by substantial additions to the price at each stage, or by their capacity to hold for a more favourable time of selling. In marketing of rice in Bihar and Orissa there are at most, as has been already stated, only three stages, producer to *bepari*, *bepari* to dealer and dealer to merchant, and frequently one, and sometimes two of these stages are cut out. The first middleman, the *bepari*, moves the grain from the village to the rural mart often by pack-bullock or pony; the dealer moves it by cart from the rural mart to the town, while the merchant supplies the town retailers or puts the grain on rail. To test how much the price is raised by these transactions, enquiries were conducted under the direction of District Officers during the second week of January 1930 in 13 subdivisions lying in four districts; 74 villages were visited and prices were ascertained at 27 rural marts and 16 towns or large markets. An allowance was made of one anna per maund of paddy for moving it up to 5 miles, two annas for 6 to 10 miles, three annas for 11 to 15 miles, four annas for 16 to 20 miles and five annas for 21 to 25 miles. It must be remembered that the cartman has to make the return journey with an empty cart as a rule. After these deductions it was found that the average difference between the price in the village and at the rural mart on the same day was one anna per maund, and the same average prevailed for the difference of the prices at the rural mart and large market.

How much the dealer can make by his ability to hold stocks may be gauged by the comparative prices of paddy in January, June and August. The prices for the last ten years were collected from the Gazette for the five divisional headquarters towns, and an average struck. Taking the January price as 100, the June and August prices came out as follows—

	January.	June.	August.
Patna	100	105	108
Muzaffarpur	100	112½	117
Bhagalpur	100	115	115
Cuttack	100	108	109
Ranchi	100	113½	114

It is obvious that, while the rate of interest on borrowed capital even for good rural parties is about 9 per cent. per annum, no fortunes can be made on these terms, even if warehouse charges are reduced to the barest minimum. Indeed in 1929 no profit whatever could have been made by a dealer who bought an equal quantity of paddy in January at all five centres and held for sale either in June or August. He would in fact have lost his interest as well as his warehouse charges. Yet an experienced officer of the Co-operative Department stated that there was ordinarily a difference of 25 per cent. between harvest time and seed time prices, and other witnesses have put the figure very much higher.

123. *Marketing of sugar.*—Sugarcane is grown throughout the province, but its chief importance is in the Tirhut and Patna divisions. In Tirhut a great part of the crop is now taken by factories organised to produce sugar itself. Elsewhere, and still to a considerable extent in Tirhut, it is converted into *gur*, *rab* or other products by bullock mills and boiling apparatus worked in the villages by the producers of the cane. The factories, as a rule, try to secure their cane from the surrounding area, and with this aim in view lend money freely to ensure both the growing of the cane and its delivery to themselves. One factory, of those whose methods we examined, gives out in November substantial advances, about Rs. 62-8-0 per acre, to every *raiyat* who proposes to plant cane. These run on till February or March of the next year but one, when the cane is brought in and the account adjusted. The rate of interest is 12½ per cent. per annum. Payment for the cane is made on the rate of the season of delivery, which is now linked to the market rate for sugar. Another factory advances about Rs. 37-8-0 per acre when the crop is half-grown in July and charges no interest. In the contract a price is stated to satisfy legal requirements, but the account is settled again on the rate of the season, which prevails generally over the whole of Tirhut. This advance is about one-third of the total payment on the crop. Both these factories report that recourse to the courts to enforce their claims is exceedingly rare. In these two systems marketing

for the producer is reduced to the simplest possible terms. All he has to do is to cart his cane to the factory, put it on the weighbridge, get the factory's receipt and present it for payment at the end of the week. It is interesting to note that these receipts are negotiated in the villages, and the factory, as a general rule, pays the presenter. The only form of trickery possible is for the weighman to put a lower weight on the receipt of a careless *raiya*, who will not, in spite of warnings, read off the scale, and to add the saving to the receipt of some specially favoured *raiya*.

In Saran district, however, several factories situated on the railway line buy their cane through contractors operating at the intermediate stations, and have no fixed areas of supply and give no advances. The *raiya* brings in his own cane or sends it by a cartman often from a considerable distance. Among the contractors are found some of doubtful honesty, such as dismissed employees of the factories, and these or their servants sometimes refuse the cane on the ostensible grounds that they have no storage room or that they have bought all they want, but really in order to induce the producer to take a lower price. This he will do in order to avoid delay. The contractors get the usual flat rate from the factories, but in this way manage at times to make a substantial profit at the expense of the producer. The factories generally pass on their finished product to their managing agents at Calcutta or Cawnpore for sale, though there are several of the whole total of fourteen factories which are managed by Marwaris with headquarters at Lahore. The general average is that from a maund of cane costing the factory 5½ annas sugar and molasses worth 14 annas is produced, though the most efficient factories can get 18 annas worth. The cane price is fixed at half an anna per maund for each rupee in the selling price of refined sugar plus half an anna.

We have also been informed, that some of the larger landowners, especially European planters, who grow cane on their own lands also collect for the factories the cane of their tenants. For this they pay the tenants the same price as the factory pays, but they get an extra half anna a maund for the factory as commission for ensuring an additional supply and for relieving the factory of much of the account keeping required for buying in small lots.

Sugar as a factory industry has made considerable progress in the last few years, and is capable of much more extension, two new factories being in prospect in 1929. Still the greater part of the cane of the province is converted into *gur* or other indigenous forms by cottage industry. There appears to be little purchase of cane for this purpose, the growers combining to crush and boil their own produce. It is generally marketed to *beparis*, who come round with their carts and tins to take it away, selling pulses and millet or other commodities at the same time. The semi-liquid product *rab* is usually moved by road considerable distances before being sold on to the confectioners and other purchasers. Some of the *gur*, a more solid variety, is taken up by sugar

refiners at Cawnpore and Anritsar for conversion into sugar though we understand this business is not at present very profitable. But most of it is consumed in its original form in the district of origin or the neighbouring districts, or exported for consumption to Bengal or Madras. A successful ruse by the *beparis* in the district of Saran was brought to our notice. Certain buyers covered a large area buying only small quantities at each place and paying a high price. The *raiyats* consequently held up the rest of their stocks in expectation of getting as good a price for them, but at the end of the season, when climatic conditions prevented further holding of stocks, the same buyers came round and bought them up at a low price. We do not, however, believe that such practices are general or are likely to be frequently successful.

124. *Marketing of jute.*—Jute is an important crop in two districts only, Purnea in the north-east and Cuttack in the south-east, and in Purnea alone is found some 80 per cent. of the total area under this crop. Our information about marketing is confined to Cuttack district, but we believe the arrangements in Purnea will be found to be similar to those prevailing in the neighbouring districts of Bengal. In Cuttack buying nominally begins about the 1st October by the issue of advances by the buying firms to *beparis*. These firms comprise the Coromandel Company under British management in Calcutta, two Marwari firms and three Bengali firms. The *beparis* in their turn advance to smaller *beparis* of their own or neighbouring villages, who actually buy from the *raiyats*. When the price is low the *raiyats* take a small sum as earnest money, for which the buyer merely gets the first refusal. The jute is not weighed or removed till the new year, when as a rule the price has risen. Thus jute, for which the firms have advanced money in early October, is not ready for baling till January. Indeed in the present year the *raiyats* were still holding up their stocks in the third week of January, and the firms had only made one-fourth of their usual purchases. The *beparis*, both large and small, are merchants and in no sense agents of the firms. They make their profits on the difference between their buying and selling rates. The advances are given solely on a note of hand and contain no promise to deliver jute by a definite date or at a definite price. The actual producer is free to sell as and when he thinks fit, and is, we believe, well informed as to the Calcutta price and its probable trend. The system of advances is no longer considered profitable to the baling firms and it is proposed to discontinue it.

In Champaran, where jute growing on an extensive scale has been recently introduced, an arrangement has been made between the buyers and the growers with the help of the co-operative societies that a price of not less than Rs. 7 a maund will be paid. This arrangement has so far, we understand, proved advantageous to both parties.

125. *Marketing of tobacco.*—Tobacco, though an important crop in several districts, is grown extensively only in Muzaffarpur, Darbhanga and Purnea. We made enquiries in the first-named district, but presume the system of marketing is the same elsewhere. The producers sell their

crop, as a rule, when it is in the field to a few of the larger growers of the locality, and these rough-cure and store it along with their own crop till *beparis* come round, within four months of cutting. These *beparis* usually take it on to the big centres for manufacture of country tobacco, Maharajganj and Nawabganj in Basti district of the United Provinces as well as to Gaya and Lucknow. Some of it goes to the local tobacco merchants in Muzaffarpur, who prepare it for consumption. The original producer usually take a small advance as earnest money of his bargain to sell, and gets the balance in cash some eight or ten days later. The larger producers borrow money for purchasing the crops of their neighbours, and co-operative societies finance them, as also does a European zamindar, who runs a money-lending business for his tenants. The rate of interest is from 12 to 18 per cent. per annum, and the loans are usually repaid after a few months. The *beparis* are, we believe, mostly agents of tobacco merchants, but we had no certain information on this point. Some of the tobacco crop, especially that of Darbhanga district, is bought by the Imperial Tobacco Company, which has a modern factory near Monghyr, but we have not ascertained its methods of purchase.

126. *Marketing of lac.*—Lac is collected from various trees that grow on the Chota Nagpur plateau and the edges of surrounding districts. It is most important in Manbhum, Ranchi and Palamau. The brood lac is placed on the trees at four different seasons, two for each of the two different species of lac insect. Thus one species is used for inoculation in June and again in November, and the stick lac collected from October to January and again from April to June. The other species goes on the trees in February and again in July, and the crop is taken in June to July and then in October to November. The best quality lac is that harvested in the summer months April to July, but there is a big yield during both the two main seasons of harvest, viz. April to June and again November to January. The trees are inoculated by the ordinary cultivators, who collect the crop and take it to the local *hâts* for sale. There it is bought by *paikars*, who sometimes work as commission agents, but usually buy on their own account and sell again through *arhatias* to the factories. The *arhatias* are mostly Marwaris of substance, and they sell on commission charging Re. 1 a maund for their storage and selling services, advancing up to 75 per cent. of the value to the *paikars*, who desire accommodation, and charging 12 to 24 per cent. per annum interest. The factories send the manufactured article, shellac or more rarely button lac or other kinds, to Calcutta *arhatias*, and these sell on commission to the shippers, though one or two of the larger factories are their own shippers. The Calcutta *arhatias* offer the same kind of accommodation to the factories as the local *arhatias* do to the *paikars*. In both cases, when the commodity is sold, the *arhatia* credits his client with the price less the commission and storage charge and pays him interest on it as a current deposit. Against this is set the interest on advances if any, and the whole is treated as a running account.

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There are two special points about the lac trade which have to be borne in mind. In the first place the prices fluctuate far more widely than any other commodity of importance in this province, a range of Rs. 15 to Rs. 90 a maund in a single year being not unknown, while during the war the price went up to Rs. 225 a maund. Consequently when prices are high all persons connected with the trade, and many who are ordinarily unconnected, are trying to buy and resell as quickly as possible. Since the producer will only take cash or rice that has to be bought for cash, remittance facilities are in great demand, and in Ranchi there is frequently in the busiest seasons an absolute famine of cash, during which a local financier can get a discount of 12 annas per cent. on cashing *hundis* of good parties, who are not prepared to wait for six days to get their money from Calcutta by postal remittance. This is all the more remarkable since ordinarily in Ranchi, as a net-importing centre, Calcutta *hundis* are at a premium of 2 or 3 annas per cent. Interest charges are also rushed up during the busiest season, and one *paikar* told us he had paid one pice per rupee a day, or 576 per cent. per annum, though this is of course very exceptional.

The second point is that the equipment of a lac factory is very simple, and, when there is a heavy crop and a good price, almost every house in Jhalda and other lac manufacturing centres is temporarily converted into a factory, even tailors abandoning their sewing machines for the more profitable business. The big permanent factories have considerable difficulty in face of this competition, and are obliged in years of poor harvest to import stick lac from Burmah and Siam to keep down their overhead charges.

127. *Part played by the export houses.*—This completes the detailed information we have obtained about the marketing of the principal products of rural Bihar and Orissa. It is curious that we had no evidence of the activities of the great export houses, with the exception of Messrs. Mackinnon and Mackenzie in the matter of Cuttack jute. We believe that these play a very considerable part in the marketing of oil-seeds, though the erection of oil-mills in the province must have diminished it. They also operate no doubt in the food-grains other than rice, though not to anything like the extent that they are often supposed to do. On the whole it may be said that marketing in its early stages is mainly in the hands of the local residents and in the last stage before export in the hands of Marwaris and Kuchi Muslims.

128. *Marketing of cocoanuts.*—We may, for the sake of completing the record of our enquiries, mention a minor product whose marketing we investigated, viz., cocoanuts. These are extensively grown in the Puri district, and some 30,000 maunds are exported annually mainly to the confectioners of the Central Provinces. The trees belong almost entirely to the Brahmans, and there is a belief that if a non-Brahman plants a tree he will die before long. The local Brahmans assured us that the belief was well founded, but it is in fact no longer fully operative. Like tobacco in Muzaffarpur one or two *raiyats* buy up the produce of the others. These move the nuts by road some 8 miles

or more to the local centre, on the railway, where there are four dealers, one Marwari and three Oriyas. These buy by the "hundred" which for cocoanuts means 288. Three-quarters of the buying is on a pure cash basis, and in one-quarter advances are given. The advances create no obligation to sell, but carry interest of 12 to 15 per cent. per annum. The nuts are hung up to dry for periods ranging from one to six months according to the use to which they will be put. Most of them are fully dried for use by the Central Provinces confectioners. When he fills an order and puts the nuts on rail, the merchant telegraphs to the buyer, who intimates that he should draw on a particular merchant in Calcutta or Bombay. The cocoanut merchant draws a *hundi* accordingly and sells it in Puri. As a rule he holds back despatch of the railway receipt until he has sold his *hundi*, but for old customers he sends it earlier. He occasionally borrows money on personal credit at 9 to 12 per cent. per annum, but never pledges his stock, as any outside control over his godown would be inconvenient owing to constant intake and outflow of the nuts. This seems to us to be a fairly typical account of business carried on in a local product for which there is a distant sale, and there must be a great many similar enterprises going on throughout the province in other commodities. They are largely run on owned capital and credit enters into them very slightly, though in this particular instance the stock is in process of preparation for the market for several months. Remittance is put through by means of the indigenous system of *hundis*, and no use whatever is made of banks of a western type.

129. *General conclusions.*—The survey of marketing given in the preceding paragraphs confirms the impressions, which that of rice marketing conveyed, viz., that there is not as a rule a long chain of middlemen and that they do not make an exorbitant profit out of their business at the expense of the producer. By far the greatest part of primary marketing is conducted by men in a small way of business, often the more thrifty and enterprising *raiya*s. It is only in the comparatively small fraction of the products, which is destined for export or urban consumption, that the big merchant comes in, and if these make more substantial profits they bear the principal risks attaching to such business. It is, of course, true that the local price of a commodity, of which any appreciable quantity is passed on to the big markets outside the province, is affected to some and often to a great degree by the prices ruling there. But this is no very great hardship to the producer, who gains more by a steady outside demand for his commodities than he loses by its occasional slackening. A study of the fluctuation in prices which prevailed in the districts some 50 or more years back, when a good harvest meant an unsaleable surplus and a bad one famine, should convince even the most ardent supporter of parochialisation of trade that the cultivator benefits enormously by the great extension of his market, which improved communications and better organisation have brought about.

130. *Possibility of pools.*—There are two methods, which have been suggested, for securing to the producers a larger share of the price

ultimately paid by the consumers for their products, viz., pools and co-operative sale. The pool involves an agreement among the individual producers not to sell except at prices agreed on by the whole body of producers acting through an association, but does not ordinarily imply the physical collection of the products in one or more storage centres. This form of organisation is already in operation among the indigo growers in North Bihar. But they do not number more than 200 in all and are well-educated men with long experience of their business. There is no other agricultural product, which at present holds out much hope of similar organisation, and no one has come forward to advocate the idea of stimulating the formation of pools.

131. *Co-operative sale societies*.—Of co-operative sale there are many advocates. Indeed it is a standard doctrine of the keen co-operator that the salvation of the cultivator lies, to a large extent, in bringing in his produce to the warehouse of his sale society, from which he would draw money for his immediate needs, pending the sale of the produce at far more remunerative rates than he gets at present. The idea has recently gained a benediction from the Royal Agricultural Commission. The success of such sale societies depends firstly on there being a margin between the lowest and highest price during the period for which the product can be stored, sufficient to cover warehousing, interest and management charges and still leave an attractive profit. Secondly it depends on securing managers, who have the ability to judge accurately the course of prices and the character to resist and prevent speculation. Thirdly the producers themselves must have a sense of loyalty to their sale society, strong enough to keep them from snatching chance opportunities of larger profits by selling elsewhere or from deserting the society on the first appearance of loss. If these three conditions were fulfilled, co-operative sale societies might succeed in intercepting some of the profits of marketing which now go to the middlemen and in returning them to their producer-members. But it has already been shown in paragraph 123 that the margin between the lowest and highest price of the main staple, paddy, is much smaller than is popularly supposed, and the handling of it at different stages of marketing does not yield any large profit. Nor can the course of prices be forecasted even here with certainty. Still less can it be forecasted for other products, such as oilseeds, tobacco, *gur* or potatoes, which have a wider market, and whose price is settled by more various factors. Secondly it is very unlikely that managers of business ability and sterling honesty could be secured, save at salaries which would swell markedly the overhead charges. Thirdly it is unfortunately the experience in this province that the formation of a co-operative credit society does not immediately create a real co-operative spirit, and the chance of a collapse owing to withdrawal of the support of the producers in the face of difficulties or disappointments is not negligible. There have, in fact, been only two experiments in co-operative marketing of any importance in recent years, and both of these have been disastrous failures, brought about by a combination of the factors which have been indicated. We do not agree with the view of the

Registrar of Co-operative Societies, that sale societies would be successful if organized on a much larger scale, and fear that any attempt to put it into practice would merely involve larger losses than those already suffered. In these circumstances, the Committee are bound to recommend that further experiments in them should not be taken in hand, unless and until there is a clear demand for them by producers themselves, after the dangers of sinking money in an attempt to compete with a well-organised system of marketing have been fully set forth before them.

132. *Publication of prices.*—In general, then, we are convinced that there is little that is seriously wrong with the present system of marketing the ordinary agricultural products of the province. The main line for improvement is better communication, especially in the Orissa coast districts. No doubt communications of all kinds have improved vastly in the last 30 years, but there is still much to be done. There is no need, in our opinion, for distribution by Government agency of information about prices, except possibly of products that command a wide market such as *gur* and tobacco. Perhaps, too, the price of stick lac at the manufacturing centres might be published at the numerous marts on the Chota Nagpur plateau. If this suggestion is taken up, it will be necessary to secure that publication is both prompt and accurate.

133. *Management of markets.*—That there is room for improvement in the management of markets, as the Royal Agricultural Commission has urged, is no doubt true. At present in this province such regulation as there is in the rural marts is imposed by the owner of the land on which the market is held, who is usually more concerned with his profits than with anything else. If the province can afford a marketing survey and the staff required to make its suggestions effective, much advantage to all concerned in marketing might accrue. By the establishment of committees drawn both from the sellers and the buyers abuses, such as manipulation of the scales, the use of faulty weights or measures, unfair deductions for admixture or lack of quality, might be remedied, though we have little evidence that these abuses are very prevalent. The main defect in marketing in this province is, we consider, the lack of uniformity in weights and measures. For example in the Bhagalpur district, within 30 miles of the headquarters town there are four different weights in use for paddy selling, 88, 101, 104 and 105 tolas to the seer in place of the so-called "standard" of 80 tolas. The price for the last three weights is generally at the same level, to the great confusion of accounts.

134. *Regulation of warehouses.*—It would be in some ways appropriate to discuss here the manner in which the marketing of local produce is financed, but it is more convenient to defer that discussion to Chapter VII, where the import trade and its finance is also described. It is, however, necessary to devote some space here to the special subject of warehouses, since it has been suggested that by their better regulation a very marked improvement in marketing could be brought about.

135. *Existing warehouse system.*—The primary object of a scheme for licensed warehouses is to supply negotiable documents of title to goods which may serve as an additional support to sound credit during the period of marketing. At present in Bihar, though not to any appreciable extent in Chota Nagpur or Orissa, such credit is supplied in limited quantities. There exist, not only in the large towns but at marketing centres separated by distances of 15 to 20 miles, warehouses (*golas*) at which the producer or at any rate the first buyer (*bepari*) can store grain to be sold on commission. Some *goladars* are prepared to advance against the stored grain up to 75 per cent. of its present value, or even more, as far as their funds permit. Others do not lend, but merely store and sell on commission. Again in the larger towns, where there are branches of the Imperial Bank or of joint stock banks, these banks are prepared to make similar advances to the *goladars*, provided that the grain is placed under their own seal. This arrangement is, however, not popular, since the banks insist on displaying a notice that the *gola* is in the bank's charge (and this damages the credit of the *goladar* to some extent), while the formalities required, whenever stocks are sold or fresh stocks brought in put a drag on business. In one town it was found that *goladars* are prepared to pay 9 per cent. per annum interest on advances from indigenous bankers, who do not insist on such conditions, rather than $7\frac{1}{2}$ per cent. to banks which do.

In any case hypothecation of this kind does not fulfil the secondary object of the scheme, which is to put in circulation, during the period in which moving the staple crop imposes a severe strain on the currency system, a sufficient supply of self-liquidating credit paper, against which additional currency can be properly created. The credit given is purely book credit, and entries in the books of the lenders cannot be negotiated and finally taken up by the future Reserve Bank.

136. *The U. S. A. plan.*—The plan, that has been put forward to solve these difficulties, is that adopted by the United States of America. There the Secretary of Agriculture has been empowered to license warehouses, the owners of which are prepared to abide by the prescribed conditions and offer bonds for the faithful performance of their obligations. The bonded warehouseman is then required to accept, up to his capacity, the agricultural products tendered for storage and to grant receipts for them, containing certain details. It is important to notice that these details contemplate (1) the sole or joint ownership of the stored products by the warehouseman himself, and (2) the possibility of advances having been made by the warehouseman on the products stored. The products stored must be delivered to the holder of the receipt on its tender and satisfaction of the warehouseman's dues, and the receipt must then be cancelled and retained for a specified time for the official examination of the conduct of the business. The underlying idea of the whole enactment is that the receipts shall be good negotiable paper to be used either for passing the title to the products by sale or for raising finance on them as collaterals security

with the banks or other credit agencies. It will be seen that the warehouseman is not precluded from buying the products outright or from advancing himself on them, though the negotiable value of the receipt would, of course, be diminished or vanish. The German system prohibits the warehouseman from engaging in either business.

137. *Possible application to Bihar and Orissa.*—It would not be impossible to introduce the scheme in Bihar at any rate, where warehousemen are accustomed to give and dealers in agricultural products to take credit during marketing. But we anticipate that the circle of dealers, who will directly benefit, will not be large for several years, since it is only the more intelligent who will grasp the system, and only those, whose credit is already good, who will be able to negotiate their "receipts". It is not at all certain that they will pass on any part of the advantage of cheaper credit that they may get to the smaller dealers or to the producers.

138. *An alternative scheme.*—In view of these objections an alternative scheme was suggested. The warehouseman should grant advances on the products stored and take hand-notes for those advances. These he would attach to *hundis* drawn on himself, which he would negotiate and so place himself in a position to advance more on stored products than he can from his unaided resources. The difficulty would be that it would be impossible to secure that the *goladar* had at any particular point of time sufficient pledged and unsold stocks to cover the advances made to him on his *hundis*, and it might thus be found that he had by over-speculation placed himself in a position in which he was unable to meet the *hundis* as they fell due. Such a risk might be reduced (i) by careful selection of the *goladars* in the first instance, (ii) by keeping the period of usance of the *hundis* short, (iii) by placing a limit on the amount, which the *goladar* could raise during the season based on the capacity of his *gola*, and (iv) by frequent inspections by the licensing authority. Even if these precautions were effective in preventing abuses, we doubt whether they would inspire sufficient confidence among the joint stock banks to induce them to discount such *hundis* directly without the acceptance of a shroff or registered *mahajan* of the type we have sketched in Chapter XX. If this were necessary it would add materially to the burden of the ultimate borrower. A middleman would seem to be required as long as the cultivator and the *goladar* (warehouseman) are both unknown to the urban money-market. Possibly with greater knowledge born of greater intercourse, some joint stock banks may be induced in course of time to advance money on what practically amounts to the personal security of the *goladar* without the acceptance of an intervening middleman.

139. *The U. S. A. plan preferable.*—But probably most banks would regard a banker's acceptance as essential. In that case our attempt to build a licensed warehouse system on existing indigenous foundations would succeed only if the combined commission of the acceptor and the *goladar* and the interest charged by the financing bank is less than what the borrower pays at present to the *goladar* alone

which is about 9 per cent. We have reason to believe that the *goladar* does not make any profit on his interest charges and relies mainly on the commission on sales effected through him for his livelihood. If this is correct, the scheme we have outlined might work. We are nevertheless impressed by the difficulties inherent in the scheme, and think it is inferior to the U. S. A. scheme.

140. *Main object of that plan.*—This plan has the great merit of insisting that the warehouse receipts offered as security for bills accepted by bankers must be issued by warehouses which are independent of the borrower. The main defect of the other scheme is that the borrower and the warehouseman are the same, and thus no complete guarantee is furnished to the lender that the goods will not disappear during the currency of the debt. In U. S. A. also, before the passing of the United States Warehouse Act of 1916, there were warehouses owned and run by private parties, frequently themselves merchants who stored in them their own goods as well as other people's goods and borrowed on their security. It was primarily to put a stop to the slipshod methods of credit engendered by this system that the United States Warehouse Act was passed. For some time the Act was evaded by merchants and manufacturers running warehouses in the name of their clerks and borrowing against their receipts, but this practice has been effectively stopped by the administrative action of the Federal Reserve Board. The German regulations regarding owners of warehouses go even further to secure their independence by forbidding them to buy, sell or lend money on goods of a kind with the warehousing of which they are concerned, either for their own account or for other parties. They are also forbidden to buy or sell other goods on credit or to act as guarantors of business of this nature.

141. *Railway warehouses.*—The problem of securing a satisfactory warehouse receipt in India consists in setting up independent warehouses which would command the confidence of banks and at the same time be run with a minimum amount of expenditure and formality. We do not think they can be started, in this province at least, in the first instance without Government assistance and the co-operation of banks and railways. Warehousing facilities are required for marketing of (1) agricultural products, (2) imported articles, and (3) manufactured commodities. Each class presents a different set of problems and requires slightly different treatment. It is clear that warehousing facilities are not required in the villages at the first stage of marketing exports and the last stage of marketing imports. The quantities involved are too small. They are, however, required at all the other stages. We think in the first marketing stage of import and the last stage of export the railway is the cheapest and most suitable agency for warehousing. In the nature of things it has to store all kinds of goods in transit for some time. It has had long experience of this business, and it would not find it difficult to expand it by extending existing godowns where necessary. It would inspire the necessary confidence in banks, and its large scale operations and

security would enable it to levy the lowest possible charges and dispense with the heavy expense of insurance. We have described this business in greater detail in the chapter on Commercial and Miscellaneous Credit. We recommend that Government should examine the possibilities of starting such railway warehouses in the chief centres of trade in this province. It of course follows that the railway warehouse receipts should be made negotiable.

142. *Co-operative warehouses.*—For places in the interior, we think that warehouses will in the first instance be best run by co-operative central banks. They should store the products of agriculture and cottage industries in their godowns not only for their members but also for non-members as a part of their development work. We recommend that Government should give suitable grants of land and money or loans at low rates of interest to enable them to render this essential rural service. They should carry on their warehousing business under rules framed under a special Act on the lines of the American, German or Japanese model. The same rules will also apply to private individuals who may hereafter apply for licenses if experiment by the co-operative banks proves successful.

143. *Bank warehouses.*—In the large towns of the province where there is more than one branch of a bank, such as Patna, Muzaffarpur, Bhagalpur and Cuttack, it might be to the interest of banks themselves to set up a special organization, i.e., a warehousing company in which the banks held a controlling interest, to run a combined godown instead of maintaining separate godowns. Besides ensuring perfect control over pledged goods, it will help their lending operations greatly. The Imperial Bank might well take the lead in this matter.

144. *Model Government warehouses.*—Should banking enterprise fail, we recommend that Government should consider whether a model godown at one of the chief trade centres could not be set up under the management of either the Agricultural or Industries Department for the storage of agricultural and industrial products during the process of marketing.

CHAPTER VII.

Commercial and miscellaneous credit.

145. *Early origin and importance of commercial banking.*—Of all branches of banking in this province, commercial banking is the most developed. Indeed it is the oldest form of banking and it is in connection with it that the elaborate mechanism of credit known as indigenous banking with its characteristic instrument the *hundi* has been built and perfected. When the Europeans came to India they already found in existence a highly organised system of commercial banking which was so eminently suited to the needs of the country, that they found it convenient to use it for the purpose of their own trade. British banking has been most successful in the sphere of commerce and its subsequent expansion in India has naturally confirmed the original Indian bias towards commercial banking, with the result that while agricultural and industrial banking has been slow to develop, the country is comparatively well provided with commercial credit. This is partly due to the facts that very few industries requiring large scale credit have been organised and until recently most of the agricultural dealings have been carried on in kind requiring very little cash credit—on the other hand, India has always carried on a growing trade with other parts of the world necessitating a large use of money and credit. The increasing specialisation of this country generally and this province particularly in the production of agricultural and mineral commodities and their growing dependence for the supply of other articles on outside areas has multiplied the number of exchanges and still further increased the importance of commercial banking.

146. *Statistics of internal trade.*—We are here concerned with the finance of internal trade and we shall deal with foreign trade only up to the point where goods reach or leave the ports. According to the last trustworthy figures available, those of 1920-21 and 1921-22 the total value of the imports and exports of the province amount to something like 43 crores each. Since the last date compilation of the statistics has been discontinued. The same document suggest a figure of Rs. 6 crores for the value of merchandise moved by rail from one of the three tracts of the province to another. There is besides the very large amount of trade that stops either at the primary market (the rural *hdt*) or at the secondary or subsequent markets, without going outside the tract of production. It is extremely difficult to do more than guess at this, but an intelligent guess would be that value of Rs. 75 crores is sold in the villages or comes into the 2,500 primary markets of the province annually, that value

of Rs. 50 crores passes on to the 500 secondary markets, and finally value of Rs. 25 crores is passed out of the tract of origin. The rest of value so passed out is marketed direct, e.g., coal, iron ore and iron products, railway sleepers, etc.

147. *Nature of extra-provincial trade.*—From the banking point of view if not from the point of view of size extra-provincial trade is the most important. The chief exports outside the provinces are grain and oil-seeds, jute, tobacco, chilis and silk from Bihar, coal, iron, mica, lac and catechu from Chota Nagpur and rice, jute, leather, *pan*, cocoanuts and fish from Orissa. The chief imports are cloth, salt, spices, mineral oil, paper, lac, cigarettes, oilman stores, building materials, machinery, haberdashery and articles of western luxury. Trade in articles of more or less universal consumption is handled on indigenous lines and is financed by indigenous methods, whilst trade in articles of western design and manufacture and appealing to a specialised class of customers is in the hands of traders with some English education and is partly financed by credit agencies of the western type such as banks and European import houses. The distinction in financial methods corresponds broadly with the distinction in methods of business. As the export trade of the province is generally conducted on indigenous lines, the rôle of the indigenous banker in it is more important than in the import trade and consequently it is in the export trade that the *hundi* and *arhat*, the indigenous commission agency system, are more largely used.

148. *Commission agency system.*—The commission agency system is almost the universal method of carrying on and financing intra-provincial trade. In extra-provincial trade also the commission agency system is the predominant form of commercial organisation, but there is a greater intrusion of western methods due to the greater influence of western import and export houses. Their policy is to eliminate the middlemen as far as possible and deal with the producer or the consumer direct as far as the state of communications will permit. In the export trade firms like Ralli Brothers tend to buy more and more in the mufassal produce centres through their own agents, in some cases by giving *dudans* or advances, than in Calcutta and in the import trade petrol and kerosine oil companies and manufacturers of motor cars, sewing machines, typewriters, etc., tend to distribute their products through their own agents, who are usually local dealers, rather than sell them outright to those dealers for resale to the public. These differences, of course, involve corresponding differences in the methods of finance. The import and export houses raise all their requirements from exchange and joint stock banks in Calcutta. The financial machinery varies in detail with each place and commodity but for many purposes and most places the normal machinery is the *arhatia* with a local supporting banker or bank in the background. With these preliminary observations, we shall describe separately the finance of the export and import trade of the province,

149. *Export finance.*—The methods of export trade adopted in this province have been described to some extent in the preceding chapter. It only remains to describe its finance. The producer of grain and other non-commercial crops generally consumes a good deal of the produce himself and sells only a small surplus to the *mahajan* in payment of his debt or to the itinerant *bepari* or at the local *hdt* for cash which he spends in buying the oil, salt, cloth and other things which he needs. These transactions are too petty to be organised on a credit basis with anyone except the village *mahajan*, who keeps a current account of payments and receipts for cultivators. It is only with the *beparis* and the substantial cultivators and zamindars who market their products directly in the mufassal centres that the element of credit begins. Credit is generally given to the village *bepari* or the substantial cultivator who carts his own produce by the *goladar* or grain merchant.

150. *The goladar.*—The *goladar* is called by different names in different parts of the province (in Orissa he is called a *dandidar*) but except for variations in detail depending upon place and the nature of the commodity, his functions are substantially the same. These functions are to store the goods of his clients in his godown, to sell them on a commission basis either directly or through brokers where they exist, and to make advances until the goods are sold or as in Orissa until the goods are produced. These advances amount to 85 per cent. or in some cases even 100 per cent. of the estimated value of the produce and considering rural conditions, bear a low rate of interest ranging from 7 to 9 per cent. He charges a small rent for storage but his main profit comes from the commission which he gets by selling the goods on behalf of his clients to big grain merchants. The *goladar* or *dandidar* is in fact the commission agent of the rural areas on the export side. There are many such *goladars* in an important grain centre and as the competition is keen the rates of commission, interest and storage charged by him are extremely fine. His methods of business and accounts are fair. His advances are made against book entries with the minimum amount of formality and the receipts from sales are entered in the same way in each customer's account. Interest is charged on daily balances. The *goladars'* advance is in substance what bankers call a cash credit account. We have no fault to find with the system except that from the banking point of view, it would be better if the *goladar* could be induced to convert his cash credit advances into agricultural bills which with or without a banker's acceptance, could be negotiated in the urban discount market, as that will enable him to tap the resources of the central money-market for extending and cheapening his services. At present he finances his business from his own capital supplemented by occasional loans from indigenous bankers and money-lenders and very rarely from banks. He can raise money from the former on his personal security or reputation against *hundis* or book entries but the latter will only lend to him on the security of stocks kept under the lock and key of the bank. This lowers his credit and hampers his business. The Benares, Allahabad, Bihar and

Imperial banks do some amount of business of this character. The rate for the Imperial Bank is $7\frac{1}{2}$ per cent. subject to a minimum of 1 per cent. above bank rate. Other banks go as high as 9 or even 12 per cent. As their terms of business from many points of view are more onerous than those of the indigenous banker, the *goladar* prefers to deal with him rather than with the banks. For lac, in which prices are highly speculative and have a wide range, the security being less satisfactory, very high rates from 18 to 36 per cent. are paid to money-lenders where accommodation cannot be raised in Calcutta. The security which the *goladar* can offer in the shape of goods of his client is first class but his book entries are not negotiable. Given the banker's acceptance described in subsequent chapters and a greater use of negotiable instruments like agricultural *hundis* he should be able to raise the money he requires at much lower rates than he pays at present.

151. *Big grain merchants and export houses.*—Goods stored in *golas* are either purchased by local merchants for local consumption or by big dealers and export houses for export outside the province or India. Some of the latter have a wide net work of agencies extending far into the interior and in some cases they try to eliminate the *goladar* altogether by buying direct from the *beparis* and substantial cultivators or even at the *hâts*. The European export houses, as may be expected, raise their finance from exchange banks in Calcutta and remit to their mufassal agents by currency notes sent through the post. The big Indian merchants supplement their own capital by borrowing money either directly on book account or promissory notes called *purzas* in the indigenous money-market or draw *hundis* or bills on the port consignees or commission agents in Calcutta. As they are also large importers of cloth and other articles, probably through the same commission agents, most of their transactions are settled by contra account. The balance is paid by *hundis* or is entered in the commission agent's books and carries a customary rate of $7\frac{1}{2}$ to 9 per cent. depending upon the position of the parties. The European export houses borrow at slightly above bank rate.

152. *The efficiency of the commercial credit system.*—We have traced the movement of goods intended for export from the village to the port. We have to consider whether the machinery requires to be improved and whether adequate credit is available at all stages. How far the cultivator gets a fair price for his produce and how far the middlemen performs an essential economic service has already been discussed in the chapter on marketing. It may be that there are too many middlemen between the producer and the exporter, but we are convinced that in the present state of education, communications and banking organisation each one performs an indispensable function which can only be taken over when communications and credit facilities improve. No doubt prices are determined more from the exporter's end than from the producer's end, and in this sense the cultivator does not get the price he would if his bargaining strength were more nearly

equal to that of the exporter. But this advantage of the buyer will never be lost until the producer is more educated, has better business organisation and greater staying power. The last may be increased to some extent by better credit. We do not think that credit at any stage is scarce or the rates charged for its use are unreasonably high. But they could be materially reduced by better organisation. It is obvious that the financial methods of the big Indian grain merchant are from the banking point of view superior to those of the European export houses. Instead of training the producer and the small merchant to the use of credit as the big Indian merchant does, they adopt the primitive device of settling their transactions in notes and cash. It would be a great improvement if they could induce their customers to draw documented time bills on them in Calcutta which could be accepted by their banks and then discounted in the open market, and if need be, with the proposed Reserve Bank. This may diminish the need for middlemen between the producer and the exporter, mitigate if not remove the seasonal stringency which Government revenue demands and the demand of export houses combine to create in the busy season, and lower the rate of interest. If the maturity of the agricultural bills so created could be made to synchronise with the slack season by the material inducement of a higher price for sales based on such bills, an all-round decrease in the rates of interest may be secured to the advantage of all parties, and the producer may be able to get a better price for his produce. We have discussed in the chapter on remittance and credit documents how the use of bills may be popularised and in the chapter on marketing how the necessary documents of title may be created and banker's acceptance brought into being.

153. *Agencies financing the export trade.*—From the foregoing account it will be clear that the chief agencies financing the export trade of this province in order of succession are the village *mahajan*, the *goladar* and the indigenous banker, the big grain merchant *cum* indigenous banker and the commission agent and the European export house and the exchange banks. The *goladar* and the big grain merchant are also occasionally assisted by the Imperial and the joint stock banks but in this province assistance is given on such strict conditions regarding security, etc., that it is rarely used. The commission agent of Calcutta is ultimately financed by the Bara Bazar, from which he borrows on *pronotes* and *hundis* at 3 to 9 per cent. depending on the state of the market. Owing partly to want of enterprise and sufficient resources, and partly to the absence of suitable negotiable securities, the Imperial and the joint stock banks do not finance the export trade to anything like the extent, which one would expect from their position, and there is no doubt that the share of the indigenous banker and the exchange banks in this finance is much greater. We have no exact figures but were we asked to arrange them in the order of their usefulness and importance, we would give the first place to the former.

154. *The machinery of import trade.*—The machinery and finance of the import trade is somewhat different from that of the export trade.

It is more in the hands of Europeans and English educated Indians and therefore shows more influence of western practice. The part played by banks in it is therefore more important. But the cloth, food grains and salt import business of this province, at least one-third of the total import trade, is entirely in the hands of Indians using indigenous methods who are financed by shroffs or indigenous bankers. Goods for consumption in this province are ordered from manufactures in other parts of India or importers at the ports either directly or through commission agents. The commission agency system is universally used by all traders who carry on business on indigenous lines. There are fewer intermediaries in the import than in the export trade, and the price of imported goods is therefore not loaded with the services of many middlemen. The European import houses and some European-owned factories tend to reduce them still further by selling direct to consumers at least in the towns. This is specially true of trade in the kerosene oil, petrol, sewing machines, motor cars, sugar and cigarettes. Here no question of credit arises unless goods are sold on the hire-purchase system. The finance for these purposes is raised either in the port towns or in centres outside India and therefore does not concern us. Intelligent and fastidious buyers prefer to purchase their requirements in port towns or even in London and pay for them through the postal V. P. P. system. The majority of transactions, however, are put through by commission agents.

155. *Commission agents.*—The commission agents receive orders from their mufassal clients and execute them by buying from wholesale dealers, manufacturers, or importers through the agency of *dalals* or brokers. They rail the goods to destination and send an invoice containing statement of charges including all expenses for brokerage, cartage, freight and their own commission charges along with the railway receipt. If the consigner is an unknown party, the bill is collected through the agency of a bank which charges a commission of four annas to eight annas per cent. In such cases the railway receipt is not delivered until the bill is paid. Many merchants have to pay heavy demurrage charges to the railway for lack of money to redeem their railway receipts.

Sometimes interest is charged if the bill is not paid within a specified date. Most of these bills are payable at sight and very few are time bills in which an element of credit is involved. Even so the bank acts as a collecting agent rather than a credit supplier. Money to meet these bills is raised either by borrowing from the collecting banks or from indigenous bankers against book entries or *hundis* bearing 10 to 15 per cent. interest.

When dealing with an old and trusted customer, the commission agent sends the railway receipt direct to him. The bill is paid at the convenience of the consignee, but it is understood that all overdue balances in the running account between the two parties are to pay interest at a customary rate which varies from 7 to 9 per cent. Accounts

are settled by means of drafts, cheques or *hundis* whichever happens to be the cheapest mode of remittance. Even some merchants of great standing sometimes keep them unpaid if the local *hundi* rate is higher than the commission agent's rate of interest, since it obviously pays them better to invest their surplus funds in local *hundis* rather than settle their accounts. This would imply that the commission agent's rates of interest are not regarded as excessive and probably the main source of the commission agent's profits is his commission and other incidental charges and not interest.

156. *Retail sale of imported goods.*—The mufassal dealer retails the goods in turn to town customers and if his operations are conducted on a large scale also sells to urban and rural shop-keepers on a wholesale basis: He has a running account with the latter and gives them credit against book entries at a rate of interest varying from 10 to 12 per cent. Where no interest is charged, it is recovered through a higher price. The urban shopkeepers and village or *hat beparis* in turn sell either for cash or on credit and for the latter charge the rates which prevail in the locality. When in need of cash, they either borrow from local money-lender, or a co-operative society or the mufassal merchant from whom they buy their goods. The rural merchants generally borrow against book entries but the town shopkeeper borrows against *apne sakari muddati hundis* or usance bills drawn on self as well which he discounts with shroffs. Some of the town traders have also cash credits with branches of joint stock banks in places where they are available. The rate of interest paid for such advances to shroffs and joint stock banks varies from 9 to 15 per cent. The Imperial Bank does not finance traders directly but discounts *hundis* drawn by such of them as are acceptable to it and guaranteed by a shroff.

157. *Finance of cloth import.*—It may be said broadly that there is a distinct tendency to eliminate the middlemen and intermediate centres in the import trade of the province. Small towns which once used to import their requirements through some big provincial centres now indent directly on Calcutta. There are no big distribution centres in the province except for its largest import, cotton cloth. Muzaffarpur, Bhagalpur, Cuttack and Ranchi still serve as distributors of cotton cloth in the areas which they command. In Muzaffarpur there are some merchants who have the sole agencies of certain Bombay and Ahmedabad mills in certain lines of goods and sell them on wholesale terms to places as far as the coalfields in the east and Benares in the west. They do not engage in retail business like other mufassal dealers. They are financed by their commission agents and to a slight extent by local banks and bankers on the security of time *hundis*. The local branch of the Imperial Bank does a fair amount of this business. It collects and holds *muddati hundis* drawn by exporters of cloth on local merchants and thus finances them indirectly. The cotton mills rarely give any credit to them. They generally collect their bills through the Imperial Bank by means of railway receipts which are not delivered until the bills have been paid.

158. *Agencies financing the import trade.*—The chief agencies financing the import trade are the commission agents resting on the indigenous money-markets of Bombay and Calcutta; the import houses relying on the exchange banks; the mufassal banks, shroffs and branches of the Imperial Bank; and the rural *mahajans*, money-lenders and co-operative societies. In order of importance the agencies would be arranged as follows:—(1) the indigenous banker, (2) the rural money-lender, (3) the joint stock and exchange banks, (4) the Imperial Bank, and (5) the rest. The co-operative societies help at present to a negligible extent their members, who happen to be small rural traders. A few consumers' co-operative stores exist in the province, and are financed by central co-operative banks. There are also three promising urban traders' co-operative banks in Patna and Muzaffarpur which do a fair amount of business. There are possibilities of their development but at present their share in the finance of import trade is extremely small. Among the rural money-lenders may be mentioned the itinerant Kabulis, Punjabis, Nagas and Gossains who generally sell winter clothing to villagers on credit at exorbitant prices. These have little capital of their own but buy goods on credit from merchants in Calcutta and other big towns.

159. *Where credit is dear.*—This account would show that credit for financing the import trade is freely available but at a very high price which increases progressively as we reach the consumer's end. In other words it is facile but not generally cheap. At certain stages, however, enough credit is not given and this operates to increase the rate of interest unduly at these stages though the security offered is good. This is notably the case when the goods pass from the wholesale dealers to retail urban and rural shopkeepers. These men are generally unknown to or not sufficiently trusted by banks, the Calcutta commission agents and European import houses. The last generally insist on cash transactions and the first two do not give them any credit except through intermediaries. They have no security to offer except the goods in their shops, and, as these are being constantly sold and remain under their control, they do not satisfy the conditions of security which the banks or the consigners from Calcutta demand. The latter recover their dues by bills payable on demand through banks or agents who do not deliver the railway receipts until the bills are paid. They therefore depend upon the big money-lender and shroffs to lend to them against book entries or accept their *hundis* on their personal security. The *hundis* may or may not be rediscounted with the Imperial Bank. Some local joint stock banks have direct dealings with them but these are the exception. In any case the charge for the accommodation rarely falls below 10 per cent. and goes up to 18 per cent., except when the accommodation is supplied by the wholesale merchant with whom the retailer deals, as is the frequent practice in Bihar but not elsewhere.

160. *A possible method of cheapening credit.*—It would no doubt be an improvement if time bills instead of sight bills were drawn on the consignees and these were accepted at low rates of commission by banks

and approved shroffs or *mahajans* and discounted in the money-market. The banker's acceptance would be a sufficient security behind the bill but should it be desired to improve it still further by making it fully documented, a further step will have to be taken. If the imported goods could be stored in a licensed central godown such as those which railways maintain even now for their own purposes, the necessary documents of title for improving the negotiability of the bills could be created. The shopkeeper would clear his bill, which would be held by a bank as a short dated liquid investment, when he had the money and required the goods for sale.

If he got his consignments in small units, he would be able to regulate their redemption at the rate of his sales and thus lock up very little capital in his business and at the same time obtain a much larger turnover. We have discussed in the chapter on Remittance and on marketing how these bills may be popularised and how documents of title may be created by setting up licensed or railway warehouses. We trust that these measures, while lowering the rate of interest paid by consumers, may also have the effect of creating the commercial paper which banks require for their short dated investments, and thus give some encouragement to joint stock commercial banking which is comparatively backward in this province.

161. *Consumer's and miscellaneous credit.*—Somewhat different from commercial credit is credit for professional men and others engaged in miscellaneous occupations. The one thing common about these classes is that for the purpose of borrowing they have not generally the same type of security which the agriculturist, the trader and the industrialist can offer against which self-liquidating bills may be drawn. The object of borrowing may be productive as when professional men buy houses and hire office premises and equipment; or it may be productive in the higher sense if the money is used on education and maintenance during training; or it may be purely unproductive borrowing for expenditure on social ceremonies. But the fact that its immediate objective is consumption, which may make no addition to income or may take a long time to do so, puts it in a class apart for which special terms are felt to be necessary. Most of these loans are made on the security of house property, jewellery, fixed deposits receipts, insurance policies and stock exchange securities. Where such collateral is not forthcoming, loans may be made against personal security, but, as it is not always clear whether the object of the loan is consumption or production, very high rates of interest are charged. Very few banks lend against personal security alone. Money-lenders will only do so when the amounts involved are small. Where the payment of debt is likely to be uncertain and irregular and the risk of loss great, the ordinary money-lender gives place to the usurer and the Kabuli.

162. *Agencies supplying consumer's credit.*—The agencies supplying consumer's credit and credit for miscellaneous occupations are joint stock banks, employers of labour, urban and rural money-lenders, insurance companies, Government, and to a very slight extent the

shroffs and the Imperial Bank. The Government, insurance companies and the Imperial Bank advance only against unimpeachable security such as Government securities, provident fund accounts and insurance policies. The Government and insurance companies naturally lend only to their own employees and customers respectively. Government also grant travelling and outfit advances without interest, and advances for the purchase of motor cars by its servants at the rate of interest which they themselves pay in the market. The advances by the Imperial Bank, Government and insurance companies in the nature of things are not large. The main burden of supplying consumer's credit is borne by joint stock banks, employers of labour and the rural and urban money-lenders. Amongst the latter may be mentioned widows and other private persons in villages and towns who carry on lending against the security of jewellery at usurious rates of interest. The joint stock banks in this province take a much larger share in financing consumer's credit, specially of the professional classes, than might be expected. The high rates of interest so obtained have the unfortunate tendency of diverting their resources from productive credit to consumer's credit.

163. *Credit for labourers.*—One form that this takes in the province is small advances to the labourers recruited for the Assam tea gardens, through the regulated recruiting agencies. These are needed to pay off their more pressing debts and provide maintenance for the members of the family, if any, who are left behind, until remittances can be sent back. Clothes and blankets for the journey are also usually provided. A somewhat similar system was in vogue some years back for recruiting labour for the coal mines and for oil mills, but there is now little need for it, since the prospects and conditions of employment are much more widely known.

An entirely different system still prevails for agricultural labour in certain districts, notably Palamau and Hazaribagh. There a considerable proportion of the agricultural labourers, known as *kamias*, have executed agreements binding themselves to work for a particular master in return for an advance. Since they get barely a living wage, they have little prospect of repayment, and the obligation to work tends to become permanent and even to pass on from father to son. The system is not far removed from serfdom, and the labourers are passed on from one master to another for the consideration of taking over the advance, in a manner which is practically sale of the right to exact service. To combat this evil the Bihar and Orissa Kamiauti Agreements Act was passed in 1920. A *kamiauti* agreement is declared void if the period during which the labour is to be performed exceeds one year, if the agreement does not provide for the extinction of all liability after the expiry of that period in respect of any advance or debt, and if it fails to provide for a fair and equitable rate of remuneration. There is reason to believe that the *kamia* is still too greatly depressed by poverty and ignorance to set the law in motion, and that it has not yet been effective. It is well known that many of the domestic servants and menials are indebted to their masters. These, however, pay no interest for such advances but show perhaps greater zeal and devotion to their duties.

164. *Consumer's credit for professional classes.*—Borrowing by the agriculturist for his various needs has already been dealt with in Chapters IV and V. Government servants and professional men borrow for buying land, houses, ornaments but more generally for education and maintenance during training or in the course of business and social ceremonies. The expenditure on the last is specially heavy as the professional classes like the middle classes all over the world are anxious to maintain certain standards of social expenditure. This is a fruitful cause of borrowing and another is the expenditure on costly education and training which in these days of acute middle class unemployment does not yield the expected return. Some of them have adopted luxurious ways of living and live beyond their salaries or professional income. Those who possess lands, houses, life policies and jewellery borrow against their security from joint stock banks, money-lenders. Most of the local banks in Orissa and Chota Nagpur and to a great extent in Bihar also do this sort of business. Very few are able to borrow on their personal security and still fewer can borrow without paying interest from friends and relations. A large majority of those who have no security, such as Anglo-Indian railway employees, ministerial officers in the Secretariat and district offices and even some vakils and barristers in the provincial capital borrow from usurious money-lenders and Kabulis. They prefer to deal with them and pay ruinous rates of interest rather than expose their condition to banks and respectable money-lenders who are also perhaps unwilling to advance them on their personal security. The Kabulis know this weakness of their clients and their methods of realisation are more effective though less considerate than those of ordinary banks and bankers.

165. *Remedies.*—We have not been able to estimate the indebtedness of this class, as no member of the *bhadralog* will reveal his financial condition, but we have reasons to believe that it is much larger than is generally realised. The economic discontent of this class is a potential source of danger, as unlike that of other classes it easily translates itself into political action.

The only way of helping this class is to persuade its members to start co-operative credit societies which alone will lend to them on their personal security at reasonable rates of interest and exercise some check on unproductive expenditure. Much good work has been done in this connection by the civil service and the postal co-operative societies and the Amla co-operative societies scattered all over the province but much remains to be done.

166. *Co-operative societies for labourers.*—Similar societies have been organised for consumers belonging to the labouring classes. But many are more or less moribund and the chief cause of their ill success is that the members have not learnt the lessons of thrift and have not the necessary education, character and ability for running the societies on a business basis. They tend to look upon them as cheap Government credit agencies run for their benefit by philanthropic members of the middle class. They are generally improvident and as slow in repaying

their debts to their society as to their *mahajans* and as they have no other security except character, which also does not seem to exist amongst many members, the society quickly comes to grief. We have no sure remedy to suggest for this state of things and we can only hope that education and better organisation may enable the landless labouring classes to put their co-operative societies on a better basis and escape from the clutches of *Kabulis* and other usurious money-lenders. We recommend that employers should in their own interest give greater attention to the question of provision of credit facilities for these classes, as with the new labour consciousness and the increasing use of strikes their indebtedness cannot but be a source of public anxiety. They may supervise the co-operative societies started for their benefit to ensure sounder management and make weekly advances against pay due to prevent them getting further into debt.

167. *Credit for contractors.*—There is a large class of urban borrowers in this province standing midway between the producer and the general consumer which stands in need of organisation and help. This consists of contractors who are producers in the best sense of the word, but have not at the same time the security of other producers like agriculturists and traders against which they may borrow. They are therefore confounded with ordinary consumers, and as it is not always easy to distinguish between a loan for a contract and a loan for other needs, they are compelled to pay the same high rates of interest. They are financed by joint stock banks and urban money-lenders against the security of house property, jewellery and cash certificates, but as no business men needing capital can afford to lock up large sums of money in such things, in many cases even this security is not forthcoming. In such cases the contractors have to take either financing partners who take profits besides interest or depend upon urban money-lenders or bigger contractors who charge heavy rates of interest. This increases the prices quoted in tenders for Government and local works and imposes an unnecessary burden on the general tax-payer. It will reduce costs materially by encouraging greater competition and enable better and more punctual work to be done by contractors, if better and cheaper credit facilities could be provided for contractors. The Public Works Department makes the burden of high rates of interest easier for contractor by paying his monthly account bills punctually, but no such facility is given by public bodies who keep his bills pending for a long time. In any case a good deal of initial capital is necessary for paying security deposits which carry low rates of interest and buying equipment before starting work.

168. *Facilities for contractors.*—We think that the best way of helping the contractor is to improve his credit with banks and bankers by making some distinction between loans for contracts and loans for other needs. This may be done by amending the rules of account and business of the Public Works Department and public bodies in such a manner that all payments to the contractor may be made to him through his financing bank or banker. This procedure may also have the effect of checking

a good deal of corruption which undoubtedly exists. When submitting a tender for any contract, it should be open to the contractor to state that he can arrange finance through some specified approved bank or banker. The acceptance of the tender should be communicated to the financing party as well as the contractor and the bank on the strength of this acceptance and a further assurance that all moneys due to the contractor would be paid to it, should have no hesitation in financing the contractor up to limits agreed between him and the banks at much lower rates of interest than those charged at present. Some of the local banks have expressed their readiness to do business on these lines. We examined Mr. Gubbay, the Chief Engineer to the Government of Bihar and Orissa in the Roads and Buildings Branch on this proposal of ours and he anticipated no objection to paying cheques to financing banks instead of direct to contractors except some technical departmental rules of business and instructions as to methods of payment laid down by the Accountant-General. We think these technical difficulties are not insuperable and the advantages resulting from the adoption of the system we have proposed to Government, public bodies, banks and contractors are so great that we recommend that the rules of business and accounts which stand in the way of its adoption should be amended. It is, of course, essential that the arrangement proposed is accepted by all parties before the contract is finally settled.

CHAPTER VIII.

Industrial credit.

169. *Unorganized industries.*—Of all kinds of credit industrial credit is the least available in this province. This is perhaps inevitable in an agricultural province where in spite of great potentialities very little pioneering has been done in the field of organised industry. The great coal, iron, mica and lac industries of the Chota Nagpur plateau are not the results of Bihari or Oriya enterprise. They have been started by captains of industry in Calcutta and Bombay and are mostly financed from these places. The typical and most thickly-populated areas of Bihar and Orissa, the Ganges plain and the sea-coast tracts, remain agricultural in outlook and have been little affected by the new industrial methods of other provinces or other parts of the world. Most of the industries in them are pursued on traditional lines and on a cottage basis. As such their finance does not present any special peculiarities which may distinguish it from that of agriculture, commerce and general consumption. The fact that most of the cottage workers in this province are also part-time agriculturists, market their own products and have practically the same standard of consumption puts them in the same class of borrowers as agriculturists and labourers. They are therefore financed by the same agency—the rural and urban money-lender. The absence of land security however in the case of many cottage workers makes an important distinction between them and most rural borrowers. This factor to some extent distinguishes industrial credit even for cottage workers from other forms of credit.

170. *Organised industries.*—There are however industrial developments of the modern type also which have created new problems of credit. We refer not only to the coal, iron, jute and cotton industries which are outside our terms of reference but also to the new industries allied, supplemental to or independent of agriculture which are carried on a minor scale, but on modern lines, with or without the help of power machinery. Instances of these are the sugar factories of North Bihar, the lac factories of Chota Nagpur, the mica mines of Hazaribagh, the silk factories of Bhagalpur, and the oil, flour, and rice mills, tanneries, saw mills, and printing presses which are found all over the province. Organised industry requires three kinds of finance, fixed or block capital for its inception, short-term accommodation for its day to day needs, and what may be called "debenture" capital for replacement of its machinery and for extension of its business. The first is to be supplied mainly by the general public in share capital. The commercial banks can assist only by undertaking the business of flotation and thereafter by facilitating transfer of shares. The second is a proper function of

commercial banks and is not, we think, sufficiently performed by those which operate in this province. The third is peculiar in that it is required only during the time that the profits, resulting from the improvement of equipment or the expansion of business, are being built up, and the capital required should in a prosperous concern be capable of repayment after a period of years. It is for this reason that we describe it as "debenture capital". In supplying this purely commercial banks can have some share, but it is scarcely one of their ordinary functions. It is clear then that the problem of financing organised industry presents special peculiarities and as the experience of Japan and western countries shows can only be solved by special methods and special institutions. The fact was recognised long ago by the Indian Industries Commission. We shall enquire what progress has been made in solving the problem and setting up these special institutions in this province since that commission reported.

171. *Some statistics of industry.*—Before we do so, it will be convenient to give some statistics of its industries. The 1921 Census enumerated 2½ million persons primarily supported by industry in Bihar and Orissa. It must be remembered that, in the Census classification, "industry" excludes not only agriculture, the most important industry of all, but also coal and metal mining, which is of great and growing importance in this province. At first sight the figure suggests a considerable degree of industrialism, but it is clear from the following table that the industrial population is made up very largely of the workers in the traditional village occupations other than agriculture. The figures are in thousands, and refer only to British territory.

Industrial occupations employing 25,000 persons or more.

	Total of workers and dependents.	Actual workers.	Partially agriculturist.	Agriculturists with subsidiary occupations.	Principal class included.
Textiles ..	362	187	26	57	Cotton weavers.
Leather ..	18	9	1	23	Tanners.
Wood ..	233	124	14	54	Carpenters, basket-makers, thatchers, blacksmiths, bell-metal workers.
Metal ..	170	97	14		
Ceramics ..	194	111	17	44	Potters.
Chemical products..	133	78	9	52	Oil pressers.
Food ..	327	203	14	..	Rice-huskers, flour-grinders, grain-parchers, toddy-drawers, sweetmeat makers.
Dress and the toilet	493	259	40	86	Tailors, shoemakers, washermen, barbers.
Building ..	59	27	2	..	Bricklayers, masons.
Jewellery, etc. ..	120	43	5	..	
Total ..	2,109	1,120	142	316	

A striking point of this table is the high proportion of actual workers to total of workers and dependents, a clear sign of employment of most of the family. Again some 13 per cent. of those who returned themselves as primarily engaged in industry, state that they were also employed in agriculture, while persons, who returned themselves as agriculturists, are actually also engaged in these industries in numbers, which would add 28 per cent. to the total of primary workers in them. Further the last column shows that the great bulk of these "industrialists" are the familiar *tantis*, *mochis*, *barhis*, *mistris*, *lohars*, *kumhars*, *darzis*, *dhobis* and *napits*, the women who for a few pice turn paddy into rice, the *pasis* who climb the palm trees for toddy, the *doms* who weave baskets when not occupied in conservancy duties, and the *telis* who with the occasional help of a bullock extract drop by drop the oil from their wooden presses. The vast majority of these are outside the scope of "industrial credit", and their credit needs are, as has been said above, similar to those of the agricultural population.

The figures relating to industrial establishments are more to the point. For census purposes "an industrial establishment" was defined as any premises within which ten or more persons are employed on separate remuneration in any process for making, repairing, ornamenting, furnishing or otherwise adapting for use, for transport or for sale any article or part of an article. Such industries as are carried on by members of a household in their joint interest with less than ten hired labourers were excluded. In the year 1921, there were 1,086 such industrial establishments in the province employing a total of 219,974 persons. Of these only 75 were connected with the growing of special products such as tea, grass and indigo employing about 8,000 persons; 488 were mineral mines employing 127,178 persons, of which 380 were coal mines and 92 were mica mines employing 103,315 and 12,840 persons respectively. The two largest establishments are the Tata Steel Company and the Jamalpur Railway Workshop. All these except a few coal and mica mines are financed from outside. There were 111 lac factories, 33 saltpetre refineries and 20 oil mills, the average number of employees in the last being only 41. There were besides 7 jute presses, 4 small cotton weaving establishments, 4 tanneries, 4 saw-mills, 5 iron and brass foundries, 39 machinery and engineering workshops, 2 soap factories, 17 flour, rice and pulse mills, 41 sugar factories (of which ten only employ more than 100 persons), 30 *biri*, cigarette and *kath* factories, 11 lime factories and 36 printing presses. Most of these are small establishments except the Japla cement works, the Monghyr tobacco factory and a few sugar factories. The big establishments are owned and financed by companies registered outside the province but the small ones are managed and financed from within the province and it is with these that we are chiefly concerned.

172. *Capital invested.*—We have no means of estimating accurately the amount of capital invested in the industries enumerated above, but if we may hazard a guess about the chief of them, we may say that about Rs. 150 lakhs is invested in lac factories, Rs. 160 lakhs in sugar

factories, Rs. 5 lakhs in tanneries, Rs. 50 lakhs in printing presses, Rs. 100 lakhs in line and cement factories and brick kilns, Rs. 150 lakhs in oil mills, flour mills and rice mills, Rs. 75 lakhs in mica mining, Rs. 10 lakhs in silk factories, Rs. 40 lakhs in electrical services, and Rs. 100 lakhs in *biri*, cigarette and *kath* factories. These figures include outside capital as well as local capital, and perhaps the former is one-third of the total of some Rs. 8½ crores. It is impossible to estimate the capital invested in cottage industries, but an idea of the amounts involved can be obtained by looking at the volume of production of two cottage industries, cotton and silk weaving. The value of cotton cloth produced annually on hand-loom in cottages is about 5 crores while that of silk cloth is about 10 lakhs. The Bihar branch of the All-India Spinners' Association has invested about 2 lakhs in the production of *khadi*. We have no similar statistics for other cottage industries.

173. *Financing agencies for cottage industries.*—The only agency for supplying credit to cottage industries is the rural and urban money-lender supplemented in some few centres by co-operative societies. The cottage worker's lack of security is a great handicap in financing him. Where he is a part-time agriculturist owning land, he may be able to raise money on its security at the usual rates for *raiya*s, but where this credit resource is lacking, he can only borrow from the *mahajan* who buys his finished product and sells to him the raw material. His implements are of the most inexpensive kind and will not be accepted as security by any credit agency. He therefore borrows on personal security and has to accept any conditions which are imposed on him. He has to pay usurious rates of interest, which no industry competing with the rest of the world can really stand. Where ordinary rates are charged, he is tied to a particular *mahajan* to whom he must sell his finished product. He rarely receives his advance in cash. He generally borrows in the shape of the raw materials of his trade, and, though there is nothing to compel him to sell to a particular *mahajan*, he generally sells to his lender, who thus makes a double profit on the sale of raw materials and on the purchase of the finished product. The cottage worker cannot desert his *mahajan* in his own interest as his creditworthiness entirely depends on his loyalty to him. If he repudiates his debt, probably no other *mahajan* will trust him as he has no real security to offer. In the rare case when he changes his *mahajan*, he borrows from the new *mahajan* to pay the old, but the terms of business of his new financier are not likely to be much more favourable.

174. *Urban cottage industry.*—The picture we have drawn is more true of the urban cottage worker than of the rural worker. The latter's connection with land stands him in good stead and he is on the whole better off than the former. He has better security to offer, and a subsidiary occupation to fall back upon even if it is no better than field labour; the requirements of his customers are not subject to changes of fashion, and he has no special difficulty in marketing his goods at the neighbouring *hat* without the intervention of a middleman. It is only when the local economy is greatly disturbed by a serious

failure of the crops that the rural cottage worker suffers acutely. The urban cottage worker has none of these advantages. He has to face the competition of a wider market and if he is manufacturing for export he has not the means, the capacity or the organisation to dispense with a middleman. The result is that urban cottage industry tends to fall more and more under the control of the money-lender. Passing through the stage of "domestic economy" or "merchant capitalism" which prevailed in England in the 18th century under which the worker worked in his home but marketed his goods through his merchant financier, it tends to emerge as a regular factory industry.

175. *The Bhagalpur Silk Industry.*—We found this process at work in the silk industry of Bhagalpur, the silver filigree industry of Cuttack and the bell metal industry of Orissa. The Bhagalpur silk industry is now partly an organised and partly a cottage industry, 1,600 hand-loom being owned by weavers and 250 by the factories. But the factories also finance and market the goods of the weavers who are in chronic debt to them and other merchants. The weavers working in factories are equally indebted. No weaver would work on hire for a master unless paid Rs. 150 to Rs. 200 in advance. No interest is charged for this advance but if the weaver changes his master it must be repaid by the new master. The independent weavers borrow at 12½ per cent. against jewellery if they have any, otherwise naturally at higher rates against personal security. Only 30 per cent. are free from debt. The rest are practically tied to their *mahajans* who have a sort of trade combination to protect their unsecured debts. No weaver can go to another *mahajan* without a certificate of discharge from his old *mahajan*. A 'weavers' co-operative society was organised to help them, but the improvidence, dishonesty and lack of security of the weavers proved such stumbling blocks in the way of success that Rs. 80,000 was lost in the venture. Advances in the shape of raw materials instead of cash were tried by the present manager of the Bhagalpur Central Co-operative Bank but they were converted into cash by the thriftless weavers by selling them at less than market prices. Government have started a Silk Institute at Bhagalpur to teach the weavers the use of improved methods and appliances to help them to hold their own. But neither co-operative finance nor Government technical assistance have been able to give as much to the independent weaver as the internal economies which large scale production, better finance, better marketing and superior management yield to the factory owners. The result is that while the cottage weavers are sunk in extreme want and penury, the capitalistic silk factories, all using manual power of not more than 25 workers on the average, are flourishing. The industry is thus slowly progressing towards its inevitable end, the factory stage.

176. *Difficulties of assisting urban cottage industries.*—We have dwelt at some length on the Bhagalpur silk industry to illustrate the difficulties inherent in all attempts to finance the urban cottage industries. Finance is in many cases the least part of the difficulty. The improvidence and ignorance of the worker, the want of technical

knowledge and marketing ability and the keen competition of rival commodities of foreign manufacture are more serious obstacles. Where the urban cottage industry still finds a market for its products, the merchant capitalist steps in and organises, as he has done for the Bhagalpur silk industry, on factory lines. In these circumstances, the urban cottage industry barely survives, resting on the arduous labour of the whole household and the driving power of a lack of any alternative means of livelihood.

177. *Forms of Government assistance to cottage workers.*— Though the Industries Department, which was established in this province in 1920, has some duties to perform for organised industry, its main function has hitherto been to assist the cottage workers. In this task it has to work in close touch with the Co-operative Department. Between them the two departments endeavour to provide the cottage workers with (1) technical assistance, (2) marketing facilities, and (3) finance. They have, to some extent, been successful in giving technical assistance especially to weavers by introducing more efficient hand-loom and supplying new ideas for patterns. Technical assistance has been supplied both by central institutes at which workers can be trained and by peripatetic instructors. The Cottage Industries Institute has done something in the sphere of marketing, and central banks have also attempted to market the products of the members of special societies such as weavers and bell-metal workers. Through these societies too finance has been supplied. But the co-operative enterprise has had little success so far in either sphere, and most central banks, that have entered the field, have suffered serious loss therefrom. In the sphere of marketing and finance there is no near prospect of a satisfactory solution of the difficult problems presented by the ignorance and want of character of many of the workers.

178. *Decline of cottage industries.*—A cursory examination of the 1921 Census figures would suggest a marked decline in industrial employment as a whole. As compared with 1911 the total number of persons supported thereby is less by ten per cent. against a general fall of the population of only one per cent. Employment in most organised industries had risen, so the figures point to a loss in cottage industrial workers. But it is at the option of the individual to describe his industrial occupation as primary or subsidiary, and consequently Census figures in the bulk cannot be pressed too far. Closer examination, however, discloses a substantial fall in rice-husking, an occupation of widows, and it is practically certain that the multiplication of rice mills has affected this occupation seriously. This fact illustrates the tendency already noticed in the silk industry towards factory organisation, and incidentally the danger of speaking loosely of industries subsidiary to agriculture. The encouragement of such industries in their organised form may have the effect of diminishing instead of increasing spare-time employment for the rural population.

Similar, though not such marked, falls are displayed in most of the other traditional occupations of the village, though it is difficult to see why there should be fewer barbers, washermen, tailors and so on.

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Similar, though not such marked, falls are displayed in most of the other traditional occupations of the village, though it is difficult to see why there should be fewer barbers, washermen, tailors and so on.

179. *Encouragement of weaving.*—Weaving more than held its own in the decade, assisted no doubt by the temporary fillip, which the high price of foreign cloth due to the War and the *khadi* movement gave to the occupation. It was generally recommended to us by our witnesses that weaving should be encouraged as a subsidiary occupation for agriculturists. In this there is some danger of a confusion of thought. There is everything to be said for helping the cottage weaver, who follows his traditional occupation, though he frequently owns and cultivates land as well. But the training of a number of other agriculturists in weaving as a subsidiary occupation is another matter. Whether they can without much difficulty be trained to be efficient weavers is a matter of opinion, but in so far as they can they will compete with the weavers, who now hold the field. In some parts of the province these are in no such sound an economic state as to be able to bear additional competition from their fellow villagers over and above the subsidised competition of the mills.

While we agree that as a subsidiary occupation for employing the spare-time of the agriculturists weaving has greater possibilities than anything else, some of us wish to press the view that its encouragement should be undertaken with discrimination.

180. *Khadi production.*—On the possibilities of cottage textile industry we have an interesting piece of evidence in the shape of a note prepared by Babu Rajendra Prashad on *khadi* production in this province. It was unfortunately received too late to permit us to examine the author, but we have printed it in Volume II. The whole business is run by the Bihar branch of the All-India Spinners' Association which practically operates like a *mahajan* in selling raw materials and buying the finished product and supplying the capital, managing ability and marketing organisation which the spinners and weavers need. The main difference between the association and the *mahajan* is that most of these materials are supplied at cost or at the lowest possible price and the services of many able workers are rendered free. The association discharges an additional function which is not performed by the mercenary *mahajan* or is performed in the case of other cottage industries by the provincial Department of Industries, namely—suggesting improved methods and appliances with a view to increase technical efficiency. The fact that the All-India Spinners' Association has been compelled to adopt the commercial methods of the *mahajan* (of course without his mercenary motives) would show that the *mahajan* renders a service without which the cottage worker in this present state of development could not exist. It is probably on these lines of "merchant capitalism" rather than on co-operative lines that the immediate development of cottage industries in this province will proceed. The entire capital of about 2 lakhs engaged in *khadi* production in Bihar (Orissa has a separate organisation) with the exception of Rs. 4,000 deposits from weavers, has been supplied by the central fund of the All-India Spinners' Association. We are not aware whether any interest is paid for this

advance or for the advances in kind to the spinners and weavers. Under this system khadi worth Rs. 2½ lakhs was produced in about 40 centres, khadi worth Rs. 3,17,000 was sold in the year 1928-29 and about Rs. 50,000 was paid in wages to weavers. There were inevitable losses on pioneering work in the first year but last year, the third year of operation, showed a small profit of Rs. 1,656 which has been added to capital. The principal activity in this business is the production of yarn, by the use of the *charkha* in the hands of persons who have had no previous experience in spinning. The weaving part of the business is, we understand, carried on by the ordinary rural weavers. The organisation has not been working long enough to judge whether it is likely to be a permanent financial success, still less whether it would continue to be so should the large saving in overhead charges, which the help of honorary workers afford, disappear, or the assistance in marketing afforded by sentiment be withdrawn. On the first point it is interesting to note that some of the pioneer centres have been taken over by independent business organisations out to make profits, but it is too early to say whether those profits will accrue. It is also noteworthy that in the slack season, when production is at a maximum and sales at their lowest level, the association is compelled to take advances from banks on overdraft account against the security of its stocks, repayment being made when sales again become brisk.

181. *Other cottage industries.*—From this single and peculiar experiment in organisation of cottage industry it is impossible to predict any quick and widespread development, which might seriously affect the demand for capital. In reply to the part of the questionnaire dealing with small subsidiary industries the Industrial Engineer in his memorandum has given us a list of 114 items with a number of sub-items. Many of these, such as tanning, jute, wool and cotton-spinning and weaving, cement-making, carpet manufacture, sugar and so on, are already well established factory industries in this province or in other parts of India. It would be contrary to all economic experience to expect that the process of replacement by organised industry can, or will, be reversed. Other industries mentioned, such as manufacture of gramophones and electric goods, lithographing, etching and so on, are scarcely suited for the employment of spare time either in the towns or the villages. Others again would have to meet strong competition from outside the province or India, or, like pig-breeding and rabbit-breeding, have serious customary or physical impediments to their development. Since the main point of the inclusion of a survey of cottage industries in our questionnaire was to examine the near prospects of development of subsidiary occupations requiring extra capital or better financial facilities, most of these suggestions are, to say the least, irrelevant. It seems to us that until the Industries Department have made a much more complete examination of the possibilities and have some real experience of the great difficulties of industrial development in rural areas, there is little prospect of any serious banking problem arising from such development. We strongly recommend that this

examination should be pushed on with vigour, but think that concentration on a few really important items will yield quicker results than dissipation of energy over a field as wide as that which the Department apparently contemplates at present. When the ground has been explored, there should be opportunities for improving both the supply of finance and the management of marketing.

182. *Warehousing of products of cottage industries.*—There is, however, one minor service, which it may be possible to render to rural cottage industrialists. Should the co-operative banks take up our suggestion to establish licensed warehouses, they could store there not only agricultural products, but also the products of cottage industry, and market them at the risk of the producers. During the period of marketing advances might be obtained by the producer through negotiable warehouse receipts, which might be pledged with a co-operative society or any other agency prepared to deal in them.

183. *Future development of organised industries.*—We now proceed to a consideration of the finance of organised industries except coal, iron, steel, jute and cotton, which are outside our terms of reference. We have described those which already exist in this province. The only other industries which have any near prospect of success in this province are saw mills and paper mills in or dependent on the forest areas of Orissa and Chota Nagpur, heavy chemical industries in connection with the coalfields, pottery works in the Rajmahal area, engineering workshops and manufacture of agricultural implements. Besides these new possible developments, there is some field for the extension of the existing organised industries. It is estimated by the Industrial Engineer that within the next ten years about Rs. 3 crores of new capital might be employed in these developments. We think this is an underestimate and are inclined to put the figure at Rs. 5 crores, of which sugar factories might take Rs. 1½ crores, oil, rice and flour mills 1½, electric schemes Rs. 50 lakhs, mica Rs. 50 lakhs, other existing industries such as silk-weaving, printing, lime works and cigarette-making Rs. 1½ crores, and new industries Rs. 1 crore. We have already estimated the total amount of money invested in organised industries (excluding coal, iron, jute, cotton) in this province to be Rs. 8½ crores, and assuming that another Rs. 5½ crores would be necessary for extensions of existing industries and Rs. 1 crore for starting new ones the total capital required for this purpose at the end of the next ten years would be Rs. 15 crores. To complete our picture of industry as a whole, we might say that about Rs. 10 crores is invested in the iron and steel industry, and another Rs. 12 crores in coal mining, making a present investment of Rs. 30½ crores.

184. *Existing agencies for financing organised industries.*—The existing agencies for financing the organised industries of the province are—the indigenous banker, the managing agency firms of Calcutta,

Bombay and Cawnpore and to a small extent joint stock banks and Government. The leading industries in the order of their importance are lac manufacture, mica-mining, sugar refining, oil milling, rice milling, flour milling, cigarettes and silk manufacture. The entire capital of oil mills, flour and rice mills and silk workshops is owned by private persons mostly Marwaris traders and bankers and their current finance is also mostly supplied by themselves with occasional assistance from the *hundi* bazar and joint stock banks. The lac factories and mica mines, are partly privately owned and partly owned by outside companies which raise their current finance from banks in the place of their domicile. Most of the sugar mills and the only big tobacco factory at Monghyr are owned by companies and they raise their money through their managing agents in Calcutta or Cawnpore at one or two per cent. above the bank rate. It may be said broadly that the companies raise their requirements from exchange and joint stock banks outside the province while the private owners raise them in the indigenous money market. There are, however, some sugar and lac companies which borrow from indigenous bankers and money-lenders.

185. *The Imperial and Joint Stock Banks.*—It will be seen that the Imperial Bank and the Joint Stock Bank play no important part in financing the industries of the province. The former is precluded by its Act from lending money against plant and fixed equipment but nothing prevents it from lending against the security of stocks of goods under its own lock and key as is done in the case of cotton mills in Indore. The sugar industry in Tirhut has tried to secure accommodation from it but perhaps owing to the very short period during which stocks of raw material and sugar are kept, no arrangement has been devised by which the sugar industry can get from the banks the short-term finance it needs. One outside joint stock bank at Patna finances to a slight extent some oil and rice mills against the security of stocks insured by it and kept under its lock and key, but apart from the difficulty of inaccessibility of such stocks to buyers, the bank insists on accounts being cleared every six months, thus putting the borrower to the necessity of selling his stocks irrespective of the state of the market. A local bank advances more freely to industrial concerns but charges a very high rate of about 10 to 12 per cent. for such advances.

The Industries Department.—The Department of Industries can lend money for long periods and at the low rate of 6½ per cent. but it cannot lend to old established industries unless they are being started in a new area and when it does, it gives such unwelcome publicity to an application for a loan with a view to invite objections that the credit of the applicant is greatly injured in the market. In such circumstances very few persons care to apply to the department for financial assistance and some of them do not avail themselves of

it even when it is sanctioned. Those who do are generally persons who have not been able to procure accommodation anywhere else with the result that out of Rs. 8 lakhs advanced so far about Rs. 3 lakhs has proved to be irrecoverable.

186. *Working of the Bihar and Orissa State Aid to Industries Act.*
 —A detailed examination of the working of the Bihar and Orissa State Aid to Industries Act of 1923 would show more clearly the part played by Government in financing local industry. The Act was modelled on the lines of the Madras Act and its object apart from propaganda, demonstration, and technical assistance is to give long-term finance to suitable industrial enterprises in the shape of direct advances at low rates of interest, subscription to debentures, guarantee of cash credits with banks, supply of machinery on a hire purchase basis and grant of land and other Government property on favourable terms. The Director of Industries cannot entertain any application for assistance over Rs. 10,000 in any of these forms without advertising it with a view to invite objections in three successive issues of the local official gazette and cannot sanction it without the concurrence of a majority of the members of the Board of Industries. It has been pointed out to us by more than one witness that this publicity and formality which is perhaps necessary to protect the interests of the tax-payer has the effect of injuring the credit of the applicant which is further damaged if the application is refused. The Director of Industries and his staff recruited for their technical and engineering qualifications have no means of judging the creditworthiness of applicants and feel unequal to the task of functioning as an Industrial Bank. The assistance which they receive from the members of the Board of Industries and district officers is, no doubt, helpful, but they are all busy men and their reports and enquiries cannot in the nature of things be so complete and thorough as those conducted by private banks. The result is that serious losses have been incurred and the Director of Industries in his evidence before us expressed a desire to be relieved of the very heavy banking responsibilities which the department was not qualified to shoulder. The three following tables illustrate the detailed working of the financial provisions of the Act since its passing in 1923.

Details of applications received and sanctioned.

	Number of applica- tions.	Value of applications.	Number of sanc- tioned applica- tions.	Value of sanctioned applications.	Amounts actually paid or guaranteed.
		Rs.		Rs.	Rs.
Loans	19	5,84,750	2	45,000	45,000
Debentures	2	14,00,000	1	5,00,000	5,00,000
Cash credit	21	9,81,000	7	4,13,000	80,000
Hire purchase system ..	55	9,23,597	27	3,68,676	1,88,859
Grant of the property of local Government on favourable terms and subsidy.	1	20 acres of land on rent and subsidy.	..	..	..
Total	98	38,89,347	37	13,26,676	7,33,859 + 80,000

Details of the industries which applied for state aid—

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|-----------------------------|---|
| 1. Enamelled iron ware. | 18. Sugar making. |
| 2. Steel wire products. | 19. Soap making. |
| 3. Agricultural implements. | 20. Hosiery and knitting. |
| 4. Oil milling. | 21. Weaving. |
| 5. Flour milling. | 22. Dairy farming. |
| 6. Paddy husking. | 23. Shoe making. |
| 7. Pulse splitting. | 24. Insulator and pottery
manufacture. |
| 8. Saw milling. | 25. Ice making. |
| 9. Match making. | 26. Optical lens manufacture. |
| 10. Poultry farming. | 27. Axe handle making. |
| 11. Tanning. | 28. Bone crushing. |
| 12. Gold and silver smithy. | 29. Agriculture (machinery). |
| 13. Fruit preserving. | 30. Nickel plating. |
| 14. Comb manufacture. | 31. Printing. |
| 15. Irrigation. | 32. Ink manufacture. |
| 16. Sisal manufacture. | 33. Trunk making. |
| 17. Fire brick forming. | |

Total amount of advances made in each year.

Year.	Amount advanced.	Name of Industries aided.
1924-25	Rs. 5,03,534	Wire nail and match industries.
1925-26	40,176	Fruit preserving and oil, flour and foundry.
1926-27	4,849	Dal mill industry.
1927-28	93,829	Button making, rice, dal and oil milling industries.
1928-29	78,680	Rice, dal, oil, nickel plating and hand hammer shaft industries.
1929-30 up to 4th February 1930.	24,649 + 64,979	Hosiery and dal industry.

187. *Features of the working of the Act.*—Most of the applications that were granted came from the smaller industrialists. Out of Rs. 8 lakhs advanced, Rs. 3 lakhs have been repaid, but an equal sum has been written off as irrecoverable. Of this some Rs. 2½ lakhs was lost to a single company formed to draw wire nails, whose finances were already in such an unsatisfactory condition that it was obliged to use the money, borrowed for working capital, on paying off previous mortgages. Another Rs. 30,000 was lost on a combined enterprise for oil and rice milling and foundry work, the security, on which the loan was granted, proving unsaleable except at a ruinous sacrifice. Even what might be reckoned a safe scheme of advance, if properly managed, that of hire-purchase of machinery, has not seldom proved disastrous, and the Department is by way of having a museum of obsolete machines, in which the principal exhibits are those left over from its one-experiment in pioneering. A match factory was started in Patna drawing

its supply of wood from Bettiah, about 100 miles away. The wood supply proved insufficient and arrived in bad condition owing to the difficulty of floating it down rivers of ever varying depth. No nearer or better supply was available and the factory closed down after a brief and unhappy career, which cost Government some Rs. 70,000. It is possible that the Industries Department may in the future be more fortunate in their extremely difficult task of exploring the realm of finance of organised industry, but it is improbable that in the next ten years the requirements of capital, which it will meet, will appreciably affect the general financial situation in India.

188. *Finance by managing agents.*—Thus the main burden of financing organised industry in this province falls and will probably continue to fall on the private capitalist, the indigenous banker and the managing agent in Calcutta or Bombay supported by his local bank. To take the last first, the managing agents are most active in the industries with which we are not concerned, coal mining and iron and steel. Of the lesser industries, they support most of the electrical enterprises, the lime factories and the larger mica mines, as well as a good part of the sugar industry. They have not much concern with the other industries set out in paragraph 183. Though without their help Bihar and Orissa would have been even less fully developed than it is, from a purely provincial point of view their activity has some serious disadvantages. They have concentrated mainly on industries dependent on the wasting assets of the province, and have not, save in the matter of sugar, developed the industrial possibilities of assets which are replaced. Though they are closely linked to the general money-market and can hire first class business ability, their outlook is too wide, their centre of operations too far removed and their financial scale too large to secure an examination of the possibilities of developing minor industries, which might be in the mass of great service to the provincial population. In fact they have, from our point of view, too many irons in the vast and uproarious fire of their activities. Nor can they be expected to feel, in addition to the stimulus of profit, the spur of provincial patriotism to make them take a lively and well-informed interest in such development.

189. *Private capitalists and indigenous bankers.*—In this sphere, i.e., the development of minor industries, the private capitalist and indigenous banker are more important. The former still holds most of the field, especially the oil, flour and rice mills and the silk factories. Even the indigenous bankers do not as a rule supply finance for these enterprises from their banking capital, but undertake them with their private resources. Consequently the part that banking, even in its widest sense, plays in industrial credit in this province is still small. Marwari industrial enterprise is helped by support from the Marwari banking community, but non-Marwari owners of oil and rice mills experience great difficulty in borrowing their working capital and either have to pay high rates to money-lenders or obtain loans on somewhat

humiliating conditions from the joint stock commercial banks for their day to day requirements.

190. *Difficulties of existing industries.—Lac finance.*—The lac industry of this province, which does much to support the aboriginals of Chota Nagpur, leads a hand to mouth existence. Its total output is worth about $2\frac{1}{2}$ crores but there is no bank to finance it except for those who have their connections in Calcutta. Involving as it does the extensive destruction of insect life, some of the Vaishnavite and Jain bankers think it a religious sin to finance it while others do not touch it for less spiritual reasons. The industry is exposed to violent ups and down on account of extensive fluctuations in the price of lac in the Calcutta and London markets due to sudden variations in demand and supply. It is therefore placed at the mercy of moneylenders who charge, in the busy season, anything from 12 to 24 per cent. The representatives of the industry in their interview with our sub-committee were sceptical about the possibility of any bank financing them with success but their opinion was not based on any consultation with a banker. If the difficulty of the wide fluctuation of price of the finished product could be got over by any means such as by a properly organised futures market, there would seem to be an opening for a bank that would specialise in the provision of finance for the buying operations of the factories.

191. *Mica finance.*—The mica industry of Hazaribagh is another leading industry of this province utterly devoid of all banking facilities except what Calcutta agents and local moneylenders can give. Leaving aside banking facilities there are not even remittance facilities except those provided by the post office, and mines are put to great difficulty in changing currency notes into small cash for paying their labourers. The owners are more hopeful than lac manufacturers about the possibilities of a bank in their midst, for the Mica Association recorded a resolution for the benefit of our committee that a branch of the Imperial Bank should be started at Tilaya and Giridih, two centres of the mica industry. The industry at present is in a state of great depression on account of the systematised thefts from which it is suffering and which lead to the anomalous result that the figures of mica export are greater than those of production. Better control of marketing should result from the Mica Act, which has just been passed in the local Legislative Council. This requires every one, who deals in mica, to take out a license and keep proper accounts of his transactions. An incidental result will probably be an improvement in grading. When these results display themselves, it seems probable that a bank would succeed in finding profitable business. The Jharua branch of the Central Bank of India does a good deal of business in lending against *mudduti hundis* drawn against the exports of coal to Calcutta. There is no reason why an enterprising bank should not do similar business in respect of the mica industry, since most of the mica is raw material either on its way to the market or in the last stages of production and therefore satisfies all the conditions of the creation of self-liquidating commercial bills.

192. *Finance of the leather industry.*—There are possibilities of building up a leather industry in Orissa where there are 2 or 3 small factories already established. But they are all suffering from want of finance and other causes which we need not specify. There are about 50 lakhs worth of hides and skins which are exported every year from Cuttack alone. There is some skilled labour available and a local factory attained considerable success in exporting and is still exporting certain special tanned products to Europe. The manager of the factory is compelled to raise his current finance from the bazar at 18 per cent. as neither the local branch of the Imperial Bank nor the local joint stock bank finance industry. The Imperial Bank only discounts bills drawn by the tannery against shipment of stocks up to 70 per cent. of their value on the security of credit account opened by the foreign importers.

193. *Summary of existing conditions.*—These examples sufficiently illustrate the difficulties of existing industries in this province. The difficulties are still more serious in starting new industries. The commercial banks and bankers and the Imperial Bank are not suited to perform industrial functions except under inconvenient restrictions. At the most they may finance current requirements against security of stocks but they cannot advance against the main security of an industrial concern its plant, equipment and buildings, nor can they provide initial block capital for new undertakings. The Industries Department is prepared to do so though not to a great extent; but after its unfortunate experience, one condition of its advances generally is that a high proportion of the total capital should be raised in the open market. This is not always forthcoming in this province with the result that the promised assistance of the Department also falls to the ground. We do not subscribe to the view that a good proposition always commands capital. On the other hand we believe that it is the name rather than the proposition which attracts capital. The investing public entrust their savings to certain persons however unsound their propositions may be. There are few such persons in this province. Again this money is available in Bombay and Calcutta. It is a far cry to Patna. The investors in this province have yet to be trained to put their money in shares and industrial securities.

194. *Suggested remedies.—Marketing finance.*—In the provision of the current financial requirements of industrial enterprise the Imperial Bank and the joint stock banks might play a more important part, if they could be induced to adopt a less conservative policy in advancing against the security of stocks and products in movement. These advances should take the form of discounting short dated bills rather than cash credits. If it is desired to improve the security of these industrial bills, the acceptance of an indigenous banker may be taken. The vexatious and antiquated system of keeping stocks under the lock and key of the bank without giving suitable facilities for transacting business should be abolished. If such direct security instead of or in addition to a banker's acceptance is required, the system of each bank running its own godown on the principle of nine kitchens for eight Kananjia Brahmins should be replaced by big central licensed warehouses of the type

we have proposed in the chapter on marketing and their receipts accepted in lieu of goods as security. In particular the possibility of establishing such warehouses for the grain-milling and mica industries might be examined. The difficulties in respect of the other important industries, such as oil-milling, sugar and lac, are probably considerably greater.

195. "*Debenture*" credit.—The provision of credit for replacements and extensions of business is a much more risky affair. The experiences of the Industries Department, which have been detailed above, suggest that the local Government cannot safely widen its part in the direct supply of this form of credit. It might, however, enlist the aid of the commercial banks, by getting them to undertake the main duty of enquiring into the creditworthiness of the applicants and inducing them to take over or at least share the risk of loss, in return for a commission to be added to the rate of interest charged on the loan. Even with this commission borrowers would be in a better position than they are when driven to seek accommodation from money-lenders. We understand that local joint stock banks are willing to do business on these terms, and perhaps the "approved shroffs", whose position will be defined in Chapter XX, would also undertake it. What is wanted is that the banks or shroffs should supply in return for their commission the local knowledge of the creditworthiness of applicants, which the Industries Department cannot possess, and that that Department should supply the technical knowledge required for judging the prospects of the replacement or extension paying its way, and that the State and the bank should share the risk.

196. *Initial capital*.—It is not the part either of the State or of commercial banks to supply directly any considerable part of the finance required for opening new ventures. If the enterprise is merely a replica of an old one in another locality, there is usually no insuperable difficulty in raising capital from the wealthier investors. Entirely novel ventures can only appeal to the more speculatively inclined, and their successful flotation depends on the power of the promoters to frame their prospectus so that it will convince a sufficient number of these to come in, and by their lead to attract the more timid investor. There is at present in this province no such experience of successful industry as readily induces that class of confidence. It might perhaps be created by the backing of a provincial industrial bank with Government support. But such a bank would require a directing agency with a wide experience of the capacities of the province, a strong interest in its industrial development, an up-to-date knowledge of industry both elsewhere in India and outside, besides general business ability. The Chairman, Mr. Hodge and Rai Sahib Loknath Misra doubt whether the present prospects of developing the minor industries are sufficiently bright to collect or attract such a directing agency, and without it there is no chance that the capital needed for the founding and running of such a bank will be forthcoming. The rest of the Committee are more optimistic and think the time has come for organising an industrial bank for the province.

197. *Importance of Industrial Finance.*—We all attach importance to our proposals about industrial finance as we are greatly impressed by the fact that this province though it possesses great mineral and agricultural resources, yet remains the poorest in the whole of India. The Biharis, the Oriyas and the aboriginals of Chota Nagpur are known for their proverbial poverty and supply the greater part of the unskilled labour force of the coal fields and jute factories of Bengal, and the tea gardens of Assam. The province supports a much greater population for its area than any other province in India except Bengal and United Provinces and its standard of living is the lowest in the whole country. The pressure on land has reached its limits and can only be relieved by emigration or an active industrial policy. We do not believe that industries can be started to create employment in a moment or that their success depends only upon banking facilities, but to the extent that they make their development easier, our proposals for industrial finance deserve earnest consideration.

CHAPTER IX.

Remittance Facilities and Instruments of Credit.

198. *Agencies of remittance.*—The chief agencies of remittance in this province are the Post Office, the Treasury, the Joint Stock Banks, the Imperial Bank and indigenous bankers. They may be classified into two sorts—those whose operations involve an element of credit and which charge a varying rate depending upon the market, and those which charge a flat rate and into whose operations no such element of credit enters. The first four, broadly speaking, belong to the latter class and the last to the former. The element of credit generally enters when long distances are involved, and resources consequently locked up for a period of some duration. Further a credit document which is used for long distance remittance tends to be used also for the purpose of raising accommodation without there being any need for remittance. Certain agencies such as the Post Office and the Treasury charge a flat rate irrespective of distance. The joint stock banks and the Imperial Bank charge sometimes special rates for out-of-the-way places and very low rates for those places with which they have frequent dealings, though their distance may be very great. For each place, however, the charge for remittance is fixed and does not vary from day to day. The charges for remittance by operations of internal exchange through indigenous bankers vary according to the demand and supply of exchange bills and therefore depend both upon the day of the transaction and the accessibility of the place on which remittance is demanded. A third element of variation enters on account of the differences in the credit of different parties. Each agency has its own use. Generally speaking, the more specialised the agency, the smaller is the area of the range of its operations. It is difficult to give any statistical estimate of the remittance business of the different agencies for the whole province, except for the post office for which figures are given below, but an idea of their relative importance can be gained from an estimate prepared by two of our members for the Patna and Bhagalpur Divisions only. According to them out of a total remittance of 27 crores, 11 crores are sent through the Post Office in the shape of money orders and insured notes, 6 crores through the Imperial Bank and the Joint Stock Banks and 10 crores through indigenous bankers and traders. It would appear from this that the Post Office is the greatest agency, the indigenous bankers coming next and the Imperial and other banks coming last.

199. *The Post Office.*—The Post Office is the most universal agency of remittance and that most widely used by the rural classes. In most

places it is the only agency and is therefore used by all classes. Small sums are remitted through it by money order, while larger sums are sent by means of insured notes. Most of the emigrants of this province who work in tea gardens and jute mills remit their savings to their homes by the former method. As there are a large number of such persons, the money orders paid exceed those issued both in number and volume. In the year 1929 3 $\frac{3}{4}$ million money orders of the value of 7 $\frac{1}{2}$ crores were paid as against an issue of 2 $\frac{3}{4}$ million money orders of the value of 6 $\frac{1}{2}$ crores issued. The balance of one crore roughly represents the value of the labour services exported out of this province. A quarter of a million of V.-P. P. articles worth 75 lakhs were posted in the same year. The amount of remittance put through these methods, though used by a larger number of persons is, however, less than the total amount remitted through postal insured covers. 3 $\frac{1}{2}$ lakhs articles mostly letters containing notes valued at 13 crores were despatched in the year 1929 in this fashion. As most of the letters containing notes are under insured, the true total value is very much more than 13 crores. This is the chief method of financing the movement of crops. Export houses of Calcutta when making advances to *beparis* and grain merchants or buying grain outright keep their *mufassal* agents in funds by sending ten-rupee notes in lots of 200 each in insured covers. The cost of remittance in this way works out at 2 annas 7 pies per cent. of which 2 annas represents insurance fees. The ordinary traders and bankers cut down the cost by under insuring relying on the well-known security of such transactions put through the post office. Some losses have been incurred by this pennywise and pound foolish policy, but this difficulty is generally got over and both the temptation to steal and the insurance expenses are reduced to a minimum by sending halves of notes in separate covers. The Controller of Currency and the Imperial Bank have tried to stop this cutting of notes—the former by recently amending the Currency Notes Refund Rules of 1921 making it more difficult to obtain refunds in respect of lost notes and thus discouraging this practice, and the latter by restricting the issue of notes for large amounts, when they are probably required for postal remittance. But no success has attended these efforts. The method perhaps meets a genuine trade demand for cheap remittance and is now used by all classes of businessmen both in urban as well as rural areas. We understand that the Bengal Chamber of Commerce has supported the practice in a memorandum submitted before the Bengal Provincial Banking Enquiry Committee. Perhaps it will not die out until the postal insurance rates for large amounts and the Imperial Bank remittance rates are greatly reduced. Until this is done, we are not in favour of prohibiting or even discouraging this practice, as it is the only means of providing cheap remittance in rural areas where neither *hundis* nor the Treasury and Imperial Bank remittance facilities are available. It is moreover a method which is open to all alike and is not confined, as some other methods are, to the richer and more educated classes.

200. *Treasury remittance.*—The functions of the Government treasuries as agencies of remittance in places where there is no branch of the Imperial Bank are too well known to require detailed description. Amounts of not less than Rs. 1,000 can be remitted from one treasury to another at the same rates as those of the Imperial Bank by means of supply bills and Remittance Transfer Receipts. These facilities are largely used by big traders and bankers, who do not wish to expose themselves to the risks of under insurance of notes, at places where there is neither a *hundi* market nor a branch of the Imperial Bank. We have not collected any figures of this form of remittance but our impression is that it does not compare in popularity with remittance by means of insured notes. In the very nature of things it is not open to all classes and is not entirely free from red tape. For direct transmission of funds from Calcutta to remote parts in the mufassal, it is obviously unsuitable.

201. *Joint Stock Banks.*—The share of the Joint Stock Banks in the remittance business of the province is not very large. They are generally situated in urban centres where there is either a branch of the Imperial Bank or a well-developed indigenous *hundi* market, both of which provide facilities which they cannot hope to improve. Whatever little remittance business they have got is done on behalf of their clients at rates which are in no case lower than those of the shroffs or of the Imperial Bank. They are retailers of remittance rather than wholesale dealers, i.e. they sell dear in small quantities to their customers what they buy at wholesale rates from the Treasury or the Imperial Bank. The latter sells them remittance at places where they have a branch at $\frac{1}{2}$ per cent. less than the ordinary market rate, e.g. at $\frac{1}{32}$ per cent. for sums exceeding Rs. 10,000. This they retail to their clients probably at 4 annas per cent. for small amounts thus making a profit of $3\frac{1}{2}$ annas per cent.

They supply remittance facilities in another way also. They collect bills with railway receipts from local consignees on behalf of consignors from other places, chiefly Calcutta. These are generally sight bills and railway receipts are only surrendered after cash is paid. The consignor is not paid in advance but by means of a cheque only after the debt has been collected. Consequently no element of credit enters into the transaction. It is pure and simple cash remittance, but in addition the bank undertakes the trouble of collection, on account of which a special rate of 8 annas per cent. is levied. The bank in collecting the bill does not shoulder any responsibility but merely exercises an agency function. If there is any credit arising from a somewhat long delay in collection, the credit is supplied not by the bank but the consignor. Much of the import business of the province is carried on in this way on a non-credit basis which is the inevitable result of the quickening of communications. The inland usance bills or *muddati hundis* as a mode of remittance in which an element of credit might enter have generally gone out of fashion, though the Central

Bank at Jharis, and the Imperial Bank at Muzaffarpur and the Benares Bank at Bhagalpur deal to some extent in such bills in financing the marketing of coal, cloth and grain respectively.

202. *The Imperial Bank.*—The Imperial Bank together with other joint stock banks transacts about 25 per cent. of the entire remittance business of the province. Its rates for remittance are 4 annas and 2 annas per cent. for sums below and above Rs. 1,000 respectively and one anna and $\frac{1}{2}$ anna for amounts above Rs. 10,000 for ordinary customers and banks respectively. The special rate to banks is given as explained above only at those places where they have branches in current account with the Imperial Bank, so that the transfer of funds in such cases is a mere book transfer and does not involve the trouble and work incidental to an ordinary transaction. The Bank, therefore, does not make any real sacrifice in making this concession to other banks. It, however, helps the free flow of surplus funds to places where they are required most. No such concession is given to indigenous bankers. They therefore resort to *hundis* where they are available, or to the device of cut notes where they are not, when they are in need of cheap remittance. Their unit of remittance is probably not as large as that of joint stock banks. It is larger than Rs. 1,000 but probably less than Rs. 10,000, so that the minimum rate of remittance through the Imperial Bank in their case probably works out at 2 annas per cent. It is possible to remit money at a lower rate than this through the Post Office and the *hundi bazar*. In the circumstances, the desirability of extending some special concessions, such as those enjoyed by joint stock banks, to approved shroffs may usefully be considered both in their interest and in the interests of the Imperial Bank.

The Bank used to give until recently the concession of free remittance up to Rs. 5,000 to its own customers, cashing their cheques below that sum drawn on other branches of the Bank free of charge. This no doubt spread the banking habit by inducing some persons to keep their current accounts with the Imperial Bank. The concession has now been withdrawn.

203. *Inadequacy of remittance facilities.*—These facilities for remittance afforded by the Imperial Bank have rendered a distinct service to the economic life of the country. But they still fall far short of the standard of free flow of funds from places where they are in surplus to those where they are wanted, attained in countries like England, Germany, France and America. The rates of remittance charged by the Treasury and the Imperial Bank of India are still much higher than those paid in such other countries. The result is that banks, shroffs, money-lenders and traders work on large cash balances and vast amounts of funds remain idle because their velocity of circulation is slow. There are very few banks in the interior, and still fewer clearing houses, so that to levy as much as 4 to 8 annas per cent. (and in Ranchi the summer capital of the province even as much as one rupee per cent.)

on cheques of outside banks is still considered fair, and the primitive device of cutting notes is still regarded as a necessity. There is therefore no single, unitary organised money market for the whole of India. What is, however, more important from the banking point of view is that owing to the complete absence of banker's acceptances and to the infrequent use of negotiable instruments and their discount, very little credit is used in these exchange transactions. The result is the loading of the movement of crops with a number of heavy charges which the producer is hardly able to bear.

204. *Indigenous remittance.*—The only agency which uses credit instruments largely in its exchange transactions is the shroff or the indigenous banker. He uses the well-known bill of exchange called the *hundi*. There are two main kinds of *hundis* in use in this province—the *darshani hundi* or sight bill and *muddati hundi* or usance bill. As nearly all the shroffs in this province who use them are Marwaris, Gujratis, Kachis or those who have imitated their method of business, the forms in use are exactly the same as those used in Western India and described in well-known text-books. We do not therefore think it necessary to reproduce them. There is no provincial peculiarity about them. Even the language used is Hindi, the commercial *lingua franca* of India, though Oriya is occasionally used in Orissa, and the script is either Marwari, Mahajani, Oriya, Bengali or Gujrati according to the origin of the party. It is generally the first as being intelligible to a wider class of customers. Some educated men dealing with banks prefer to use the English language and with it the English form as well.

Each kind of *hundi* is subdivided into three classes called *dhanjog*, *firmanjog* and *sahjog hundis*. The Committee, however, in the course of its enquiry has not come across any other forms of the *darshani* or the *muddati hundis* except *sahjog* and *dhanjog* forms. Under the former the drawer has a responsibility to see that the money is paid to a respectable party (*sah*) but under the latter no such responsibility attaches to him. *Firmanjog hundis* are payable to order. The *sahjog* form is undoubtedly the most common form in use in this province. We have not come across the *dekhandar darshani hundi* which is payable to bearer and is supposed to have been invented by the Bombay shroffs, nor the *jokhani muddati hundi* in which the drawer makes himself responsible for the risk of loss of goods in transit against which the *hundi* is drawn. Perhaps the safety of modern transportation and the device of insurance has made the latter form no longer necessary.

205. *Disuse of the muddati hundi.*—Of the two kinds the *muddati hundi* is from the banking point of view more important as an instrument of credit since there is some interval of time between its creation and its liquidation during which credit may be advanced. But we received a considerable amount of evidence which shows that the *muddati hundi* is going out of fashion on account of a variety of circumstances. The first of these is the increased rapidity of communications which

has diminished the need for credit. With the growth of railway communications in all parts of India there is not enough time between the despatch and arrival of goods, to justify the grant of credit implied in a usance bill. The *muddati hundi* or a bill of exchange is therefore a more suitable instrument of remittance in foreign trade than in domestic trade. Its use in domestic trade is a survival from the Moghal period when communications were so little developed, that trade between different parts of India still had the character of foreign trade. Its tendency to disappear as a means of inland exchange is paralleled in the experience of England, where the "home bills" have practically gone out of use.

206. *Stamp duty on muddati hundis*.—The second and perhaps the more immediate cause of the disuse of the *muddati hundi* is the high stamp duty on usance bills from which *darshani hundis* being payable on demand are exempt. The third reason is that there is no regular discount market for *muddati hundis*. Banks in this province have not yet realised the importance of the bill as a medium of short-term investment against current accounts, perhaps because most of their accounts are fixed deposits accounts. They quote as high rates for bill discounts as for ordinary loans. Even the Imperial Bank charges one per cent. above the bank rate. There is therefore no special inducement to create this class of document in the absence of encouragement from banks. If credit is desired it is generally granted in the form of a current account or what is called "*chalu hisab*" by commission agents or the exporting party on which an interest of 6½ to 9 per cent. is generally paid. The fourth reason is that the *muddati hundi* is rarely documented and is therefore not so acceptable to banks for the purpose of advances. The only document which is very largely used in this province as security behind bills is the railway receipt, but obviously it cannot be kept back long as a collateral, since goods are transported quickly, and are not stored for any length of time by railways. There are no port trust godowns or licensed ware-houses in this province. Banker's acceptance hardly exists except in the form of shroffs' acceptance and for that a very high commission is charged.

207. *Darshani hundis*.—Owing to these difficulties most of the *hundis* drawn are *darshani hundis* or sight bills payable on demand. They are generally used in the export trade and not much in the import trade except in cloth. The exporter of grain in a grain centre after railing his goods draws a *darshani hundi* and sells it with or without the railway receipt in the nearest *hundi* centre whence it is sent for collection in the consignee's port which in the case of this province is generally Calcutta. It is bought by merchants who have to remit money for imports received from that place. The price naturally depends upon the demand and supply of these bills. As buyers and sellers are kept fully informed of the state of the market by brokers called *dalals*, the rates quoted are very fine and are always below those of the Imperial Bank. The latter act as upper and lower limits within which the *hundi* remittance rate fluctuates, since it is always open to

an importer to remit through the Bank if the bazar rate is higher. Generally *hundis* emanating from a local grain centre do not find their way to Patna—the provincial capital—though we came to know that *hundis* on Calcutta drawn in Fatwa—a grain mart only 12 miles away—do. The provincial capital is not an important *hundi* centre and it is more common to draw *hundis* on Calcutta than on it. For instance the Committee learnt that cocoanut merchants of Puri, who export cocoanuts to Nagpur, draw *hundis* on Calcutta instead, as the Calcutta *hundi* always finds a ready market as a means of payment for imports. In towns like Puri, Ranchi, Muzaffarpur, Cuttack and others where the Calcutta imports are heavier than the exports, the Calcutta *hundis* are generally at a premium. Where or when exports predominate they are naturally at a discount.

208. *Decline of hundi remittance business.*—For large dealers, the use of *hundis* is still the cheapest and most convenient form of remittance between places commercially connected with each other, but all places are not so situated. In such cases transactions are carried on *via* Calcutta or *hundis* are sent for collection direct through the Imperial Bank or a Joint Stock Bank if the place has a branch of either. We have reason to believe that in spite of its cheapness the *hundi* remittance business has declined owing to the increasing competition of the Post Office and the Imperial Bank. It is now confined to important trade centres and even in those most of the *hundis* dealt in are Calcutta *hundis*. At present about 37 per cent. of the entire remittance business of the province is carried on through *hundis*.

209. *Future of the hundi.*—It will not be altogether desirable that the *hundi* should disappear as a form of internal remittance before the growing competition of the Imperial and Joint Stock Banks; for it can be used in its *muddati* form as a credit document for financing the movement of goods in addition to its use as a remittance instrument. It has special potentialities chiefly for financing the marketing of crops. The prevalent system of marketing finance is that the export houses or the commission agents of Calcutta raise money from their own banks or the *Burra Bazar* and finance those up-country traders or *goladars*, who have no large capital of their own. These in turn finance the small *beparis* or village *mahajans* who buy outright from the cultivators for cash or credit already advanced. This system does not admit of a more direct contact with the central money market nor can credit be expanded as occasion requires, since none of the cash credits or book accounts extending from the Calcutta exchange bank to the village *bepari* are negotiable or transferable. On the other hand if the process were reversed and the village *bepari* or the substantial cultivator could, with the help of the licensed ware-houses we have proposed in Chapter VI, create a documented agricultural *muddati hundi* of six months' usance, which may be accepted by a registered *mahajan* of the kind proposed in Chapter XX the bill so created could be discounted in the central money market. It will be eagerly bought by banks as a short dated investment which could be rediscounted by the Reserve Bank in case

of necessity. As such it will carry a rate of interest much lower than the present rates for accommodation for the same purpose. The price which the cultivator pays for credit will not be loaded with the services of too many middlemen and a direct contact will have been established between him and the Reserve Bank.

210. *Removal of obstacles.*—To popularise the use of an agricultural *hundi* of this nature, certain measures are necessary. The first in our opinion is the removal or reduction of the present stamp duty on *muddati hundis* which prevents their greater use. We received a good deal of evidence both from banks and indigenous bankers that the duty is too high. It prevents the creation of self-liquidating commercial paper, in which a bank can invest with advantage in a properly-organised discount market, and encourages at its expense other commercial paper which is unsafe and unsaleable. The Manager of the Benares Bank at Bhagalpur demonstrated that, on a three months' transaction carrying an interest of ten annas per month, the borrower on a *muddati hundi* has to pay on account of the stamp duty, really $10\frac{3}{4}$ annas per month against the ten annas paid on pronote or *purza*. Apart from the fact that a *hundi* generally bears two signatures against the one of the pronote and is therefore more secure, it has certain advantages in a law court from the point of view of a bank. Firstly in the case of a pronote the onus of proof of debt lies heavily on the lender, while in the case of the *hundi* courts are more easily convinced that the drawer has received the money. Secondly pronotes are not signed by witnesses, since if they are they become liable to a much higher stamp duty. There are objections from the borrower's side also. The high duty on bills has led the commercial public to evade it by substituting pronotes payable on demand in place of time bills but coupled with a tacit understanding that for all other practical purposes the pronote will be treated as if it were a time bill. This practice exposes the debtor to serious risks and places him at the mercy of the creditor. The stamp duty on bills is also an obstacle to that conversion of cash credit advances into bills by the customers of the Imperial and the Joint Stock Banks, which is dictated by the currency policy underlying the Reserve Bank Bill. The Imperial Bank, in order to avail itself of the emergency currency issued to it against internal bills of exchange or *hundis* under section 20 of the Indian Paper Currency Act, has tried this policy of persuading its clients to convert their cash credit advances into bills, but has not found it easy to induce them to give up the advantages of a cash credit and pay as well the stamp duty involved in the conversion. Cash credits have certain advantages both for the borrower as well as the lender. Interest is generally paid only to the extent that they are used, and the bank can always stop them at any stage in the event of the deterioration in the position of the borrowing party—a remedy which is not available for bills. The Imperial Bank has, as a matter of fact, been compelled to pay the stamp duty itself and charge it to Government account.

Abolition of stamp duty.—In view of these considerations, we are of opinion that there is a very strong case for the abolition of the stamp duty on bills of exchange. Reduction will not meet the needs of the

situation, since abolition alone will place the time *hundi* on a par with the pronote. We do not think that the case for abolition is equally strong for all bills of exchange, whether payable more or less than one year after date or sight. There are practically no bills of longer currency than one year in circulation in this province, and the commercial community attaches no importance to them whatsoever. The *hundis* in common use are payable after 60 or 90 days, but *hundis* of six months' usance may be necessary to finance agricultural operation as contemplated in Section 14 of the Reserve Bank Bill. We therefore recommend that a distinction should be drawn between bills of more than one year's usance and bills of one year or less than one year's usance and that the duty on the latter should be altogether abolished. We have not had the time or opportunity to estimate the effect of the proposed abolition on the provincial revenue from Non-judicial Stamps, but we believe that the loss in this province will not exceed Rs. 10,000 a year. The importance of generally encouraging the bill habit, bringing into existence agricultural *hundis* and creating a discount market for them is so great, that the sacrifice involved in this loss of revenue might well be made. An alternative would be to introduce a standardized form of *hundi* and for Government to print and issue them in books at a low fee, e.g., one pice per form.

211. *Documentation of bills.*—The second measure which we propose to increase the use of the bill or *hundi* is to improve its negotiable character by bringing into existence a class of documents which may be attached to it to improve its security, and providing facilities for banker's acceptance so that it may be readily discounted in the money market. The main defect of the indigenous bill—the *hundi*—is that unlike the English bill of exchange it is rarely documented. It may be drawn and accepted by the most substantial parties, but it does not carry on the face of it the title to goods against which it is supposed to be drawn, and therefore does not convey that conviction that it represents a genuine transaction which is necessary for its free negotiability. All *muddati hundis* therefore, whether created in the course of trade or not, tend to be treated as accommodation bills and are generally discounted on the personal security of the drawer and the acceptor. We propose to give the *hundi* a more objective character by multiplying facilities for the creation of documents of title to goods in the last stages of production or on their way to the market and converting it with the help of those into a fully documented bill. At present the only documents of title of this character in this country are the port trust and railway receipts. There are no ports of any importance in this province and railway receipts are retired so quickly that they can only be used in conjunction with bills payable on sight, thus providing nothing or very little element of credit. In the chapter on marketing we have already suggested the setting up of licensed ware-houses for rural areas whose receipts may be used for documenting agricultural *hundis*. We further suggest, that the railways should run ware-houses at all important commercial stations where goods may be stored on the same or similar conditions as in Port Trust

godowns. The receipt should preferably be different from the transportation receipt and should be available for periods of not less than a fortnight and not more than six months, no broken periods less than one week being allowed. The railways by long experience are peculiarly qualified to run such ware-houses and should, while getting a handsome income out of it, be able to supply a large number of documents of title to goods which we need. Such receipts should of course be negotiable and transferable from hand to hand.

As regards the banker's acceptance which is necessary for the negotiability of a bill with the proposed Reserve Bank of India, we have suggested in Chapter XX the creation of a new class of registered *mahajans* and approved shroffs, to be used in addition to joint stock and co-operative banks, for accepting agricultural and commercial paper of not more than six months' usance. We recommend that their acceptance should be taken as acceptance by a bank referred to in Section 14 of the Reserve Bank Bill. With these modifications we can safely trust the *hundi* to start its adventurous career in the new discount market of India.

212. *Amendment of the Negotiable Instruments Act.*—It remains only to consider whether it is necessary to have a class of *hundi* or bill of exchange which will circulate so freely, that, once drawn as a bearer document, it should not be liable to change into an order document by intermediate parties. The question has come up recently in connection with the amendment of the Negotiable Instruments Act so as to secure that all negotiable instruments including cheques, bills of exchange and *hundis*, which are expressed on the face of them as drawn to bearer should not in any circumstances lose their character as bearer instruments on account of their having been endorsed. The existing law as interpreted by the Bombay High Court permits this change of a bearer document into an order instrument; but the practice of western banks based on English usage is to treat all such instruments as negotiable by delivery in all circumstances irrespective of any endorsement that may have been made on them. The Bombay High Court decision puts on the business community and banks the necessity of scrutinising all endorsements on bearer documents, including cheques, and this is a heavy strain on their time and energy. It also impedes the free circulation of cheques and *hundis*.

We are naturally not opposed to any measure calculated to simplify the work of bankers generally and designed to improve the currency system of this country by a quicker circulation of credit. But we are bound to look at the question not only from the side of banks and bankers but from the side of the public as well, especially in a backward province like Bihar and Orissa where banking habits are not greatly developed. We are aware that the whole system of bank credit depends upon the free circulation of cheques and negotiable credit documents through the clearing houses. The existence of a type of instrument, originally drawn payable to bearer and always remaining payable to bearer,

minimises the work in the clearing houses and promotes the use of negotiable instruments generally and of cheques particularly, but it is also open to argument whether a premature withdrawal of certain safeguards which the Indian public in the present state of its development has regarded as necessary will not retard instead of hastening their use. We suggest, therefore, that cheques should be treated differently from *hundis*. The former are used by the educated class in large towns while the latter are used by the conservative and comparatively less educated section of the population which is not always well posted in the latest methods of banking and will not part easily with the well-known devices of safety which time-honoured practice has sanctified. Most of the *hundis* in use in this province are *sahjog hundis* which are always payable to known and respectable parties. There are very few *dhanijog hundis* in use and the *dekhanhar hundis* are entirely unknown. We would enact, then, that cheques originally drawn to bearer should retain their bearer character irrespective of any endorsements, though it would be open to a holder to protect himself by crossing and the drawer, but only the drawer could convert the word "bearer" into "order" under his signature on the face of the cheque. The *hundi* drawn as *sahjog* would remain *sahjog* throughout and the *dhanijog hundi* would also remain *dhanijog* throughout, unless an analogous device giving the same protection as "crossing" is provided by law.

213. *Standardisation of hundis*.—In this connection we also suggest that there should be a separate section of the Negotiable Instruments Act dealing with *hundis*. We are not in favour of withdrawing the protection which the Act gives at present to local custom in the use of *hundis*; but it is obvious that if the *hundi* is to play the part which we intend it should in the commercial and industrial life of the country, its forms should be standardised and the customs connected with it reduced to some sort of uniformity. By these means alone can it be universalised and rendered negotiable in all parts of India. So far as this province is concerned the forms in use are practically the same as those of Western India and no difficulty would be experienced in popularising standard all-India printed forms. We recommend that the question should be examined further by a sub-committee of the central committee and some privileges should be attached to the forms recommended by it to encourage their use throughout the country.

PART III.

CO-OPERATION.

CHAPTER X.

The organization of Co-operative credit agencies.

214. *Scope of the chapter.*—The early history of the co-operative movement in India has been frequently recounted and is sufficiently set out in the Report of the Royal Commission on Agriculture. It is enough here to describe the organisation as it stands to-day in the province.

215. *The Provincial Bank.*—At the apex of the credit organisation stands the Bihar and Orissa Provincial Co-operative Bank, Ltd. with its office at Patna. This was founded in 1914 to connect co-operative banks with the money-market. It has now a working capital of about Rs. 66½ lakhs. It assists the central banks by providing firstly, ordinary loans for use as part of their working capital, secondly, cash credits to enable them to work on a low level of till money, and thirdly special cash credits, known as "maximum credit" available at seven days' notice to meet emergent demands. It draws its own finance mainly from deposits by the public, but the central banks and societies have contributed appreciably. Its paid-up share capital is a little over Rs. 5 lakhs, and it can also draw on the Imperial Bank by operating cash credits there. It is managed by a board of directors elected by the shareholders, and is in fact an ordinary joint stock bank in essence. Further details will be found in the next chapter.

216. *The central banks.*—Next come the central banks which are all affiliated to the Provincial Bank, though many of them existed before it was founded. There are now 66 of these having a working capital of Rs. 2.27 lakhs. They follow three types. Most of them have two kinds of shares, preference shares open to individual subscribers, and ordinary shares open to affiliated societies only. The second type has no preference shareholders, but admits a limited number of individual members to supply the talent necessary for management. The third type, a recent innovation, also has no preference shareholders, but guarantors, who have come forward to stand security for the bank's default. In the first type the preference shareholders usually elect half the directors and the ordinary shareholders, i.e., the affiliated societies the other half. In the second all the directors are elected by the ordinary shareholders, but the "individual members" are usually

well represented on the board. In the third type the guarantors supply half the directors and these can by a unanimous vote veto any resolution proposed before the board.

The central banks' principal function is to supply the loans, which form the bulk of the working capital of their affiliated primary societies. In 1928 they lent Rs. 75½ lakhs and had Rs. 2,05 lakhs outstanding. They obtain their finance during the first few years of their existence mainly from the Provincial Bank, but later on mainly from deposits by the public. Generally they now restrict themselves to taking deposits only from individuals residing in the area in which they operate, and either refuse or accept on less favourable terms deposits from outsiders. The more successful banks have built up substantial reserves and have secured deposits from their affiliated societies, whose reserves they also, as a rule, hold.

217. *The primary societies.—Agricultural.*—Finally there are the primary societies, which at the end of 1928 numbered 8,905 with 255,337 members. Of these by far the most important are the agricultural credit societies with unlimited liability numbering 8,431 comprising 204,565 members. These have a working capital of Rs. 2.34 lakhs, on which to carry out their main function of lending to their members. In 1928 they lent Rs. 63 lakhs and had outstanding loans of Rs. 1,97 lakhs.

As a rule the membership of such a society is confined to one village, though there are frequently more than one society in a village. Candidates for membership are admitted if they secure the votes of three-quarters of the existing members, and no one can be expelled save by a like majority. The management is entrusted to a committee of five, elected at the annual general meeting, which also fixes the borrowing limit of the society and the limits for all individual members. Other matters decided at the annual general meeting are the election of delegates to the central bank and action to be taken against wilful defaulters, while the audit and inspection notes of the officers of Government and of the central bank are taken into consideration. Every member is jointly liable up to the full amount of his assets for outside debts contracted by the society, and this is the ultimate basis on which the whole movement as a credit agency rests. In order to make it effective the societies maintain a register of assets and liabilities of each individual member (*haisiyat*), and a copy of this is kept by the central bank and consulted when applications for loans are dealt with.

218. *Grain golas*—Besides these agricultural credit societies with unlimited liability there are now 83 rural limited credit societies, which deal mainly in loans in kind and are known as grain *golas*. Their membership is 27,249 and their working capital is valued at Rs. 3½ lakhs. Nearly Rs. 3 lakhs of this is either share capital or reserve, the latter being partly grain in stock. They lent Rs. 1,36 in 1928, and had outstanding loans of Rs. 2,62. Most of them are to be found on the Chota

Nagpur plateau, and they are usually most successful among the aboriginals. Some of them are democratic in constitution, but most are in practice, if not in theory, managed by a single individual, often an officer of Government.

219. *Other agricultural societies—guarantee unions.*—There are only 18 agricultural primary societies of other kinds, of which two have unlimited liability. These have a membership of 599 and command a working capital of Rs. 30. They include purchase and sale societies, a dairy society, irrigation and rent-paying societies and have no particular importance at present. There are also in the rural area 214 guarantee unions, which exist for the supervision of the ordinary rural credit societies and to guarantee the loans granted to such societies on their recommendation. They perform these functions for 1,982 out of the 8,431 societies. Their success has not, on the whole, been great and they have diminished rather than increased of recent years.

220. *Non-agricultural societies.*—Of non-agricultural primary societies there are now 373 with 22,924 members. Of these the most important class is formed of the 135 credit societies with 15,713 members and working capital of Rs. 25,88. It comprises societies both with limited and unlimited liability, but the former are much the more important. The credit needs of a great variety of persons are catered for, including superior, ministerial and menial officers of Government, employees of industrial companies, contractors, small traders, fishermen, weavers, artisans and depressed classes. They operate mainly, but by no means entirely, in the towns. Some have been very successful in meeting credit needs and stimulating thrift. Others have a depressing record of failure. A feature of growing importance is the traders' bank, which is spreading in the most important towns of the province, and provides finance for a number of traders, shopkeepers and others of moderate means at lower rates than they could get before. The essential point of organisation, the selection of really sound members at the beginning, who can be trusted to take in others of real creditworthiness, has been fully grasped, as a rule. "Purchase" and "purchase and sale" societies number 32 with 2,584 members.

221. *The Co-operative Federation.*—There remains the very important organisation founded in 1918 to relieve Government of the work, but not entirely of the cost, of auditing primary societies and of the training and discipline of the staff, required for that purpose as well as for the management of the central banks. This body, entitled the Bihar and Orissa Co-operative Federation, Limited, is supported by 8,812 out of the 8,905 societies, and through them has contact with 248,057 individual members out of 255,337. Its detailed working is carried on by a council of seventeen mainly elected annually by a congress of delegates from the constituent societies. The Registrar is *ex-officio* Governor, and has complete power of control over the audit staff. In other matters of internal administration the Registrar had till 1927 the right to refer difference of opinion between himself and the Council to Government for final decision. This right has now been

withdrawn. The Federation spends about Rs. 2½ lakhs a year to which Government contributes about one-third.

222. *Government aid and control.*—The aid which Government gives to the co-operative organisation has three divisions. The least important is occasional assistance to some new developments, by money grants or loans free of interest to particular central banks or societies, e.g., for building stores for grain societies. The total outstanding loan in 1929 was only Rs. 72. The second kind of aid afforded by Government is in subsidies to the Co-operative Federation. In this way Rs. 81 was paid in 1928 towards the cost of audit of primary societies, of which about one-third is borne by Government, the cost of audit of central banks and special types of societies, the cost of supervision of primary societies in backward areas, the training of probationers for posts, and the supply of account books to new societies. Government have also recently granted Rs. 5,000 annually to the development branch of the Federation for training supervisors, bank managers as well as the officers of the primary societies and for propaganda. But by far the most extensive contribution which Government makes to the successful working of the co-operative societies, is by providing a staff of officials to direct their audit and to supervise and stimulate their activities. This now consists of the Registrar of Co-operative Societies, the Deputy Registrar, nine Assistant Registrars and one Chief Auditor, besides three temporary appointments. In addition three special officers are entertained for organising societies in backward areas, and 28 honorary organisers receive their travelling cost from Government. In all the control of the movement cost the local Government Rs. 3,56 in 1928-29, and the expenditure averaged in the period 1924—27, Rs. 2,83.

The general policy of Government towards the movement has been throughout to encourage the development of non-official administration as far as is consistent with the retention of the control necessary to fulfil their responsibility for adequate audit and, to a more limited degree, to secure advance on sound lines.

CHAPTER XI.

Details and statistics of co-operative banking business.

223. *Scope of this chapter.*—Following on the general survey of the co-operative credit agencies given in the last chapter it is intended to present here a more detailed picture of them; limited of course to their aspect as banks. We consider it advisable to do so, since without an analysis of their merits and defects it is impossible to judge what place they should or will occupy in the future structure of banking.

224. *The Provincial Bank, working capital.*—We begin with the Provincial Bank, which stands by itself as a real link between the borrowing peasant and the organised money-markets. It draws its working capital, which now stands at Rs. 66½ lakhs from (1) guarantee shares (Rs. 20 paid up out of Rs. 4,00 subscribed); (2) ordinary shares (Rs. 4,85 paid up out of Rs. 12,13 subscribed); (3) general and special reserve, Rs. 3,24; (4) deposits fixed, savings bank or floating from individuals, Rs. 40,77; (5) deposits of the same character from central banks and societies Rs. 11,58; (6) special deposits, including provident funds, reserve funds of central banks, etc., Rs. 1,23; (7) Cash credits with the Imperial Bank of India, Rs. 4,59.

225. *Interest rates on deposits.*—It pays 6 per cent. on the paid-up amount of guarantee shares, as well as ½ per cent. on the uncalled amount. It has in recent years paid 6 per cent. plus 2 per cent. bonus on ordinary shares. Its deposit rate for fixed deposits of one year is 4½ per cent., it pays 4 per cent. for savings bank deposits and 2 per cent. for current accounts. The last named rate is raised to 4 per cent. for current accounts of central banks.

226. *Cash credits and overdrafts.*—With the Imperial Bank there are two cash credit accounts, besides an arrangement for overdraft. The first cash credit of Rs. 4 lakhs is secured by promissory notes of a like amount, executed by the Provincial Bank in favour of the guarantee shareholders and endorsed by them in favour of the Imperial Bank. They have also executed agreements making these promissory notes continuing security and agreeing to pay the amount in case of failure on the part of the Provincial Bank to do so. Up to now the Provincial Bank has been permitted to draw on this account at ½ per cent. below

bank rate. But it must be remembered that it has to pay $\frac{1}{2}$ per cent. commission to the guarantee shareholders on the uncalled amount of their shares (at present Rs. 3,80) and has paid a steady dividend of 6 per cent. on the called-up amount. The Imperial Bank has recently given notice that it requires in future the full bank rate on withdrawals from this account.

The second cash credit account of Rs. 3 lakhs is secured by promissory notes of Rs. 4 lakhs executed by the central banks in favour of the Provincial Bank and endorsed by it in favour of the Imperial Bank. Credit on this account is granted at bank rate.

There is further the overdraft account of Rs. 2,85, secured by Government paper of face value of Rs. 3 lakhs belonging to the Provincial Bank endorsed in favour of and deposited with the Imperial Bank. Credit on this account is also granted at bank rate.

227. *Investments.*—Coming to the lending side of its business, the Provincial Bank endeavours as far as it can to place its money with the central banks and societies of the province, for whose assistance it was founded. At the end of 1928 it had out on fixed loans Rs. 36,21 with the central banks and Rs. 79 with societies. A further sum of Rs. 2,96 was out on cash credits, and Rs. 92 on "maximum credits", which are allowed up to a limit on seven days' notice. Thus finance of nearly Rs. 41 lakhs was then provided to the affiliated banks and societies. The rate of interest for fixed loans was reduced from 7 to 6 per cent. at the beginning of 1928, but some banks and societies have still to pay 7 per cent. on their use of the cash credits.

At the same date the Bank was accommodating individual depositors with loans of Rs. 86 against their fixed deposits. It had placed Rs. 9,60 with three other provincial banks, and held Government securities with face value of Rs. 15,11. The sum invested elsewhere than with the co-operative institutions of the province itself was thus about Rs. 25½ lakhs, out of a total investment of Rs. 66½ lakhs. The Bank is obviously in a position to render more financial aid to its affiliated societies when they require it, even without attracting more deposits. At the same time, as its Directors well realise, it has no very large resource for long-term lending, and so could not step immediately into the position of an apex bank for land mortgage banks, should those come into existence.

228. *The central banks' working capital.*—The central banks next demand our attention. Out of 66 central banks or banking unions, 46 reported to us, in reply to a special questionnaire, which is printed as an Appendix to this report, their working capital at the close of 1928 and the way in which it was made up. For the remaining 20 the figure of working capital has been taken from the annual report of that year.

	Bihar.	Chota Nagpur plateau.	Orissa coast districts.	Whole province.	Annual Report figures.
(a) Number of reporting banks	25	13	8	46	..
(b) Non-reporting banks ..	15	3	2	20	..
Percentage of working capital held as—					
(i) Paid-up share capital ..	9.2	9.8	10.2	9.6	10.0
(ii) Deposits ..	61.7	71.8	70.9	64.8	67.0
(iii) Other borrowings ..	22.1	10.3	11.1	18.4	17.7
(iv) Reserve fund ..	2.8	4.5	3.4	3.2	} 5.3
(v) Other funds ..	2.7	1.9	2.3	2.4	
(vi) Undistributed profits ..	1.0	1.1	1.1	1.0	..
(vii) Miscellaneous ..	.5	.6	1.0	.6	..
Total working capital of reporting banks ..	Rs. 1,01,16	16,86	34,15	1,52,17	..
Total working capital of non-reporting banks	Rs. 66,08	3,92	6,38	76,38	..
Grand Total ..	Rs. 1,67,24	20,78	40,53	2,28,55	..

(There is a small discrepancy between the grand total figure and that given in the annual report, Rs. 2,27,35 which we have been unable to reconcile).

Bihar with 61 per cent. of the rural population of the province employs 73 per cent. of the total working capital of the central banks; Chota Nagpur with 26 per cent. of the population employs only 9 per cent. of the capital, while for Orissa the figures are 13 per cent. and 18 per cent. The Catholic Mission Society in Ranchi, which operates as a bank though it is registered as a primary society, has a working capital of Rs. 8 lakhs, and this addition would slightly improve the position of Chota Nagpur. But it is clear that this tract is less well provided with co-operative finance than the rest of the province.

229. *Share capital.*—The paid-up share capital is partly that of the primary societies, who are obliged to take shares equal to 10 per cent. of their borrowing limits, and partly subscribed by individuals. The former is becoming more and more important as the number of primary societies increase, and further because many of the newer banks are "banking unions" in which primary societies hold most of the shares. The shares held by individuals are not as a rule freely transferable but can be sold only to persons approved by the Directors. The share capital bears a fairly constant and adequate proportion to the

working capital, and there is in addition about half as much again of uncalled share capital.

230. *Reserves.*—The reserves have now reached a respectable figure, and have risen steadily of late. The annual reports show that in 1926 the addition to reserve and other funds was 9 per cent. of the addition to working capital, in 1927 10 per cent. and in 1928 13 per cent.

231. *Comparison with other banks.*—Thus the central banks taken as a whole own their capital to an extent which compares favourably with the other principal banks operating in the province, as the following table shows :—

Bank.	Percentage of paid-up share capital to liabilities.	Percentage of reserves to liabilities.	Percentage of owned capital to liabilities.
Central co-operative banks	10.0	5.3	15.3
Imperial Bank of India	5.8	5.4	11.2
Central Bank of India	7.2	4.3	11.5
Allahabad Bank	3.0	3.7	6.7
Benares Bank	10.0	5.4	15.4
Chota Nagpur Banking Association ..	1.1	10.2	11.3
Bank of Bihar	8.3	3.4	11.7

Judged broadly, then, on the basis of these figures the central banks present a satisfactory financial picture, though some are, no doubt, less soundly placed than others. It is neither desirable nor relevant to indicate the less secure institutions.

232. *Borrowed funds.*—The bulk of the working capital, however, comes from deposits and other borrowings. Of the latter practically all is borrowing from the Provincial Bank either against cash credits or as fixed loans. Cash credits with the Provincial Bank contribute 7 per cent. of the total of "other borrowings" and fixed loans from the same source 90 per cent., the rest being cash credits with other banks, loans from Government and from other sources.

233. *Deposits.*—The details of deposits so far as they have been reported by the banks are as follows :—

	Bihar.	Chota Nagpur.	Orissa.	Whole province.
Total reported deposits ..	Trs. 61,16	11,88	12,76	85,80
Percentage received from :—				
A.—Primary Societies—				
At call	1.5	3.6	.9	1.6
One year .. ..	.2	2.0	1.7	.7
Two years	0	0	0	0
Three years	0	.1	0	0
Above three years .. ..	.4	.3	.3	.4
B.—Private individuals—				
At call	11.7	9.5	8.5	10.8
One year	42.8	58.7	36.9	43.6
Two years	14.6	.5	.3	11.6
Three years	23.6	13.2	37.6	23.9
Above three years	5.2	12.1	13.8	7.4

These statistics cover about half the total deposits from primary societies and private individuals and so can be taken as fairly representing the position. It is clear that the amount of deposits received from the primary societies is insignificant and nearly all of it is held at short notice. There is thus no support to be looked for from the societies in time of need. The major part of the deposits in Bihar and Chota Nagpur is held at call or one year's notice, the proportion in Chota Nagpur being particularly high. In Orissa the amount held at three or more years' notice is decidedly higher than elsewhere. The bearing of these figures on the wisdom of taking up long-term business will be discussed when the amount of such business already accepted has been set out.

234. *The classes of persons who deposit.*—An analysis of the classes who entrust their savings to the banks gives the following results:—

Class.	Percentage (1928).	Percentage (1924).
Landed proprietors	17.9	19.3
Agriculturists	8.0	2.9
Professional men	21.5	24.0
Traders	2.9	2.3
Females	16.1	9.4
Public servants	31.0	38.0
Contractors .. .. .	.4	.6
Moneylenders	2.2	3.5

The most interesting point about these figures is the considerable increase of deposits by agriculturists though they still contribute but a small proportion. The three principal sources of deposit are the landed proprietors, the professional men and the public servants, though they no longer preponderate to the extent that they did. The growing importance of investment by females indicates that the central banks command the confidence of those in the position of trustee.

235. *A glut of deposits.*—In the year 1926 it was found that the central banks had attracted deposits beyond what they could profitably use, and since for other reasons it was undesirable to expand their lending rapidly enough to absorb their surpluses, it was necessary to take drastic action to avoid losses on idle money. The rates of interest were reduced, outside depositors discouraged and, in certain banks, even local deposits refused. The desired effect appears to have been produced, since very few banks now report that they have a plethora of deposits.

236. *The present restrictions on deposits.*—As a result of this action the great majority of the central banks nowadays practically restrict the privilege of deposit to persons living in the area which they serve, their by-laws requiring a reference to the Provincial Bank before accepting

a deposit from any one residing outside that area. In some banks outside depositors are offered a rate 1 per cent. below that given to local depositors. The rate on deposits from private individuals, for one year, which are the most important class of deposit, has been reduced from a general level of 8 per cent. to 6 per cent. in Bihar, 7 per cent. in Orissa and 6 per cent. in Chota Nagpur. Most banks report that this has not seriously stimulated withdrawals, though some Orissa banks think it has.

237. *Loans made.*—Turning to the lending business of the banks, the following statement shows the extent to which loans have been given out by the central banks year by year and the amount of loans outstanding at the end of each year. The figures are taken from the annual reports :—

	Working capital.	Loans made during the year.	Percentage on working capital.	Loans due at the end of the year.	Percentage on working capital.
1	2	3	4	5	6
	Trs.	Trs.		Trs.	
1922 ..	93,94	51,71	55	79,40	84
1923 ..	1,17,77	68,28	58	1,07,99	92
1924 ..	1,45,95	60,85	42	1,32,51	91
1925 ..	1,72,45	68,53	40	1,49,98	87
1926 ..	1,95,52	68,10	35	1,71,09	87
1927 ..	2,07,06	67,47	33	1,82,96	88
1928 ..	2,27,35	75,49	34	2,05,24	90

(The figure for loans made in 1923 is the reported figure multiplied by 12 and divided by 7, since the report of that date covered only seven months.)

It is significant that, while the proportion of "loans made" to "working capital" has decreased steadily and appreciably, that of "loans due" to "working capital" has remained very nearly stationary. The first fact points to a lengthening of the period for which loans are made, unless we are to conclude that the banks have not in recent years fully employed their funds. This conclusion is negated by the second fact, viz., the constancy of the percentage of "loans due". It is clear, then, that in these seven years the average period of "loans made" has increased from something under two to something about three years.

238. *Purposes of loans.*—This tendency is again illustrated by the classification of the purposes, for which loans have been taken, a matter which might be more properly dealt with in discussing the working of the primary societies, but which it is convenient to take up here. This classification was made in the annual reports up to 1925, but has since been dropped. We can, however, carry it on from the special reports of borrowings by members from their primary societies supplied to us by most of the central banks. The purposes have been grouped, according as they are a fit subject for a short, medium or long-term loan.

Purpose of loan,	1923 Percentage.	1924 Percentage.	1925 Percentage.	1926-28 Percentage
I. (Short Term).				
Cultivation	15.0	11.6	8	8
Rent	9.8	16.6	13	7
Petty trade and industry ..	14.0	13.5	12	14.5
Maintenance (including house repairs)	10.3	4.0	6	5.5
Total	49.1	45.7	39	35
II. (Medium Term).				
Purchase of cattle ..	11.0	13.4	13	13.5
Social occasions ..	4.1	4.2	4	4
Total	15.1	17.6	17	17.5
III. (Long Term).				
Payment of debt (including redemption of land) ..	25.3	28.6	30	33
Purchase of land ..	5.7	2.9	7	9.6
Improvements	0.4	2.2	3	2
Litigation	0.3	..	..	..
Total	31.7	33.7	40	43.5
IV. Miscellaneous	4.1	3	4	4

Though some doubt may be thrown on the absolute accuracy of the reports regarding the purposes for which loans are taken, especially those purposes which the co-operative movement definitely discourages, yet there is no reason for mistrusting comparisons from year to year.

There is a perfectly obvious trend towards loans of longer term, and it is probable that, if the figures for the last three years were separately shown, the trend would appear even more marked.

239. *Due date of repayment of loans.*—The results of this growing tendency to give out loans for purposes, which do not allow of early repayment, may be seen from the following table, which analyses the loans due from the rural primary credit societies to the central banks according to the year in which repayment is due. The figures are those reported by 45 banks, whose working capital amounted at the time (December 31st, 1928) to Rs. 1,45,28.

Repayable in the year	Bihar.	Chota Nagpur.	Orissa.	Whole Province.
	Trs.	Trs.	Trs.	Trs.
1929	28,70	4,16	5,39	28,25
1930	20,56	3,14	3,94	27,64
1931	16,26	2,44	4,16	22,86
1932—38	18,35	3,76	15,12	37,23
1939 or later	Nil	10	69	79
Total	83,87	13,60	29,30	1,26,77
Working capital	96,15	14,98	34,15	1,45,28

It will be seen that some 19 per cent. of the working capital of the Bihar banks, some 25 per cent. of that of the Chota Nagpur banks and some 46 per cent. of that of the Orissa banks was locked up in loans which were not due for repayment within three years. At the same time the proportion of the working capital locked up beyond ten years was negligible except in Orissa.

240. *Revision of kists.*—This position is the outcome of the very general policy, which has been adopted in the last few years, of revising the *kists*, or due dates of instalments, of loans taken by the rural credit societies from the central banks. The banks were asked by us to report results of such revision approved during the last three years. Of the 46 banks, which complied with this request, 39 had put revision into effect in that period. In some reports the figures were confused and could

not be utilized. Those that appear to be trustworthy give the following result.

Amount due in—	Before	After
	revision.	revision.
1. The year of revision	Trs. 31,71	Trs, 14,58
2. The first year after revision	13,57	11,85
3. The second year after revision	9,71	10,51
4. Subsequent years	10,80	26,84
Total	65,79	72,78

(The increase in the total represents no doubt the interest resulting from the extension of the time for repayment.)

241. *Review of the position.*—The facts given in the preceding paragraphs sufficiently reveal what has been going on in the central banks during the last few years. It is not our intention to pass an adverse judgment on the conduct of the banks in this matter. Indeed there is no doubt that the application of a considerable part of the loanable capital to long-term needs, such as repayment of debt or improvements, is both necessary and desirable. If the fact, that loans had been granted for objects which did not admit of speedy repayment, had not been sufficiently realised at the time of granting them, it was obviously proper to revise the *kists*. The danger in the whole process, which requires constant vigilance, is a failure to observe the change in the nature of the business done, and to make the suitable adjustments in the schedule of liabilities.

The figures given in paragraphs 228 and 233 show that of the total working capital of the reporting banks 9.6 per cent. is paid-up share capital, about 7.2 per cent. is reserve, other funds, undistributed profits and miscellaneous, while 5 per cent. is deposits held at periods of more than three years. Thus about 22 per cent. of the working capital is money against which loans of more than three years are fully justifiable. The table in paragraph 239 shows that at present about 28 per cent. of the working capital of the reporting banks is out on such loans to rural credit societies alone. We cannot say what other investments of the same character have been made with other types of society, but we believe that they are small. It may also be urged, though the argument is a somewhat dangerous one, that since fixed deposits for three years or less are, as a matter of fact, generally renewed, it is safe to take up long-term business against some proportion of such deposits. Further cash credits and loans from the Provincial Bank make up 18 per cent. of the working capital, and these, it may be argued, are unlikely to be called in, when, if ever, the ordinary depositors become nervous.

There is some force in these contentions and viewing them along with the present proportion of "long-term" assets to "long-term" liabilities, we are satisfied that the process of shift from short to long-term loan business has as yet hardly reached the danger zone in the province as a whole. It is also satisfactory to notice that the Orissa banks, where the process has gone further than elsewhere, hold a larger proportion of their working capital in the shape of "long-term" liabilities. Yet it must be remembered that each bank has got to stand on its own legs, and though the strength of the banks, as a whole, in this respect appears to be fully demonstrated, there may well be some which are decidedly weaker than the average.

We recommend that the directors of the individual banks, as well as the auditors, should examine their position in this respect not only now, but as a part of the annual routine. Since the figures in paragraph 238 show a steady increase in the proportion of long-term business to the whole, it is clear that a frequent examination of the position is necessary.

242. *Present classification of loans according to term.*—The majority of the central banks, in fact, have not hitherto made any clear distinction between long and short-term loans, when lending to the primary societies. Those that have attempted to do so class all loans of more than three years as long-term. For these the period in Bihar appears to be round about five years, in the Orissa division the general period is seven years, and in the Chota Nagpur division five years. The period in Bihar is very rarely extended beyond eight years, though in Orissa and Chota Nagpur ten or eleven years is sometimes allowed. No doubt a conservative attitude towards long-term assets was desirable in the earlier stages of the movement, and this was in effect enjoined by the Registrar's circular of 1915. This advised that loans for seed, food, cultivation expenses and the like should be repaid within one year from the next harvest, loans for purchase of live and dead-stock, house building, social ceremonies and repayment of small debts within two or three years, and loans for improvements, purchase of land, and repayment of big debts in four or five years. It was not till 1927 that fresh instructions were issued, when the heavy accumulation of arrears had made the revision of *kists* imperative. It was then laid down that all loans for which the period of repayment is in excess of two years should be classed as long-term, and for these the period might run from two to ten years according to circumstances. The limit for the grant of long-term loans in this sense was set at the total of (i) the Central Bank's paid-up share capital, (ii) its own reserve, (iii) the primary societies' reserve excluding the portion held as shares in the Central Bank, and (iv) 25 per cent. of the Central Bank's deposits.

243. *Recommendations.*—It seems to us that the three-fold classification of 1915 is preferable, though the periods laid down then were in some cases too short. Our evidence goes to show that a great part of the annual borrowing from the village money-lender is actually repaid in

normal seasons on the harvest of the year. Every effort should be made to get back the really short-term loans, i.e., those for cultivation and maintenance, on the year's harvest, and extension to a second year should only be allowed when the crop is markedly below the normal. This is essential, if, as we recommend later, the central banks are to attract cheap money from urban sources, when it is not required for moving the crops. Next should come the medium term loans for all other purposes than those definitely assigned to short or long-term. For these medium term loans a period of two to five years appears suitable. Lastly for improvements, purchase of land and repayment of debts other than very small ones, including the redemption of mortgaged land, the period should be fixed so as to admit of repayment from the profits accruing on the transaction for which the loan is taken. In accepting this business the central banks are already performing the function of land mortgage banks, and should profit by the experience derived from such institutions, if they are to continue to operate safely. The period should never be less than five years and might well be extended to fifteen years, and it would be desirable to arrange equated payments so as to cover both principal and interest. It may also be necessary to let these loans run for the first one or two years without any repayment whatever.

We fully recognise that this plan may involve more elaborate accounting, and that the primary societies and even some central banks cannot easily command officers capable of operating a complicated system. If, however, the auditors employed by the Registrar really tackle the problem it should not be impossible to train the existing staff adequately. We feel that if the central banks are to be allowed to become, as they are somewhat rapidly tending to become, the main agency for supplying credit to the small agriculturist for debt clearance and improvement, it is essential that the long-term loan business should be kept clear of the other business; otherwise serious trouble may be ahead. It will be specially necessary to do so if as seems inevitable the central banks will shortly be obliged to supplement their long-term capital by raising debentures. Should these recommendations be adopted it will be necessary to lay down a new standard for the amount of each class of business that a central bank should aim at undertaking. It would be a very useful outcome of the Banking Enquiry if such a standard could be authoritatively established.

244. *Collection of dues—Central banks.*—How far the central banks are able to realise their current demand from primary societies of all kinds, has not been precisely ascertained. The annual reports of the Registrar give the following figure for the percentage of recovery of loans on the total demand including the arrears of previous years:—

Year.	Percentage.	Year.	Percentage.
1923	... Not known,	1926	59
1924	... 57	1927	68
1925	... 63	1928	65

The improvement in the last two years must be discounted for the fact that in 1927 began the process of revising the *kists*, which automatically decreased the demand for the year and spread the arrears of previous years.

245. *Collection of dues—Agricultural credit societies.*—The statistics for the transactions between primary societies and their members can and have been extracted from the reports in greater detail:—

Year.	Overdue loans.	Receipts for loans and deposits.	Percentage of 3 on 2 plus 3.	Current demand.	Loans outstanding.	Percentage of 5 on 6.
1	2	3	4	5	6	7
	Trs.	Trs.		Trs.	Trs.	
1923 ..	12,22	Not known.				
1924 ..	18,78	25,66	58	32,22	1,19,73	27
1925 ..	23,88	35,44	59	40,54	1,36,61	30
1926 ..	30,17	42,06	59	48,35	1,59,92	30
1927 ..	19,98	42,23	68	32,04	1,70,72	19
1928 ..	22,26	37,21	63	39,49	1,96,62	20

[The percentages in column 4 differ slightly from those given in the annual reports for what is somewhat loosely called "Collection from members by societies". The current demand figures have been deduced by subtracting the overdue loans figure of the previous year from the sum of the overdue loans figure of the current year and of the receipts figure for that year.]

The percentages of collection on total demand agree closely with those shown for the central banks, as might be expected seeing that the great bulk of the banks' business is agricultural credit. The last two years show a fictitious improvement, which is really the result of *kist* revision. It would have been reasonable to expect a much greater improvement. The sudden drop from a current demand of about 30 per cent. of the outstanding loans to about 20 per cent. between 1926 and 1927 is another result of the same cause and illustrates very clearly the marked extension of the term of credit.

246. *Varying success in collection.*—The central banks were asked to report their percentage of collection from rural credit societies on total demand of the years for 1926, 1927 and 1928, as well as the corresponding figures for the rural credit societies and their members. Most of

them complied with the request, but some reports were clearly incorrect and had to be ignored. Among those which have been used (though some may not be free from errors) the following distribution is found :—

Percentage.		Central banks collection.	Rural societies collection.
1 to 20	...	3	5
21 to 40	...	11	16
41 to 60	...	24	28
61 to 80	...	27	33
81 to 100	...	35	29

There is evidently a great deal of variation in the success attained in collecting dues. With overdues now amounting to 55 per cent. of current demand, nothing lower than a collection of 70 per cent. of the total demand will check the growth of overdues.

247. *Collateral security for loans.*—The central banks and the rural credit societies have in the last few years generally adopted the plan of supplementing the protection, which the unlimited liability of all the members of a primary society gives against default, by taking collateral security when loans of some magnitude are granted. This takes the shape of a mortgage without possession on the landed property of the borrowing member, i.e., in the vast majority of cases the occupancy right in the land. Nearly all banks and societies have fixed the limit above which such security is required at least as low as Rs. 200 and many as low as Rs. 100. The principal object of the system is to prevent the member from mortgaging his property to a money-lender, and its general adoption strongly confirms the impression that there is still a great deal of borrowing by co-operative members from credit agencies other than their societies. The estimates made by the central banks of the proportion of total debt due to rural credit societies, which is backed by such security, vary widely from 20 to 90 per cent. It is probably not far off 50 per cent., though it naturally varies with the limit adopted.

This radical departure from the underlying principle of rural co-operation, dependence on unlimited liability, has not attracted as much attention as might be expected. We are satisfied that as a precaution against mortgaging land to the village *mahajan* after entry into a society the system is not objectionable. But it is not so certain that the limit should be placed as low as Rs. 100, and it would probably be better to enforce collateral security for all long-term debts and to waive it, save in exceptional cases, for all others.

248. *Liquid resources.*—Practically all central banks rely on the Provincial Bank for liquid resources. In normal circumstances they operate on their ordinary cash credit with that bank, except a very few which have cash credits with local branches of joint stock banks. Such accommodation can be obtained in two or three days at the outside. When this proves insufficient resort is had to a separate credit offered by the Provincial Bank called "maximum credit" which permits

withdrawal at seven days' notice by transfer to the cash credit account. In both cases the interest charged is that which the bank desiring the credit gives on one year deposits by the local public. The system works well, and few banks have had occasion to use it extensively. In one newly formed bank there was a temporary crisis resulting in loss of business, because it took six weeks to get special credit from the Provincial Bank. This should not recur in view of the new "maximum credit" arrangement.

249. *The agricultural credit societies with unlimited liability—Working capital.*—The details of the business carried on by agricultural credit societies have inevitably been displayed in the preceding paragraphs to a very considerable extent. It will still be useful to give further details here.

At the end of 1928 the agricultural credit societies with unlimited liability numbered 8,431 and comprised 204,565 members. The increase since 1923 has been about 67 per cent. in both cases although in the last few years development has been slowed down deliberately. The working capital now stands at Rs. 2,33,69, an increase of about 106 per cent. on the 1923 figure. Share capital has increased by 290 per cent. and now stands at Rs. 12,63, though it is still difficult to get the members to understand why a part of their loan, taken at $12\frac{1}{2}$ to $18\frac{1}{2}$ per cent., should be kept back and give them interest at $9\frac{3}{4}$ per cent. at best. Deposits by members have risen by 110 per cent. to Rs. 5,29; reserves by 116 per cent. to Rs. 24,58. Thus there is in all Rs. 42,50 of accumulated savings held by the societies from their members. The saving of the individual member averages Rs. 21. This is not yet a very impressive figure but it represents a distinct advance on the average of 1923 which was Rs. 15. From non-members deposits of Rs. 2,19 are held, an increase of only 14 per cent. on the figure for 1923. There has up to now been no serious effort to attract outside capital direct to the primary societies.

250. *Loans made.*—The loans to members stood at the end of 1928 at Rs. 1,96,62, an increase of 98 per cent. Thus between 1923 and 1928 the average indebtedness of the member to his society increased from Rs. 81 to Rs. 96. The rise is less than half that which has occurred in the price paid for occupancy rights in land, and gives no cause for uneasiness. The overdue loans stand at Rs. 22,26 or 11.3 per cent. of the loans outstanding. In 1923 the percentage was 12.3, but the improvement has to be discounted by the fact already stated that somewhat drastic postponement of the due dates of repayment has been carried through in the last two years. The position in 1926, when the percentage was as high as 18.8, gave real ground for mis-giving. The revision of *kists* came none too soon to save many of the primary societies from liquidation, which in our opinion would have been the inequitable result of failure to distinguish adequately between long and short-term credit.

251. *Delays in making loans.*—The rural credit societies are scarcely ever able to finance their own members, even for short-term purposes, out of their own funds. They still rely in the main on borrowing from their central banks for these as well as for other purposes. It is, therefore, of much importance that such loans should be given with great promptitude, and all our evidence indicates that they are not. Though some banks can put through the business in one week, a month or even six weeks frequently elapses between the application and the actual receipt of the money by the individual member. The reason for this delay is that the central banks, as a rule, insist on a scrutiny of each and every loan application by their own staff, if not by the working committee of the directors. We cannot believe that so much caution is really required, and we agree with those witnesses who urge that the practice stunts the growth of responsibility in the primary societies themselves. The remedy is the cash credit system, by which the primary society is allowed to draw on the central bank up to a maximum, fixed at the beginning of the year, for needs which have to be met promptly. This is already working satisfactorily in some central banks who have granted the facility to their better primary societies and we recommend that it should be extended as rapidly as circumstances permit. It is true that in some primary societies the difficulty is met by obtaining temporary deposits from the richer members, but, speaking generally it is clear that, at present, the members of primary societies are often obliged to resort to the money-lender for short-term loans. Though these may be repaid as soon as the central bank's money is received, the interest on them is not negligible, and the position of the members is unnecessarily worsened.

252. *Other agricultural credit societies—Grain golas.*—Besides the societies whose position has just been described there are 83 grain *golas* on a limited liability basis. These have a working capital of Rs. 3.51 of which Rs. 60 is paid up share capital and Rs. 2.34 reserve. The balance is made up of loans from the central banks and Government in about equal proportions, with a minor item of deposits. Thus these societies operate very largely on their own capital, and it is not surprising that they show a profit of about 13 per cent. on their working capital, while the ordinary unlimited liability societies show a profit of less than 2 per cent.

253. *Other primary societies.*—A considerable proportion of the central banks finance, or have till recently financed, co-operative societies other than agricultural credit societies. These include urban credit societies, organised to supply credit to traders, ministerial officers, weavers, artisans, etc., as well as co-operative stores, both rural and urban, rural credit societies for fishermen, weavers and artisans, rural sale and purchase societies and others. Some of these enterprises have been successful, particularly the urban credit societies and urban co-operative stores. But others have been failures of a more or less serious character, especially the rural sale societies and the rural stores.

254. *Need for concentrating more on agricultural credit societies.*—As a result of financing the failures about 10 per cent. of the central banks have met with some degree of financial embarrassment. We are convinced that until the main object for which the co-operative movement was started, viz., the solution of the problem of agricultural indebtedness, is much more nearly in sight of attainment, it is desirable that central banks should strictly limit their financial commitments with classes of co-operative enterprise other than agricultural credit societies. This will be specially necessary, if, as we anticipate, their long-term agricultural credit business very greatly expands. Though no doubt useful work has been and can be done in these other directions, it is folly to jeopardise success in the main objective by rash adventures into minor activities, however attractive they may at first sight appear to be.

255. *Liquidations.*—The crucial test of the soundness of a system of supplying credit is the frequency with which the individual institutions comprised in the system have been forced to dissolve.

Fortunately so far the major catastrophes have been avoided. Not a single one of central banks has been reduced to liquidation in the sixteen years of the existence of this type. But the primary societies have not been in such good case. Precise figures are wanting, though no doubt they could be obtained. The annual reports show that in 1922-23 (June to June) 80 societies were brought under liquidation, 26 in the remainder of the year 1923, 92 in 1924 and 129 in 1925. No figure is given either for 1926 or 1927, but at the close of 1928 it appears that 274 societies were under liquidation. As the proceedings sometimes take as long as ten years to complete, the last figure is not so formidable as it looks. But it seems that some 90 liquidations are to be expected every year or 1 per cent. of the total number of societies. For the last two years figures for the loans due from societies liquidated have been reported, about Rs. 1½ lakhs in 1927 and about Rs. 2 lakhs in 1928. After deducting repayment of the year amounting to Rs. 78 by all liquidated societies, the total outstandings, at the end of the year were Rs. 6,34.

The Registrar was asked to supply us with figures to show to what extent the principle of joint unlimited liability has in practice been enforced. It appears that in the last five years liquidation proceedings have been carried through, which have resulted in realisation of Rs. 2,10,502. Of this only Rs. 4,498 was realised by the application of the principle. In 37 liquidations of which details were supplied, the principle was applied in only two, in which Rs. 2,483 was collected by use of it out of Rs. 79,593 realised in all from the 37 societies.

256. *Fear of unlimited liability.*—These figures indicate that the risk of any individual member being called upon to shoulder the liability of defaulters is very small, and that unlimited liability should not really frighten away prospective members of co-operative credit

societies. At the same time we had a good deal of evidence that in practice it does. In one village, for example, it was coupled with the monkeys who stole the cocoanuts as one of the two chief evils of life. There will, no doubt, always be some individualists who object to the principle, but we have come to the conclusion that they must be left to fend for themselves. Since, however, even a few cases in which the principle has to be applied create a widespread uneasiness, it is essential that every effort should be made to prevent societies reaching the stage of liquidation, or, if that is inevitable, to carry through the liquidation before individual defaulters become insolvent. To dispel the idea that unlimited liability is a serious risk, it would be well if the actual figures, which have been given above, were published as widely as possible.

CHAPTER XII.

Relations with other credit agencies.

257. *Aid from western banking.—Liquid resources.*—The co-operative banks have at present very little contact with other credit agencies. The Provincial Bank has two cash credit accounts with the Imperial Bank of India and also has an arrangement for an overdraft. These taken together supply a potential credit of Rs. 9,85, of which about half was actually in use at the end of 1928. Previous balance sheets show a much smaller utilisation. The Provincial Bank and those central banks, that are situated in places where the Imperial Bank has a branch, keep a small current account with that bank. Five central banks have the same arrangement with a local branch of a joint stock bank. This is a convenient arrangement for safe custody of a part of their liquid resources, and the joint stock banks are prepared to pay 2 per cent. on these accounts. Some central banks use the post-office savings bank facilities for the same purpose.

258. *Remittance.*—The Imperial Bank by special arrangement allows remittance of funds between the Provincial and the central banks on Government account at par. It has recently been arranged that, on remittance between central banks and their primary societies made through the post-office, three-fourths of the charges will be refunded on presentation of the account at stated intervals.

259. *Aid from indigenous banking.*—With the indigenous banks and bankers the co-operative banks have no relations whatever except that some local bankers and money-lenders have recently begun to deposit in the central banks. In their private capacity some of them have been induced to become shareholders of the central banks and have been elected directors, in which capacity they have been very useful, especially as honorary treasurers.

260. *Summary of present position and possibilities of the future.*—It is evident that up to now the co-operative movement, as a whole, has not felt any serious need for closer co-ordination with the other organised credit agencies. The working capital of all societies, from the Provincial Bank to the primary society, now amounts to nearly Rs. 5½ crores, and of this not more than 1 per cent. is borrowed from, or left in the custody of, other banks. As the movement extends its scope it will, we believe, be necessary for it to seek a great deal more capital both from the regular banks and from the shroffs, who usually combine banking with large scale trading. We suggest later that, as soon as short-term business is clearly separated from medium or long-term, it will in many cases

be possible for the central banks to attract at favourable rates short-term money from these agencies during the time when it is not easily placed in urban business. At the other end of the scale comes the long-term credit, which will, we except, become increasingly important for debt clearance and improvement. For this debentures will, we have no doubt, have to be issued, and it is likely that the western banks will be found useful at the time of issue, while there is every reason to hope that both they and the shroffs will regard them as convenient forms of investment.

261. *Competition with other credit agencies.*—The other side of the picture, the extent to which the co-operative societies compete with the other credit agencies, can be presented in a few words. The main business for which the movement was started, the supply of better credit to the rural population, makes a very insignificant inroad on the business of joint stock banks or indigenous urban banking institutions, since these have never shown any serious signs of entering into that sphere. It is otherwise with the rural agencies, the village money-lenders. There is no doubt that the rural credit societies have begun to take an appreciable share of their business away from the money-lenders, though the latter hold their own with considerable tenacity even where the societies have been operating for many years.

It is probable, though direct evidence is not easy to procure, that the money-lenders without losing business altogether have reduced their rates of interest. To this extent competition has operated.

In the towns the success of most of the traders' banks on co-operative lines has not as yet been great enough to encroach on the lending business of the smaller urban money-lenders.

262. *Competition for deposits.*—The most important effect of the competition with urban credit agencies has, however, been the diversion of deposits from the shroffs. The competition was very effective as long as the central banks maintained as they did till a few years back a rate for one year fixed deposits ranging about 8 per cent. Now that all banks have reduced their rate to 7 and most to 6 per cent., the competition is less strong but still exists.

The following table shows the general position. Exceptional rates are ignored :—

	Current accounts.	Savings bank.	Fixed deposit. one year
Imperial Bank ...	Nil	3	3½
Post office ...	—	3	—
Provincial Bank ...	3	4	4½
Orissa Central Banks ...	—	4	7
Other Central Banks ...	—	4	6
Orissa joint stock banks ...	—	3½	6½ to 7½
Other joint stock banks ...	2 to 3	3½ to 4	5 to 6

Shroffs vary their rates of interests for individual customers and do not discriminate definitely between deposits for different periods. First class shroffs pay from 4 to 6 per cent. and second class shroffs from 6 to 9 per cent.

CHAPTER XIII.

The adequacy of co-operative banking.

263. *The proportion of the rural population and of their credit needs covered by the societies.*—The statistical analysis of Chapter V points with some considerable degree of precision to a total indebtedness of Rs. 155 crores for the rural population. Of this Rs. 24 crores is owed by the comparatively small class of landlords (about 1 per cent. of the population) and the balance of Rs. 131 crores by the actual cultivators and others. It is with the last two classes that we are primarily concerned here. The agricultural credit societies aim at supplying fully their needs. These amount to an annual requirement of about Rs. 33½ crores, of which the societies, including the *grain golas*, supply at present about Rs. 64½ lakhs or roughly 2 per cent. It is probable that about one-fourth of the population are ordinarily free from debt, while a small percentage are so hopelessly involved as to put them outside the scope of an organised credit agency. The number of rural households that are potential clients of the co-operative banking system would thus be about 4¾ million, of whom about 232,000, or nearly 5 per cent., are actual members of agricultural credit societies.

264. *Probable development.*—These as yet, then, do not play a very impressive part in the provision of rural credit. But a comparison of 1923 figures with those of 1928 shows that membership of these societies has risen by about 11 per cent. a year, and working capital by about 15 per cent. This is the more remarkable since the spread of the movement has been deliberately slowed down in view of certain grounds for misgiving. If this rate of expansion is maintained, it may be reckoned that membership will double itself every six years, and working capital every five years. Thus in some 25 years, the membership might well be 80 per cent. of the potential clients, instead of merely 5 per cent., and the working capital sufficient to meet 64 per cent. of the total annual borrowing instead of merely 2 per cent. Here is surely no ground for despondency.

265. *Future finance.*—Up to now the movement has found no difficulty in attracting the outside financial help that it has required for the expansion of its business. Indeed three years ago there was a plethora of deposits, which a lowering of the rate of interest has with difficulty relieved. With closer links to the general money-market which it is hoped will result from the Banking Enquiry, there is no reason why this happy state of affairs should not continue.

266. *Government's contribution.*—The local Government has, in spite of the tightness of their finance, found the money to keep pace

with the expansion, raising the total expenditure in the Department from Rs. 2,21 in the triennium 1921—24 to Rs. 2,83 in 1924—27. The budget estimate for 1930-31 is Rs. 3,76. Whether it will be possible, if it continues to be necessary, for the local Government to support the movement on the same relative scale depends on the future arrangements of central and provincial finance and on the development of the revenues that may be allotted to the province.

267. *Prompt and adequate supply of credit.*—At the same time it is necessary to examine other aspects, besides those covered by the broad survey of the previous paragraphs. A banking system for the rural population to be really satisfactory must not only be able to supply credit to its clients, but must supply it when it is needed and to the full extent of the need. Failure to supply prompt and adequate credit will drive the members of the primary societies back into the hands of other agencies from which it is the object of the movement to rescue them. There is no doubt that at present such failure is far too common. It is generally admitted that a loan application from an individual member is seldom satisfied under a fortnight and sometimes takes as long as two months. This can, we believe, be remedied by the extension of the cash credit system, which has already been introduced by a few central banks for their best societies. The posting of the inspecting staff of the banks to rural centres with a manageable area to control in place of their concentration at the bank's headquarters is another useful reform, which should speed up the process of sanctioning loans. The separation of short-term and medium loans from long-term should also contribute to reduce delay for those loans which demand promptitude.

268. *Is the credit supplied sufficient?*—The question whether the legitimate demands for credit are met in full is not so easy. It was the general impression that in the years immediately preceding 1926 there was far too much facile credit granted. The Registrar in his 1928 report speaks of the difficulty of improving "a vast number of societies, many of which were hastily organised and recklessly financed".

The following figures, which relate to agricultural societies only, throw some light on the situation:—

Year.	Number of members.	Loans made by societies to members during the year.	Loans made to societies by banks during the year.	Average loan received by members.
		Rs.	Rs.	Rs.
1922-23	134,821	45,46	43,08	34
1924	159,798	49,06	47,91	31
1925	177,136	56,38	51,34	32
1926	205,826	65,82	61,04	32
1927	222,889	57,51	50,78	26
1928	232,413	64,46	61,58	28

(The seven months' period of 1923 is ignored.)

The information we have obtained of the indebtedness of co-operative members both to their societies and to outsiders points to a figure of Rs. 168 for average debt. If our estimate that annual borrowing is about one-fourth of total indebtedness is correct, the members each require Rs. 42 every year. The figures are not very trustworthy and give we think too low an average of indebtedness. The conclusion which they lead to is that the finance given even in the more lavish years was not much more than three-quarters of what was required. There is doubtless much truth in the Registrar's criticism that many societies were hastily organised. It was probably true too that some agricultural societies were over-financed. But the facts set out above seem to disprove any very widespread fault of reckless financing of the agricultural societies in the sense of granting loans in excess of requirements. The real danger which appeared in the earlier part of the last decade was, we believe, lending for periods, within which the loan could not possibly be repaid, and the reflection of that error in the repayment percentages gave the alarm. An additional cause for misgiving was true over-financing of some non-agricultural, or at any rate non-credit, societies, which had embarrassed the position of several central banks.

269. *Debt to other agencies.*—The figures given above indeed point to some excess of caution in lending to agricultural societies during the last two years. Though it is possible that these figures unduly minimise the aid, which the societies render to their members, in supplying their annual credit needs, it is hardly open to doubt that they do not fully meet them. A most interesting investigation conducted by Babu Sadashiva Prasad in the Hajipur subdivision of Muzaffarpur district, of which the report is in the press, shows that of an average indebtedness of Rs. 222 per household, Rs. 76 is owed to other credit agencies than the society. We have also obtained figures from the bulk of the central banks through the Registrar. As we have stated in Chapter V, nine out of fifty-five banks reported figures which are manifestly absurd, and this throws some considerable degree of doubt on the others. They show that in Bihar Rs. 131 out of Rs. 198 is owed to the societies, in Chota Nagpur Rs. 46 out of Rs. 78, and in Orissa Rs. 102 out of Rs. 124. On the whole two-thirds of the total debt is owed to the societies.

270. *Borrowing, repayment and outstandings.*—A result, which is at first sight somewhat surprising, is obtained when the figures for loans outstanding at the end of the year, for borrowing during the year, and for repayment during the year are set forth.

Year.	1924.	1925.	1926.	1927.	1928.
1	2	3	4	5	6
Members ..	159,798	177,136	205,826	222,889	232,413
Loans outstanding—					
Amount ..	Trs. 1,21,07	1,38,04	1,61,46	1,72,97	1,99,32
Average ..	Rs. 76	78	78	78	86
Annual borrowing—					
Amount ..	Trs. 49,06	56,38	65,82	57,51	64,46
Average ..	Rs. 31	32	32	26	28
Annual repayment—					
Amount ..	Trs. 25,87	36,15	42,76	43,63	38,16
Average ..	Rs. 16	20	21	20	16

The constant and serious excess of average borrowing over average repayment would suggest a steady and disquieting increase in the average loan outstanding. But this is not the case. An obvious reason is that undoubtedly the new members taken in during the year, borrow, but do not repay, during that year. Thus the average repayment should be taken on the figure for the membership of the previous year. The corrected figures for average repayment would then be about 18, 23, 24, 21, and 17. But this does not by any means fully account for the facts. It would appear that new members also borrow very much more heavily than old ones. An assumption that the old members average Rs. 20 and the new members Rs. 110 fits the facts fairly well, though in 1924 and 1928, years of bad harvests, old members probably borrowed something like Rs. 25 a piece.

271. *Is indebtedness increasing?*—The central banks have not been able to supply any adequate evidence on the point whether the indebtedness of their members is increasing or diminishing, and how the rest of the rural population is faring. Some valuable evidence may be drawn from the report of Babu Sadashiva Prashad already quoted. He examined the *haisiyat* registers of the 171 societies in Hajipur subdivision, of which almost all are agricultural credit societies and gives the assets, the total of members' debts when they joined, and the total as it now stands. Their average indebtedness was originally Rs. 150 and it now stands at Rs. 223, of which Rs. 146 is owed to the society. Their assets average Rs. 1,133. This is an unsatisfactory result to find in an area of more than average fertility. It is probable, however, as the author of the report suggests, that the members concealed a good part of their debts on first joining the societies, and that these have gradually

been disclosed. It is possible, too, that the time of year, at which the *haisiyat* registers relating to present conditions, were posted up, was that of the peak of borrowing, while the members generally entered the societies a little before the heavy season for borrowing. That point has not been touched on in the report, but its pertinence is at once seen when it is remembered that annual borrowing is about one-fourth of total indebtedness. The reduction of the rate of interest on part of it also enables the present total debt to be carried with scarcely more effort than the original debt, even if the increase of indebtedness displayed by the figures is entirely real.

The Registrar has done what he could to give us similar figures for the whole province, but these for the reasons indicated in paragraph 92 cannot be fully trusted. They are given below for what they are worth. They relate to societies affiliated to 20 central banks, 15 in Bihar and 5 in Orissa. No Chota Nagpur bank has been able to supply figures.

		Members.	Assets.	Liabilities.	Assets per member.	Liabilities per member.
		3	4	5	6	7
Bihar ..	1923	30,502	Trs. 2,16,00	Trs. 43,02	Rs. 708	Rs. 141
	1928	40,753	4,27,85	84,20	1,050	207
Orissa ..	1923	11,710	Trs. 97,57	Trs. 12,86	Rs. 833	Rs. 110
	1928	15,072	1,39,21	19,21	924	127

The figures of course do not relate to identical households in the two years compared. A number of new households have come in, and probably a fair number have dropped out. The ratio of liabilities to assets has kept steady at about 20 per cent. in Bihar and 13 per cent. in Orissa. The Registrar believes that the assets are distinctly undervalued, and though outside liabilities are still concealed to some extent, this is less than the undervaluation of assets. Thus viewed broadly the societies are in a strong financial position.

The figures, however, clearly show that borrowing has kept pace with the increase of assets, and there is good reason to believe that most of that increase is due to the rise in the selling value of the *raiya* right in the land.

The figures given in paragraph 270 do not support the criticism, which is sometimes urged against the co-operative movement, that the debts of the members to their societies are rapidly increasing. Except for a rise between 1927 and 1928, which may fairly be ascribed to the poorness of the harvest of the latter year and may reasonably be expected

to disappear after the good harvests of 1929, the indebtedness has remained at a constant level. This of course does not preclude the possibility of increase of outside indebtedness, and it is on this point that good evidence, such as that obtained in Hajipur, would be most valuable. We trust that other workers in the field of economics will come forward to carry through similar surveys. As things are we can only say that up to now the available evidence goes to show that there has been no marked decrease in indebtedness even among co-operators. It is unlikely that the position is any better among the others, indeed it is probably worse.

272. *The co-operative rates of interest.*—One of the main causes of heavy indebtedness is, we are convinced, the high rate of interest, and it is now time to examine more closely whether the co-operative organisation, as a whole, has done as much as it can do to provide whatever credit is necessary at a rate which the agriculturist can fairly bear.

273. *Rates in Bihar.*—The greater part of the borrowed money used by the central banks in Bihar is now held at 6 per cent., though some banks have reduced the one-year rate to $5\frac{1}{2}$, and most give $6\frac{1}{2}$, 7 or $7\frac{1}{2}$ for deposits of longer period. The savings banks' rate for the public is generally $4\frac{1}{2}$, though it is cut finer to 4 or even $3\frac{1}{2}$ in some places. To encourage investment of savings in the primary societies, they are usually allowed to deposit on what is practically "call" at $6\frac{1}{2}$ per cent.

Forty per cent. of the banks still lend to the ordinary primary societies at $12\frac{1}{2}$ per cent. though some have worked or are working down to $10\frac{1}{2}$ and one has got down to $9\frac{3}{4}$. Concession rates for societies with good records are generally given, or a rebate of one-fifth of the interest on prompt payment. The lowest rate quoted for a good society is 9 per cent. Again loans for improvements sometimes get concession rates, one of $7\frac{1}{2}$ being reported.

Of the ordinary primary societies 36 per cent. still lend at $15\frac{3}{4}$, 24 per cent. at $14\frac{1}{4}$, and the remainder at $13\frac{1}{2}$, $12\frac{1}{2}$ or 11. Societies which get special concessions pass them on to their members.

274. *Rates in Chota Nagpur.*—On the Chota Nagpur plateau the banks raise the bulk of their funds at 6 per cent. The rate for lending to ordinary primary societies is almost always $12\frac{1}{2}$, though one lends at 12 and another at $15\frac{3}{4}$. Half of the societies lend to their members at $18\frac{3}{4}$ and half at $15\frac{3}{4}$.

275. *Rates in Orissa.*—The rate of borrowing for the banks of the Orissa coast districts is nearer 7 per cent. than 6, though we know of no good reason why it should be higher than elsewhere. All the banks but one lend to their ordinary primary societies at $12\frac{1}{2}$, the exception taking 11 only. The societies affiliated to that exception lend at $12\frac{1}{2}$, the rest at $15\frac{3}{4}$. Concession rates like those in Bihar are found in Chota Nagpur and Orissa.

276. *The intervals between the rates.*—Thus broadly speaking the position is as follows :—

				Rate of bank's borrowing.	Rate of primary societies' borrowing.	Rate of cultivators' borrowing.
Bihar	..	..	..	6	11½	14
Chota Nagpur plateau	..	..	..	6	12½	16½
Orissa coast districts	..	..	..	7	12½	15½

These are distinctly wide intervals. No doubt it can be said that concession rates reduce them to some extent, that irregular repayment, which carries no penalty of compound interest, diminishes the actual margin, that management and supervision charges are necessarily high especially in Chota Nagpur and that there is still a need for building up reserves both in the central and primary societies. Possibly other arguments might be brought forward. But after discounting all these points, it is difficult to escape from the conclusion that co-operative credit is still much too dear for the actual cultivator. It should not, in our opinion, be impossible to reduce it to a general average of 10 per cent. instead of 15 or more at which it now stands.

According to a statement given by Dr. Jain in his "Indigenous Banking in India", Madras and Bombay in 1926 were able to get the rate down to about 10 per cent. In the Punjab the rate was 12½ per cent., in the Central Provinces 12 to 15, in the United Provinces and Burma 15, and only in Bengal, Bihar and Orissa and Assam 15½.

277. *Suggestions for reducing rates and the intervals between them.*—In the first place it seems to be possible, at least for those banks that have had sufficient experience to foresee with some precision their seasonal needs, to borrow much more of their working capital than they do now on very short-term. At present this borrowing is confined to "savings bank" deposits, on which it may be incidentally remarked the excessive rate of 4½ per cent. is frequently paid. This might well be supplemented by tapping urban money of which much, we believe, is seeking an outlet at 3 per cent. or even lower during the very period at which the cultivators want it most. A vigorous search among the trader community for "slack period" money on six months would probably yield a harvest well worth while, though no doubt some extra vigilance would be wanted to ensure the prompt return of the money lent, which the trading community would rightly demand.

278. *Issue of usance bills.*—One method of securing that that suggests itself to us is that central banks should be empowered to draw *muddati*

hundis for suitable periods up to limits fixed by the Provincial Bank, which would take up the responsibility of guaranteeing the holders against default by the central bank. This plan would have the additional advantage of introducing a much-needed addition to available good "paper".

279. *Management cost of central banks.*—The cost of management of the central banks has borne the following proportion to the working capital:—

Year.	Percentage.	Year.	Percentage.
1923	2.04	1926	2.23
1924	2.02	1927	2.29
1925	2.08	1928	2.37

[For 1923 the cost has been taken at twelve-sevenths of the reported cost, which covered only seven months.] There has been a distinct increase of 12 per cent. in the second triennium over the first, and though no doubt there was probably good reason to employ a better paid staff than the banks had in the earlier years, the upward trend requires watching. For the banks of the Chota Nagpur plateau the percentage in 1928 was 3.62, and for those of the rest of the province 2.29. Thus where the gap between the rate of the central bank's borrowing and the primary societies' borrowing is $6\frac{1}{2}$ per cent. 2.53 per cent. has to be justified on grounds other than the management charges. Where, as in Bihar and the Orissa coast districts, it is $5\frac{1}{2}$ per cent. 3.21 per cent. has to be so explained. The reasons offered in paragraph 276, doubtless, have some weight, but it must be remembered that the accumulated reserve does not need to earn interest beyond the rate of management charges. We think that a comparison with other provinces will probably confirm our impression that this gap is too wide.

280. *Management cost of primary societies.*—The cost of management in agricultural credit societies is much lower relatively, as it ought to be, than the cost in the central banks:—

Year.	Percentage	Year.	Percentage
1923 .. ..	.56	1926 .. ..	.63
1924 .. ..	.61	1927 .. ..	.67
1925 .. ..	.72	1928 .. ..	.68

[The same adjustment has been made for the year 1923.]

But the second triennium shows an even greater increase of 23 per cent. over the first. Here again vigilance is required, even though the total charge is still low. In 1928 the percentage in Bihar and in the Orissa coast districts was the same, i.e., .66; on the Chota Nagpur plateau it is .95. Thus there is left for explanation a gap between

the primary societies' borrowing and lending rates of 1.84 per cent. in Bihar, 2.22 per cent. in Orissa and 3.40 per cent. in Chota Nagpur.

281. *Need for further detailed examination.*—The general result of the analysis of the last two paragraphs is that after allowing for the present cost of management there is a gap of about 5 per cent. in Bihar and about 5½ per cent. in Orissa and Chota Nagpur between the borrowing rates of the central banks and the borrowing rates of the members of the primary societies, for whose benefit the whole structure of co-operation has been built up. We consider that it should be one of the chief aims of those, who are in positions of authority, to reduce this gap very materially. The first step in this endeavour will be to examine in detail how the fund, which the existence of this gap creates, is in practice distributed, whether in payment of dividends on shares or in building up reserves or in other ways. It is particularly necessary to see whether many of the central banks have not reached the stage when the reserves are as high as they need be, since the general average of their reserves and share capital taken together is distinctly higher than that of other banks operating in the province.

282. *Development of thrift.*—The co-operative organisation, however efficient in its function of supplying credit, will have failed in its object if it is not steadily developing the habit of thrift among its principal clients, the rural population. Here it differs radically from ordinary commercial banks, which have no direct concern with the economic welfare of their clients.

The main test of the degree of success in this direction is the rate at which the agricultural societies are accumulating share capital and reserve and attracting deposits from members.

This test is applied in the table below :—

Year.	1923.	1924.	1925.	1926.	1927.	1928.
1	2	3	4	5	6	7
Members in thousands ..	145	160	177	206	221	232
	Tns.	Tns.	Tns.	Tns.	Tns.	Tns.
Paid up share capital ..	3,72	5,01	7,36	8,81	11,71	13,28
Deposits from members ..	2,60	2,78	3,37	4,12	4,54	5,39
Reserve	12,36	14,19	17,00	19,89	22,74	26,96
Total	18,68	21,98	27,73	32,82	38,99	45,63
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Average holding of members..	12.9	13.7	15.7	15.9	17.6	19.7

The general result appears satisfactory, though the total savings of the individual member is still a meagre figure. It is also to be noted that the increase per member is greatest (119 per cent.) between 1923 and 1928 in paid-up share capital, which is really an indication of a desire for more borrowing power and not of thrift. Increase in reserve is an indication of the progress of thrift in the management of the societies rather than in that of the individual members. For this the figure is only 36 per cent. Last of all comes the increase in deposits, which is a matter for the individual member, and there the figure is as low as 28 per cent.

— It cannot be said therefore that co-operation in this province has yet made remarkable headway in its task of inculcating thrift, and work in this direction is still very necessary. We have made some suggestions on this subject in Chapter XXII, when dealing with the question of stimulating investment. Of these we lay special stress on education in the use of money in the schools.

CHAPTER XIV.

The defects of the existing organisation.

283. *Summary of defects already noticed.*—In the last chapter we have considered how far the co-operative organisation is adequate as a banking agency in this province. It has been seen that, as yet, it comprises only about one-twentieth of the borrowing rural population and supplies about one-fiftieth of its credit needs. Yet at its present rate of expansion it may in twenty-five years' time be effective in at least two-thirds of the whole sphere. Its present arrangements for supplying short-term credit are defective by reason of delay. But this may be remedied by the development of expedients already under trial. It does not meet in full the borrowing requirements of its ultimate clients, but, while avoiding the pitfall of facile credit, it should be able to do so by separating out the various forms of loans needed and organising more thoroughly the means of meeting the demand for them. It has had no difficulty, hitherto, in raising the capital needed for its operations, and, in spite of a healthy move in the direction of lowering interest thereon, has retained the confidence and the money of its depositors. The task of getting in its dues from its borrowing clients has at times proved very difficult, but overdue loans have not, on the whole, mounted up more quickly than the total sum out.

In so far as they have done so, the reason is undoubtedly a relative increase in business of a long-term character, which was not detected at its first appearance. Now that it has been appreciated the position has been rectified by revision of the due dates for repayment, though possibly even now the rectification is scarcely complete. In reducing the burden of indebtedness its general success cannot yet be established, since statistics of sufficient trustworthiness are not forthcoming, but there is evidence that it has enabled a large number of individuals to better their economic position, even if it has by the attraction of cheaper credit tempted the more improvident into greater embarrassment. The development of thrift among its members has been steady, even if the accumulation of savings is still meagre. If its rates of interest are still higher, as we believe they are, than it is proper that the cultivator should pay, they are certainly much lower than what he was paying before, and are by degrees descending. A determined effort to get at the reasons for the considerable gap that still exists between those rates and the initial rates of borrowing will, we hope, accelerate the process of reduction.

284. *The organisation summarized.*—There are a few other matters, of which mention must be made, before proceeding to the consideration

of the future development of co-operation. The first is the share which the several constituent parts of the organisation have in the direction of its working. It has been already explained that the organisation at the top consists of the Registrar and his assistants exercising the Governmental control which is still necessary, the Provincial Bank linking the finance of the movement with the open money market, and the Co-operative Federation advising the Registrar generally, controlling the audit of primary societies, the training of the paid staff, the working of the Co-operative Press, and (an important new function) stimulating advance through its development branch. Next come the central banks or banking unions, raising most of their own finance and providing the main portion of the finance of the primary societies, besides supervising their working. Lastly the primary societies supply the final link with the individual members.

285. *Its democratic character in theory.*—Theoretically except for the official element (and that is controlled through the Minister), the whole is organised on a democratic basis. The primary societies elect their managing committee (*panchayat*) at the annual general meeting of all members; they decide what fresh members shall be admitted and send their delegates to the annual meetings of the central banks. These delegates elect the quota of directors of the central banks, allotted for the representation of the primary societies. It is now seldom less than 50 per cent. and is in most recently formed banks considerably more. The central banks again send delegates to the Federation, who elect the members of the Council, and *qua* shareholders, the central banks have a preponderating vote in the election of directors of the Provincial Bank.

286. *The predominance of the educated element, mainly urban, in practice.*—In actual practice, however, the democratic side of the movement is not so apparent as the theory would suggest. No doubt there are primary societies which are conducted under the watchful control of the members and managed by the *panchayats* for the good of the members as a whole. But in most of them the members are too ill-educated to understand their own interests or to direct the working of the society to that end, and the real control rests either in a single man or is exercised by the central bank. Again, though in some central banks the delegates from the primary societies and the directors whom they elect play an effective part in determining the policy and even controlling the details of the bank's business, in most the control is largely concentrated in the hands of the representatives of the preference shareholders, i.e., the lawyers, landlords and others, whose superior education renders their predominance easy. Thus, again, these classes are inclined to secure control of the Federation and to supply those directors of the Provincial Bank, who represent the movement in the districts. Consequently it may be said broadly that the real power of directing the co-operative organisation rests with the central banks and is exercised mainly by the middle class element in their constitution. This is not placed on record in derogation of the devoted work, which

has been performed. Without the support of this element in the population and without the energy and self-sacrifice, which most of its constituent members have displayed, co-operation in this province could have made little if any progress. But it is nothing but the cold truth that at present the contribution, which the actual cultivator makes to the effective running of the machine, is still much below what it should be, if the co-operative ideal were fully realised.

287. *Consequences of the predominance.*—This fact has had consequences of some moment. In the first place it has been found that many of the central banks, only with reluctance and under pressure from the Registrar and the Provincial Bank, accepted the obviously proper course of reducing their deposit rates and otherwise checking the intake of deposits, when they found themselves faced with a glut of funds. It can hardly be denied that this attitude was inspired by unwillingness on the part of the preference shareholders, directors and their friends to abandon a very remunerative and yet safe investment. Again the overfinancing of societies, in so far as it occurred (and we are inclined to think its prevalence was exaggerated), was due to the desire of preference shareholders to keep up dividends without reducing interest on deposits. Both these defects have since been remedied in the main, but it is necessary to guard against their recurrence.

288. *Excessive control of primary societies.*—Another result of the concentration of most of the power in the hands of the middle class directors seems to us to be the encroachment on the sphere of the primary society's control, especially in the matter of sanctioning loans. This tendency is not, like the other two matters to which reference has just been made, the offspring of self-interest, but of the more reputable, but equally insidious, lust for efficiency, a vice which is not by any means confined, as is often supposed, to permanent officials. While we fully recognise that the great majority of primary societies are still in need of guidance of a somewhat meticulous kind, we think that relaxation of control over the minor details of lending should be the constant aim of the central banks. After all the primary society acting through its *panchayat* is the best judge of the creditworthiness of its members, as it is the ultimate sufferer in case of serious error in framing its judgments. Excessive interference in this matter not only retards the growth of responsibility but makes the primary society inclined to throw on the central bank the burden of enforcing repayments of the loans, in the grant of which the latter has assumed to itself the final decision.

There is plenty of work for the most ardent of the central banks workers, both honorary and salaried, in remedying the defects of initial organisation of primary societies and in training their managing members. Both these duties are, we believe, carried out imperfectly in many areas. Nor is there any lack of scope for starting new societies or for urging existing societies to enroll more members. The slowing down of the rate of expansion was undoubtedly necessary three years ago, but a good deal has been done to remedy the defects that recommended it. Even if the policy of going slow is to be continued, that

is not the same as stagnation and a lesser showing of expansion on paper may well require more work.

289. *Over-emphasis on non-agricultural development.*—By far the greater part of this examination of the work of the co-operative organisation has been devoted to its aspect as a rural credit agency. This is only proper in a province predominantly agricultural, where the only other credit agencies of an organised kind confine their activities with insignificant exceptions to the towns. But there is no doubt plenty of scope for co-operation in urban centres and much time and trouble has been devoted by the central banks to this side of the movement, as well as to the establishment of co-operative societies for others besides the agriculturists in the rural areas. The latest report (1928) shows that there is for non-agricultural societies a membership of 23,000 and that the central banks lent about Rs. 11 lakhs to them. The membership is about one-tenth of that of the agricultural societies and the finance supplied by the central banks between one-sixth and one-fifth. No doubt some of the non-agricultural societies are rural, but the bulk of them are working in the towns large or small. The rural population in this province is about 24 times the urban. The question suggests itself whether the town dweller is not getting more than his fair share of the attention of the central banks. There is no room for doubt that he gets credit on better terms. These societies get their loans from the banks at rates ranging round 8 per cent. and lend at something like 10 per cent. while we have seen that the agricultural societies generally pay 12 per cent. and lend at 15 per cent. The preference has been defended on the ground that the successful working of agricultural societies demands a much greater degree of supervision than that of non-agricultural societies. We are not fully satisfied that this defence is valid, and recommend a more adequate examination of the point than we have been able to make. If our criticism in these matters is justified we would ascribe this defect also to the preponderance of the middle class urban element in the direction of policy. In making it we do not ignore the fact that many of the urban societies have done and are doing very valuable work, while we fully appreciate the energy and enthusiasm that has brought them into being and still guides their activities.

290. *The danger of over-financing.*—Of other defects in the organisation a brief mention has yet to be made. It was generally believed that in the earlier part of the last decade there was grave over-financing of the primary societies. No doubt there were instances of the grant of facile credit, especially to newly-formed societies and to particular individuals, who pressed for their foundation from self-interested motives. But we have received no clear evidence of general and widespread over-financing and are inclined to believe that the real trouble was, as we have already said, the unobserved deflection of business from short-term to long-term loans. Whether we are right or wrong it is clear that a good deal has been done to put matters on a better basis in the last few years.

291. *Inadequate training.*—It has been represented to us, and the evidence at our disposal bears out the criticism, that one of the most serious defects of the co-operative movement in this province is the lack of adequate training among those responsible for its working. This applies both to the paid and voluntary workers. For the important duties of organisation, management, audit and supervision a thorough training in co-operative principles and practice is the obvious necessity, and while we note with pleasure that steps have been taken recently to provide better training facilities, particularly at Sabour and Cuttack, we doubt whether these go far enough. While this matter of training lies technically outside our province it affects so vitally the working of the co-operative movement as an effective system of banking that we feel under an obligation to emphasise its importance.

292. *Audit and liquidation.*—We have not had the time to make a full inquiry into the adequacy of the audit, on which ultimately the soundness of the whole structure rests. It is our impression derived from the inspection of a few central banks that the audit is thorough enough, but that it loses some of its value by the delays, which occur in dealing with the points that arise from it. A suggestion, which we put forward for consideration, is that audit criticisms should be divided into those that can and should be met very promptly and those which require some longer time. As it is the really important points are sometimes obscured by a mass of minor details.

It is fully recognised that the liquidation of societies takes an inordinately long time. A proposal to remedy this by the appointment of a paid wholetime liquidator, in place of entrusting the duty to honorary workers, is, we understand, under consideration. The scheme seems to us to be very necessary. We would suggest that details of liquidation, though no doubt unpleasant reading, should be more fully given in the annual reports.

293. *The temptation to minimize defects.*—There remains a general criticism, which has been put forward in some quarters, that there is a tendency to glaze over the defects of the movement, on the theory that their revelation will shake its financial credit or weaken the belief in its ultimate triumph over the ills that beset its adherents. It is alleged that on this ground maladministration, even to the extent of actual embezzlement, is overlooked or at least only reluctantly brought to book. Whatever may have been the justice of this criticism some years back, we are satisfied that its force is now greatly weakened. No one can read the recent annual reports without noticing that defects in the working of all classes of co-operative societies are clearly and fearlessly presented therein. We need hardly say that we believe a continuance of the present attitude towards defects is essential to the progress of co-operation.

CHAPTER XV.

Future development.

294. *The future place of co-operation in the banking system.*—The preceding chapters have set forth at some length our impressions of the actual working of the co-operative societies in their banking aspect. We have purposely refrained from touching on their work as a moral and educative influence or their efforts to improve the material condition of their members in other ways than by supplying them with cheaper and better organised credit and encouraging the habit of thrift. The scale of treatment may seem, at first sight, disproportionately large when it is remembered that the total credit annually supplied to individuals by this agency is still well below a crore of rupees, whereas we put the total annual requirements at Rs. 34 crores for the ordinary rural population alone, perhaps Rs. 3 crores more for the landlords, and not less than Rs. 200 crores for financing trade, industry and consumers. The reason that so much of our labour has been directed to examining, and so much of the space of our report devoted to recording, the present state of the co-operative organisation is that we felt it incumbent on us to give material for judging whether the claim of its supporters to have it recognised as a most important element in the future banking system of the province can be admitted.

We cannot go so far as some enthusiastic co-operators would do, or hold that every proposal for increasing or improving banking facilities must be judged on its reaction, favourable or unfavourable, on the co-operative movement. But within its own particular sphere, which we conceive to be mainly, though not entirely, meeting the credit needs of the ordinary rural population, we are convinced, some of us against our uninstructed preconceptions, that its supremacy should be only a matter of time. The discussion of other developments, with which it may be desirable to supplement it even in that sphere, is reserved for the next chapter. Here it is proposed to consider, on the assumption that its future expansion is both desirable and feasible, in what directions and on what lines it may be wisely expanded.

295. *Limitations on its sphere of action.*—It is as well to begin by setting down the fields of action which we do not think it can usefully occupy. In the first place we see no prospect of success and much likelihood of danger, if it attempts *with its present organisation* to satisfy the credit needs of the landlord class. To do so would gravely overstrain its financial resources and would introduce into its borrowing membership an element, whose credit requirements and general economic

position are widely different from those of the existing members. The manner in which we think these needs can be best met will be explained in the next chapter. Secondly we are strongly against any further experiments during the next few years in marketing societies. The reasons for this recommendation are given in Chapter VI.

296. *Separation of long and short-term business.*—The main function of the organisation will continue to be the supply of credit to the ordinary rural population. It now supplies seasonal, medium and long-term credit, and for any considerable loans it requires as security a mortgage on the lands of the borrowing member. In fact it already functions, not only as an agricultural bank granting the credit needed to grow the crop, but also as a land mortgage bank giving loans for repayment of debts, for redemption and even for purchase of land, and for improvements. We have already expressed the opinion that these two functions should be rigidly separated, and we wish to emphasise this view. It is not necessary that either the central banks or the primary societies should be split in twain to accomplish this end. Indeed it would be most undesirable to put such a strain on the organisation, as the consequent separation of capital and liabilities would produce. Further a divided allegiance of members to two primary societies or of primary societies to two central banks would create grave difficulties. But it is essential that the central banks should be organised into two separate departments one dealing exclusively with long-term business and the other with the rest, keeping separate registers and ready to report when required on the state of each class. The allotment of the capital available for loans between the two departments must be the anxious care of the directors and they must have the best advice possible on this point from the official staff. It is probably not at present possible to carry this subdivision into the books of the primary societies, but it is very necessary that their managing members should be trained now to recognise clearly the distinction and ultimately to arrange their accounts in accordance with it. They will be the better prepared to do so, if for short-term loans they are provided with cash credits, an innovation, designed primarily to obviate delays, whose rapid extension we strongly recommend.

297. *Future finance of long-term business.*—The problem of long-term loans will be, by no means, completely solved by the action proposed above. At present such loans by the primary agricultural societies amount to about Rs. 26½ lakhs annually. Their present members probably still owe Rs. 2 crores to outside agencies. The intake of new members put at 9 per cent. of the total of the previous year will bring in something like another Rs. 40 lakhs of fresh indebtedness annually, a sum which will grow rapidly if the intake increases as we have supposed it will in geometrical progression. On this estimate it would seem that the organisation is not keeping pace with the growth of the total amount of debt due from its members to outsiders, even if the whole of the Rs. 26½ lakhs were devoted to debt redemption which it is not. Supposing that the settled policy of the movement

was to clear off the outside debt of each member in ten years from his admission, and further to clear off such debts of members now on the rolls in seven years (a reasonable programme enough) the necessary sum annually required would be as follows:—

Debt redemption.

	For old members.		For new members.		Total.
	Trs.	Trs.	Trs.	Trs.	Trs.
1st year	44,00	4,00			48,00
2nd „	39,64	8,36			48,00
3rd „	34,88	13,12			48,00
4th „	29,70	18,30			48,00
5th „	24,06	23,99			48,00
6th „	17,90	30,10			48,00
7th „	9,82	36,84			46,66
8th „ .. .. .	..	44,20			44,20
9th „ .. .. .	..	52,20			52,20
10th „ .. .. .	..	60,92			60,92
Total ..	2,00,00	2,91,98			4,91,98

It may be said that this will not make any marked impression on the total debt, which for the ordinary rural population has been put at Rs. 131 crores. But it must be remembered that the amount of debt paid off, if the process continues, would about double itself in every eight years. Thus we might expect a further clearance of Rs. 8 crores by the 18th, of another Rs. 16 crores by the 26th, and of another Rs. 32 crores by the 34th year.

298. *The proper period for long-term loans.*—This is all, no doubt, very much in the air, but it at least indicates what are the main features of the problem, and it can be taken as a basis for estimating the amount of extra finance that the movement would require if such a policy were adopted. Although the loans for debt clearance are now given, even after the revision of *kists*, on the understanding that they are to be repaid in periods varying from five to ten years and ranging about six years, we think that it will before long be necessary to extend the period materially again. We appreciate the objection that, when repayments are spread over many years the borrower begins to forget the benefit which the original loan conferred on him, and resents more and more the demand. Yet we do not think it is reasonable to allow as a rule a shorter term than seven years, and we should be ready

to see it extended to fifteen years in exceptional circumstances. On the whole an average of ten years seems more suitable than the present average of six.

299. *Repayments to be set against loans made.*—On this basis the annual repayments by primary societies to central banks that may be set against the fresh loans, to be drawn from the central banks, which will be needed to carry out the programme would theoretically be like this :—

			Repayment of existing loans of Trs. 1,00,00.	Repayment of new loans.	Total.	Fresh finance required.
			Trs.	Trs.	Trs.	Trs.
1st year	..	..	10,00	4,80	14,80	33,20
2nd "	..	..	10,00	9,60	19,60	28,40
3rd "	..	..	10,00	14,40	24,40	23,60
4th "	..	..	10,00	19,20	29,20	18,80
5th "	..	..	10,00	24,00	34,00	14,00
6th "	..	..	10,00	28,80	38,80	9,20
7th "	..	..	10,00	33,60	43,60	3,06
8th "	..	..	10,00	38,26	48,26	—4,06
9th "	..	..	10,00	42,68	52,68	—48
10th "	..	..	10,00	47,90	57,90	3,02
Total			..	..	..	1,32,28
Less			..	..	..	4,54
						1,27,74

Naturally everything will not work out as smoothly as these tables would suggest. Failure to carry through the preliminaries necessary for the loan will upset the issue programme, while bad seasons will upset the recovery programme. But the figures in the last column of the table just above give, we think, a fair picture of the sort of sums, at which the extra financial requirements may be put.

300. *Anticipated increase of owned capital.*—Against this may be properly set the annual intake of paid-up share capital and of reserves. This has averaged Rs. 4,40 in the last five years, and may perhaps grow as the movement spreads, though we have advocated the slowing down of the process of accumulating owned capital to permit of more rapid reduction in the rate of interest on loans,

301. *New capital required in the next five years for debt redemption.*—Taking everything into account it would seem that to carry out the programme of taking over the outside debts of present and potential members, sufficiently fast to clear it in about ten years after their admission, and spreading repayments over an equal average period will need new capital of about Rs. 29 lakhs in the first year, 24 in the second, 19 in the third, 14 in the fourth and 9 in the fifth.

302. *New capital for all long-term business.*—Purchase of land and improvements at present demand about Rs. 6 lakhs annually. We may expect from the increasing activities of the Agricultural Department, especially in supplying minor irrigation, a more rapid rise in this demand than the progress of membership alone would occasion. Probably each year an additional sum of Rs. 1 lakh will be required. Repayments of outstanding and future loans of this character if spread over ten years may be roughly estimated at Rs. 3 lakhs rising in the course of five years to Rs. 5 lakhs. The net extra finance required for these purposes may, therefore, be put at Rs. 3 lakhs in the first and second years, Rs. 4 lakhs in the third and fourth years and Rs. 5 lakhs in the fifth year. Thus the total additional requirements for long-term business would come to Rs. 32, 27, 23, 18 and 14 lakhs for the five years. Perhaps Rs. 30 lakhs for the first two years and Rs. 20 lakhs for the next three may be taken as the probable requirements. The experience of these five years would indicate the future programme of raising finance. All this money must, we hold, be raised by way of debentures. The manner of raising these and the other details concerning them will be discussed in the following chapter, when land mortgage banks, as a whole, are considered.

303. *Danger of debt redemption without reduction of interest.*—In the preceding paragraphs we have visualised a steady programme of debt redemption. But we must emphasise again our conviction that debt redemption, which really means in the first instance transformation of outside debt into debt due to the societies, will not be effective unless the rate of interest on loans can be substantially reduced. Much of the outside debt is now in the form of usufructuary mortgages of land, and there is some disquieting evidence especially from Chota Nagpur that the return from such land to the mortgagee is sometimes scarcely more than 6 per cent. on the nominal amount of the debt. It is obviously useless to lend money to the debtor at twice or three times that rate to repay the sum for which he has mortgaged his land. Considerable caution is thus indicated in areas where this condition prevails. Possibly the solution lies, in Chota Nagpur at least, in using the provision of the Tenancy Act, which allows the mortgagor to re-enter after five years (in the case of *zarpushgi* mortgages) and in relying on the courts to apply the Usurious Loans Act, if the money-lender brings a money suit for the repayment of the accumulated debt. This will need careful handling, but if successful may lead to a general acceptance by money-lenders of fair compositions of their

inflated demands. It is certainly beyond the scope of a Banking Enquiry Committee to suggest a "seisachtheia", or shaking off of debts, such as Solon carried out in Attica some 2,500 years ago. A more practical suggestion, which was put forward by a very experienced witness, is that the societies should only redeem the mortgage debts of individuals bit by bit, and watch the effect of the restoration of a small parcel of land before advancing further loans to release the rest. We strongly support this idea. Finally it is necessary to maintain the *haisiyat* registers, which are intended to show the general financial position of each member, with a greater approach to accuracy than we believe they reach at present. From them is derived not merely the most important evidence of the fitness of the individual to receive a loan of a given magnitude, but also the only indication of progress in reduction of debt.

304. *The estimate probably too large.*—The figures given in paragraph 302 are, of course, based on certain assumptions which have to be made to arrive at any estimate at all. It will need a good deal of hard work and clear thinking on the part of the controlling authorities before any such scheme can be put in force. Further some considerable degree of caution is obviously necessary. Some central banks under efficient management, dealing with a population which has already begun to practise the virtue of providence, may be able to adopt this scheme or something like it in the near future. Others could only do so at a risk not only to their own credit but to the whole organisation. For these reasons and those indicated in the preceding paragraph the call on available money for investment will probably fall short of our estimate.

305. *Future capital needs for short-term business.*—We have hitherto been occupied with the discussion of long-term credit. It is necessary to add a few words on the equally important subject of short and medium-term credit. It has already been recommended in paragraph 243 that these should be distinguished as far as possible, short-term loans being taken to comprise those, on which full repayment may normally be expected to come in shortly after the main harvest of the locality is gathered, and medium-term loans those, for which the *kists* are spread over two to four years. The latest figures indicate that at present Rs. 21 lakhs are taken annually from the agricultural societies for short and Rs. 10½ lakhs for medium-term loans. We may reckon again on an annual increase of 9 per cent. from the intake of new members. Consequently about Rs. 2 lakhs of new money will be wanted for the former and Rs. 1 lakh for the latter in the first year rising gradually to about double those sums by the eighth year. We do not anticipate any difficulty in attracting this from the investing public by means of savings bank and fixed deposits. But we wish to press again our suggestion that a good deal of the present short-term demand of Rs. 21 lakhs and the subsequent addition to it might well be met by the issue of six monthly bills backed by the Provincial Bank, to attract some of the "slack season" money employed for the rest of the year in trade.

306. *Branch banking*.—The expansion of the movement, even at the comparatively modest rate which we contemplate, will before long raise the important issue whether it is necessary for the central banks to establish branches. Indeed there is already in existence one such branch of the Hajipur Central Bank. We are not in a position to give any opinion on the relative advantages of having more central banks or the development of branch banking. There are still some areas where the movement has not made much headway, in which new central banks could be brought into being and competent directors found for them. It is also to be hoped that those landlords, who live on their estates, may be found increasingly ready to accept the main responsibility of directing a truly rural co-operative bank. Improvement of communications should render that easier than it was some years ago. On the other hand, there are evident advantages in working up the existing banks, which have established a name and acquired a tradition, and the best solution may be branch banking.

307. *Amalgamation of central banks*.—We have specially been asked to consider whether the organisation could not be improved by increasing rather than diminishing the area of operation. At present the central banks operate, as a rule, over a subdivision comprising some 1,000 square miles, and it may be argued that more efficient management and general economy could be secured by increasing the scale. The question attracted little or no attention among those who have replied to the questionnaire and was, consequently, not examined as adequately as we could wish. It is obviously impracticable to entrust the duty of directly financing and controlling the primary credit societies to the Provincial Bank, and cut out the intermediary link altogether. The province is too large and the communications too bad for such a heroic reform. On the whole we see no clear advantage in changing the present organisation. It secures a larger number of honorary workers than central banks at district or divisional headquarters would get. It is more effective in attracting local capital. It reduces, though it certainly does not overcome, the disadvantage of concentration of control mainly in the hands of the middle classes. It stimulates local pride in the satisfactory working of the banks, and creates, where the movement is in good health, a real co-operative bond between the individual members of the primary societies and the financing agency. With the spread of the movement there will be quite enough business in a subdivision to justify the employment of capable and well-paid staff, and it is doubtful whether savings in local establishment would not be eaten up in the expense of sending round an adequate inspecting agency.

308. *Grain golus*.—Of special forms of development of the co-operative movement we need not say a great deal, since we are convinced that its main function should at present be the development of agricultural credit societies. Its chief preoccupation in that sphere is with the unlimited liability societies lending in cash. But there are also 83 "grain golus" with limited liability lending in grain. These have been an undoubted success in the aboriginal districts, and solve

for the present at any rate the problem of supplying short-term credit in the form, which it is most appreciated. Grain lending is still prevalent for such credit throughout the districts of the Chota Nagpur plateau and in the Orissa coast districts, and in the former tract the terms of the ordinary creditor are noticeably harsh. We recommend a steady expansion of "grain golas" in these tracts, but doubt whether it is advisable to continue them in Bihar.

309. *Traders' banks.*—In the towns the chief development, which strikes us as having considerable possibilities, is the traders' bank. There are three of these working satisfactorily, with a capital of nearly Rs. 5 lakhs between them, and one other was started at the close of 1928. It looks as if there was scope for one of these banks in each of the larger towns of the province, that is the 18 towns that had in 1921 a population of 20,000 or more. It is not unlikely that these banks will require additional capital of Rs. 20 lakhs in the next five years and of another Rs. 30 lakhs in the following five years.

310. *Special concessions to co-operative societies.*—It has been urged before us that in order to stimulate the development of co-operation, further concessions should be made to the societies. The concession most frequently mentioned is exemption from income-tax on investments made by the societies, especially the central banks. In principle we are opposed to indirect subsidies given at the expense of the general taxpayer, and think that any proposal of this character requires very special justification. This particular proposal has little to commend it. The societies are already relieved of the duty of paying income-tax on their profits. What they now want is relief from the deductions at source from the interest on investments that they make. The sums involved are not very considerable, since it is no part of the business of co-operative societies to put away a great deal of their capital in interest-bearing securities. If they have occasion to do so, we see no reason why they should not like other investors be subjected to the deduction of income-tax from the return on them.

The witnesses from the Provincial Bank urged that, in addition to the concession already given of free remittance by Remittance Transfer Receipt cashable at the Government treasury, co-operative institutions should get free remittance by Supply Bill and Telegraphic Transfer. We could not gather from them that there was any occasion, on which a Supply Bill could be preferred to a Remittance Transfer Receipt, except when it is issued in conjunction with a telegram, and thus becomes a Telegraphic Transfer. Thus, if we have rightly understood the case, what is wanted is the privilege of remitting by telegram without paying any charge. We regret that we cannot support this proposal. The only other point put before us is that, if the co-operative organisation decides to issue debentures, these should be classed as Trustee Stock. If a well devised scheme for a debenture issue is brought into operation, we see no objection to this proposal.

311. *Use of co-operative organisation for Government loans.*—The extent, to which Government gives direct aid to the agriculturists,

both landlord and tenant, under the provisions of the Land Improvement Loans Act and the Agriculturists' Loans Act, has been set forth in Chapter IV. It is frequently urged that this aid should be rendered principally through the co-operative societies. The land improvement loans are mainly required by landlords, who are not as a rule members of a co-operative society. They are usually needed for somewhat extensive projects, such as an irrigation scheme designed to benefit a village or a group of villages. There is no objection to the loan being given to a co-operative society, if one can be formed for carrying out such a scheme, but there is no need to restrict the application of the Act. The Agriculturists' Loans Act is, on the other hand, mainly useful in relieving the actual cultivator, when by reason of drought or flood an emergency arises. In such circumstances it is essential that loans should be given to enable the cultivator to sow a catch crop or to transplant his damaged fields as quickly as possible. The evidence we have got indicates that at present the co-operative organisation is anything but remarkable for its promptitude in supplying the needs of its own members. We, therefore, hesitate to support the claim that it should be given the duty of distributing loans not only to members but to non-members in the affected area. A scheme was suggested that Government should place at the disposal of the central bank the sum required for the relief, by way of loans, of the cultivators at 5 per cent. interest, permitting the bank to distribute the loans at $6\frac{1}{2}$ per cent., the standard rate for *takavi*. The recovery of the loans from non-members would be the task of the Government officers, and from members the task of the central bank and the primary societies. This scheme might possibly work in a drought-affected area, where there is sufficient warning of the calamity to make the necessary arrangements, though there would always be the danger that the societies would show favouritism to their own members. We do not think that, with the co-operative organisation as it is, it would meet the case of a flood-affected tract, where promptitude is absolutely essential.

312. *Current accounts at post-offices.*—The development of the rural credit societies which is likely to take place before long will entail the flow out of very considerable sums of money from the banks to the village societies at certain times of the year and the return of them at other times in repayment of loans. At present the greater part of the business of remitting these sums is done by actual drawing or paying in of cash at the central bank by three members of the village society's *panchayat*. Recently a concession, by which most of the cost of remittance by postal money-order is returned on presentation of the account at stated intervals, has somewhat encouraged paying in to the banks by that method. But even so the remittance system is still cumbrous and imposes journeys of some magnitude on many *panchayats*. It has been suggested that the village societies might be allowed the special privilege of keeping a current account with the nearest post office. The details of this scheme are set in Chapter XXII.

313. *An advisory body for the Registrar.*—Another and a much more important result of the rapid development of co-operative banking

will be the immense burden of responsibility that it will throw upon the Registrar. Even now he is responsible, not only to Government but also to the members of the societies and to the investing public that supports the system, for a banking business with a working capital of some five crores, a figure comparable with the entire revenue of the province. It is true that he can turn for advice to his own audit staff, to the management of the Provincial Bank, and to his colleagues on the Council of the Federation. But we think it would be well to equip him on the banking side of his duties with a more thoroughly organised advisory body, and one whose advice would perhaps be more broadly based than that supplied by those already closely associated with co-operation. For other reasons, which we discuss elsewhere, we think it would be desirable to form a Provincial Banking Board, and we would give to that body the duty of advising the Registrar on banking questions and the right of scrutinising the instructions which he proposes to issue to the banking institutions. It should also comment on the Registrar's annual report before Government reviews it.

314. *Need for a committee on co-operation.*—Although we have attempted in the time and space available to us to make an adequate review of the co-operative organisation in its banking aspect, we feel that there is plenty of scope for a further outside investigation, such as we understand is in contemplation. We have already emphasized the need for more training both of official and non-official workers. The details of a scheme for supplying it might well be examined by such a Committee. They might also examine the propriety of the present management charges, the way in which the gap not covered by these between borrowing and lending rates is occasioned, and generally how that gap can be reduced. We have confessed to a failure to examine the adequacy of audit, and we may add that we could not assess the need for more power of control by the Registrar. Nor have we explored the working of the Co-operative Federation in detail. It was strongly pressed on us that paid organisers are required, if the movement is to progress rapidly and healthily. There appears to be a difference of opinion, whether the aim should be the creation of a single society for the whole village or separate societies following economic or social lines of division. The action taken to require societies of peculiar origin and complexion, such as some recently affiliated to the Chota Nagpur Christian Bank, to transfer their allegiance to a newly founded local bank came in for criticism, which we were unable to follow up. A fuller study of the problem of promoting thrift is certainly required, while there is besides the wide field of investigation into the moral and civic activities of the movement, that clearly lie outside the scope of a banking enquiry. A committee devoting its whole time to the subject would have far more opportunities than ourselves to study the actual working of the societies of all kinds, and should be able either to confirm with added weight our conclusions or modify them if new facts came to light. We trust that such a committee will be appointed at an early date.

CHAPTER XVI.

Agencies supplementary to Co-operation.

315. *Other agencies still important.*—We have indicated in the previous chapters that the co-operative organisation is, in our opinion, fitted to play a very important part in the financing of the rural population, and that its importance should and probably will continue to grow until it occupies most of this sphere of action. Yet it cannot be denied that other agencies are at present very much more important and will only yield pride of place in the course of a period which may stretch to thirty or even forty years. Indeed it is still very far from appropriate to speak of rural money-lenders as *supplementing* co-operative banking. The question is naturally raised whether anything can be done to put the business of this agency on a better footing and remove the abuses which undoubtedly disfigure it.

316. *Universal regulation impracticable.*—With this end in view we have devoted a good deal of time and thought to the subject. There is certainly much to be said for developing an indigenous agency, which whatever its faults has a very long history behind it. To some minds the only proposal that commends itself is to place on the rural money-lenders rigorous restrictions in law, which will, it is hoped, force them to reduce their rates of interest materially, to keep their books in prescribed forms, and to separate rigidly trading from money-lending business. We see little prospect of success in this direction. Legislation of this kind for all the money-lenders operating in the villages would be exceedingly difficult to enforce and might easily bring in more abuses than it aimed at suppressing.

317. *Selection and registration.*—A more hopeful line of action is to seek to create a better class of money-lenders by offering special facilities to those who may be prepared to abide by certain conditions, e.g., keeping proper accounts and limiting their rates of interest. The facilities, which would be useful to them, are more speedy realisation of their just dues and ability to supplement their own capital when that is insufficient for the business offering. We have examined the possibility of such a scheme. The idea underlying it is that there is a considerable body of rural money-lenders who maintain a high standard of honesty in their business, and a large number of actual or potential clients who are ready to pay their dues when they can, whose principal disability at present is the high rate of interest they have to pay on their borrowings and who are too individualistic in outlook to accept the joint unlimited liability on which the co-operative system rests. It is thought that by registering the best of the money-lenders, and giving

them the facilities of prompt realisation and additional resources on easy terms, they in their turn would build up a business of lending to borrowers who were prepared to accept rigorous enforcement of repayment in return for moderate rates of interest. Thus the honest borrower would be relieved from his present need of paying a price for his accommodation, which covers the bad debts and litigation charges arising from the failures of the less honest borrower.

318. *Mixture of business.*—We are satisfied that the classes of lenders and borrowers which the scheme postulates do actually exist. But there are further considerations which have to be taken into account. It is not likely that there would be such a concentration of potential clients of the right type to enable the ordinary rural money-lender to confine his business solely or even mainly to such clients, retaining at the same time an adequate degree of that personal knowledge of them, which is the essence of any plan to make use of him. Consequently it would be necessary to allow him to continue to do business, on his own capital and without special facilities for realisation, with other clients, who were unwilling to accept the conditions or whom he could not trust to observe them. Thus he would have to keep two sets of books, and would be lending on two separate systems. Such a complication would greatly increase the difficulty of supervision and would practically exclude from the scheme any but the most advanced of the money-lenders.

319. *Allocation of risks.*—Further it would be necessary to create a financing agency for the registered money-lenders in order to supply them with additional capital. It would be exceedingly difficult for such an agency to keep in close touch with a large number of money-lenders, and to give them precisely the right amount of finance required for that part of their business which would come under the scheme. The risk inseparable from money-lending would, no doubt, be placed mainly on the primary money-lender, but some considerable part of it would have to be shouldered by the financing agency. This could only be covered by adequate collateral security provided by the registered money-lender, and most of them would be quite unable to give it, without very materially adding to the margin they would require between their borrowing and lending rates. Even one failure of the harvest would put a great strain on the whole organisation, while two successive failures would bring it near to collapse. The only way in which it could be saved would be by passing on the risk to Government, and no guardian of the finances of this province would be likely to accept such a contingent liability.

320. *Provision of adequate control.*—Then, again, if the State is to take up the organization of the rural money-lender and supply him with more finance and a more effective method of realising his dues, it will be necessary to assume a control of the details of that part of his business which he conducts with the help of these facilities. There are probably not less than 100,000 persons engaged in rural money-lending to a greater or less degree, and these are scattered all over the

province even to the remotest villages. To offer to all these the facilities suggested might produce an enormous crop of applications for registration. To select those fitted for the exercise of the privilege would be a very delicate and invidious task. To regulate the operations of those selected would need constant and close inspection. If the new organisation were to do more than scratch the surface of the problem of supplying credit at more reasonable rates to the bulk of the rural population, a large staff of competent inspectors of unimpeachable honesty would be required. This would either throw a charge on the organisation, which would ultimately have to be met out of the interest payable by the actual borrower, or would be cast on the provincial finances. In the former case the main object of the scheme, the reduction of the rate of interest, would stand in risk of defeat; in the latter the money would have to be found, in all probability, by reducing or at least failing to expand the provision for the Co-operative Department. Lastly the possible miscarriage of the scheme as a whole or the more probable appearance of abuses in its working would throw a degree of discredit on the good intentions of Government which it is most necessary to avoid.

321. *A restricted scheme of registration.*—In view of these considerations we are not prepared to recommend any attempt to regulate the whole body of those rural money-lenders who at present supply the greater part of the finance required by the rural population. But we think that there is a fair chance of success for a more modest scheme, by which the more substantial money-lender might be induced to accept registration, implying restriction on his rates of interest and his methods of book-keeping, in return for the facilities already outlined and perhaps some facility for remittance. The project is set out at length in Chapter XX. It is sufficient to say here that it would be confined to those rural money-lenders, about 2,500 in all, who pay income-tax. Their clients are mainly the proprietors, tenure-holders and very substantial *raiya*s, who are not ordinarily borrowing members of the co-operative societies, and their business is not merely money-lending but the financing of crops in movement as well.

322. *The working of the Usurious Loans Act.*—We would thus leave to the co-operative organisation the wide field of financing the cultivators of ordinary means, the petty traders and the rest of the rural population, whose credit requirements are or should be on a small scale. It has to be admitted that, until that organisation has had time to expand on sound lines so as to cover the greater part of this field, the bulk of the rural population must continue to rely for credit facilities on the ordinary village money-lender. That some proportion of these are harsh and even positively dishonest in their dealings with their clients cannot be denied, though we think that the picture which is usually painted of their misdeeds is overcoloured. At present the only general act, which is designed to check these abuses, is the Usurious Loans Act. The working of that Act and the possibility of other legislation with a similar aim will be discussed in Chapter XVII.

323. *Long-term credit needs of landlords.*—It has been indicated above that we would exclude from the ordinary scope of co-operative banking the supply of credit to the landlord class. Their short-term needs can be met by the better organisation of the more substantial rural *mahajans*, which has been advocated in Chapter XX. But it is their long-term credit needs that threaten most danger to their position. The existing indebtedness of this class has been estimated in Chapter V. In Orissa it is not very great, probably about Rs. 64 lakhs owed by the 8,000 households of the class. On the Chota Nagpur plateau the landlords, with some 5,000 households, owe as much as Rs. 5.04 lakhs. In Bihar 45,000 households owe Rs. 18,00 lakhs. The total indebtedness is thus about Rs. 24 crores owed by some 58,000 households.

324. *Distribution of indebtedness.*—This debt is distributed in the following manner. Some 22,000 have no debt; some 11,500 are lightly indebted with an average of Rs. 500 a piece; some 17,000 moderately indebted contribute Rs. 3,000 a piece; some 5,000 heavily indebted owing Rs. 11,000 each; and finally some 2,500 very heavily indebted Rs. 50,000 each. Many of the last class are hopelessly involved, and it would in our opinion be unwise for any new organisation such as a land mortgage bank to do any large amount of business with them, at any rate in the first few years of its existence. Probably too a large proportion of the lightly indebted households are not in need of long-term loans. We may, perhaps, count on a total potential clientele of 20,000 to 25,000 households owing between them some 12 crores of rupees. The greatest number of these will be found in the Bihar districts, though it is in Chota Nagpur that there is the greatest need for speedy relief.

325. *Present rates of interest paid by landlords.*—There is thus plenty of scope for land mortgage banks for this limited class, provided they can be organised so as to give better terms than the money-lenders offer at present. Those terms can be ascertained with some degree of precision from the reports of the enquiries made by the Subdivisional Officers, who have as a rule given the actual rates of interests on the debts. The rates quoted for the three Orissa coast districts range from 4 per cent. to 37½ per cent. The most usual are 25, 12½ and 18¾ in that order. The mean of all the quoted rates is a little over 20 per cent. On the Chota Nagpur plateau the range is about the same; 24, 18 and 12 are the most usual rates, and the mean is about 18 per cent. In Bihar, however, though the range is about the same, the lower rates are more prevalent. The most frequent rates are 12, 9, 6 and 18 in that order; the mean is about 12½ per cent.

The lowest rates are generally those taken as a basis for mortgage with possession and so represent usufruct and not actual cash interest. As a rule this is the last stage of a long series of transactions, in course of which the rate of interest diminished as the debt grew. Generally the larger the debt the lower the interest, and the higher rates are only charged on unsecured loans of small amounts. These last will hardly require the intervention of a land mortgage bank, while it will not be

possible for such a bank to attempt redemption of debts secured by usufructuary mortgage on low rates of interest. But there will still be left a considerable amount of business, and there is evidently much relief to be given, if the rate of interest can be brought down even to 9 per cent., especially when it is remembered that many of the lower rates are based on compound interest at *monthly* rests. The landlords with whom we have come in contact naturally want a lower interest still, but most of them after a little explanation were ready enough to take 9 per cent., if they could not get better terms.

326. *Land mortgage banks.*—It may be taken as established, then, that there is a considerable demand for long-term loans by this class, which might in course of time require the employment of six to eight crores of rupees in sound business. We consider it would be most unsafe for the existing central co-operative banks to take up this business, since it would mean locking up a large part of their working capital in a few transactions. Consequently, if the work is to be done at all, it will have to be done by a new agency. The raising of the necessary funds by debentures and the management of the sinking fund to pay these off could, we think, be adequately done only by a central agency for the whole province, while the detailed work of examining applications for loans, testing the security offered and enforcing repayment requires local knowledge. The organisation that seems most suitable is a single land mortgage bank with headquarters at Patna, having branches at each of the other four divisional headquarters. At the early stages it will be necessary to provide a strong element of Government control, firstly because we think Government alone can supply the capital needed for starting the bank, secondly in order to attract subscription to the debentures, and thirdly because the evidence collected by the Subdivisional Officers in the course of their enquiries into indebtedness indicates that the potential clients would greatly prefer it. The central board of directors should be composed mainly of the members of the Provincial Banking Board, which we propose elsewhere. The Member of the Board of Revenue should at the outset be Chairman, and the other directors should be nominated on their knowledge of banking whether joint stock, indigenous or co-operation, or as representing the class from which the clients are drawn. There should be local boards of directors to supervise the management of the branches, and over these the Divisional Commissioner should preside. We lay considerable emphasis on the need for bringing in the officials engaged in land revenue administration, since their experience will be of the greatest possible use in supervising the valuation of security and in judging the general credit-worthiness of the applicants for loans, as well as in the management of property, should it be necessary to take it into the charge of the bank.

327. *The borrowers to be shareholders.*—Most of our witnesses, who have considered the question, urge that a land mortgage bank should be conducted on co-operative principles. This, of course, does not mean that the liability of borrowing members should be unlimited. The idea

is that all borrowers should be required to take up a number of shares bearing a fixed proportion to their borrowings, and that they should have some voice in the management of the bank. We are in favour of this scheme, not only because we contemplate the ultimate reduction of Government control to a minimum, but also because it will stimulate thrift, in a class which is generally speaking improvident. But we do not think it is desirable to add to the burden of the Registrar of Co-operative Societies by placing the administration of this new development in his hands.

328. *Anticipated difficulties.—Verification of title.*—Before proceeding to give in detail the manner in which a land mortgage bank might be financed and how it should operate, there are certain difficulties which may be met with by the bank that can be properly discussed here. In the first place there is the general difficulty of verifying the title to, and ascertaining the value of, the security offered. Verification of title to landed property has to be carried out in the case of zamindari rights, i.e., rights in land held directly under Government, by reference to the Land Registration Department, in which the particulars of the several estates and their present holders are recorded. These are kept up to date since registration is compulsory, and there should be little difficulty in finding out whether the title to the property offered was good. It would, however, be necessary to examine the records of the Registration offices (a separate organisation) to find out to what extent the property has been hypothecated. It appears that such a search ordinarily occupies some three or four days and costs from Rs. 15 to Rs. 50. The indexing is both by names of property owners and mortgagees and also by description of the property itself. Though the rules should secure adequate indexing of both kinds, we have reason to believe that they are not strictly followed for the second kind. It would considerably aid a land mortgage bank if it could rely on an index based on the serial numbering of villages assigned during the latest cadastral survey and on the particular parcels of land detailed in the latest record-of-rights. For the complete specification of the landed property offered as security and for a first approximation to its value, recourse must be had to the record-of-rights itself. Unfortunately that record is in some districts already 35 years old, and it is by no means certain that a revision will be undertaken. Some witnesses have urged that continuous maintenance should be arranged, in order to simplify the work of a land mortgage bank. This is out of the question on the ground of expense. But we agree with those witnesses who have pointed out that failure even to revise the record after a period of 30 years or so will undoubtedly add to the difficulties of a bank. We do not, however, consider that they are by any means insurmountable by careful local enquiries. The bulk of the business will, we anticipate, be with zamindars. Their rent roll can be ascertained without much difficulty, but the estimation of the net proceeds of land in their own cultivation will require a considerable degree of local knowledge and skill on the part of the valuers. Of tenures there is no record, as a rule, in the

Collectors' offices, but their existence, their terms and extent, and other details may be verified with the record-of-rights, and by reference to the documents creating them, where these are in existence, while the charges upon them can be found out from the Registration offices. The verification and valuation of the holdings of the very substantial *raiyats*, who may also be clients of the bank, can be carried out in the same way. The bank will not ordinarily have to examine the question whether the property offered is transferable. Zamindari right and generally speaking the rights of permanent tenure-holders are freely transferable and can be mortgaged without restriction.

329. *Repudiation of liability by joint Hindu families.*—There is, however, a difficulty, which has been brought forward from several quarters, about the security of a loan made to the *karta* or head of a Hindu family, governed as such families mostly are in Bihar and Orissa by the Mitakshara law. It is open to other members of the family, when legal steps have to be taken to recover the loan, to plead that the loan was not taken for the advantage of the family, and so to repudiate the liability. The difficulty and the way to minimise it will be discussed in Chapter XVII.

330. *The Encumbered Estates Act.*—There is one other difficulty, which arises in the Chota Nagpur Division. There under the Encumbered Estates Act properties can be brought under the administration of the Court of Wards, and drastic reduction of interest on the debts outstanding can be applied. There is a danger that a borrower in that Division might lapse into improvidence after taking a loan from the land mortgage bank, and then succeed in getting his estate taken under administration. To prevent this all that is necessary, we consider, is that the Board of Revenue should lay down the policy of declining to authorise the application of the Encumbered Estates Act to the estate of any person, who is a client of the land mortgage bank, unless the bank gives its consent.

331. *Use of the Public Demands Recovery Act.*—We think it is necessary that the bank should be empowered to enforce its claims against defaulters by use of the Public Demands Recovery Act, which in effect provides that a certificate by a requiring officer has the force of a decree and is executed by the revenue authorities. It would naturally be right to make it quite clear to clients that they are bringing themselves under this procedure by accepting a loan, but if that is done we do not think there will be any real hardship, since the application of the procedure will be under the supervision of the same higher revenue officers who, we propose, should have an effective share in the management of the bank. Such officers are accustomed to weigh the plea for leniency, which a bad season might justify, against the other considerations which point to strict enforcement of the contract. In course of time we hope that the bulk of the borrowers, who may be expected to pay their dues with reasonable regularity, will themselves bring pressure to bear on wilful defaulters, whose action in the long run tends to raise the general rate of interest. The power to enforce

payment by a speedy method of realisation will greatly assist the general credit of the bank with the outside investors.

332. *Share capital.*—It remains to be discussed how the bank can be started and financed, what support it should receive from Government and on what terms it can lend. In dealing with these points we propose as a rule merely to state our conclusions, since the whole subject of land mortgage banks has been very completely discussed in the Report of the Baroda Land Mortgage Bank Committee 1924-25, with whose conclusions we generally agree. It has already been recommended that the borrowers themselves should be obliged to take up shares in a fixed proportion to their borrowings. This might be put at ten per cent. and should be fully paid up. But this expedient will not permit the bank to be started, although it will ultimately enable the bank to accumulate a satisfactory proportion of owned capital. We do not think that the shares should be placed on the open market, since that would confer a right of management on the outside public, which might conflict with the interests of the class for whom the scheme is proposed. There remains only Government as the original shareholder. We recommend that Government should take up 50,000 shares of Rs. 10 each, and that the bank should start business with this amount. The authorised share capital should be Rs. 50,00,000, which would enable it to lend ultimately Rs. 5 crores. We see no sufficient advantage in leaving part of the share capital to be called up in the event of liquidation. It would be extremely difficult to realise it from the very borrowers whose defaults had brought about the collapse of the bank. It seems better that the borrowers should have to make a single payment for the privilege of becoming clients.

333. *Location of first branches.*—We think the bank should be started in Patna to serve the Patna Division, and as soon as possible branches should be started in Muzaffarpur and Ranchi, where the need is great. Later the Cuttack and Bhagalpur branches may be started. Pending the establishment of a particular divisional branch there should be no restriction on the bank taking up business in that division, if it so desires.

334. *Debentures.*—Clearly the share capital will not go very far to meet the credit needs, which, we believe, will ultimately create business requiring a working capital of Rs. 6 to Rs. 8 crores. The balance must be raised mainly by debentures, and the preparations for the issue of these should occupy the bank management from the very first. The size of the first issue will have to be judged from the rapidity with which applications come in while the bank is trading on its share capital alone, but we anticipate that an issue of Rs. 50,00,000 at least will be required in the first two years. Subscribers to the debentures should be forthcoming on 6 per cent. interest. We had evidence that Rs. 5 to Rs. 10 lakhs would probably be forthcoming at the rate from the single district of Muzaffarpur. These debenture bonds should be repayable after a fixed period or perhaps two fixed periods of 15 and

25 years for separate issues, but the bank should have the option of withdrawing a proportion of the bonds by paying them up at par, the bonds to be repaid being selected by lot. It would also, of course, be open to the bank to buy in its own bonds for cancellation in the open market, if such a course seemed desirable. The bulk of receipts from recoveries of capital lent should be utilised for such redemption of bonds, fresh capital for new loans being raised as required by the issue of a fresh series of bonds. The maximum amount of the bonds in circulation should bear a definite relation to the paid-up share capital. We accept the suggestion of the Baroda Committee that twenty times that capital should be adopted as the relation. The bonds should be negotiable by endorsement and arrangements should be made for their easy and inexpensive transfer by sale. They should be declared to be trustee securities.

335. *Lending rate.*—Turning to the lending side of the bank's business, we are not able to agree with the Baroda Committee in thinking that a margin of $1\frac{1}{2}$ per cent. will be sufficient to cover the bank's expenses. We think it will be safer to estimate on a basis of $2\frac{1}{2}$ per cent. at the beginning. Thus if the working capital can be raised at 6 per cent., the lending rate will be $8\frac{1}{2}$. This means instalments on the amortization principle of slightly more than 12 per cent. for 15 years, $10\frac{1}{2}$ per cent. for 20 years and $9\frac{1}{2}$ per cent. for 25 years. It will be advisable to adopt these round figures to make the contract clearer to the borrower, even though the true rate will then be slightly less than $8\frac{1}{2}$. We think this rate should cover the cost of verifying title and valuing the security offered, which should be borne by the bank and not by the client. It would add considerably to the accounting if this cost had to be worked out for each loan transaction.

336. *Repayment of loans.*—The borrower should have no right of repayment above his fixed instalment until five years have elapsed and should be obliged to give the bank a reasonable notice of intention to repay thereafter. The bank should be under a statutory obligation to proceed against defaulters, after allowing postponements within statutory limits, but this obligation might be suspended with the concurrence of the Board of Trustees watching the interests of the debenture-holders. Such a Board is very necessary and should be entirely nominated by Government in the earlier years of the bank's existence.

337. *Maximum and minimum for loans.*—It may be desirable to lay down minimum and maximum limits of the loans to be made, in order on the one hand to avoid competition with the co-operative organisation and on the other to check any tendency to place the bank's capital in too few baskets. We are not prepared to make any definite recommendation on this point. But it should be clearly laid down that no loan should be given in excess of half the existing assets of the borrower on a conservative estimate of their value.

338. *Government aid.*—It has already been proposed that Government should take out shares to the face value of Rs. 5,00,000, and since

it is unlikely that a dividend will be declared on these for two or three years, this will mean a contribution of some Rs. 25,000 annually for that period in loss of interest. We think that is fully adequate and it is unnecessary for Government to do more than advance against their share investment the expenses required for the preliminary work of starting the bank. It would be well if the Government of India could see their way to extend to the bank such concessions in the matter of taxation as are now given to the co-operative societies. We do not however think that there is any ground for further concessions, and in particular we see no reason why the bank should be exempt from the charges, e.g., the registration searching fees, which are levied to cover the cost of public utilities. Such exemption would throw an unjustifiable burden on the public as a whole, and would remove the stimulus for economy of time in conducting searches.

Mr. Hodge considers that these fees are too high, seeing that the search itself is conducted at the cost of the party, and would like to see a general reduction for the public. The rest of us are not prepared to support this proposal, without an adequate examination of its effect on provincial revenue which we have no time to undertake.

339. *Protection against undisclosed liabilities.*—We are doubtful whether the bank should be given special protection against outside creditors of their clients, by some expedient such as the publication of a notice that it is proposed to grant a particular loan, calling for statements of prior indebtedness and deferring to the bank's loan any indebtedness not declared in response to such notice. It would certainly bring into prominence the indebtedness of the client and thus damage his credit. On the other hand it would greatly diminish the need for careful and possibly expensive examination of title and so reduce the rate of interest. On the whole we are against such publicity, unless and until a clear case is made out for it.

340. *Benefits to be expected from the scheme.*—It may be said that this scheme will at best only benefit a comparatively small class of the rural population and those who might be expected to look after themselves. But the class is one of great importance in the mufassal and their embarrassment is the cause of much of the stagnation in rural areas. The freeing of the landlords from their present weight of debt should make them more able to advance the prosperity of their tenants by the adoption of new ideas in agriculture, which can be passed on. Further we have already given it as our opinion that the central co-operative banks should take up, as they are already doing in a half-conscious manner, the functions of land mortgage banks for the ordinary cultivator. That task will be made very much easier if they can draw on the experience of a special organisation exclusively performing that function for the richer but more deeply indebted class of landlords.

341. *Competition with other credit agencies.*—We do not think that the organisation that we propose will seriously encroach on legitimate

money-lending business. It will scarcely affect the joint stock banks, who are becoming shy of the risks to which their imperfect intelligence system exposes them. The indigenous bankers of the towns hardly touch the business at all. The chief sufferers from the new venture will be the larger rural money-lenders, and we propose to leave for them the short-term business with this class, and to bring them into closer touch with the money-market to enable them to function in this sphere more adequately and profitably. Even in the long-term business they will probably be able to compete successfully with the Land Mortgage Bank in granting loans to the more solvent landlords, who can at present borrow on better terms than the flat rate at which we propose the new bank should lend.

342. *Competition in borrowing.*—Nor will there be any serious competition in the sphere of attraction of capital. The land mortgage bank will raise its funds almost entirely in the form of long-term debentures. Save for Government securities and Corporation loans there are practically no outlets for investors, who seek a sound lock-up. We anticipate that the extra facility will be welcomed especially by insurance companies. No doubt the debentures of the land mortgage bank will compete to some extent with the debentures, which we believe the co-operative banking organisation will have to issue before long. But there is in all probability plenty of room for both.

343. *Debentures for central co-operative banks.*—We have still to consider how debentures for the co-operative banking organisation are to be raised. It has been estimated in paragraph 302 that to place the financing of long-term loans to the ordinary cultivators on a proper basis, some Rs. 30 lakhs for two years and Rs. 20 lakhs for three more years might have to be raised by this means. We have indicated in paragraph 304 some reasons for a more cautious start. But whatever the size of the operation may be we think that the business of raising the money and of administering the sinking fund for its repayment may be safely placed in the hands of the Provincial Co-operative Bank, though here too there should be a Board of Trustees to watch the interests of the debenture holders. If, as may prove necessary, Government is called on to create public confidence in this new issue by taking up a substantial portion of the bonds, or even by guaranteeing for some years the interest thereon, the Board of Trustees should be for the first few years at any rate nominated by Government. It may be considered later whether it will be possible to devise a scheme, by which debenture holders can elect their own representatives. The business conducted by the Provincial Bank with the money raised by debentures should be kept absolutely distinct from their present business.

344. *Rates of interest.*—The Provincial Bank will pass on the funds required to the central banks, and those through the primary societies to the actual borrowers. We cannot see any means for reducing this chain of intermediaries, but we do not think that the charges for the

services rendered by each should be anything like as high as they are at present for all classes of loans. The Provincial Bank will have to obtain from the central banks good estimates of the annual requirement and probable repayment, and satisfy the one and enforce the other. It will have to watch its liabilities for paying off the bonds as they fall due, and provide for future issues of new bonds. Its only risk will be the failure of a central bank, and no such failure has occurred in sixteen years. For these services we think a charge of $\frac{1}{2}$ per cent. per annum on the loans made to central banks is sufficient. The central banks will have to obtain similar estimates from their affiliated societies. They will have no anxieties about the repayment of bonds or of providing for new issues. The difficulty of enforcing repayment and the control over primary societies needed to secure smooth working will increase the cost of the service rendered, and there is a much greater risk of complete default. For these services and risks we think a charge of 2 per cent. is fair. It must be remembered that, in old societies, it should be only the new recruits who will ordinarily require long-term loans. The societies themselves will thus have few transactions to consider, and, seeing that the land of the individual borrower will, as a rule, be pledged, should not have any great risk of ultimate default. For their services we think 1 per cent. is an adequate charge. Consequently, if debentures are raised at 6 per cent. (and we hope that that rate may in course of time be brought down), the ultimate borrower will get his money at $9\frac{1}{2}$ per cent. On these terms a considerable load of indebtedness can be relieved.

There do not appear to be any other special points for consideration in regard to co-operative debentures, and our recommendations for the landlords' land mortgage bank may be applied.

345. *Land improvement.*—Besides the function of providing finance for the repayment of debts, both the co-operative banks in their long-term loan departments and the land mortgage bank for landlords, which we have proposed, should be prepared to finance land improvement. The evidence we have collected confirms the impression that this will not be, at present, a very important function.

346. *Orissa irrigation.*—In the Orissa coast districts a plentiful and fairly regularly distributed rainfall renders irrigation projects, large and small, a doubtful economic proposition. Indeed the system of canals, that were constructed in the 1860's, is now admitted to have been over-elaborate. Further the frequent occurrence of floods, due mainly to the deltaic character of the country, makes it extremely risky and expensive to provide irrigation in the years when the rains are deficient, while further protection against them is to be deprecated as likely to accentuate their effect in the areas which it is impossible to protect. The only improvement schemes that have much chance of success are pumping plants for cold weather crops in those areas in which the main monsoon crop cannot be grown without hindering, by costly and ineffective embankments, the flow-off of the flood water,

and in the comparatively small tract between the hills of the Feudatory States and the level plain of the delta.

347. *Chota Nagpur irrigation*.—On the Chota Nagpur plateau the main activity is in reclaiming land from the jungle, and in converting it into rice fields. In this the aboriginal cultivator is an expert, but his method is strenuous labour with the *kodali*, the equivalent of the western spade, and he requires no financial aid to wield it effectively. The soil is, generally speaking, too rocky and the water-table too low for wells. The only development of irrigation, which requires some considerable capital outlay, is the building of embankments to hold up the heavy falls of rain in reservoirs sited to command the rice fields and supply them with water when the monsoon weakens. The most hopeful scheme is that which has been tried out on the agricultural farm at Kanke, near Ranchi. There the embankments are carried along the contour line, and irrigation is supplied by seepage. A number of sites on the Chota Nagpur plateau, where such schemes are practicable, have already been examined, and the schemes could be taken up as soon as those who will benefit by them are agreed to accept the terms on which finance could be supplied.

348. *Bihar irrigation*.—In Bihar the possibilities of large scale irrigation schemes are practically exhausted. South of the Ganges, a considerable portion of the districts of Shahabad, Gaya and Patna is already served by the Son canals managed by Government. Most of the rest of Gaya, a good part of South Bhagalpur and some of South Monghyr are irrigated by private systems of canals, which depend on the numerous rivers that rise on the north part of the Chota Nagpur plateau, while most other parts are protected in some degree by small reservoirs, which store the local rainfall. The possibility of using those rivers, whose water is not already fully utilised in these systems, has been examined by the Public Works Department, but the prospects are not encouraging, though one or two minor projects may perhaps come to fruition. In this tract, i.e., Bihar, south of the Ganges, the future seems to lie with well irrigation served by power pumps, which is beginning to appeal to the agriculturists especially in South Bhagalpur. North of the Ganges the only irrigation scheme controlled by Government is the Tribeni canal, which protects a portion of the Champaran district. The chief difficulty about using the other rivers, which flows down to the Ganges from the Himalayas, is that the sites for the headworks, from which the canals might take off, lie far back in Nepal. The tract has, on the whole, a fairly plentiful and well distributed rainfall, and the soil is more retentive of moisture than in other parts of the province. In parts of Muzaffarpur district we are assured that irrigation of any kind was seldom required even for the cold weather crops, that are important there. In Saran there was at one time a small public irrigation system dependent on the Gandak river, but this was abandoned as unprofitable. The possibility of restoring it has been examined more than once, but the expert opinion is strongly against it. On the whole the best means of providing irrigation, where it is needed, appears to be as in South Bihar wells with power plants.

349. *Manuring and improved implements.*—Apart from irrigation there is the possibility of increasing the outturn of the land or of reducing the cost of raising the crop by more adequate manuring or by improved implements. A beginning has been made in the former direction by the introduction of chemical manures. Fertilizers companies, notably the Imperial Chemical Products Company in Tirhut and Messrs. Shaw Wallace in South Bhagalpur have begun to get into touch with the cultivator. In the latter district some 150 maunds of ammonium phosphate were sold in 1928 through the co-operative societies. This activity is likely to expand and some finance will be required for it, though obviously it will be short and not long-term finance. Thus it will be provided mainly through the co-operative banks on the short-term side of their business. Improved implements are also beginning to make some appeal, especially improved ploughs in the Tirhut division and improved mills for pressing cane among the *gur*-makers of the villages. These, again, will require not long-term but medium term finance, which the co-operative societies can supply without drawing on the debenture fund.

350. *Estimate of finance required.*—Thus the main demand for long-term finance for agricultural improvement during the next ten years will be due to small irrigation schemes on the Chota Nagpur plateau and to the installation of power pumps and the digging of wells in the rest of the province. It is much easier to indicate the form of the demand than to estimate the amount of finance required to meet it. The opinions we have received in evidence are very widely discrepant. Thus at Bhagalpur we were told that Rs. 20 to Rs. 25 lakhs would be wanted in the next ten years for power plants in the *sadr* subdivision of that district alone, while the officiating Director of Agriculture put the whole requirements of South Bihar, an area of about twelve times that size, at Rs. 10 lakhs, although he put the cost of a power plant at Rs. 1,000 to Rs. 1,500 against the Bhagalpur estimate of Rs. 300. Again for the Chatra subdivision of Hazaribagh an estimate of Rs. 2 lakhs was put forward for minor irrigation schemes. Until the possibilities have been much more fully surveyed, any estimate must be extremely hazardous. Since it is incumbent on us to make one, we would put down a figure of Rs. 10 lakhs for South Bihar, following the Director of Agriculture, Rs. 5 lakhs for North Bihar, Rs. 15 lakhs for the Chota Nagpur plateau, and Rs. 5 lakhs for the Orissa coast districts. Of the Rs. 35 lakhs so made up, perhaps Rs. 10 lakhs will be required by landlords and so should be provided by the Land Mortgage Bank, while the remaining Rs. 25 lakhs should be raised as debentures by the co-operative organisation for lending to the ordinary cultivators. Even these somewhat modest requirements may be reduced, if Government continue to give loans at 6½ per cent. under the Land Improvements Act and a successful attempt is made to use the Act more freely. To spend these sums usefully will need considerable activity and enterprise on the part both of the financing agencies and of the recipients of the loans.

PART IV.

LEGISLATION AND LEGAL PROCEDURE.

CHAPTER XVII.

351. *Restrictions on transfer of land.*—In this province the main measures for the protection of agriculturists against the ultimate results of borrowing are embodied in the Tenancy Acts. In Bihar, where the Bengal Tenancy Act is in force, there is no restriction on the mortgaging of occupancy rights. The right to sell is regulated by custom, and as a rule the landlord's permission is required. The landlord, however, seldom if ever intervenes but merely demands a fee for his consent. Thus there is no real protection for the *raiyat* against the consequences of his improvidence. In Orissa conditions are much the same in practice, though under the Orissa Tenancy Act usufructuary mortgages for periods exceeding nine years are invalid, and landlords have the statutory right to refuse consent to a sale on the ground among others that the purchaser is not a cultivating *raiyat* acquiring the land for the purpose of cultivation. Actually neither provision of law is really effective. The greater part of the Chota Nagpur plateau is governed by the Chota Nagpur Tenancy Act. This forbids usufructuary mortgages of more than five years, unless the principal is paid off as well as the interest by the usufruct, when a period of seven years is permitted. Sales of occupancy rights are in general forbidden, except between tenants of the neighbourhood belonging to the same tribe or caste. These restrictions are fairly effective. For example in the portion of Ranchi district, which has already come under revisional settlement, some 300 square miles, only 3 out of every 1,000 acres has been found to be illegally mortgaged. There is, no doubt, some evasion of the restriction on sales, by means of prearranged surrenders and re-settlements, but there is no evidence that such practices are yet very common. In Santal Parganas and Angul all transfers whether by mortgage or sale are, generally speaking, invalid, and the transferee can be at any time ejected. Since in both these districts the civil, revenue and criminal powers are to a great extent concentrated in the hands of the Deputy Commissioner and his subordinate officers, the restrictions are effective. In Sambalpur transfers by mortgage or sale are voidable at the instance of the next heir within two years. The law is effectively enforced. The restrictions in the more backward part of the province on the whole work well, and, though they no doubt diminish the credit of the cultivator, it would be inadvisable in his general interest to remove them at present. We

urge, however, that it is most desirable that the right to transfer occupancy holdings in Bihar should be placed on a statutory instead of a customary basis as soon as possible. The discussions on this matter have proceeded for over ten years, and it would be greatly in the interests both of borrowers and lenders if a final decision were reached by the Legislature.

352. *Special usury laws.*—In Santal Parganas and Angul the rate of interest is absolutely limited to two per cent. per mensem. Interest in excess of one-fourth of the principal cannot be given unless the period of the debt exceeds one year, and in no case can the accrued interest exceed the principal. These restrictions are effective for the same reason that the restrictions on transfers are effective, i.e., because the administration is still of a personal character.

353. *The Usurious Loans Act.*—The only Act in force generally throughout the province, which attempts to restrain the activities of money-lenders, is the Usurious Loans Act (X of 1918). The working of this Act has recently been examined by the local Government with the cordial assistance of the High Court. It is clearly not very effective; firstly, it seems, because the Courts that administer it have not, as a rule, the time to go thoroughly into the accounts, and secondly because they have no sufficient guidance in the use of their discretion, when deciding what is an usurious rate of interest. The only remedy for the former obstacle to the effective use of the Act is an increase in the subordinate judiciary, which already seems to us desirable in view of the very general complaints of creditors that the disposal of money suits are unduly delayed. To remove the second obstacle requires either fresh legislation or an authoritative lead by the High Court itself. It should at least be possible to indicate what rates of interest may be presumed to be usurious in the absence of special justification. For example any rate, which exceeded the rate that the member of a primary society has to pay in the locality by more than a proportion, to be fixed by the High Court, might be presumed to be usurious. Our evidence goes to show that at present it is seldom that the protection which the Act provides is sought in the Courts. The debtor is ordinarily advised to rely on denial of his liability, on plea of repayment, or on the inertia of delay, to evade the claim against him. It will, thus, require the active co-operation of the legal practitioners to make the Act effective, even if its provisions are made more definite and the Courts are given sufficient leisure to apply them. We got some evidence in Orissa that the Courts were declining to allow compound interest on loans in kind, and that the cultivators were consequently declining to pay it. We make the suggestion that, in the absence of any special reason, compound interest on such loans should be considered usurious. The loans are usually given at 25 per cent. in Orissa and 50 per cent. in Chota Nagpur, and the money-lender as a rule gets repayment with the full interest after four to eight months. The cultivator does not ordinarily allow the loan to run on, unless his crop has failed, and it is unconscionable in such circumstances to impose compound interest.

The High Court, we understand, propose to pay special attention for the next few years to the administration of the Act, and it is to be expected that some considerable advance in its effectiveness will result.

354. *Another view of the Act.*—The discussion in the two preceding paragraphs represents the views of four of the Committee. Mr. Batheja and Rai Sahib Loknath Misra think that the Act is evaded where attempts have been made to enforce it and is bound to be evaded, if the rate declared as usurious is in excess of that determined by the free play of the forces of supply and demand. It would result in deducting interest in advance, taking receipts for larger amounts than those actually given and other malpractices which always occur when the legal rate is lower than what the security of the borrower and the market-rate would justify. Enforcement would encourage litigation, which would ultimately increase the cost of borrowing and prove injurious to the debtor. They are therefore of opinion that the Act should be repealed.

355. *Regulation of itinerant money-lenders.*—We deprecate any general attempt to regulate money-lending. The stock arguments against such action are well-known, and to them may be added the impossibility of legislating at once for those who lend a lakh of rupees at a time and those who lend a few annas or a small quantity of grain. But it has been pressed upon us by a number of competent witnesses that the persons who have been described in Chapter IV as itinerant money-lenders, the Moghals and Nagas, are a wholly undesirable excrescence on the rural banking system. While we generally agree with this view, we recognize that no country is without a similar evil and none has devised a scheme for completely exorcising it. We think that something might be done by legislation coupled with active co-operation from the subordinate police and the magistracy to rid the province of the worst of these money-lenders. Any who may be convicted of offending against the criminal law in the course of their business should be subjected to deportation from the district or province.

356. *Use of the Insolvency Act.*—We have received no evidence on the question whether the Provincial Insolvency Act should be amended so as to allow the ordinary cultivator to make use of it or a fresh Act passed to relieve rural insolvents. With the improvised agency for collecting information, which was all that we could command, we were unable to get any statistics of the number of persons whose indebtedness exceeds their assets. We are consequently not in a position to examine how the proposals of the Royal Commission on Agriculture in paragraph 367 of their Report could be practically applied in this province. It can only be said that there are certainly many cases, in which land has been given in usufructuary mortgage for accumulated debts which the original holder has no possibility of paying. We think that no serious hardship would be imposed on the creditor if a composition were enforced upon him in such cases.

357. *The record-of-rights.*—The whole province with insignificant exceptions has now been cadastrally surveyed and an elaborate record-of-rights prepared. It has been found to be far too expensive to maintain the record, and the only alternative is periodical revision. That, too, is expensive, and since the cost must either be borne by the landlords and tenants, or by the general taxpayer, the local legislature has been generally reluctant to vote the money required for this operation. Some of the records are now nearly 40 years old, and many witnesses put the point that more frequent revision would help the credit of the landholders of all classes. We agree with this view, but can only express the hope that those who hold it will urge it with vigour on present and future members of the Legislature.

358. *The law's delays.*—There is ample evidence that money suits even of the simplest character take a considerable time in trial and even longer in execution. This complaint came especially from the urban traders who generally do business on credit. The hardship is sometimes aggravated by a tendency on the part of the Courts to allow no interest or interest below the contract rate during the pendency of the suit. This matter is separately discussed below. It has been suggested that Courts might be established in this province empowered to act under Order 37 of the Civil Procedure Code. This provides a summary procedure for suits upon bills of exchange, *hundis* and promissory notes, by which the plaintiff gets a decree upon his simple statement in the plaint unsupported by any evidence unless the defendant is able to satisfy the Court that he should be given leave to defend. The only Courts at present empowered to proceed under this Order are the Calcutta, Madras, Bombay and Burma High Courts, and the Judicial Commissioner of Sind. The use of the section is thus practically confined to the principal ports. Even supposing that there is, at present, no such concentration of business in negotiable instruments in any one place in this province as would justify the immediate introduction of this procedure, it is our aim to create a much greater volume. It would greatly improve the prospects of success, if the dealers in negotiable instruments were assured of a much speedier machinery for realising their demands. We, therefore, recommend that the possibility of empowering District Judges in the principal business centres under this Order may be examined as part of the general scheme, or failing this, some other method of quickening the disposal of such suits. Without this it would be very difficult to establish effectively a bill market and increase the business of shroffs, as we hope to do by the measures recommended in Chapter XX.

There does not appear to be any real demand for special courts to try money suits arising out of other commercial transactions. The ordinary courts are generally quite capable of appreciating the issues and the delays are not due to the special intricacy of the cases. The only criticism in this connection that we have received is that courts are sometimes inclined to assume that anyone who lends money or gives credit is a usurious money-lender. The main remedy for the delays

seems to be an increase in judicial officers and a stronger control over dilatory tactics on the part of the bar.

359. *Interest pendente lite.*—A temptation to prolong the trial and execution proceedings is afforded by the tendency, already mentioned, of some courts to award no interest during the pendency of the suit and interest at a standard rate of six per cent. during execution. It has been represented that this makes it profitable for a debtor to await a suit, if the contract interest exceeds, as it always does, that rate. The discretion in both matters lies with the court. There is, however, we believe, a feeling that since a debt has usually been running for some time before the suit is brought, it is unfair to the debtor to burden him with interest during trial, or at least the full rate which he has contracted to pay. It also seems to be a general, though not invariable, practice to apply the statutory rate of interest on costs, which is fixed at a maximum of six per cent. by section 35 of the Civil Procedure Code, to the whole decretal amount. The discretion is, therefore, used by some courts at least in a somewhat mechanical way, and we suggest that some direction to the lower courts might profitably be given by the High Court on the proper use of this discretion, in particular emphasizing the need for distinguishing between ordinary business transactions and usurious money-lending.

360. *Joint family property.*—A very important legal difficulty has already been touched on in Chapter XVI in discussing the possibility of establishing a land mortgage bank. This is the restriction which the Mitakshara school of Hindu Law places on the power of the head of the joint family (*karta*) on incurring debts on the security of the family property. These are not binding on the other members of the family unless they have been incurred for their benefit or for family necessity. When the creditor seeks to enforce his lien, he makes the other members parties to the suit along with the *karta*, and it is frequently pleaded by them that the debt was not for the family benefit. The burden of proving that it was is thrown on the creditor. The plea, though seldom successful, causes great harassment to the creditor, and often causes the ruin of the family. The result is that the credit of families governed by the Mitakshara school is diminished, and banks and money-lenders are becoming increasingly shy of lending to them. It seems that it would be extremely difficult and perhaps unsafe to disturb the onus of proof. But it should be possible to enact that an enquiry made by an authorized officer of a special land mortgage bank, incorporated in the document creating the lien, shall be *prima facie* evidence that the debt was incurred for the benefit of the family or for legal necessity. It would also be advisable that the bank shall get all the adult members of the family to join in the transaction, in which case they and their minor sons would have to discharge the onus of proving that the loan was taken for immoral or illegal purposes. The Guardian and Wards Act might be amended to enable a court to appoint guardians for minors belonging to joint families, whose fathers are dead, and to authorize the court to sanction loans on their behalf.

It is presumed that an enquiry of the kind contemplated would be limited to the present needs of the borrowing family, and that it would be unnecessary for the bank to examine further whether the indebtedness, which the loan in contemplation sought to relieve, was incurred for the benefit of the family or not. If that point is not settled law, we recommend that legislation should be undertaken to settle it. It might also be examined whether it is perfectly clear that it is not the business of the creditor to secure that a loan granted for a purpose, which makes it binding on the family, is actually applied to that purpose.

361. *Splitting up of mortgages.*—Another difficulty which has been put before us is in regard to the selling of a part of a mortgaged property in order to clear the rest from the mortgage. A proprietor, for example, mortgages five estates in one transaction, and finds that he cannot satisfy his creditor except by selling one of them. He is unable to get a proper price for that one, so long as the creditor's mortgage subsists, while the creditor cannot release the mortgage over the single estate without running the risk of being reduced to press his claim on the other four estates in a mere money suit. By reason of sections 60 and 67(d) of the Transfer of Property Act the mortgage lien cannot be split up and paid piecemeal. We suggest that the law might be amended to provide that, where several properties are mortgaged by one bond, the value of each property may be separately noted in the bond, and the lien split up and stated over each of them, and in that case the debtor would be able to satisfy the debt and redeem his property piecemeal without diminishing the security of the creditor on the remaining property.

362. *Equitable mortgages.*—The use of equitable mortgages in credit for the agriculturists is debarred by the absence of any really trustworthy title-deeds. It is out of the question to use as pledged security the extract from the record-of-rights, which the *raiya* gets on the conclusion of a settlement, since that document merely raises a presumption of correctness and is not revised save at long intervals. The superior interests in lands are somewhat better documented, but complications of co-sharer interest and joint family law militate against clean title-deeds. For urban credit based on house property the case is different, and we see no present objection to the extension of the system of equitable mortgages at any rate to the larger towns of the province.

363. *Legislation consequent on acceptance of proposals.*—If some of our proposals are ultimately accepted it will be necessary to legislate in order to make them effective. In particular the Bihar and Orissa Public Demands Recovery Act will require amendment to enable a client of a "registered mahajan" or the Land Mortgage Bank to bind himself to submit to the summary procedure for realisation which that Act provides. Some of our proposals relating to co-operative Societies will entail the amendment of the Act which governs them, while the Agriculturists Loans Act might have to be widened to cover advances for replacement of brood lac. At this stage it is premature to consider such amendments in detail.

PART V.

INDIGENOUS FINANCE.

CHAPTER XVIII.

Shroffs and urban money lenders.

364. *Scope of the chapter.*—This chapter deals with indigenous financing agencies, whose places of business are in the towns and whose activities are mainly confined to financial operations centring round those towns. It must always be remembered that there is besides in an agricultural province like Bihar and Orissa a very large number of persons conducting the money-lending part of banking business in the rural areas, perhaps 100,000 in all. The classes of these credit agencies, the volume of their business, and their methods of conducting it have been necessarily described at length in Part II from the point of view of the borrower, and we do not think it will serve any useful purpose to recapitulate here.

365. *Shroffs distinguished from money-lenders.*—We have already explained in Chapter III that we mean by a shroff one who, in virtue of his financial position, is able to attract public deposits and draw *hundis* which are readily accepted or discounted in the market. In other words he is one who is able to utilise the machinery of credit to create more finance. He is to be distinguished from all other incorporated institutions like banks doing the same class of business. In virtue of his credit functions he should also be distinguished from the urban money-lender who lends only his own money, though in actual practice it is extremely difficult to do so. Both belong to the same community, usually have the same traditions and the same outlook, and carry on the business of money-lending either exclusively or in association with other activities in much the same way; but nevertheless from the banking point of view the distinction due to use and non-use of credit in the two cases is a real one. For many purposes, however, we shall find it convenient to refer to them together. In such cases we shall speak of them as indigenous bankers.

366. *Old Patna shroffs.*—The shroff in this province is the survival of a remote historical past. When Patna was after Delhi the second city of the Moghul Empire, its shroffs carried on the entire banking business of its eastern provinces. The Patna shroff's *hundis* used to be accepted without question in places as far apart as Dacca, Lahore and Surat and even in places outside the borders of India. Tavernier

mentions that the rate of exchange on *hundis* drawn from Patna on Surat was 7 to 8 per cent., which, considering that it included insurance against loss of goods in transit at a time when communications between the two places were primitive and insecure, must be admitted to be remarkably low. The famous house of Jagat Seth were bankers to the Viceroy of Bengal, Bihar and Orissa, and it was through their *hundis* that the revenue of the Subah was remitted to the Imperial Treasury at Delhi. The Moghul practice of employing shroffs as revenue collectors, bankers and money-changers to Government was continued by the East India Company as late as the beginning of the 19th century, when the banks sponsored by the Agency Houses of Calcutta and the Bank of Bengal appeared on the scene. With the decline of Patna as a commercial and political centre, the prosperity of its famous shroffs also declined. A few of the old shroffi families still survive in the city and the Committee had the opportunity of examining the account books of one such family dating back to the time of the Marquis of Wellesley. They have, however, ceased to be shroffs in the sense in which we understand the term, as they have lost their deposit business. They have been transformed into zamindars and money-lenders by the operation of forces which we shall examine later.

367. *Modern shroffs*.—Most of the shroffs of the present day in this province are Marwaris and Gujratis who are either Jains or Vaishnavite by religion and Vaishyas by caste. Some of them have settled over a hundred years and have little connection, except for the purpose of marriage and other social ceremonies, with their home lands in Gujrat and Rajputana. They are essentially the product of British rule, which by opening up communications has rendered interprovincial migration in search of livelihood much easier than it was before. They have little connection, except in trade and business, with the old Patna shroffi families referred to in the previous paragraph.

Their success in banking and other allied activities is due to the fact that they have been able to some extent to adapt the technique of shroffi business to modern requirements. The old Patna shroffs were slow to move with the changing times. They lost their revenue collecting business with the setting up of the independent treasury system, and their lucrative money-changing business with the unification of currency in 1835. The joint stock banks relying on Government registration, independent audit and publicity of accounts to inspire public confidence, the post-office savings banks with the advantage which Government guarantee affords, and lastly the joint stock companies, all made serious inroads into their deposit and remittance business. The starting of state-aided co-operative banks, the sale of cash certificates and the new remittance facilities provided by the Imperial Bank completed the process. Having lost his deposits in this manner the old type shroff has been transformed into a money-lender pure and simple, carrying on business with his own capital, or into a proprietor of land which he has acquired in the course of his business. The Hindu law of inheritance has subdivided his capital resources until the profits

of money-lending no longer suffice to give him a decent livelihood. He has, therefore, recourse to trade and industry as main or subsidiary occupations. It is in this stage of evolution that the majority of old Patna shroffs are found. In some cases the banking and even the money-lending function has disappeared altogether so that they have become pure traders utilising only occasionally the old machinery of credit in the course of their new business. The merit, however, of the modern shroff, Marwari and Gujrati, consists in this, that, in the absence of his own deposits, he has forged a link, weak and imperfect though it be, between himself and the new banking system of the country, by means of which he is still able to raise some of the capital he requires. He either draws *hundis* himself, or what is more common, endorses the *hundis* of others and rediscounts them either with urban money-lenders or with the Imperial Bank and the joint stock banks. As it is, even with this facility he finds it difficult to make both ends meet. Owing to the insufficiency of funds in the local indigenous money-market, the imperfect development of joint stock banking and the conservative policy pursued by the Imperial Bank in this province, the turnover on his *hundi* business is not large. He is, therefore, compelled to increase his income by combining banking with non-banking activities.

368. *Number of shroffs and urban money-lenders.*—The shroff in this province does not exist in the same pure form as he does in Bombay in the shape of the Multani banker, since he combines his shroffi business with a number of other commercial and industrial activities. As we have said before the number of persons doing the business of a shroff and nothing else will not for the whole province exceed ten, while the mixed shroffs will not number more than 150. These figures are not given in the census but are based on impressions of people who are in touch with them. The Income-tax Department estimates the total number of urban indigenous bankers including shroffs and money-lenders paying income-tax to be 686 with an average capital of Rs. 80,000. This includes all who pay tax on an income of not less than Rs. 2,000 per year, i.e., those who have a capital of not less than Rs. 20,000. Out of these 451 have a capital sunk in money-lending only ranging between Rs. 20,000 and Rs. 50,000, 133 between Rs. 50,000 and Rs. 1,00,000, 69 between Rs. 1,00,000 and Rs. 2,50,000, 27 between 2½ lakhs and 5 lakhs and 6 over 5 lakhs. It is not possible to estimate the number of urban shroffs and urban money-lenders having less capital than Rs. 20,000. It is certainly large but in urban centres their credit cannot be high and consequently the total volume of their business based on credit must be inconsiderable. They may safely be ignored when considering a banking policy for the future.

369. *Their distribution.*—The shroff *cum* trader is distributed all over the province and is found in all towns in this province where his chief instrument of credit and remittance, the *hundi*, is still used. Where it is not used, the banker becomes a pure money-lender, who again, if he specialises more and more in zamindari credit, insensibly

merges into the rural money-lender. There are no sharp lines of division and one class shades off gradually into the other. The *hundi* as a cheap means of remittance is used even in big rural marts, but as a means of raising accommodation is found only in big trade centres like district and divisional headquarters where there are banks and something like a money-market. Pure money-lenders are much more numerous and more widely distributed than shroffs, since simple money-lending, even if it includes purchasing *hundis*, does not require the same skill, ability and credit as banking. They are therefore recruited from all classes. A successful trader generally combines money-lending with his ordinary business and confines himself exclusively to it, when he retires from his original occupation. Vakils, retired Government officials and zamindars living in towns have also taken to it so that what was once a highly-specialised vocation confined to certain communities is now followed by many classes. The urban money-lenders are therefore a heterogenous class in which the inhabitants of this province are adequately represented. Like the shroffs, they combine money-lending with trade and other activities. There are very few money-lenders who do nothing but money-lending.

370. *Functions and business of the indigenous bankers.*—The activities of the indigenous banker in the economy of the province are varied and all pervasive. He is the banker *par excellence*. He finances everything and everybody. He supplies credit to the trader, the industrialist, the zamindar and the general consumer. He performs most, if not all, of the functions of the Imperial Bank, the joint stock banks and the post-office, to a greater or less degree, and others, which they cannot perform. For instance he attracts deposits from illiterate widows and minors which will never go to those institutions, and gives long-term loans to industry and land management, which they will not touch. Owing to his personal touch and his elastic methods of work, he picks up business which will be refused by banks. He is the residual legatee, and has been aptly called the third debenture-holder, in the sphere of banking. Whatever may be the decline in his deposit business, the indigenous banker still remains unrivalled in the field of finance. Without his active co-operation and assistance, the banking machine could not function efficiently and the entire economic life of the country would slow down.

371. *Trade finance.*—Coming to a more detailed description of his functions in this province, it may be said in the first place that, except for the meagre assistance of the Imperial and local joint stock banks and a few import and export houses of Calcutta, he finances the entire urban trade of the province in cloth, grain, lac, coal, mica, jute and all articles of local consumption. It has been estimated that out of a total trade of Rs. 86 crores only 3 crores or so is financed by the Imperial Bank, the joint stock banks and the export and import houses and the rest by traders and indigenous bankers. It is not possible to apportion the share of the latter as no separate statistics are available. Besides supplying direct finance, the indigenous banker does about

40 per cent. of the entire remittance business of the province. It has been estimated that in the Bhagalpur and Patna divisions out of a total remittance business of Rs. 27 crores, about Rs. 11 crores are remitted through the post-office by money-orders and insured Government currency notes, Rs. 6 crores through the Imperial and other banks and Rs. 10 crores through the indigenous bankers.

372. *Industrial finance.*—Setting aside the big organised industries like coal, iron, cement, sugar, mica and lac which get their funds from Calcutta or Bombay, the minor industries in the province obtain their current finance from the indigenous banker. To some extent many of the smaller coal and mica mines and some sugar and lac factories also receive his help. The numerous oil and flour mills scattered all over the province are not only financed but owned and managed by him, and the entire silk industry of Bhagalpur is similarly controlled.

373. *Rural and consumer's credit.*—As regards agriculture, the shroffs and urban money-lenders finance it indirectly by lending to grain merchants and *goladars* and to a small extent to rural *mahajans* who in turn finance the *beparis* and the cultivators, and directly by advancing to those zamindars and substantial *raiyats* who have an easy access to towns. A small part of the capital of the indigenous banker is also used in supplying consumer's credit against the security of property and jewellery but generally he prefers productive credit. His relations with trade, industry, agriculture and the general consumer are thus close and intimate and his functions in supplying credit to them are more easily enumerated by describing what he does not touch, than what he does.

374. *Capital and deposits.*—The capital invested by shroffs and urban money-lenders for discharging all these varied functions is estimated by the Income-tax Department to be Rs. 5½ crores. This is probably an under-estimate, since this sum does not seem to be commensurate with the requirements which the indigenous banker actually fulfils. It probably represents only his personal resources which are supplemented by the floating capital available in the shape of deposits and discounted *hundis* in the indigenous money-market. In chapter III this has been estimated at Rs. 2 crores. The rest of the money is generally found by the proprietors of commercial and industrial concerns themselves. Out of this total loanable money, supplied by shroffs and urban money-lenders, about 15 per cent. is advanced to industries, 70 per cent. to trade and about 15 per cent. to agriculture and the general consumer. It will be noticed that the part played by deposits and other outside resources in relation to capital in the financial operations of the indigenous banker is extremely small and this is due to the fact that there is no close connection between him and the main deposit-collecting agencies of the province, i.e., the Imperial Bank, the joint stock banks, the post-office and the co-operative banks. In our opinion it is a grave defect in the provincial banking system that its greatest financing agency—the indigenous banker—should be so little able to utilise the

machinery of credit as neither to have an adequate access to the deposits of other agencies nor to be able to raise deposits on its own account. We have no means of estimating the total deposits or the *hundi* loans of shroffs, but we have reason to believe that the former business has declined and is declining as other banking facilities become more and more available. This is in a way inevitable, since the shroff, with his present liking for secrecy and for mixing up banking with other speculative activities, cannot inspire the same public confidence as attaches to Government, Government aided institutions or joint stock banks, with open methods of business and audited balance sheets. In spite of these handicaps, some of the shroffs in this province are still able to attract deposits. But these deposits are drawn by the shroffs not as bankers but in virtue of their high standing in the commercial and industrial world, and come necessarily only from those living in a restricted area who are aware of this standing. Most of them come from their acquaintances or those with whom they have business dealings. We, however, came across some shroffs in Bhagalpur, the great centre of indigenous banking in this province, who had deposits varying from Rs. 8 to Rs. 16 lakhs drawn from an area comprising the neighbouring districts of Bhagalpur, Monghyr and Purnea and from all classes including substantial *raiyats* and the local European club as well as from the funds of semi-public institutions. But such cases are more exceptional than normal.

375. *Hundi discounts*.—Whether the *hundi*-borrowing business of the shroffs is growing to compensate for the loss of deposits we cannot say with any certainty. It all depends upon the supply of loanable funds in the money-market and its readiness to lend them against *hundis*. All indications, however, tend to show that it is probably not increasing so fast as one would wish. The expansion of this kind of credit seems to be limited by the personal requirements of the shroffs for their private commercial and industrial undertakings, by their preference for cash credits and *khata peta* advances to loans against *hundis*, and by the conservative policy which the Imperial Bank has pursued in this province in respect of such loans. The lack of negotiable agricultural, commercial and industrial paper is a great handicap to a more forward policy by the banks, and the shroffs in many cases show a lamentable want of enterprise in not creating enough credit for commercial and industrial concerns other than their own. In these circumstances, it is hardly surprising that the total borrowings of shroffs on deposit and *hundi* account do not exceed Rs. 2 crores.

376. *Terms of deposits*.—The rates of interest paid on deposits vary from 4 to 6 per cent., in the case of first class shroffs, and from 6 to 9 per cent., in the case of second class shroffs, depending upon the amount of deposit, its probable duration, the personal relations existing between the shroff and the depositor and the state of the market. There is no hard and fast rule of business for all clients, the system being extremely elastic, but even in such a system there are governing considerations

which guide the action of the shroff. All such deposits are legally held in current account, i.e., they are withdrawable on demand. But the shroff will take care to quote lower rates where the amount and the probable duration of the deposit is small. Higher rates, on the other hand, will be paid for the same class of business if the need of the shroff is great and the money-market is tight. Terms will, however, be mitigated, if the shroff has long-standing personal or business relations with his client. The rates for deposits from strangers on whom the shroff cannot rely in an emergency are generally lower. Indigenous pass books called *chithas* are given by the shroffs to their customers, in which their accounts are entered from time to time. Each account begins with a one anna stamp affixed to it as a guarantee of the legality of the transactions recorded therein. One big shroff of Bhagalpur and another in Sambalpur allow these accounts to be drawn upon by cheques, showing the influence of western methods on indigenous banking practice. Another instance of such influence is the practice of some shroffs of ear-marking certain classes of deposits for special kinds of loans. For instance one big Bhagalpur shroff invests his short-term deposits in short-dated *hundis* or in his cloth and grain business, his long-term deposits in his industrial undertakings, and his own capital in land mortgage loans which naturally take a long time to recover.

377. *Credit instruments and terms of loans.*—Loans are taken and advanced on the same elastic terms as deposits. The shroff borrows and lends in the money-market on—

- (1) *Khata peta*, i.e., current account.
- (2) *Purzas*, i.e., demand promissory notes.
- (3) *Muddati hundis*, i.e., usance bills.
- (4) *Bechavans*, i.e., rediscounts.

On *khata peta* accounts no document passes and no signature of the borrower is taken. These transactions are carried on with other shroffs or with traders and are merely entered in the books of both parties, who very rarely repudiate them. Money advanced on them is payable on demand and carries interest at the rate of $6\frac{1}{2}$ per cent. to 9 per cent. per annum. Roughly it corresponds to money at call. *Khata peta* accounts are common in all parts of Bihar but for some reason or the other they are not very important in Patna. Loans against "*purzas*" are nowadays the most common form of borrowing. They are payable on demand and pay a much lower stamp than that charged on usance bills. The repeal of the stamp duty on all demand bills has enormously increased their popularity at the expense of *muddati hundis*. There is also another reason for their greater vogue. First class shroffs think it derogatory to their financial prestige to sign paper which requires two signatures, as most forms of *hundis* do, and they therefore prefer to issue *purzas* which require only one. The *purzas* are nominally payable on demand but there is a tacit arrangement that they are to be paid after 30 days or some other agreed period, the whole object being to evade the payment of the duty on usance bills. They therefore represent

an intermediate form of credit between call credit and the longer credit of the *muddati hundi*. The *hundi* both from the lender's and borrower's point of view is a much better document. It more often represents a genuine transaction in goods, and as such is more acceptable to the banks as security. The stamp duty however militates against its frequent use. Rediscounting or *bechavans* is done by endorsing in full the *hundis* issued by traders to the Imperial or joint stock banks. This is only resorted to in the busy season. There is very little of rediscounting between shroff and shroff.

378. *Money-market loan rates*.—The rate paid and charged for loans against *purzas* in Bihar varies from 3 to 9 per cent. depending upon the state of the market and the position of the borrowing party. The rate paid against *muddati hundis*, which are generally of 60 or 90 days usance is higher, as its use nowadays is confined to second class parties. It varies from 4 to 12 per cent. according to the status of the borrower and the condition of the market. Rediscounting with banks is resorted to only when the shroffs are short of funds in the busy season. In such cases they fall back upon the Imperial and joint stock banks and a temporary link is established between the indigenious and western banking systems. Then the *bazar hundi* rate depends upon the Imperial Bank's *hundi* rate. The margin is sometimes as little as $1\frac{1}{2}$ per cent. per annum and sometimes as much as 6 per cent., and represents the profit of the shroff for the trouble and risk taken in rediscounting the *hundis* of borrowers. To non-traders the shroff passes on the credit so obtained at higher rates ranging from 12 to 18 per cent. depending upon the position of parties.

379. *Loans of money-lenders*.—The ordinary urban money-lender does not adopt the refined technique of the shroff and of course generally does not borrow by rediscounting or any other method. If he engages in this class of business he conducts it on somewhat more onerous terms as he deals with less creditworthy parties. He charges a higher rate of interest and demands greater security in the shape of document and collateral. He advances against hand-notes, simple and registered bonds and mortgage deeds, with or without the collateral security of jewellery, house and landed property. He makes comparatively little use of the mechanism of credit and in many cases his methods and the nature of his business approximate to those of the big rural money-lender.

380. *Clientele*.—The clientele of the indigenious bankers as may be gathered from his functions come from all classes of the community. The shroff's depositors are generally persons living within a well-defined area, who have other business dealings with him or know him by reputation or have some family connections with him. The first class includes traders, shopkeepers, small manufacturers, zamindars and substantial *raiya*s. The latter two include that large class of persons who are either illiterate or do not understand or appreciate the intricate procedure and the rigid rules of the post-office or a bank. They are

uneducated zamindars and shopkeepers, widows and minors. The professional classes tend to patronise modern banks, but even some of them are attracted by the shroff's personal touch and the high rates of deposit which he generally offers. His borrowers as well as those of the urban money-lenders, as may be naturally expected, are recruited from a much larger class. They are merchants, industrialists, zamindars and professional men, but it may be roughly said that for the shroff the majority belong to the first two classes while for the money-lender the last two predominate.

381. *Dealings with clients.*—The dealings of the shroffs and urban money-lenders with their clients are conducted on sound lines. The Committee have not come across serious cases of abuse of their position on their part. It is not to the interest of the shroff, accepting as he does deposits from the public, to impair his credit by any questionable dealing. His relations with his depositors and his financiers, if not with all his borrowers, are personal, cordial and intimate. He has no fixed hours of business. He is accessible at all times and all places to all persons, rich and poor and conducts his business in the vernacular. These methods—combined with other personal qualities—enable him to act as the confidential adviser of many persons including women who would not venture into the precincts of a bank. It does not take more than a few minutes against hours taken in a bank, to put through a transaction with him. This facility, and the fact that the transactions with an indigenous banker are more secret than those with the low paid employees of a bank induces big traders and manufacturers and educated borrowers who are jealous of their credit to deal with him in preference to banks. The word of the shroff is better than an expensive bond. None of the large *mathudhar* transactions—transactions which are carried on daily by shroffs amongst themselves by word of mouth without any written record or document—are ever denied. The slightest rumour of unfair dealing with clients will impair such sensitive credit. The clients generally reciprocate the treatment which they receive at the hands of the shroff. They will stand by him in his hour of difficulty even at some personal sacrifice and will not press for payment when he is embarrassed. This enables him to carry on his business with lower cash balances than his unlimited liability and the nature of his deposits would warrant.

382. *Dealings of urban money-lenders.*—This picture is generally true of the city money-lender also except that in so far that he does not borrow he has not the inducements to practise the same scrupulous rectitude. But he is generally a big man with a reputation for probity in private life which he is anxious to keep and finds it to his interest to maintain in business. He has not the opportunities or the monopolistic position of the rural money-lender to enable him to resort to unfair practices successfully or for any length of time. He deals with a sophisticated and intelligent clientele and has many competitors in his business. He has no eye on the property of his borrower, unless he

is specialising in the zamindari and agricultural credit of the neighbouring rural area or is a zamindar himself. In such cases his methods resemble those of the big rural money-lenders but these are not usually unfair. There are, however, some petty money-lenders and shop-keepers in towns as in rural areas, who specialise in consumer's credit for clerks and the poor labouring classes. They may sometimes resort to those unfair practices in accounts which are commonly alleged against the village money-lenders, but the Committee have not come across any instances, perhaps on account of the limited time at its disposal.

There is thus no special prejudice against money-lenders as such except the general one which the improvident borrower feels against his more prudent creditor and the envious entertain towards others better endowed than themselves with worldly goods.

383. *Organisation and methods of business.*—The organisation of the business of an indigenous banker is extremely simple. It is generally on a joint family basis with an unlimited liability. This gives it unity, strength and flexibility and a certain conservative outlook which makes for success in banking. The senior member of the family is the head of the firm and represents to the outside world its final authority; but sometimes a more junior but abler member may have the decisive voice in its inner councils. In the case of conflict of interests and acute disagreement, the joint family splits with separate earning and consuming units, but it still retains its business unity and cohesion in the shape of a partnership with a definite share for each member, in order to retain the advantages of joint credit and resources which such unity gives. It is only in extreme cases, or when the family has become too large, that a complete division takes place and the original firm splits up into two or more rival firms. The terms of partnership are embodied in a legal agreement which is seldom divulged to the public. Faithful and deserving employees are sometimes admitted as a reward for long service or outstanding merit. The supply of managing ability is thus constantly kept up, unless the head of the firm is hopelessly incompetent as he rarely is. If the firms have a number of branches or a number of departments of allied activities, such as zamindari, dealing in grain, cloth and bullion, or rice, oil and flour milling, a sort of geographical and functional specialisation amongst the partners takes place. The head of the firm, however, generally stays at headquarters and attends to its banking and financing activities.

384. *Branch banking and munims.*—Sometimes the branches are managed by experienced working partners called *munims*, who enter into a contract for three years, during which they receive maintenance and a monthly allowance for the family at home and a share in the profits and losses of the branch. The branch system enables the shroff to conduct commission agency, exchange and arbitrage operations, raise and lend funds in the best market and divert surplus funds to those places where they are most needed. The branches are in constant

communication with the headquarters and keep it daily informed of their major transactions. The *shahs*, as the financing partners are called, occasionally go and inspect these branches. The shroffs in this province have their branches or headquarters in Calcutta as the chief place of business. Some of them have branches in Bombay also and nearly all have correspondents and commission agents in the chief trade centres. One firm in Sambalpur is reported to have thirty branches all over India. Generally speaking, however, the branch banking of the shroffs in this province is not so well developed as that of the Chetties and Multanis. Pure money-lending firms have generally no branches unless they are transacting other business also.

385. *Establishment*.—The establishment and office equipment of the shroffs is of the most inexpensive kind. The latter consists of a large durry with some quilts, pillows and office desks at one end at which all writing work is done and an iron safe fixed in the wall in the back ground for storing cash and valuables. There are in all cases two officers—a manager and a cashier-accountant—and one or two durwans or boy servants for carrying cash, letters and messages, the proprietor taking the place of the manager if he is doing the work himself. In the case of big firms the establishment is somewhat larger, and most firms have to employ a law clerk for litigation work. The employees work for long hours, without a break on Sundays, on small pay ranging from a minimum of Rs. 20 to a maximum of Rs. 100. Long and faithful or specially competent service is however rewarded by a share in the partnership or by the head *munimship* in a branch. If the *munim* scrapes enough and shows special ability, he may set up as a shroff himself and perhaps eclipse the original firm. They have no special banking education except what they pick up in the course of business. The indigenous banker is a triumph of pure empiricism.

The employees are generally poor relations and caste men imbued with the traditions and well acquainted with the practices of the profession. As such they are thoroughly amenable to the social influence of the caste *panchayat*, which is always more effective in securing honesty than any legal penalty. A breach of professional trust will be severely punished by social ostracism. They handle vast sums in distant branches on behalf of their absent masters with little control over their actions and they discharge their heavy responsibilities with great ability and scrupulous honesty. There are very few cases of their betraying their trust.

386. *Account books and accounts*.—Their ability in keeping accounts and counting money is remarkable. They are therefore in great demand as *khazanchis* or cashiers in the Imperial and joint stock banks. Every shroff keeps the following account books called *bahis*—a cash book called a *rokad bahi*, a journal called a *nakal bahi*, in which all daily credit transactions are entered, and a ledger called *khata bahi*, in which all the entries of the first two books are transferred to the appropriate accounts.

The *khata bahi* has an index for easy consultation and page numbers of the cash book and the credit journal are entered against each item for rapid cross reference. The accounts or *khatas* as they are called are of two kinds—personal and trading accounts—called *dhanivar khatas* and *shri khatas*, respectively. Sometimes they are entered in separate ledgers, sometimes in one. For the purpose of calculating interest sometimes a separate book called a *sud bahi* is kept. Receipts and advances are entered on two sides of a central imaginary line and interest is calculated on daily balances by what is known as the *ank* system. Under it the total number of rupee-days are found out and total interest is arrived at by applying to it the agreed rate of interest. All accounts are kept in the vernacular in the script appropriate to the banking community. The chief script in use in this province is the Marwari script.

387. *Dalals*.—No account of indigenous banking methods would be complete without describing the documents in use and the *hundi* brokers called *dalals*. The chief kinds of accommodation and exchange paper have been described in this chapter or in Chapter IX. It only remains to describe the *hundi dalal*. He is an intermediary for negotiating the sale and purchase of *darshani* and *muddati hundis* and *purzas* and brings together the drawers and the purchasers. He is generally found in the *hundi* markets of Cuttack, Muzaffarpur, Patna, Bhagalpur and other places where there is enough business for this specialisation. He has no fixed office but flits about from shop to shop quoting rates and the amount and nature of commercial paper available for sale. For this laborious and useful service he gets commission of 2 pies per cent. in Muzaffarpur from the party receiving the money. There are only four such *dalals* in Muzaffarpur.

388. *Expenses and profits of business*.—Though the expenses of the indigenous banker on his establishment and equipment are small, his legal expenses and the losses due to bad debts are fairly large. We have received a considerable body of evidence, which shows that many of his debts remain unrealised, and those that are realised take a long time to collect on account of the vexatious tactics of dishonest debtors and the delays of the courts. These expenses and losses increase the cost of money-lending and reduce the net profit of bankers. The shroff of course is in a better position than the ordinary money-lender in the matter of legal expenses, as he lends less to zamindars and general consumers and more to traders and industrialists who are usually more reliable. But his losses under bad debts are greater as with the best will in the world a person engaged in trade and industry may fail. It is not true that the shroff handles only the worst kind of business. We have received enough evidence to show that many first class parties deal with him. But he also accepts much of the business which has been refused by the banks. It has been estimated, that allowing for such bad debts and his legal and other expenses, the shroff and the money-lender do not make more than 9 per cent. on their capital. This estimate is generally confirmed by the statistics supplied by the

Income-tax Department which show that on a total investment of Rs. 10½ crores in money-lending by assesseees in this province, Rs. 111 lakhs net interest is earned, giving a net return of about 10 per cent.

389. *Non-banking business.*—The shroff can increase this rate only by having a larger turnover than he has at present. In existing circumstances a shroff or an urban money-lender can earn at the most Rs. 2,000 a year on an investment of Rs. 20,000 if he confines himself exclusively to banking or money-lending. This is too small a reward for the high qualities of skill and judgment which are needed in this responsible calling and falls far short of the income of a man in a similar position of life requiring the same kind of ability. He is therefore irresistibly driven more and more to increase his aggregate income by engaging in occupations other than banking. He tends to become more and more a trader and less and less a banker, and, if he engages in banking at all, it is to gather the deposits which he needs for expanding his non-banking business. This explains why there are so few pure shroffs. All over the province we found shroffs doing mixed business. Trading in bullion, cloth, grain, salt, oil, jute and lac, managing rice, oil and flour mills, coal and mica mining, silk manufacture, commission agency and zamindari are some of the many occupations which they combine with banking. In some cases the latter becomes their subsidiary activity. We were much struck by the fact that a large portion of the deposits collected by shroffs are diverted to their private undertakings. We do not deprecate this practice of financing trade and industry, but we are nevertheless convinced that if the great banking traditions of this country are not to disappear altogether, the shroff must be saved from being merged altogether with the trader, and means should be devised to make it worth his while to stick to his unadulterated shroffi business, if he does not choose to follow the thorny path of trade and industry.

390. *Difficulties of business—Legal.*—These means should be negative as well as positive. He should be freed from the difficulties under which he undoubtedly labours and should be given the means to make himself a better banking agency and more serviceable to the community. His chief difficulty is that, though a banker, he is apt to be confounded in courts of law with usurious money-lenders. His suits for the recovery of his legitimate debts are viewed with a certain amount of initial suspicion. We have it in evidence that the courts in this province seldom allow interest during the pendency of money suits even when the suits are wholly decreed in the shroff's favour, and that the interest given during the period of execution is much less than that which the shroff himself pays in the market. These difficulties and their possible remedies have already been discussed in Chapter XVII and need not be further examined here.

391. *Shroffs and the Income-tax Department.*—It has been asserted that income-tax officers in this province utilise the information obtained by them in the course of examination of one assessee's books, in checking

the estimates of income of another, and thus by divulging secrets cause damage to the deposit business of the shroff. It is further asserted that these deposits are diverted to the Imperial, joint stock and co-operative banks, where similar liberties cannot be taken by the Income-tax Department. We do not know whether these statements can be supported in detail, but if they can we think the grievance should be remedied.

392. *Difficulty of adequate finance.*—The last but not the least difficulty of the shroff is his lack of adequate finance. We have seen how his deposit business is drying up owing to the keen competition of other investment agencies. We have further seen that his *hundi* borrowings are not commensurate with his requirements as the chief financier of trade and industry. He is compelled to pay 9 to 12 per cent. on *muddati hundis* and rather than pay such high rates he is resorting more and more to *khatta petta* and *purza* loans, which, though carrying lower rates of interest, are payable on demand and therefore more risky from his point of view. When he pays high rates himself he has to charge correspondingly high rates ranging from 9 to 15 per cent. which in the face of keen foreign competition few commercial and industrial enterprises can bear. He is therefore driven to enter these occupations himself to supplement the scanty income he makes from his banking activities. The only way of preventing him from resorting to these doubtful devices and of building up a healthy banking tradition, is to increase his turnover by increasing his command over capital. If a shroff or a money-lender with a capital of Rs. 20,000 can turn it over three or four times a year with the help of credit he can earn Rs. 6,000 to Rs. 8,000 instead of the Rs. 2,000 a year, which, according to the Income-tax Department figures, he makes at present. This credit can only be obtained by improving his position and by linking him effectively with the central money-market. Before we can discuss how this may be done we have to examine his present relations with the Imperial and the joint stock banks.. We shall do so in the succeeding chapter.

CHAPTER XIX.

Indigenous Bankers in relation to the Money Market.

393. *The Indian money market.*—We have seen in the foregoing chapters that neither the indigenous bankers nor the rural money-lenders have that amount of capital which they need for financing the varied requirements of trade, industry and agriculture, nor as we have seen in earlier chapters, is this work done to any adequate extent by the other banking agencies in the province. We have therefore to enquire whether they have enough access to the Indian money market. The Indian money market consists really of two separate parts which have little connection with each other except in the busy season, the indigenous money market comprising the shroff, money-lenders and traders known as the "bazar" and the western money market consisting of the Imperial Bank, exchange banks, joint stock banks, Government and other financial institutions. It is a loosely knit and imperfectly organised structure and hardly deserves the name of a market. There is no well defined local money market in this province, since many of its transactions are carried on through Calcutta; but its banking institutions form a component part of the Indian market.

394. *The rural money-lender and the urban money market.*—Within this market the rural money-lender has no link worth the name. He ploughs a lonely though lucrative furrow and except for the occasional connection with exchange banks through export houses when he happens to be a grain dealer as well, he moves undisturbed in his own peculiar orbit. This disjunction between him and the urban money market is responsible for the seasonal stringency and glut of money which prevails in the latter. The rural credit agencies need more money for making advances to cultivators during the sowing season from May to August which is just the time when banks in all centres have a surplus of idle funds which they cannot invest with advantage. It would obviously be desirable to use this surplus in the villages where it is needed, but this cannot be done in the absence of any link between the banks and the chief rural credit agency — the rural money-lender. How this may be done will be discussed later. It is difficult to say whether the rural money-lender has any idle funds in the busy season after the harvest when his debts are usually repaid, which may be lent to the urban areas. It is probable that he has no such funds for any appreciable period as most of the money is re-borrowed immediately, and the little that is not, remains on his hands in the shape of larger stocks of grains which are slowly sold or lent out as the sowing season approaches. Very few rural money-lenders have accounts with banks

in towns where they exist, and nearly all of them conduct their remittance operations, if they have any, through the Post Office.

395. *The shroff and the western money market.*—The shroffs and big urban money-lenders have some relations with the western money market, if not for banking purposes at least for remittance. All of them use the agency of the post office for the latter purpose. As may be expected they have no business links with the co-operative banks, insurance companies and Government. They have, however a close and intimate connection through their branch organisation with the Calcutta and Bombay money market “ bazars ” as bankers, and with export and import houses, commission agents and manufacturers, and through them indirectly with the exchange banks, as traders. Their chief local links are with the Imperial and joint stocks banks.

396. *Extra-provincial connections.*—The banks in Calcutta and Bombay finance the import and export houses, commission agents and other dealers engaged in the up-country trade and these in their turn pass on the credit so obtained to those mufassal shroffs and money-lenders who also happen to be traders. In this way some portion of the money which finds its way from the mufassal to the ports comes back. Most of the shellac, mica, jute, coal, cloth, salt and petrol business of this province is financed in this way. The shroffs also borrow directly through their branches in the *burra bazar* and from their banks in Calcutta when rates there are favourable. They also lend their surplus funds in the market there when they have no use for them at their headquarters. These facilities are, however, open only to the biggest shroffs who can afford to have offices outside the province. Others have to be content with local resources.

397. *Relations with joint stock banks.*—The relations of the shroffs and urban money-lenders with joint stock banks in this province vary according to place and circumstances. The big shroffs and money-lenders are rivals rather than customers of the joint stock banks, as both being urban agencies transact the same class of business and appeal practically to the same clientele. There are however some differences. The banks are more successful in attracting the deposits of the professional classes who do not need money loans except for consumption while the shroffs deal mostly with traders and industrialists who are poor depositors but insatiable borrowers. The shroffs have therefore generally to be satisfied with second class depositors and the joint stock banks with second class borrowers. There is obviously room for fruitful co-operation between the two but in this province there are some special difficulties. In the first place, with the exception of one or two outside banks, there are no banks operating in this province big enough to finance the large requirements of the shroffs. In the second place the rates which they are compelled to charge for accommodation are, on account of a variety of circumstances, such that the shroff as a credit intermediary cannot afford to pay. These rates are much higher than those prevailing in the indigenous money

market for first class parties. In the third place, and this is a difficulty which the banks share in common with the Imperial Bank, there is not enough suitable credit paper which may be endorsed to a Banker's Bank in case of emergencies. The result is that there are few points of contact between the indigenous bankers and joint stock banks. The branches of outside banks in this province however do a fair amount of lending against *hundis*. We were given to understand that the *hundi* discounting business of one of them is greater than that of the Imperial Bank in the same place and that another finances a number of coal mine owners against *hundis* drawn on Calcutta; but it is not clear how much of this business is negotiated through shroffs. The local banks do very little *hundi* business, the Orissa and Chota Nagpur banks doing practically nothing in that line. Obviously the financing of shroffs at rates which he regards as remunerative, is beyond the capacity of these banks. Some of them have even larger resources of their own than these banks possess. It must therefore be recognised that the shroffs and the joint stock banks of the size we find in this province are rivals and are in no sense complementary to each other. No fruitful co-operation can be arranged between them unless bigger banks are started.

398. *Rural money-lenders and joint stock banks.*—The case of the rural money-lender however stands on a different footing. His operations are not so large, his clients are accustomed to a higher rate of interest and he has no access either to the indigenous or to the western money market. He lives too far away from banks to allow them to establish money relations between him and them. There is no means of keeping that close watch over his business which every bank feels necessary in the case of those who borrow from it. Improved means of communication by motor bus have somewhat diminished the force of this objection, and if Government could bridge the gap between the joint stock banks and the villages by registering some creditworthy *mahajans* in the way suggested in the succeeding chapter, the difficulty could be resolved.

399. *Relations with the Imperial Bank.*—The relations of shroffs and urban money-lenders with the Imperial Bank are different from those with joint stock banks. As Government treasurer, as a banker's bank and as the greatest commercial bank in the country, it touches them at many points. Even if they do not keep any accounts with it and do not borrow from it, they cannot do without it.

They have to make payments to it on Government account, they have to take notes from it for cash or *vice versa* and they make great use of its remittance facilities for places on which *hundis* are not available. The shroffs also rediscount *hundis* in the busy season when their own funds or the funds available in the indigenous market are exhausted. These relations of the indigenous bankers with the Imperial Bank are not very strong. In their capacity as traders they never borrow from it against the security of produce or goods in its godowns, as they

fear that it will lower their credit in the market. Neither the shroffs nor the money-lenders keep deposits with the Bank, as they have more profitable use for their funds, and if they keep any accounts at all, they keep them for the purpose of remittance or paying bills drawn on them by outside merchants and collected through the Imperial Bank. The majority of them however prefer to deal in cash and this brings them in frequent contact with its cashier's department. This contact is very much increased by the fact that the Imperial Bank as the treasurer of Government is the sole agency for supplying notes which are in great demand by shroffs and money-lenders for the purpose of remittance in insured covers.

400. *Cash dealings with the Imperial Bank.*—In the course of our intensive enquiry, we came across a number of complaints from shroffs and money-lenders about the difficulties they experience in their cash dealings with the Imperial Bank. It was stated that the *poddars* employed by the *khazanchi* (cashier) of a branch to count notes and cash are underpaid and consequently levy illegal commissions from customers who have cash dealings with them. It was further said that if this *dasturi* is not paid, either the cash tendered is under-counted or bad coins are mixed with good ones, or old coins and soiled notes are rejected without the justification set forth in the Resource Manual, or that shroffing is deliberately delayed to an extent which causes serious loss of time and inconvenience. These complaints are not new and used to be made against Government treasuries also, but the merchants examined are of opinion that under the management of the Imperial Bank the abuses have increased. As they were also made by responsible managers of Indian joint stock banks, the Committee think that they are not without some foundation. There are however other complaints of shroffs and money-lenders which concern policy as distinguished from the detailed working of the Bank. It was admitted by the Calcutta Secretary and Treasurer of the Imperial Bank that the Bank does not accept large amounts of small change tendered in payment for dues and does not give out enough currency notes in exchange for rupees. These rupees and small change are tendered to the Bank not as bankers but as treasurers to Government and agents of the currency authority whose function is to supply currency to the public in the form in which it wants. The notes are chiefly required by shroffs and merchants for the purpose of remittance in insured covers. It has been asserted by more than one witness that the Bank wishes to discourage this demand which cuts into its own remittance business. The Secretary and Treasurer of the Calcutta Head Office has denied that notes are ever refused. But he admits that occasions do arise when the number and magnitude of exchanges are such that the staff employed may not be able to shroff on the day the amount of coin received and all exchanges cannot be effected. The Committee are inclined to think that the complaint is more general than this statement would suggest and that the occasions on which customers cannot get the notes needed by them in one day are so numerous that some serious public inconvenience is caused. The Imperial Bank gets many privileges in return for doing

Government treasury work and it may be considered whether public requirements should not be met more fully than they appear to be at present.

401. *Remittance relations.*—No similar difficulties are experienced in relation to the direct remittance business of the Imperial Bank. The shroffs and urban money-lenders, as explained in earlier chapters, remit money through post by means of half notes and *darshani hundis* and when these methods for one reason or the other are not available, they remit through the Imperial Bank. The Imperial Bank's rates of remittance are fairly low and have been fixed in consultation with the Controller of Currency who allows the Bank to transfer funds through the currency chest free of cost. These rates of remittance act as upper limits to the bazar *hundi* rates. Where a *hundi* exchange market exists, the shroff prefers it to the more formal and dilatory agency of the Imperial Bank. The rate of remittance for a place depends upon the supply and demand for *hundis* on that place. It is sometimes at par and sometimes at a discount but in both cases the Imperial Bank's remittance rates of 4 annas to 1 anna per cent. act as the extreme limits of variation. When these limits are exceeded the shroff falls back upon the Imperial Bank. Owing to its wide organisation, its agency is also used for remittance to places on which no local *hundi* is available. It is difficult to estimate the amount of such business brought by the shroffs and money-lenders to the Imperial Bank, but it is understood that it is fairly considerable.

402. *Rediscounts.*—It is however in rediscounting his *hundis* that the Imperial Bank can render the greatest help to the indigenous banker. This relationship can be beneficial to both parties and incidentally advantageous to the country as a whole. We have seen that the indigenous banker needs capital which the existing joint-stock banks are unable to provide. On the other hand the Imperial Bank in this province collects a surplus which it can only advance against bills bearing not less than two signatures. The shroff alone is in a position to supply such commercial paper which is also needed for building up a large discount market for the successful working of the proposed Reserve Bank of India. But for reasons which the committee have not been able to understand, the amount of such paper discounted in this province by the Imperial Bank is small. The total amount of advances made by the Imperial Bank in this province against inland bills and bills discounted in the year 1929 was 24 lakhs while the total amount outstanding on the 31st December 1929 was one lakh only. No separate figures for advances to shroffs are available but even if we presume that all these advances were made to shroffs, the sum of one lakh lent to them against *hundis* at any one time is not particularly large. We have already pointed out that some of the outside banks working in this province transact more *hundi* business than the Imperial Bank's branches. The main reason for this perhaps is that most of the branches have been recently started and have not had enough time to build up their connections with indigenous bankers. Their agents also have been somewhat conservative. The

Bank charges even first class parties in this province one per cent. more than its *hundi* rate in Calcutta. The result is that the big shroffs prefer to raise their requirements in Calcutta rather than pay the higher rate charged here. The shroffs also have perhaps not adapted their business to the requirements of the Imperial Bank which has to work under the restrictions imposed on it by statute. To evade the stamp duty on usance bills, they prefer to borrow on pronotes bearing one signature only or in the shape of cash credits. Moreover they mix up banking too much with other business and do not always satisfy the high standard of security, which a bank of the position of the Imperial Bank of India must demand before it can advance money.

403. *The two gaps in the money market.*—There is thus a gap between the shroff and his only possible financier the Imperial Bank of India, though not so serious as that between the rural money-lender and the joint stock banks. There is some temporary link in the busy season when the shroff needs additional accommodation which he cannot raise in his own market. But what is wanted is a living and continuous relationship. We shall consider in the next chapter how the two gaps between the indigenous money market and the western market and between the town and the country may be bridged to the mutual advantage of both.

CHAPTER XX

Consolidation and linking of shroffs and money-lenders.

404. *The Reserve Bank and Discount Market.*—For the successful working of the proposed Reserve Bank of India it has been recognised as essential that there should be a properly organised discount market and that all banks and bankers should have direct connection with the Bank, so that its control over credit may be effective. Many currency experts are pessimistic about the possibilities of creating such a market in India in view of the scarcity of bills in the present state of its banking organisation and the very serious disjunction which exists between the western and indigenous money markets. It has been urged with considerable force that the credit policy of the Reserve Bank, however well devised in the interests of national trade, industry and agriculture, can hardly be effective, if it has no suitable means of controlling joint stock banks and has no link with, much less control over, that unexplored monetary region consisting of shroffs and money-lenders which lies beyond. The experience of the United States of America, however, in the successful working of their Federal Reserve system, has suggested that the first object can be easily attained by compelling all banks by law to keep a certain portion of their demand liabilities with the Reserve Bank and inducing them to convert their cash credit accounts into bill discounts. The bills can be rediscounted with the Reserve Bank in a financial emergency and the much needed link established, while cash credits in the nature of things cannot be so utilised. The Imperial Bank has already begun this process of converting cash credits advances into bills, when it requires emergency currency under section 20 of the Indian Paper Currency Act, and to facilitate this conversion undertaken to pay the stamp duty on such bills itself. The joint stock banks will follow suit in due course when the Reserve Bank comes into being. But this process will require the active co-operation of the shroff who is the most important agency dealing with bills in the native form of *hundis*. His assistance will also be necessary for solving the other difficulty, viz., of getting into touch with the indigenous world of finance. He is the sole link between it and the outside money market. Therefore the organisation and consolidation of indigenous bankers is not only necessary on account of the importance of their part in financing trade, agriculture and industry but also as a measure of currency and banking policy.

405. *Possible alternatives to shroffs and money-lenders.*—It has been suggested that the shroff has outlived his usefulness and the rural money-lender must go; that they are relics of the past and that they

should be replaced by joint stock and co-operative banks respectively. If we could foresee their disappearance within a reasonable period, the problem of our enquiry would be greatly simplified. Probably it would not have been at all necessary. We see no chance of their extinction. On the other hand, like many ancient institutions of this country they show great vitality and that itself establishes the presumption that they perform an indispensable function in Indian economic life. That presumption has moreover a sound basis in the survey we have made in previous chapters, which shows that the shroff and the rural money-lender still constitute the greatest banking agency of this province. There is no reasonable probability of joint stock banks and co-operative societies superseding them completely in the near future. The problem therefore before us is not how to eliminate them but how to improve them, so that they may become cheaper and more useful to the community which they serve.

406. *Lines of advance.*—Any possible line of advance must contain some element of regulation and control. We are, however, not in favour of the heroic measures proposed in some other provinces, as we believe that they would do more harm than good. We recognise that the money-lender in India is not a mere money-lender in the English sense, but that he is the product of certain natural economic forces which may be wisely guided but cannot be altogether opposed. He performs productive services which cannot be dispensed with, since there is no other agency to take his place. Any artificial difficulty or disability imposed by law on the free rendering of this service will only raise the price paid by its ultimate consumer. The regulation and control, which we have in view, is such as may be voluntarily accepted in return for certain valuable concessions. What may be called control from one point of view may be regarded as a privilege from another. It is as well to avoid words such as "licensed" or "recognized", which may overemphasise one or other aspect, and so we prefer to use the word "registered" implying both. We also prefer to avoid the use of the term money-lender in respect of those selected for registration as the word in common speech has an opprobrious meaning. We prefer to use the word "*mahajan*" as being more appropriate for our purpose, though we shall continue to use the word money-lenders should the context require it.

407. *Alternatives to registered mahajans.*—We shall take up the question of rural money-lenders first. It has been suggested that they should be grouped into village banks or what some would call indigenous banks. Presumably they would be organised on joint stock lines. This is, however, a counsel of perfection which it is impossible to put in practice at the present stage. Apart from the loss of the peculiar advantages of the indigenous banking system—its personal touch, its elastic methods, its low rates of expenses, its unlimited liability and its vernacular accounts, it will be impossible to persuade rivals in business to combine into joint stock companies. And obviously they cannot be compelled to do so. If such banks could succeed, co-operative

banks and branches of joint stock banks would in all probability have made much more rapid progress than they have done. That they have not shows that the money-lender cannot easily be beaten on his own chosen ground. It is true that he has in Bengal to some extent given way before the loan office; but as that is nothing less than an incorporated, soulless *mahajan* charging the same high rates of interest without even the occasional sympathy of the rural money-lender, we are not at all satisfied that that is a desirable development.

408. *Objects of regulating rural money-lenders.*—We have four objects in assisting and consolidating the rural money-lender. We wish him to be, along with co-operative societies, the channel through which the surplus funds of towns should flow freely for the financial irrigation of the thirsty villages. We wish to regulate his accounts and his rates of interest, not by arbitrary methods but by the free play of natural economic forces, with a view to secure that his services are not rendered at too great a cost. We aim at using his agency for creating that large amount of self-liquidating agricultural paper which the country needs for the stability and efficient working of its banking and currency system. Lastly, we desire to put him in a position to discharge agency functions for banks and insurance companies to promote the habit of investment, banking and remittance on modern lines in rural areas. In short, we wish to turn a usurious money-lender into a respectable banker.

409. *Limitations.*—There are clearly limits to the scope of such a scheme. We do not suggest that all rural money-lenders can be so transformed or serve the objects we have in view. It will be impossible to enumerate much less regulate every rural money-lender. Moreover we do not wish to encroach on the field on which the co-operative department is already engaged in battling with the petty money-lender. We therefore propose to confine our attention exclusively to those big rural money-lenders who pay income-tax. We have seen that this class finances the zamindars, the tenure-holders, the substantial raiyats and others who from dislike of unlimited liability or for some other reason do not wish to join co-operative societies. He also finances the movement of crops and other profitable rural activities. He is generally educated, though not always in English, and his dealings are usually conducted on fair lines. His loans being larger carry somewhat lower rates of interest than those charged by the general run of money-lenders. There are in all about 2,500 such rural money-lenders or *mahajans* as we may call them with an average capital of Rs. 21,000, i.e., about 100 for each district.

410. *Registered mahajans.*—We recommend that those of them who apply and satisfy certain conditions should be registered. Their importance for the growth of a sound system of rural banking and currency reform is so great that we recommend that Government should put forth some special efforts to explain to some good *mahajans* the advantages of such registration. In the absence of a special agency in the first instance,

we recommend that this work should be conducted by Collectors and Commissioners under the control of the Board of Revenue. No doubt, if the system develops, a whole-time officer called Registrar of Banking assisted by a number of local auditors to guide the movement on sound lines would be necessary; but at present explaining the advantages of registration to a hundred *mahajans* in each district will not be too heavy a tax on the time or energy of executive officers. The creation of a small banking board consisting of the representatives of banks, *mahajans* and the borrowing classes in each division to advise the Commissioner would do much to inspire confidence in the scheme at its outset and to ensure its smooth working thereafter.

411. *Conditions of registration.*—The conditions of registration would be that the *mahajan* would be asked to keep his accounts in a standard form, not necessarily in English, and allow them to be inspected by a Government auditor once or twice a year. He should advance his loans as far as possible not against book entries but against receipts issued from registered warehouses and agricultural *hundis* of not more than six months usance, like those contemplated in section 14(2)(b) of the Reserve Bank Bill. His rate of interest should not be more than 3 per cent. above the Bank rate. There should be no other restrictions on the registered *mahajan's* business. He should be free to combine this banking activity with any other business, provided he does not accept public deposits. If he does so on his own account, the restrictions governing approved shroffs which will be explained later should apply to him. But this should not debar him from accepting deposits as agent of a registered shroff or of a joint stock bank.

412. *Details of conditions.*—The audit report of the Government auditor should be filed, with the Divisional Banking Board or the Registrar of Banking but should be treated as a strictly confidential document and not divulged even to the income-tax authorities. We think that without this safeguard, very few *mahajans* would care to register themselves. With this proviso, the *mahajan* should have no objection to the audit of his accounts, as it will not injure his credit by making them public. He already submits to a similar process by the income-tax authorities. The other conditions are not onerous. As most of the big land mortgage business of the rural *mahajan* will be taken over by the Land Mortgage Bank we have proposed elsewhere, he will have some spare funds which will be profitably invested in the agricultural *hundis* we have suggested. The registering authorities will no doubt use their influence to see that the loans are mainly advanced for productive purposes preferably against crops in movement.

413. *Facilities to registered mahajans.*—In return for these disabilities, if measures intended to improve their business can at all be called disabilities, the registered *mahajans* should receive facilities for a quicker realisation of their dues, more adequate finance and some remittance privileges. If they are to be content with a margin of 3 per

cent. over the bank rate, their working expenses should be reduced as far as possible.

414. *Quicker realisations.*—Their largest items of expense are losses on bad debts and heavy legal charges incurred in law suits for recovery of their demands. We suggest that the procedure already in force for the recovery of public demands should be made available to registered *mahajans* for the recovery of loans made against agricultural *hundis* and warehouse receipts only. We think that if this paper is to be rediscounted with urban banks, as we expect it will be, the quick procedure which we have suggested is absolutely necessary not only in the interests of debtors and creditors alike but also for the smooth working of the entire banking and currency machinery. The failure of the registered *mahajans* to realise their just dues will make it impossible for the banks to discount their agricultural paper and will defeat entirely the object of linking the agriculturists with the central money-market. The procedure is already placed at the disposal of landlords, who satisfy the local Government that they maintain their books of account in good order, for the recovery of cash rents. It provides that a certificate may be signed by the authorized officer on the requisition of the public officer or landlord, to whom the debt is due, and that certificate has the force of a decree. The person against whom the claim is made has thirty days, in which to deny his liability. Thereafter the certificate is executed through the revenue authorities. At the early stages of the scheme it will probably be necessary for the Commissioner and the Divisional Banking Board to control closely the use of this procedure. But, if the experience of its use for recovery of rent in private estates is a safe guide, we expect that its mere existence will before long deter a dishonest debtor from evading his debt, though the Banking Board will have to exercise some restraining influence on possible harshness as well on too easy credit on the part of the *mahajan*, backed by the threat of deregistration.

415. *Financial facilities.*—Given a certificate of solvency and honesty by a high Government officer on the advice of a board containing expert bankers, and given agricultural paper arising in the course of production which the Reserve Bank will be expected to discount, it should not be difficult to persuade any reasonable bank to advance money to registered *mahajans* on the security of such paper. Should banks, however, be slow to respond to such facilities created for extending their business, we think Government should not hesitate to use its good offices to induce the joint stock banks, and failing them the Imperial Bank, to discount this paper. It will satisfy the present legal requirements of the Imperial Bank of India Act as it will bear two signatures. As most of those advances will be required in the slack season from June to September, we think it unlikely that joint stock banks will refuse such a chance of investing their idle funds though there will be an overlap of some two months between the commencement of the busy trade season and the time when this paper will be fully liquidated. The few joint stock banks we have consulted expressed their readiness to finance such

loans. They will no doubt make their own independent enquiries about the credit of the borrowing parties in addition to those conducted by Government before making these advances. Failing all these alternatives, we think that the interests of agriculture and currency are sufficiently important to justify the establishment of a separate bank or the utilisation of the postal savings bank deposits of this province for the purpose of financing the registered *mahajans*. We do not go into details about these proposals because we think that such special measures will not be necessary. The registered *mahajan* will in the first instance use his own capital and only when it is exhausted will he fall back on his town financier in the hope of making a large turnover. The three per cent. margin allowed to him over the bank rate may appear to be small, but if with the new facilities suggested he transacts four times his former business, his total margin may easily amount to 12 per cent.

416. *Remittance facilities*.—The registered *mahajan* may also be given the same remittance facilities as are allowed to banks by the Imperial Bank and co-operative societies by the Post Office. In addition he may be allowed to open current accounts with the latter withdrawable by cheque within the area of the subdivision in which he operates. Payments to this account by his customers may also be accepted at any post offices within that subdivision.

417. *Agency business*.—We believe that the links established between the registered *mahajans* and urban banks and bankers will be further developed to the mutual advantage of the town and the country. We trust that in course of time the joint stock banks may find it possible to entrust registered *mahajans*, as they grow in strength and inspire more confidence, with such agency functions as accepting deposits, making remittances and payments. This would be perhaps the quickest way of spreading banking facilities of the modern type in the rural areas. The great obstacle to branch banking in India is the complete ignorance of the urban banker as to conditions prevailing in the *mufassal* and the high cost of running a full-fledged branch in the interior with a responsible manager. Both these difficulties can be solved by using the local knowledge and inexpensive methods of the registered *mahajan*.

418. *A difference of opinion*.—We regret that we have not been able to carry our colleague, Mr. Hodge, with us in the scheme for registering rural *mahajans* outlined in the preceding paragraphs. His objections to it are set out in his note of dissent, which is placed immediately after the end of this chapter.

419. *The Kommandit principle*.—We contemplate a still further stage in the development of this fruitful co-operation of the town and country banker. If business develops the registered *mahajans* may be transformed into a full-fledged branch of the financing bank; or if it is desired to limit the liabilities of the bank in a certain place, the bank may enter into a partnership with the registered *mahajan* on what is known in Germany as the "Kommandit" principle. Under one form of it, the bank, instead of opening a branch in a place becomes the

financing partner of a local private banker, whose advantages of unlimited liability and local knowledge are thus retained without involving the bank in the expense and heavy liabilities of a new branch. Such agency and "Kommandit" arrangements depend upon the personal relations between the bank and the *mahajan*. The *mahajan* may also be utilised as the agency for spreading the benefits of insurance to rural areas. These are, however, possibilities of the distant future. For the present, we shall be satisfied if the foundations of the structure of rural banking which we envisage are well and truly laid.

420. *Organisation of shroffs*.—We next proceed to consider how the business of the shroff may be improved and how he may be helped to discharge his functions better. He stands on a different footing from that of the rural *mahajan*, inasmuch as he is already a banker, and in his own sphere has perfected a technique of business which is unknown to the latter. He is the head of the indigenous money-market and has even occasional links with the western money-market. His dealings are always fair. He therefore does not require any Government supervision. But what he wants is such an improvement in his prestige and position that he should be able to attract larger deposits and raise larger funds so that he may play worthily and adequately his part as the chief financier of trade and industry. Apart from this, we think it is in the national interest that the type of business he carries on should increase, since that business is the chief source of the kind of commercial paper which the proposed Reserve Bank requires for its successful working. We further desire that in the interests of banking reform, he should play a more important part in the western money-market than he does at present, seeing that it is only by such means that the two money-markets of India can be fused into one organic whole. Then and then alone can a truly national banking policy develop and the credit control of the Reserve Bank be effective.

421. *Approved shroffs*.—In our opinion the best way of attaining these objects is to improve the status and position of the indigenous banker. He should be placed on an equality with the joint stock bank and should be made a full partner in the proposed Reserve Banking system. As such he should have all the privileges and all the responsibilities of such a position. We do not know what form the proposed currency authority will finally take, whether it will follow the English unitary model of one central bank or the American federal model of a number of regional reserve banks with a Reserve Board at the top. Whatever the form may be, we trust that the interests of this province will not be forgotten, and that there will be a Provincial Reserve Bank or a branch of the All-India Reserve Bank, through which the local banks and bankers may be linked to the central money-market. We recommend that shroffs satisfying certain conditions should be treated as member bankers on the approved list of the Reserved Bank. As such they will, like the joint stock banks, be required to keep a proportion of their deposits with it and will get the same facilities for rediscounting commercial paper. The limit to which such paper

will be rediscounted by the Reserve Bank will of course depend upon the credit and position of the banker, and of that the Reserve Bank will naturally be the sole judge. The bank will, nevertheless, be guided by some considerations in forming its judgment, depending upon the financial solvency of the shroff and the character of his business. If his accounts are audited by a recognised accountant and open to the public for inspection, like those of the joint stock and co-operative banks, both his deposits and the confidence, with which the bank will rediscount his bills, will tend to increase. We are, however, of opinion that shroffs in this province are not prepared to go so far in the matter of publicity of accounts. It is against their deeply-rooted traditions. Time and circumstances may make them change. But for the present we recommend that the Reserve Bank should be satisfied with a confidential audit conducted once every year by its own accountants or by responsible auditors. For the purpose of its advances, this measure of safety would be adequate and no shroff could reasonably object to it, specially when his accounts are subjected to a similar scrutiny by the Income-tax Department. It is essential, however, that the information so obtained should be kept strictly secret, and should not be utilised to promote direct dealings between the bank and the shroff's customers to the detriment of his business. There may be some danger of that in the case of a commercial bank like the Imperial Bank, but no such fear need exist as regards the Reserve Bank, which, by its very nature and construction, will be a banker's bank and will not engage directly in commercial transactions.

422. *Mixed business.*—The increased prestige resulting from the Reserve Bank's audit of the shroff's accounts should increase his deposit and loan business so much that it will make a material addition to his income. Provided the commercial paper which he brings to the bank satisfies its conditions, he will as a member banker, be able to borrow at bank rate much larger sums than he does at present. With a much larger turnover, he will be able to make such large profits, that he should have no temptation to enter the congested and risky fields of trade and industry. If he confines himself purely to banking, he will naturally improve his position with the Reserve Bank and the rest of the money-market and this will enable him to command still greater resources. The Reserve Bank might, therefore, insist that before a shroff is accepted as a member banker he should agree not to engage in any other trade or industry. This is, however, not in accordance with practice in England, where there are a large number of Merchant Bankers and Financial Houses which do acceptance business and also trade on their own account, but whose bills are readily discounted by the Bank of England. In actual practice it is difficult to say where banking ends and trade begins and the attempt made by the Government of India 14 years back to distinguish between the two with a view to prevent banks from doing non-banking business did not achieve any notable success. The German banks engage actively in trade and industry, and some people have even held them up as models for imitation

in England where banking is more specialised. The shroff *cum* trader corresponds to the merchant bankers like Cox and Company and Rothschild and Company of London, who perform non-specialised functions. We cannot say that the development of this province has reached a stage when banking and trading functions should be rigidly separated. Though we think that in the long run it would be desirable. Most of the shroffs in this province do mixed business. If therefore the facilities of the proposed Reserve Bank are restricted to pure shroffs only a handful would be benefited and the object which we have in view of bringing the indigenous and the western money-markets together will be frustrated. We therefore recommend that while shroffs may be divided into two classes—pure and mixed, with a discrimination in favour of the former, both should receive rediscount facilities from the Reserve Bank in the beginning. We have already expressed our belief that the increased business of the shroff will take away his main incentive to engage in trade and industry and that he will tend more and more to confine himself to banking. Increased contact with the western money-market and the discrimination and influence exercised by the Reserve Bank will hasten the process. The mixed shroff in course of time will be transformed into a full-fledged banker. But we recognise that this change will be slow and gradual and will require wise and sympathetic guidance.

423. *Other possible developments.*—We presume that as the shroff gathers strength and modernises his business he will evolve on the same lines as the western merchant banker. He will probably convert his business into a private or public limited liability company retaining a controlling interest in it. Or he may become first the agent of a big Bombay or Calcutta bank and subsequently its partner with unlimited liability on the Kommandit principle described above, or he may expand his growing business into a bank on another form of the German "Kommandit" principle. To increase his capital resources, he may admit a limited liability company into partnership with him, while retaining his own control and his unlimited liability and with it a major portion of the profits—a position which he may bequeath to his successors. But one requisite condition of all such developments will be that his methods should inspire public confidence and that he should move with the times.

424. *The urban money-lender.*—No separate measures are necessary for the organisation of the big urban money-lender. If he does not accept deposits and his methods approximate to those of a rural money-lender, as in most cases they do, he may be registered as a *mahajan* provided he satisfies the conditions of such registration. If he modernises his methods to such an extent that he accepts deposits and deals in *hundis*, he may get the same treatment as the shroff subject of course to the condition that he reaches the standard laid down by the Reserve Bank for such treatment.

Note of dissent on Registered Mahajans by Mr. Hodge.

On a careful review of the evidence that has come before me in the course of this enquiry I am not convinced that an adequate case has been made out for the proposal to register selected money-lenders in rural areas and I am not therefore prepared to support it. I recognise the need for credit facilities in rural areas; but I am convinced that this need can be met to the best advantage of the community as a whole by the development of the Co-operative Credit system of finance and the extension of indigenous banking. The proposal therefore does not commend itself to me on the ground of necessity. I find it equally difficult to accept the proposal on practical grounds. With the wish "to turn a usurious money-lender into a respectable banker" I am in complete agreement but I take leave to doubt that this desirable end can be achieved by the method proposed. There are many and serious difficulties in the way of success. I mention three—(1) The difficulty of selection. (2) The difficulty of supervision. (3) The difficulty of laying down conditions and framing regulations that would be effective in the public interest and at the same time acceptable to the money-lender.

I am not convinced that the proposal is desirable. In my judgment, sufficient evidence has been forthcoming to warrant the conclusion that existing indebtedness in rural areas is largely due to past borrowing at high rates of interest, and I hesitate to commit myself to any scheme that is likely in any way to enhance the prestige of a system of money-lending that has in my judgment contributed largely to that unhappy state of affairs.

I have been impressed during this enquiry by the important part played by the indigenous banker and I am of opinion that his connection with rural finance is wider than our conclusions suggest. While holding that the Co-operative Society is the best method of supplying rural finance I would favour any proposals for the extension of genuine indigenous banking. In my judgment an increase in the number of shroffs is more to be desired than the setting up of a group registered, but privileged money-lenders.

PART VI.

INVESTMENT AND ATTRACTION OF CAPITAL.

CHAPTER XXI.

Existing Means and Institutions of Investment.

425. *Importance of investment.*—We have so far considered the facilities which exist for borrowing for various purposes and the means which may be adopted for improving them. But these will have no effect if the reservoir from which funds may be drawn is too shallow. Investment is the necessary counterpart of finance and without a well-balanced development of both sides, no banking system can work. The investment side of our banking problem is in a sense the more important since in India and specially in this province there is a great disproportion between the needs for borrowing and the means which exist for satisfying these needs.

426. *Pre-requisites of investment.*—The essential conditions for investment are (1) that there should be a surplus of expenditure over income from which savings may be made; (2) that there should be the will to save; and (3) that there should be sufficient encouragement to save, such as security of life and property, a suitable currency of reasonably constant value, and safe and convenient means and institutions of investment.

427. *Margin for saving.*—There are no trustworthy estimates of the income and expenditure per capita of the population of this province, we can only give our broad impressions of the margin available for saving. In all our village enquiries in answer to our questions about savings we received the invariable reply that the villagers have generally no surplus over their expenses of maintenance and cultivation from which they could save, and that on the other hand some of them had to depend upon the earnings of emigrants to Burma, Bengal or Assam. Allowing for the natural human tendency to exaggerate one's misfortunes, we think this statement is substantially true of the state of things prevailing in most of the villages, especially those of the Chota Nagpur plateau and the Orissa Coast districts. The figures of indebtedness given in earlier chapters leave no room for doubt about the extreme poverty of peasants. We found very few visible signs of wealth in the shape of clothing, houses and ornaments. There are no doubt unproductive forms of consumption and, taken all together, a heavy toll is exacted by the tout, the zamindar, the priest and the money-lender, which avoided might yield a surplus for saving.

But on the other hand much of the consumption of the masses is below the level of efficiency. It will take some time before the aggregate of small savings which are such a noteworthy feature in Europe and America come to form a substantial portion of our banking resources. The *zamindars* are as a rule improvident. Very few manufacturers and mine-owners are domiciled in this province. Among the middle class alone, consisting of traders, professional men, salaried employees, substantial cultivators and money-lenders are to be found those who habitually save and their savings are insignificant compared with the savings in most other parts of India. There are few large incomes. Government salaries are the lowest in the whole of India. The average earnings of lawyers and doctors are small and there are no merchant princes like those in Bombay and Calcutta. An idea of provincial savings can be gathered from the total income-tax collected in the province, which in the year 1928-29 amounted to Rs. 49 lakhs. Of this Rs. 27½ lakhs came from business chiefly trading and money-lending, Rs. 5½ lakhs from salaries, Rs. 5½ lakhs from companies, Rs. 2½ lakhs from professional earnings and only Rs. 1½ lakhs from property. Another Rs. 48 lakhs is collected in the shape of super-tax of which Rs. 44 lakhs is contributed by two individuals alone. About one-fourth of the total income is believed to be earned by money-lending. The margin of saving varies directly as the standard of living and inversely as the prevailing rate of interest. It is highest in Bihar, lowest in Chota Nagpur and midway between the two in Orissa.

428. *The will to save.*—As against this small margin of saving, there is a compensation in the habit of saving which is deeply rooted in Indian nature. It is particularly strong in the Hindu community in which both religious maxim and traditional usage enjoin economy. In some cases, notably in the money-lending communities, it is indistinguishable from parsimony and is responsible for some of the under consumption which exists side by side with sufficiency. The habit is not so strong with Anglo-Indians, Christians and Mussalmans whose religious and political traditions are different and do not allow a reduction in their standard of living in the interest of saving. It is least developed amongst the aboriginals of Chota Nagpur and coal miners who are largely recruited from them. Increased wages are either dissipated in drink or reduced to the same aggregate total by shorter hours and fewer days of work. Religious and moral maxims enjoin the Hindu to spend one quarter of his income on himself, one quarter in investing in his children, one quarter in repaying his debt to his ancestors and keep the remaining quarter as pure savings as distinguished from his long-term investments in his children which he hopes to recoup when they reach maturity. This is however a counsel of perfection which is rarely followed but the very existence of the tradition gives great grounds for hopes for the future of banking in this country. The beneficial effects of the habit are however greatly marred by the outbursts of extravagance which accompany every occasion of mourning and rejoicing. What the Indian saves with penurious miserliness, he spends with a magnificent but unwise generosity on

social ceremonies. Indeed he saves for consumption not for investment. This was the inevitable result of circumstances existing a century back when there was not much security and investments giving long period or permanent returns were practically non-existent. The habit of centuries is slow to change; but if the character and object of Indian saving could be changed by legislation or wisely directed propaganda, the prophecy of Sir Basil Blackett that India will become a creditor country may yet be fulfilled.

429. *Encouragements to save.*—There is nothing special to this province to say about the encouragement towards savings, which security of life and property or the stability of the currency afford. Like the rest of India it has enjoyed for two generations with but little interruption a freedom from internal commotion, and life and property have been at least as secure as they have been in most countries of the world. The stabilization of the external value of the currency in the last decade of the nineteenth century and the severe shocks to its stability, which the War brought about, had no special reactions in Bihar and Orissa, though it is possible that the reduction of the rupee to a token may have stimulated hoarding here and elsewhere. The province is, however, peculiar in its deficiency of modern organized institutions of investment, and this aspect will be treated at length after we have considered the unorganized uses to which savings are put.

430. *Hoarding and the use of jewellery.*—We did not find much evidence of hoarding of coins or bullion amongst the agriculturists in this province. In Orissa it was asserted that most of the *raiyats* are too poor to have savings, and those that have use them in buying land and money-lending. The jewellery commonly used is made of brass. There was a very general denial of burying coins, and indeed the question about this alleged habit was almost ridiculed. In Chota Nagpur very little jewellery is used by the aboriginals but owing to their general ignorance and the absence of a strong money-lending tradition, some of the substantial *raiyats* bury their savings. But the sums involved in any case are very small and appear to return to circulation as soon as an adverse season arrives. In Bihar proper we found a greater use of silver ornaments amongst the cultivators but not much evidence of burying underground, though an outbreak of plague, necessitating the temporary evacuation of a village, still brings back into currency rupees blackened by contact with the earth. Those who bury do not publish that fact, but the *raiyats* can pretty well guess who hoard and who do not by comparing net income with investment and they were generally of opinion that with modern security of investment in land and the profits to be made by money-lending the custom has died out amongst the masses.

431. *Hoarding and use of jewellery amongst the classes.*—Our formal enquiries in this connection did not extend to the higher classes who would naturally be unwilling to disclose their family affairs. But general enquiries tend to show that the use of jewellery and even hoarding is more common amongst them than amongst the masses. Keeping idle

cash is an unusual practice with any class in towns, but in the rural areas where banking facilities are few and far between, some zamindars may be hoarding cash, when they happen to have a surplus, but even with them the extension of co-operative banks and private money-lending has checked the practice. The use of gold and silver for jewellery and household articles is, however, a sign of social position and respectability. Much of the borrowing by zamindars and the professional classes has for its object the purchase of jewellery and even traders and bankers invest a large proportion of their material resources in ornaments for their children and women folk. There is an increasing tendency to substitute gold ornaments for silver ones and in the highest classes to replace plain gold by precious stones. If careful enquiries were made, it would be found that the largest stocks of gold and silver are found with the wealthy zamindars and traders who are well aware of the advantage of interest. The importance of hoarding and investment in jewellery by the peasant is, we believe, exaggerated. What share this province has absorbed of the net import of over 700 million pounds worth of gold and silver in the last 30 years cannot be estimated, but no great part of it has found its way to the mud floors of the huts or to the necks of the womenfolk of the raiyats.

432. *Reasons for excessive use of precious metals.*—If, then, it is the higher and presumably more intelligent classes, who absorb the precious metals, it is proper to seek for reasons, why they prefer this form of investment to those which bear interest. These reasons are deeply rooted in law and history, policy, and ancient usage, and unless these are properly understood, no attempt to cure Indians of their age-long habits will succeed. In the general disorder and insecurity which prevailed at the break up of the Moghul Empire, gold and silver were of all forms of property the most easily concealed and transported. In the absence of a widespread system of credit and banking, bullion and jewellery again were the best forms in which savings could be stored. While land fulfilled the functions of fixed deposits, gold and silver ornaments on account of their perfect liquidity served the purpose of current accounts in the ancient Indian saving system. With greater security and better banking facilities, these considerations no longer prevail in towns, but in rural areas they have not yet lost their significance and the force of usage still remains. There are, however, other considerations which are operative even in towns. Possession of gold and silver ornaments is with women at least a sign of social prestige and a visible symbol of conjugal happiness. A widow at once discards her ornaments but a married woman thinks it inauspicious to do so. No matrimonial proposition would have any chance of acceptance unless backed by the possession of ornaments. This preference is not due merely to sentiment or vanity. It is rooted in interest as well. The Hindu law allows no property to women except her personal jewellery called *stridhan*. Every consideration of affection and interest induces a thoughtful Hindu husband to make this provision for his life partner.

It serves the purpose of a life insurance. It is a stand-by in case of pressing necessity and a sure refuge in case of insolvency. It cannot be attached for bankruptcy or by any process of law. It is not touched lightly like a bank balance as it is regarded as dishonourable to sell one's family ornaments. Except that they bear no interest, they satisfy all the criteria of a perfect investment. The capital value is reasonably secure. It can be readily realised either by sale or pledging. The formalities of purchase, sale or pledging are reduced to a minimum. All the influence which a woman can wield is exerted to increase the stock. It is not surprising that Marwari bankers and merchants, no mean judges of the value of interest, load their wives with jewellery. It increases their credit and helps their borrowing operations. It serves the purpose of a public balance sheet. It acts as a liquid reserve and enables them to operate with lower balances. The loss of interest is more than counterbalanced by these advantages.

433. *Investment in house property.*—Though there is little speculative building even in urban areas, there is a strong desire on the part of all middle class men to own their houses. Those of them, and they are the majority, who are of rural origin, maintain their family house in the village for the performance of the major social ceremonies, even though they ordinarily live in a town. Government servants in particular aim at providing for their retirement a house of their own, for which they frequently borrow from their provident fund in the later years of their service. Though this form of investment is not so important as purchase of agricultural land, it cannot be neglected in a survey of the unorganized uses of savings.

434. *Investment in land.*—A great deal of evidence was given to us, both in the course of village enquiries and during our formal examination of witnesses, to the effect that much of the savings accruing in recent years has been used for the purchase of landed property. This covers not only purchase of occupancy right for the purpose of cultivation, but also of the proprietary right mainly consisting of the right to collect rents. The latter is eagerly sought after, more for the social prestige and influence which it brings than for the actual money profit. Indeed we were told that the money return is frequently much lower than that which Government securities bring in. A co-sharer proprietor will hold on to a minute fraction of an estate, which brings him much more trouble than profit, with grim tenacity. We have no statistics to show that any increase in the demand for such investment has raised the average price of proprietary rights. But there is clear evidence that the corresponding demand for the occupancy right has put up the market price. Broadly speaking after allowing for the fall in the general purchasing power of money, the average price of the occupancy right has risen by 50 per cent. in the last 25 years, and the increase is general throughout those parts of the province, where the right is transferable in practice, if not fully transferable in law. This rise cannot be ascribed to increased security of tenure, since there has been no substantial change in that respect during the period. Indeed

the main development has been an advance and a standardization of the fee, which the superior landlord demands for his consent to the transfer, where that is necessary as it generally is. Had it not been for this development it is probable that the rise in the sale price would have been more remarkable. We regard the statistics, which are set forth in detail in Chapter II, as strongly confirming the oral evidence, that savings are largely invested in land.

It has been further asserted that the tendency so to invest has gone so far that much of the investment is unprofitable, and, if made with borrowed money, a cause of increased indebtedness. We regard this assertion as not proven, and doubt whether even yet the *raiyat*, who has to sell his land, gets more than 10 years purchase of the net profit, if indeed he gets as much.

435. *Savings used for money-lending.*—Next to investment in agricultural land or possibly even above, comes the use of savings in money-lending. There is ample evidence that in both rural and urban areas this is no longer, as the general impression is that it once was, a specialized occupation confined to a few castes. In the villages all persons including the women, lend when they have the means to do so. Even the aboriginal tribes in the Chota Nagpur plateau have taken to the practice. This tendency may well account for the slow development of savings invested by the rural members in co-operative societies. It requires a much higher standard of co-operative spirit than most members at present display, to get them to place their savings with their own society or in their central bank, when they can get double or treble the interest by lending it out themselves.

436. *Investment in trade.*—The general impression that we have gathered is that there is a marked increase in recent years in the share, which the ordinary cultivator takes in petty trade. Improved communications would naturally produce that result, since it requires less enterprise now to move produce to the bigger markets than it did when transport was more difficult. Borrowing for trade purposes is now-a-days a substantial item in the objects of loans by co-operative societies, some 14 per cent. of the whole, and it is likely that, if members are prepared to pay 12 or 18 per cent. to their societies for extra capital to be used in trade both, they and other agriculturists employ their own savings in this manner to a substantial degree.

437. *The unorganized use of savings.*—This completes our survey of the use made of savings other than their investment in organized institutions. It is quite impossible to estimate either the proportions devoted to each use or the total amount thus disposed of. To sum up we are inclined to think that in rural areas money-lending is the most important, followed by purchase of land, purchase of jewellery, trade and hoarding in that order. The urban savings are much more fully invested in organized institutions, since the leisure required for money-lending and petty trade is usually lacking and the profits therefrom are smaller and less certain.

438. *Is the unorganised use wasteful?*—That some of these forms of investment have an element of wastefulness, in that they are not in the best economic interests of the country, can hardly be denied. It has been argued, that considering the immense size of the country the amount of gold and silver used in the industrial arts in India per head of population is not large and is in fact less than that of other countries. Such comparisons are, however, misleading and the main fact cannot be denied that a disproportionate amount of the total savings are locked up in an unproductive form. It is not easy to suggest remedies for eradicating such a deeply rooted habit. Education, a currency system inspiring popular confidence and extension of modern investment facilities will no doubt have their influence, but the woman's point of view will have still to be considered unless the Hindu law on the subject is amended. We suggest below for further examination by experts, a scheme of issuing special "*stridhan* certificates" for meeting this difficulty. The investment in purchase of land is not open to so much objection. We are not convinced that the competition for the *raiya* right has yet pushed the price paid up to an excessively high level. In so far as the purchasers are genuine cultivators, and it is probable that most of them are, the exchange usually means the replacement of a more competent farmer by a less competent one. Though no doubt there are cases where the purchaser sublets and lives on a rack rent, they are not as yet very common. As a set-off purchase by the richer and more enterprising *raiya*s minimises the evils of subdivision of holdings. Investment in proprietary rights is, perhaps, economically more unsound. The return is probably lower than that on gilt-edged securities, and transfer of the right to collect rent with its incidental advantages from one person to another seldom advances the standard of estate management. The capital so employed is diverted from other forms of investment more profitable to the community. There is no objection to urge against the use of savings in building houses and business premises. The standard of these in the province is still very low, and must react both on the health of the rising generation and the convenient transaction of business. Nor are we inclined to cavil at the use of savings in money-lending at present. Though there is little sign of it yet, the result of employment of more capital in meeting the rural needs for credit must ultimately be the lowering of the rate of interest. In so far as the aim of the money-lender is to get hold of the land of the borrower, it is all to the good that the cultivating classes are successfully invading the province of the professional.

439. *Modern institutions of investment.*—The chief modern means and institutions of investment are (1) the Post Office, (2) Co-operative Banks, (3) Insurance Companies, (4) the Stock and Share market, (5) Commercial and Industrial companies, (6) Investment Trusts, (7) Government, (8) Private Bankers, (9) Joint Stock Banks and (10) the Imperial Bank. We estimate that about Rs. 15 crores is deposited in these institutions, Rs. 450 lakhs with the post-office, Rs. 185 lakhs with the Imperial Bank, Rs. 70 lakhs each with the outside and local joint stock banks, Rs. 200 lakhs with indigenous bankers and money-lenders, Rs. 212 lakhs with co-operative banks, Rs. 200 lakhs with Insurance

Companies and Rs. 113 lakhs with the rest. Thus use is made in this province of most forms of investment institutions, the exceptions being commercial and industrial companies and investment trusts. There are no investment trusts in this province like those in England and America, and commercial and industrial companies, unlike those in Bombay presidency, do not accept current or fixed deposits for their current finance, unless we include under this category the commercial and industrial concerns owned by indigenous bankers. In their case all kinds of business are mixed together and they are best treated under (8), viz., private bankers. We have, however, already described the deposit business of indigenous bankers in chapter XVIII and suggested in chapter XX the methods by which this business can be increased. We shall therefore describe the remaining institutions only.

440. *The post-office.*—Of these the post-office is the oldest and the most important in this province. It is the small man's bank. Its savings bank deposits represent his current accounts and its cash certificates his fixed deposits. Its security and its accessibility in all parts of the province makes it popular and enables it to attract deposits from all classes over a very wide area. As said above there are 21 district offices, 452 sub-offices, 189 departmental branch offices and 1,029 extra-departmental branch offices most of which are allowed to transact savings bank and cash certificate business. There is an actual or potential postal savings bank for every 166 square miles and 57,000 of the population. The total amount of money invested in the postal savings deposits and cash certificates in the Bihar and Orissa circle which includes the Orissa States as well amounted on the 31st March 1929 to Rs. 2½ crores and Rs. 2 crores respectively. In the year 1928-29 Rs. 160 lakhs were deposited in the savings bank account and Rs. 1,35 lakhs were withdrawn leaving a net annual saving of about Rs. 25 lakhs. Another Rs. 20½ lakhs was saved and invested in the purchase of fresh cash certificates and 2 lakhs more was invested in the Postal Life Insurance Fund for Government servants.

441. *Classes of investors.*—These figures are larger than those of any other organised investment agency but they are probably much smaller than what is annually invested in land and jewellery. The postal banking facilities are used only by a narrow range of customers mostly belonging to the educated lower and middle classes, such as employees on small pay and the poorer members of the professional classes. The cash certificates are, however, bought mostly by the richer members of these classes, as is evident from the fact that there are very few sales of certificates of the lower denominations. In the Patna Division the figures of cash certificates of various denominations in the year 1928-29 were as follows:—

<i>Denomination.</i>	<i>Value.</i>
	Rs.
10	2,952
20	3,760
50	11,400
100	59,580
500	89,000
1,000	2,36,400

It is obvious there is a distinct tendency for the cash certificates to be used as a form of safe investment by the upper middle classes who alone are in a position to save sums as large as Rs. 1,000. Again post-office banking is more an urban than a rural institution. Of the total deposits of Rs. 2½ crores and Rs. 2 crores in the postal savings banks accounts and cash certificates in 1928-29 only about Rs. 97 lakhs and Rs. 11 lakhs respectively were invested in rural post-offices. The corresponding figures for the years 1926-27 and 1927-28 were Rs. 75½ and Rs. 13 lakhs and Rs. 89 and Rs. 12 lakhs respectively. This shows a steady increase in rural savings bank business and an equally steady decline in the cash certificates business. We have not been able to get figures of the total number of savings banks accounts and purchases of cash certificates to enable us to determine how far the habit of post-office banking is widely diffused, but there is not the slightest doubt that the convenience and accessibility of a post-office savings bank is much appreciated so much so that many Government offices, schools, colleges and other institutions find it convenient to keep active accounts there.

442. *Comparison with other investment agencies.*—Next to the private money-lenders and the co-operative societies, the postal department is the most widely spread organisation in the province but in point of security and the public confidence it enjoys it is easily the first. It therefore attracts the largest amount of floating and fixed deposits. The total of Rs. 4½ crores compares very favourably with the Rs. 185 lakhs of the deposits of the Imperial Bank, Rs. 70 lakhs deposits each of the outside and local banks, two crores of indigenous bankers and money-lenders, the two crores and twelve lakhs of co-operative banks and societies and two crores of Insurance companies. Its usefulness deserves to be extended to other classes and a wider area. We found village after village in the rural areas which had no dealings with a post-office and where a cash certificate was not even known. We shall consider in the next chapter how the utility of the post-office could be further increased. The main objection which can be urged against an extension or even the present business of the post-office is that none of the funds collected by it are utilised for local development. From that narrow point of view they are as unprofitable to the province as investments in jewellery and foreign insurance companies. The other objection which has been urged is that the terms offered for cash certificates are so attractive that they compete unfairly with the business of joint stock banks and indigenous bankers. We shall consider these objections also in the succeeding chapter when we discuss the question of co-ordination of banking agencies.

443. *Co-operative banks.*—The Co-operative banks are not open to the first objection which has been urged against the post-office. Except for about 10 lakhs lent by the provincial co-operative bank to the Assam, Bengal and Central Provinces provincial co-operative banks, the funds collected in the province are spent in the province. After the post-office they are the most important deposit collecting agency in the province.

Out of a total deposit of Rs. 212 lakhs, Rs. 42 lakhs have been collected by the provincial co-operative bank, Rs. 150 lakhs by the central co-operative banks and Rs. 20 lakhs by the primary societies.

These figures omit deposits made by one branch of the organization with another.

444. *Classes of depositors.*—The weakness of the movement, however, consists in the fact that most of these deposits come from non-members who are attracted by the high rates of interest offered and the security enjoyed by the association of banks with Government. Some-time back 8 per cent. was the normal rate for fixed deposits for one year and it is only recently at the instance of the Registrar of Co-operative Societies that the rate has been brought down to 7 and 6 per cent. The high rates of deposit attracted at one time deposits of retired officers even from places as far as London. In the year 1928 so far as the central co-operative banks are concerned, Rs. 42½ lakhs came from Government servants, Rs. 29½ lakhs from professional men, Rs. 24½ lakhs from zamindars, Rs. 22 lakhs from females, Rs. 7 lakhs from traders and money-lenders and only Rs. 11 lakhs from agriculturists. Of the Rs. 42 lakhs or so deposited with the provincial co-operative bank nearly all the money came from the professional classes, Government servants and zamindars while nearly all the deposits of primary societies came from agriculturists and petty traders. Only Rs. 14½ lakhs is held in savings banks deposits showing that the deposits of the central banks are more of the nature of long-term investments of the upper classes than the petty savings of a truly co-operative democracy. It is yet too early to state positively what the effect of the lowering of the rate on fixed deposits will be, but as the general rate has fallen everywhere in recent years, it is probable that these deposits will not be withdrawn though there will be no more redundant surpluses. In the last year of report (1928) the deposits of central co-operative banks increased only by Rs. 25,000. The very recent rise in the Government rate of borrowing from 5½ to 6 per cent. may, however, complicate the situation.

445. *Defects of co-operative investment.*—The main defect of co-operative investment is that some central banks pay excessive rates of interest and attract a large amount of deposits which they do not know how to invest with advantage. The result is an unnecessary diversion of funds from other economic purposes and an avoidable loss to the banks themselves. The Registrar of Co-operative Societies dwells at great length on this evil in his report of 1928. His efforts to bring down the rate to 6 per cent. has met with success but much remains to be done. The high rates offered by co-operative banks enjoying a considerable degree of assistance from Government have been the subject of complaint by joint stock banks that while they shoulder the burden of financing trade and industry which co-operative banks are not called upon to bear they are deprived by their subsidised competition of the deposits for discharging these functions adequately. We think there is considerable force in this complaint and we recommend that it should be the duty of the Registrar assisted by the

Provincial Banking Council we have proposed elsewhere to arrange a measure of co-ordination by seeing that the co-operative banks do not offer rates much above the general market rate. This will also be in the best interests of borrowers as the lending rates of co-operative banks depend ultimately upon their deposit rates. We understand that ordinary share-holders, i.e., the borrowers, have always fought for a reduction in the rate of deposits with this end in view, but have not always succeeded as the movement is largely in the hands of preference share-holders who are also large depositors and therefore interested in keeping up the deposit rates. We think this to be a serious defect of the movement as we believe that a true co-operative bank should ultimately be controlled by its debtors.

446. *Meagre savings by members.*—Another defect of co-operative investment is that the central banks have made too little effort to develop their savings bank business and have not succeeded in stimulating the thrift of their borrowers with a view to prepare them for ultimately taking over their management. It is a striking fact that out of a total deposit of Rs. 152½ lakhs in 1928 only Rs. 14½ lakhs come from savings bank deposits. Attempts have been made to compel all borrowers to place a certain proportion of their loans in deposits but as the deduction is made without their consent and without explaining to them to its object, these attempts are generally misunderstood, and, where they are not, they are always resented as the rate on borrowings is always higher than that on deposits. We think savings would be better encouraged by persuasion and increasing the surplus at the disposal of the members by the lowering of interest on borrowings. Though it may not be possible to combine this with an increase in the rate paid on members savings deposits, it might well be examined whether cash certificates issued by the central banks would not tempt out some more investment from the members.

447. *Insurance investment.*—Life insurance investment is now popular with all the educated classes and is fairly well developed in urban areas in this province. It is specially so with those having fixed incomes such as Government employees. The fact that advances can be raised from the companies themselves or banks against the security of policies makes it still more attractive. Its character as a provision for the family and old age which can be built up by slow but regular increments puts it in a class by itself and the educated classes have not been slow to perceive its advantages. It is estimated that Rs. 2 crores of the provincial money is invested in this form and Rs. 40 lakhs is paid every year in the shape of premiums. This is not a large amount for a population of 34 millions. Its smallness is explained by the fact that the benefits of insurance are unknown to the rural areas and even in urban areas are confined to English educated males only. The other classes and women still rely on jewellery and real property as a provision for the rainy day. There are unlimited possibilities of development in this direction. We do not know whether Hindu law permits women the free and unrestricted enjoyment of the

benefit of a life policy but if it does not, the restriction must be operating as a great obstacle to the rapid spread of life insurance. We commend the idea especially to those who are working to improve the status of women.

We believe that no other single movement will do more to cure the Indian masses of their unproductive use of savings than insurance. There are, however serious difficulties in the way of its rapid spread in rural areas. There is no insurance company which conducts its business and propaganda in the language which they can understand. There are few reliable doctors for medical examination in the mufassal. With the growth of communications this difficulty is not insuperable. But the greatest obstacle is that the small insurance companies which operate with little capital and a heavy expense ratio do not always inspire confidence. The failure of one may give a set-back to the whole movement. Postal insurance on the other hand in the matter of security, convenience, cheapness and security is hard to beat, and if any ground is to be broken in the rural areas in this direction it must be through its agency. Life insurance is in many respects a routine business and can therefore be easily conducted by the state. It has been successfully nationalised in Italy and the British post-office freely insures the lives of the general public. The experience of postal life insurance for Government servants in India has been extremely satisfactory. As nothing is spent on advertisement and agents' commissions, its expense ratio is small and its premiums are the lowest in the whole of India. We recommend that its benefits should be extended to other classes besides Government servants. As the lives of the latter are generally superior to those of others and heavier expenses will have to be incurred when dealing with the public, it would perhaps be necessary to have two rates of premium one for Government servants and the other for the general public. To avoid competition with private companies, we think the business should be confined to its legitimate object of providing insurance facilities for poor men of small means. We therefore recommend that no proposal for more than Rs. 1,000 for the general public should be accepted. We further recommend that policies, proposal forms, etc., should be issued in the vernaculars. For some time to come the business might be limited to insurance of adult lives. No evidence has been collected of the probable demand, and it is likely to take some time before the advantages are widely recognised. But we expect that ultimately the creation of this facility will not only stimulate rural savings but will supply much needed capital to the State for development.

448. *Investment in stocks and shares.*—The provincial share in the stock exchange securities is difficult to estimate but it is probably not very large. There is no local exchange for the purpose of buying and selling shares but the investing public in the province is kept fully informed of prices by newspapers and broker's circulars and has easy access to the Calcutta and Bombay stock market through local banks.

though it naturally suffers from a lack of inside knowledge. There are very few joint stock companies of local origin. Dealings in their shares are carried on occasionally by private negotiation, but they are not reported in any organised market. This is a serious handicap to joint stock enterprise in this province, as very few investors care to buy shares without free transferability. Investment in outside stocks and shares is necessarily confined to those persons who have both the means and the knowledge required for dealing on the stock exchange.

449. *Government securities.*—Government securities are more widely held. They are trustee stock and by reason of the high confidence they inspire and the readiness with which they can be pledged as collateral with the Imperial Bank are owned by a number of public bodies, as well as private individuals. In recent years owing to the effect of the war, their yield compares very favourably with the return from other forms of investment. It is a frequent complaint that they compete unfairly with the deposit business of banks. How far this complaint is justified, we shall examine below when we consider the deposit business of joint stocks banks.

450. *Existing facilities for buying them.*—At present facilities for buying Government securities are supplied by the Imperial Bank, the joint stock banks and the post-office. The latter agency, however, can only be used at the time of issue. The Imperial Bank charges 4 annas per cent. commission plus brokerage of 2 annas per cent. for buying and selling securities. The terms of joint stock banks vary but they are not higher than those of the Imperial Bank, which are 50 per cent. above what is charged by English banks for buying British securities for their customers. The Imperial Bank for the last few years has given special facilities to intending purchasers of Government bonds at the time of their issue by lending their purchase money at a slightly lower rate than the yield of the bonds. The money so lent is paid off in instalments extending over two years. This scheme has had the effect of inducing many salaried persons to buy Government bonds. It is difficult to improve upon these facilities. They are perhaps not widely advertised and are therefore availed of only by the customers of the bank. The advantages of Government securities are sufficiently well known and if they are not bought in larger amounts it is because there are competing and more lucrative forms of investment such as property and money-lending. The only measures we can suggest for improving their sales in this province is to induce banks to charge lower rates of commission for this business and to carry on a propaganda in their favour in the vernacular amongst the rural classes, chiefly zamindars and money-lenders. No treasury bills are bought in this province as there is no large capital seeking short period investment.

451. *Banking deposits.*—There are no investment trusts in this province and we have already discussed the question of the nature and amount of deposits of indigenous bankers who are also the proprietors of

industrial and commercial concerns. The only other means of investment which remains to be discussed are bank deposits. They are divided into three classes the deposits of outside banks, those of local banks and the private deposits of the Imperial Bank. We are indebted to the authorities of all banks for the very great courtesy they have shown us in giving us details of their total business in this province. These show that the total deposits of outside and local banks amount to Rs. 70 lakhs each. The total deposits of the ten branches of the Imperial Bank in this province amount to Rs. 185 lakhs. The total bank deposits in this province therefore amount to Rs. 325 lakhs. Their total loans in this province at any one time amount to about Rs. 135 lakhs, i.e., just two-fifths of their total deposits. The surplus of Rs. 190 lakhs is presumably exported for investment outside the province.

452. *Details of bank deposits.*—We have been able to get details of deposits of the Imperial outside and local banks on 31st December 1929 which are summarised in the following table:—

	Current deposits accounts.	Savings deposits.	Fixed deposits	Total.
Imperial bank ..	70½ lakhs	44½ lakhs	70½ lakhs	185½ lakhs
Outside banks ..	14 ..	6 ..	50 ..	70 ..
Local banks ..	20 ..	2½ ..	49½ ..	72½ ..
<hr/>				
Total ..	104½ ..	53 ..	170½ ..	328 ..
<hr/>				

The figures for local banks include the deposits of a branch of the Bihar Bank situated outside the province which could not be separated from the others. They should, therefore, be reduced by Rs. 2½ lakhs or so. An analysis of these figures would show that most of the deposits of joint stock banks in the province are fixed deposits. Out of a total of Rs. 140 lakhs only about Rs. 8 lakhs represent savings bank accounts and Rs. 32 lakhs current accounts. The first figure would show that the joint stock banks make little or no appeal to the small savers. It is equally evident from the second figure that the system of making payments by operating on current accounts through cheques is not very much developed except with the Imperial Bank. The outside banks which deal mostly with big traders have between themselves only 2,288 current accounts. The figures would be still smaller if we exclude the accounts of one branch of an outside bank which has more current deposits than all the other outside banks put together. We do not know

the number of current accounts of local banks. The ten branches of the Imperial Bank in this province have between them 2,267 current accounts, 4,303 savings bank accounts and 838 fixed deposits accounts. Putting the number of current accounts of local banks at the same figure as that of the Imperial Bank, the total number of current accounts in this province will not exceed 7,500.

453. *Consequences of few current deposits.*—The result of this paucity of current accounts is that very few cheques are drawn in this province for settling transactions and a large amount of idle cash remains in the hands of people which might very well have swelled the deposits of banks. The joint stock banks have perhaps made little or no attempt to develop this side of their business. Some of them offer 2 per cent. on current accounts but they have done little more. They perhaps do not offer enough facilities to traders who generally deal in short term accounts or do not do enough agency business for their clients to induce them to open current accounts with them. It is however clear that it is in the development of this business that their future progress lies. As long as their main deposits are long term fixed deposits for which high rates have to be paid in competition with stocks, shares, debentures, cash certificates and Government securities, the rates charged by them for loans cannot but be high. Their business and their profits therefore are bound to be small. It was justly pointed out to us by one of the bank managers in this province that if a bank pays 5 to 6 per cent. on the majority of its deposits it cannot afford to charge on its advances less than 7 to 8 per cent. since 2 per cent. represents its expenses. To secure a profit higher lending rates are necessary. We entirely subscribe to this view but we must despair of the future of commercial banking in this province if the ordinary merchant were normally to borrow for his requirements at 8 to 12 per cent.

454. *Alleged competition of Government with joint stock banks.*—It has been alleged that Government and Government aided institutions like co-operative banks compete unfairly with joint stock banks for deposits by offering rates which the banks dealing mostly with merchants cannot afford to pay. We do not propose to deal here with the question of competition of co-operative banks with joint stock banks as we have dealt with it elsewhere. There is a measure of justification behind the banks' complaints against Government. We agree that few banks can pay their way if they raise the majority of their deposits at 6 per cent. unless they charge usurious rates from their clients. Since no genuine trader can stand such rates the majority of the joint stock banks' borrowers must be ordinary consumers. In fact this is so in this province. What we however do not accept is that the majority of the deposits of banks must be fixed deposits bearing high rates of interest. We believe that such deposits are not suited to a commercial bank. They mostly come from persons who are not merchants or other men who open bank accounts for the sake of their day to day business transactions but genuine investors who would normally invest

in Government and industrial securities but for the high rates free from risk paid by joint stock banks. We think it is equally open to Government and industrial companies to complain of the encroachments of commercial banks on their legitimate sphere. We do not subscribe to the view that Government should not borrow for its development expenditure. Nor do we expect that with the present world rates it will be able to borrow at less than 5 per cent for some time to come. This overlapping and competition which undoubtedly exists can only be removed by adopting vigorous measures for increasing the cheaper savings bank and current deposits which the joint stock banks badly need and creating a bill discount market in which such short time funds can be invested.

Growth of banking and cheque accounts.—We have suggested in previous chapters the measures to be taken for creating a discount market in India. The growth of current accounts of banks depends ultimately on the amount of transactions which are settled from day to day i.e. chiefly trade and the growth of the cheque habit which again depends on the remittance and banking facilities available. Unfortunately the present clients of the banks are not largely drawn from traders who generally prefer to deal with indigenous bankers. They are mostly Government employees and professional men who prefer fixed to current accounts. It is only in the case of outside banks and one or two local banks which have a fair number of traders as clients, that the current account business is important. The growth in the number of cheques depends upon a number of conditions which will be discussed in the next chapter. It is sufficient here to state that though the repeal of the stamp duty has had the effect of increasing the cheque habit the number of cheques in use in this province is still very small. The average number of cheques drawn for each account with the Imperial Bank in this province in the years 1925, 1926, 1927, 1928 and 1929 was 28, 29, 32, 36 and 39 respectively, while the average amount of each cheque for the same years was 1,382, 1,749, 1,663, 1,571, and 1,306 respectively. These figures show the effect of the repeal of the stamp duty on cheques after 1926. The number of cheques issued per account has increased while the average amount has diminished, showing that smaller cheques are more common. The number of cheque accounts of the Imperial Bank also showed a steady increase, the figures for the last 5 years 1925, 1926, 1927, 1928, and 1929 being 1,347, 1,677, 1,947, 2,185 and 2,467 respectively. These figures illustrate the growth of the cheque habit in this province but the growth is not as striking as might have been expected.

455. *The Imperial Bank.*—The rate paid by the Imperial Bank for large savings bank deposits is better than that of the post office and therefore should appeal to a certain class of client which wants yield plus security. But as it takes more time to deposit and withdraw money from the Imperial Bank than from a post office, and the post office is more accessible, the agency of the post office is preferred to that of the

Imperial Bank. In spite of this disadvantage the savings bank deposits of the Bank on 31st December 1929 amounted to 44½ lakhs and the number of accounts stood at 4303 as against 26½ lakhs and 2287 respectively in 1925. They were all attracted from the urban middle classes at the 10 centres where the bank has branches. The current accounts and fixed deposits amounted to about 70½ lakhs each as against 52 and 55 lakhs in 1925. These deposits are nearly all those of private persons since the other banks' accounts with the Imperial Bank are remarkably small. The fact that fixed deposits have grown with current accounts shows that the effect of repealing the stamp duty has not, at least so far as the Imperial Bank is concerned, been very striking. The private depositors of the Bank are mostly high Government officials and big traders who receive their salaries and bills through it and find it convenient to borrow from it against Government securities or to keep current accounts for the sake of remittance, exchange and other facilities. They however remove their surplus funds as soon as they reach a certain level. Deposits with the Imperial Bank are therefore more an example of investment for the sake of other ancillary advantages than for their yield.

CHAPTER XXII.

Improvement of facilities for investment.

456. *Defects of existing means of investment.*—From the survey of the existing institutions of investment in the preceding chapter, two broad facts emerge—(1) that a disproportionate amount of savings is still absorbed by the older forms of investment, land, jewellery and money-lending, and (2) that there is no co-ordination amongst the modern institutions of investment. They are all competing with each other for the custom of the same class, the educated middle class investor, without attempting to tap fresh classes. He is really the only modern investor. The zamindar prefers land and jewellery, the merchant prefers trade; the rural classes' investment tastes are the same as those of the zamindar, but the man with some western education patronises impartially the post office, the insurance companies, the co-operative and the joint stock banks. There is, however, not enough for all. The result is that very high rates have to be paid for his patronage, which are a grievous burden on trade, agriculture, industry, and the general consumer. The main problems of investment therefore are (1) how to broaden the field of investment for the more old-fashioned section of the population, and (2) how to improve, extend and co-ordinate the existing means of investment with a view to reducing their dependence on a narrow class of investors.

457. *Order of preference of investors.*—The monopolistic position of the middle class investor makes him unduly conservative. He prefers the safest and the most remunerative forms of investment, especially those connected with Government or with institutions aided and supported by Government. At present the co-operative banks with their somewhat high rates of interest for easily withdrawable deposits and their general high level of security command his greatest attention. Next in the order of his preference are Government paper, cash certificates and insurance companies, while joint stock banks, indigenous bankers and industrial companies come last. This shyness and want of enterprise on the part of the average investor hinders a proper utilization of the great resources of the province or makes it necessary to exploit them with non-provincial agency.

458. *Co-ordination.*—The ideal to be aimed at is the distribution of the total amount of savings available for investment among the competing institutions in due proportion to their national importance. It is obviously out of the question to reach this ideal by any sort of control. Any scheme of that kind postulates a controlling body composed of persons thoroughly capable of judging the relative urgency of the needs,

fully supplied with the information necessary to form such judgments, and completely impartial in their survey. Whether men so equipped can be found in countries, where banking is already fully organised and economic surveys have reached a high standard of accuracy, is a matter of opinion. These conditions certainly do not exist in Bihar and Orissa. The most that can be properly suggested is that the Banking Council, if one is set up, should collect and keep up to date information on the demand for capital, and bring to public notice and ventilate by public criticism any marked disparities in the access of different investment institutions to the capital available. They might thus help to minimize undue competition or reckless misuse of resources. But it is mainly by studying the causes of the lack of contact between those who supply and those who use credit, and by suggesting methods of increasing the contact, that the principal advance will come, and we trust that a beginning will be made by the adoption of some of the measures that we have proposed, such as the creation of a discount market and the linking of shroffs, registered *mahajans* and co-operative banks therewith.

459. *Provincializing the postal investment business.*—There is, however, one further suggestion that we put forward for increasing this contact, and that is some measure of control by the local Government over the savings bank and cash certificate business of the Post Office. Without the co-operation of the greatest investment institution in the province no scheme of co-ordination can be complete. Post Office funds cannot move freely to those points where they are needed, and rates for attracting them cannot be adjusted to local conditions unless this business is transferred to local Governments. Prevailing rates of interest are not uniform through the length and breadth of India. The savings bank deposits and cash certificate sales of the post office in this province, considering its vast population are very small. The total savings attracted by the post office give an average of only Re. 1/3 per head of population. Evidence given by some 100 postal officials was unanimous that the paucity of deposits is largely due to the fact that the postal savings bank interest rates are very low and have no relation to the rates prevailing in the local market. We are anxious that the utility of the post office as a rural investment agency in a backward province like Bihar and Orissa should not be diminished by a rigidly uniform policy which takes no account of local variations. At the same time the central Government cannot be expected to pay higher rates than those prevailing in other provinces. The local Government has at present no inducement to develop this business by carrying on propaganda at its own expense as long as the funds obtained are not available for local development. The best arrangement therefore would seem to be that the responsibility and profits of the management of the provincial post office fund should be handed over to the local Government and a commission paid to the central Government for its management through post office agency. This would be in accordance with practice

in Australia, where Government savings banks are run by the States and not by the Commonwealth. Whatever financial arrangements may be adopted as a result of the present examination of the constitutional problem, it is certain that every province will require large sums for its development. It would be convenient and desirable from many points of view that each province should rather raise its own capital from its own citizens by stimulating investment through its own postal savings bank than enter the already overcrowded central money market and compete with the Government of India. The scheme, no doubt, presents many points for objection. It might be urged that investors would be unfairly attracted from neighbouring provinces by more favourable interest rates. But seeing that postal business has to be done by personal applications that objection has little weight. A much more serious objection is that the central Government may be unwilling to forego a profit, which it can gain from judicious use of the capital obtained, or that the acceptance of an agency function would be inconvenient. No doubt, too, the introduction of the scheme would involve the creation in the local Finance Department of a branch trained to manage the profitable investment of the incoming money not immediately required for expenditure on development, and to watch at all times the provision of funds to meet ultimate liabilities. In view of these objections we cannot do more than commend the idea for examination by the Central Committee.

460. *Improvement of existing investment facilities.*—Still more important than co-ordination is the improvement and extension of existing investment facilities by which enough funds may be collected for meeting the various needs of the province. We shall take improvement first. The banks in this province do not render to their clients all the services which are associated with banking in other countries. They do not multiply the points of contact between themselves and their customers by undertaking agency, trustee and safe deposit business for them, but confine themselves almost entirely to lending and borrowing operations. They do not give them any expert advice about their investments, nor are they able to supply them with cheap remittance. On the other hand they charge a high commission for purchasing securities and collecting bills. The general public has thus no special inducement to open current accounts with them except the interest which they may be able to offer. In this respect the Imperial Bank is distinctly more helpful, but it does not cater for the small investor. It is true that these facilities are better provided by bigger banks than those which operate in this province. This would perhaps indicate the need of amalgamation amongst the existing banks to form bigger units. Another development, which we commend to the consideration of the joint stock banks, is that of establishing closer touch with the trading community. The traders will feed their current account business if and only if they are induced to do so by greater borrowing facilities, especially in the form of discount of bills.

Cheque habit.—The utility of encouraging the cheque habit is two-fold. First to the extent to which cheques replace paper currency,

metallic currency is ultimately economised. This aspect is not our concern. The second utility is much more important from our point of view. Every person, who opens a current account and operates on it by cheques, brings in to the organised investment institutions a sum of money, represented by his average balance. The individual contribution may be small, but in the bulk it is considerable enough. The repeal of the stamp duty on cheques has no doubt increased the number of cheques drawn by those who used them before, but it has not materially increased the number of new cheque accounts. For this something more must be done. As we have said before, most of the customers of the joint stock banks are the English educated classes who fill the professions and ranks of Government service. In the very nature of things they have little need for current accounts, because very few of their transactions are paid for by cheques. The majority of indigenous traders do not know English, and as nearly all bank transactions are carried on in English, they do not find it to their advantage to keep accounts with banks. The Imperial Bank and the joint stock banks are noted for their delay in putting through cash transactions and fall very far behind the shroffs in the promptitude with which business is conducted. It is not surprising that the traders prefer the shroffs.

461. *Vernacular cheques and accounts.*—It would be to the advantage of banks to associate shroffs as agents or partners in their business and keep vernacular accounts and issue vernacular cheques for such of their clients who desire to conduct their business in the vernaculars. There are no insuperable difficulties to the issue of bilingual or trilingual cheques. In Bombay mixed Gujrati and English cheques are quite common. We believe that nothing will help the growth of the cheque habit and therefore of current deposits so much as vernacular cheques and accounts. One can very well imagine the state of deposit banking in England with Greek or Sanskrit cheques and accounts.

462. *Clearing houses.*—There would be no advantage in multiplying the number of cheques if there is no clearing house for their quick collections and heavy rates of exchange continue to be charged. At present there is not a single clearing house in the province because cheque transactions are not yet important. But should they become so, a clearing house should be established at Patna. At present an exchange of 4 annas per cent. is charged for cashing cheques on outside centres. In Ranchi we found that the local bank charges one rupee per cent. We think this charge operates powerfully to prevent the use of cheques and should be very much reduced, if not abolished altogether.

463. *Stimulation of savings.*—For stimulating small savings of women and children all joint stock and co-operative banks might very well issue small home savings safes like those issued by the Central Bank of India. Small sums are put in a locked box and opened only by the bank which credits the contents to a savings bank account. They have been very successful in Bombay and have been introduced

in this province by the Bank of Bihar and by a few central co-operative banks. They deserve to be tried by other banks and the post offices. The joint stock and co-operative central banks might also issue their own cash certificates similar to those of the Post Office.

464. *Provincial Savings Associations.*—We have considered the question of starting Provincial Savings Associations on the lines of those existing in England, to enable a number of persons to combine together and buy cash certificates which they cannot individually afford. We do not think it will be possible to start such associations or run them successfully, except possibly in connection with co-operative societies, schools and colleges. The scheme presupposes an amount of literacy and general education which does not at present exist in this province and would require a great deal of supervision and propaganda which could be better employed in starting co-operative thrift societies on the Punjab model. The case of school and college students is however different. They have not much surplus to spare for investment, but the education in thrift and modern methods of investment may spread through them to the villages and might be of considerable advantage. We therefore recommend that the educational authorities should be urged to encourage the formation of such associations amongst students. In the absence of a provincial association, it will perhaps be possible to work in the first instance through the existing scout organization.

465. *Training in thrift and in the use of money.*—A more immediately hopeful suggestion has already been made in Chapter XIII, viz., that the subject of thrift and how money should be used should be introduced into the educational curriculum throughout the province and throughout the whole range of schools. It is during the formation of character that the habit of thrift can best be inculcated and the plastic mind of the child will more readily receive the impression than the adult.

466. *Investment facilities for Muslims.*—We have examined the question of providing special investment facilities for Muslims who are opposed to taking interest on religious grounds. All Muslim members of the central and provincial legislature were addressed, but none replied to the enquiry. This in itself indicates that there is no great demand for such facilities. We examined the Muslim witnesses who appeared before us on this point, and gathered that there is now no great prejudice against accepting interest amongst the Muslims of this province. In fact the class of itinerant money-lenders whom we have described in Chapter IV is chiefly recruited from Kabulis, while we came across some Gaya Muslims who carry on money-lending in the Hazaribagh district. What prejudice there is, is dying fast and no special measures are necessary. The view that the Koranic injunction condemns usury but does not forbid interest is rapidly gaining ground. The Kabulis satisfy their conscience, if they have any, by arguing that interest, while unlawful in a Muslim country (Dar-ul-Islam), is permissible in a country of infidels (Dar-ul-Harb).

467. *Extension of investment facilities.—Urban areas.*—Having considered the improvement of the existing facilities, we may now turn to the question of their extension and in the first instance take the urban areas. We have seen that there are only 30 banking offices in this province, of which only 10 are branches of the Imperial Bank. Most of the others are very small and do not perform all the functions of a modern bank. There are still some districts without a single joint stock bank, and important business centres like Monghyr, Sambalpur, Jhalda and Kodarma are without one. Their banking needs are met only by co-operative banks and indigenous bankers. There is obviously great room for extension of joint stock banking, which alone can supply full investment facilities. There are 38 towns of over 10,000 inhabitants in this province, and each should be able to support a branch of a bank.

468. *Branches of the Imperial Bank.*—We have been told that the main obstacle to the starting of branches in this province is that it is expensive to run and equip them. Such has, we believe, been the experience of the Imperial Bank, some of whose branches in this province hardly pay their way in spite of the Government business and their privileged position in the matter of remittance. Unfortunately most of the new branches were started in places where there was already a branch of a joint stock bank so that the Imperial Bank, instead of creating new facilities, has simply duplicated existing facilities. There are only three places where the Imperial Bank is the only bank. Elsewhere it competes with other already established banks. It no doubt renders better services than those banks, and has created some fresh business. But it has diverted to its own coffers some of the deposits of joint stock banks. Since there are very few borrowers in the mufassal satisfying the high standard of security demanded by the Imperial Bank, these deposits cannot be used locally. For all practical purposes they are therefore lost to the province. Out of 185 lakhs of deposits only 22½ lakhs were lent in the province on 31st December 1929.

469. *Branches of joint stock banks.*—This competition between the Imperial and joint stock banks has not been beneficial to either. It has made both of them chary of starting fresh branches. The Bank of Bihar ultimately hopes to lay down a branch in every district of the province, but this is still a distant prospect. We have, however, suggested in Chapter XX a quicker way of supplying banking facilities where there is no likelihood of a branch paying its way. We hope joint stock banks will see their way to utilise the agency of approved shroffs and "registered mahajans" for collecting current, savings and fixed deposits, and doing in the smaller towns other classes of business which do not involve questions of policy. There are 686 shroffs and big urban money-lenders in municipal towns so that banks will have a fairly wide choice of suitable agents. These agencies can be converted into branches on the Kommandit principle, should the growth of business justify such a change.

We have already suggested in Chapter XX the measures for improving the deposit business of shroffs and urban money-lenders. We therefore pass on to rural banking.

470. *Extension of rural banking.*—The chief banking agencies in the rural areas are the co-operative bank, the rural *mahajan* and the post office. The rural registered *mahajan* could be used in the same way as the shroff and the urban money-lender for agency purposes by joint stock banks. We trust that in course of time, as this business inspires confidence, the *mahajan* himself will be able to attract deposits on his own account at rates suited to the locality and thus supply that personal touch which is lacking in other organisations.

471. *Co-operative societies' savings.*—It is, however, on the post office and the co-operative societies that we chiefly rely for stimulating the investment habit in rural areas. But as long as co-operative societies are looked upon by their members merely as lending agencies and not as thrift societies for collecting the savings of the cultivators, the investment function of the co-operative movement will be confined to the 66 central banks, situated mostly at subdivisional headquarters, whose savings bank business is more urban than rural in character. We have already considered in paragraph 446 how this business could be increased. A further requirement is that the depositor should be able to withdraw his money when he needs it. At present deposits are usually accepted either for a period of one year or six months. A greater endeavour should be made to popularise savings deposits, i.e., payable at week's notice. The lack of sufficient fluid resources raises a difficulty; but we believe this would be overcome if co-operative societies were given the cash credit facilities recommended in Chapter XV. What we desire is that every one of the agricultural credit societies, and there are now about 9,000 of them, should serve as a centre of investment. We realize that it will be a long time before that happens. Until the stage is reached, we rely mainly on the rural post offices for spreading the investment habit amongst the villages.

472. *Use of the post office.*—The post office is conveniently situated for serving this purpose. As a letter carrying and remittance agency it is known and accessible to everybody. Its association with Government inspires the highest confidence, and even now its savings bank and cash certificate business is fairly large, though not so large as it ought to be. It is proper to examine whether it can perform other banking functions for the rural population. It is out of the question to impose upon it lending functions, save a very limited form of lending against cash certificates which we propose later in this chapter. But it seems possible that it might widen its function of attracting savings by permitting a selected clientele to operate current accounts. This would in the first place reduce cash transactions, substituting book debits and credits for the passing of coin. It would secure a public record of transactions, which now have to be proved by receipts. But, what is still more important, it would bring into

the credit organization some of the idle money, which is held in small parcels by the very large number of individuals who make up the rural population.

473. *Current accounts for a special clientele.*—The clientele must necessarily be limited to persons who can read and write and understand simple accounts, and who are known to the postmaster of the office, in which their accounts are kept. In the first place the panchayats of co-operative primary credit societies satisfy these conditions. These could be encouraged to open current accounts with the nearest post office. The central bank would then send them a cheque, drawn against its own post office current account, and the panchayat would present the cheque at the local post office. Thereafter, when the day came for distributing loans to members, they would draw cash by cheque on themselves, or if any of their members had savings bank accounts give them cheques which would be cashed at the post office. Money received in cash from the members in repayment of loans would be paid in to the account of the society at the local post office and remittances to the central bank made by cheque. They should also have the privilege of paying to any one by open cheque and might use it to settle accounts with fertilizer or agricultural implement companies, though possibly it would be advisable to insist that the post office, on which the cheque is ultimately to be cashed, should be named on each cheque.

The same facilities might well be extended to "registered mahajans", if the plan we have suggested is adopted. Local public bodies might also be brought in, especially for the transactions between district boards and union boards. Some public companies, whose activities are sited in places far from any bank, for example the coal companies operating in the Damodar valley, might be given the facilities. It may also be examined whether certain zamindars may not be given them. At present there is a system by which *raiya*t can pay their rents to their landlords on a special money order form, and it is not unlikely that this could be replaced by a system, under which the rents would be credited to the current account of the landlord instead of being paid out in cash on presentation of the money order.

474. *Possible difficulties.*—No doubt the introduction of this plan will throw more work on the post office, and it will have to be examined whether the extra cost will be compensated by the use of the money now lying idle. The cost might be kept down by reducing the rate of interest or paying no interest at all on these current accounts. It will also involve some additional risk of loss by theft, unless more adequate arrangements for guarding are made. In the first instance it might be tried only at post offices close to police-stations, or those which can rapidly convey their surplus by motor bus to such post offices. In respect of other risks, there do not appear to be any in accepting payments while disbursing will be practically confined to a few well-known customers, and the precautions necessary will be no more than those required for disbursement on money orders.

475. *Crossed cheques on savings bank accounts.*—Apart from these facilities for a special clientele, we suggest that all persons with a savings bank account at the post office should be allowed to operate on it by means of crossed cheques drawn in favour of a person who also has an account, and restricted to a limited range of post offices. It may be expected that this will be particularly useful to clients, who become familiar with the use of cheques, by their membership of primary credit societies, by their dealings with 'registered mahajans', or their association with public bodies.

476. *Extension of post offices.*—To make these facilities and others which we propose below available to as large an area as possible, we think the number of post offices doing banking business in this province should be greatly increased. At present there are 21 district offices, 452 sub-offices, 189 departmental branch offices and only 337 extra-departmental branch offices doing such business. We think there should in course of time be a banking post office at every *hat* or rural market centre. There are in all 432 major and 2,464 minor *hats* in the province, i.e., one for every 11,700 of the population and one for every 29 square miles. Each man has access to at least two *hats* by walking. Postal facilities are greatly appreciated, and the postal department receives a number of applications every year for starting new post offices or extending the functions of the existing ones; but the department refuses these applications on the ground of expense. Should the business of the post office be extended in the way we have suggested above and below, we think this objection will lose its force.

477. *Vernacular accounts.*—We further recommend that the accounts, pass books, cheque forms, cash certificates, and the rules of business of the postal banks should be available in the court vernacular of the area in which they are situated. Vernacular savings bank books are already in use, but it might be laid down that when an application for opening an account is received with a vernacular signature, the account should be conducted in the vernacular, unless the applicant prefers English. We understand that the ordinary postal staff is seldom transferred from one language area to another.

478. *Help in Government finance.*—We believe these measures will minimize the *cash* transactions of the province, give a great stimulus to the growth of the cheque habit, and increase materially the floating deposits of the country. The post offices will no doubt pass on some of their surplus funds for being invested in Government treasury bills and so ease the ways and means operations of the central Government, and thus lower the rate of interest which it is compelled to offer on them in the open market. The complaint of joint stock banks that the Government removes all the available funds in the market by offering rates as high as 6½ per cent. for short term deposits will also to some extent be removed.

479. *Government payments by cheques.*—We think it wasteful and inconvenient that Government and public bodies should make and receive

payments in cash and maintain separate costly cash departments. The premier college of the province insists on its students signing all the rupees, annas and pice tendered in payment of fees in order to detect bad coins. It would be far more convenient and economical to make payments by book debit and credit. To introduce this method and help the growth of cheque habit both in urban and rural areas, we think it reasonable that Government and public bodies should give the first lead. We recommend that they should use freely the agency of banks in towns and of the post office in the mufassal for making payments to their employees, and should accept crossed cheques of the public in return. It has been proposed that with such exceptions as may be necessary to meet special cases, employees drawing Rs. 100 or more per month should be paid by cheques on banks, while all literate employees drawing more than Rs. 20 should be paid through a special account in the nearest post office. We understand that the former proposal is being examined in all Government departments, and since that examination will be far more thorough than what we have been able to make, we refrain from expressing more than a general approval of the idea. If it is put in force, and the postal authorities accept the widening of their banking functions, which we have suggested in the preceding paragraphs, the second proposal might be usefully considered. As further experience is gained, the scope of this reform might be extended to contractors and other members of the public. Where banks and post offices are not available, the agency of approved shroffs and registered *mahajans* might be used with advantage.

480. *Cash certificates*.—There is a special function which we wish the post office to discharge, and that is to cure the population generally and its rural and female part particularly of the habit of investing a disproportionate amount of its savings in jewellery. Before taking up that point, it is necessary to examine whether the present cash certificates have served this purpose and can in any way be improved. We have seen that at present they are not much used by the small investor. They have hardly penetrated into the rural areas, and are used mostly by the timid well-to-do investors. Funds have been diverted to them which should properly have gone to bigger Government or other investment securities. We therefore suggest the lowering of the maximum amount of holding from Rs. 10,000 to Rs. 2,000, and within this limit we propose to make them more popular. No doubt there will be some evasion of the restriction as there is at present, but generally speaking it will be effective.

481. *Means to make them popular*.—The sale of cash certificates in the rural areas has steadily declined during the last three years. It reached its highest level in war time when the yield was high and a special propaganda was carried on by official agency to promote their sale. It has been suggested to us that the only ways of increasing their popularity are (1) to increase their yield and (2) to make them negotiable by endorsement like other Government securities. We doubt whether anything but a substantial increase in the rate of interest will be

effective, in the rural areas at any rate. We are definitely opposed to the second suggestion, since it will take away the character of the cash certificate as a means of investment for the small man who is expected to hold his savings. Moreover it will compete with other classes of securities.

To make the cash certificate more suitable as a document of investment for the rural areas, we recommend that it should be printed in the vernacular and interest should begin to accrue after three months instead of one year as at present. Very few cultivators can retain their savings after harvest for more than three or four months. They have generally pressing needs to satisfy sooner or later and have no inducement to invest in a cash certificate, if they have to cash it without interest before the end of a year. But it would still further improve the position of the cash certificate in their eyes if they were permitted to use it as security for getting an advance. We think the post office should in all circumstances be prepared to advance half the ultimate value of the cash certificate at the well-known *takavi* rate of interest of one pie per rupee per mensem, or $6\frac{1}{2}$ per cent. per annum. This measure will be a material inducement to hold on and will put the small investor on a footing of equality with the big investor who can borrow against Government securities from the Imperial Bank.

482. *Gold certificates.*—We do not think that the mere fact of making cash certificates payable in gold bars, as recommended by the Hilton Young Commission on Currency, will add to the popularity of the cash certificate with any appreciable number of people in this province. Very few people want gold and those who do can always get it in the market and will not wait for the maturity of a cash certificate to buy it. The only use that we can see in this province for a gold certificate is as a special investment for the personal property of women, which we describe below as “stridhan” certificates.

483. *A psychological problem.*—We have yet to consider the problem of weaning the people, specially women, from excessive use of gold and silver and jewellery. We have analysed in the preceding chapter the causes of the persistence of this habit in India. The economic and political causes have already been largely removed. But the social causes still remain, and the legal disability of the Hindu woman is a living reality. Social sentiment dies slowly and is not susceptible to economic or political treatment. The problem being psychological, we can only solve it gradually on lines which will not be violently antagonistic to existing sentiment.

484. *Postal safe deposits.*—We propose that the interest of the owner of bullion or ornaments should first be enlisted by offering ample safe deposit facilities. We suggest these should be provided by all banks in the urban areas and by the post office in the rural areas. Jewellery is a standing temptation to burglars and dacoits, and its use by children has often led to kidnapping and murder. Facility for safe deposit is specially required for those who go on lengthy pilgrimage

At present valuables are deposited with friends and relations, but there have been occasional cases of misappropriation.

485. *Possible difficulties.*—We see no insuperable objection to placing on the post offices this accepted function of modern banking. It was suggested in evidence that the guarding arrangements of post offices are not satisfactory, but it was admitted that the post office handles a large number of valuable insured letters and parcels without any serious loss or difficulty. There is therefore no reason why sealed and insured parcels collected through the post office cannot be stored in central Government treasuries for a fee until the depositor comes and claims them. We trust this will bring in a fresh source of revenue to the post office, but it will be desirable that at the beginning the fees should be small. Once it is realized that ornaments deposited with the post office are as safe as or safer than those underground and are always returned whenever wanted, we think this would become the usual method of storing valuables for persons undertaking long journeys or proceeding on a pilgrimage. The depositor should be allowed to nominate one or more persons to whom the property may be delivered on presentation of the receipt, in the event of his own death. It will also be necessary to provide that when ornaments so deposited are "*stridhan*" they should preserve that character during deposit. The receipts issued for Hindu women's ornaments deposited by or for women should be designated "*stridhan*" receipts and should be protected in the same way as the property which they represent.

486. *Stridhan gold certificates.*—We trust this may be the beginning of a new relation of confidence between women and the post office which may result in further business. We suggest that every *stridhan* safe deposit receipt should contain an advertisement inviting attention to a new type of gold certificate, which for want of a better name we may call a "*stridhan* certificate." These should only be issued to women at the usual or perhaps a slightly lower price. A *stridhan* certificate should have the same legal protection as other *stridhan* property. The difference between a *stridhan* receipt of safe deposit, for which a fee has to be paid, and a *stridhan* gold certificate on which interest is earned, should be obvious to any woman after a short experience. It is to be hoped that by the inducement of interest women may be persuaded to convert their superfluous ornaments into gold certificates.

487. *Investment trusts.*—The excessive preference for investment in the superior interest in land and the neglect of industrial securities may to some extent be mitigated by creating new facilities for modern investment. Amongst these the most important is the investment trust which has made such progress in England and America. We do not think that for a long time to come this province will be able to support a separate share market. The only thing which can be done is to educate slowly public taste into an appreciation of the value of industrial securities. The new investor does not know how to

distinguish bad from good and is apt to flit uneasily between the low returns of gilt edged securities and the dangers of speculative investment. For such a class, to which we believe most of the investors in this province belong, an investment trust with its high but safe returns would be a great blessing. But the starting of such a trust must obviously be left to private enterprise.

PART VII.

CONCLUSION.

488. *Scope of the enquiry.*—The chief business of this Committee has been to gather together and present the facts relating to credit and investment agencies in the province. In particular we have been called upon to examine the problems of rural borrowing and the resulting indebtedness, the system of marketing rural products, the supply of credit for commerce and minor industries, and the organisation of remittance. Further we have been engaged in assessing the part played now by co-operation as a banking system and its possibilities in the future, as well as the present position and future prospects of the indigenous elements in the finance of the province. Finally we have examined the facilities for investment and the manner in which savings are used.

In addition to the presentation of facts, or the nearest approach to them that the difficulties of the enquiry have allowed, we have been invited to put forward suggestions for remedying defects, wherever we believe them to exist. For a fully adequate performance of this part of our task we feel the time allotted has been all too short. We should have preferred to discuss many of our proposals, with those who are competent to advise on them, much more thoroughly than we have been able to do.

489. *Main conclusions from our enquiry.*—Credit is generally available at a price for agriculture and for trade, and agencies for supplying it are plentiful and widely distributed. It is, however, still very imperfectly organised, and there is a lack of adequate links between the rural and the urban agencies, and between these and the central money market. Rates of interest are still very high, especially for agricultural credit, for which the principal causes are the poverty and ignorance of the borrowers, and the heavy expenses of debt collection. Rural indebtedness is serious, though not perhaps as serious as is usually imagined. The indebtedness of the landlord class, especially in Bihar and Chota Nagpur, is heavy and presents a problem distinct from that of the ordinary cultivator.

Indebtedness, save in the more remote parts of the province, has little effect on marketing, and producers have, as a rule, a fair choice of markets within easy reach. For the main staples the number of middlemen is not excessive, nor are their profits unreasonable. There

is little scope for pools. But the creation of licensed warehouses is practicable and desirable.

Organised banking of the western type is undeveloped, and confines its activity to trade finance and to remittance. The smaller banks do some business on the security of landed property, though this is decreasing, and supply consumers' credit against jewellery and personal security. Pure indigenous banking is confined to a few individuals, though a wider class combine true banking with trade and the management of industry. Neither class does much to assist industry nor operates largely either directly or indirectly in the supply of agricultural credit, but some banks play a part in supplying consumers' and miscellaneous credit. Industry comes off worst in the satisfaction of its needs for credit of all kinds by institutions located in the province.

Co-operation has made an appreciable inroad into the province of rural credit, and, viewed as a banking agency, is generally in a sound condition. Its defects are remediable, and there is no reason why it should not occupy a very prominent position in this sphere before many years have passed. Its chief banking problem is the separation of its activities in long-term credit from those in short-term credit. In other forms of banking it has less success to show, except in the supply of consumers' credit to the middle classes in urban areas.

Remittance facilities are fairly adequate, though the charge for them is still somewhat high compared with other countries.

Though the great majority of indigenous credit agencies are of the pure money-lending type, there is still a considerable volume of business done by persons who use credit, either in the form of deposits or discounting of bills, in supplement to their private capital for their lending operations. Their deposit business is falling off by reason of competition with other forms of investment, while discounting is rendered difficult by the absence of an adequate supply of short-dated bills of good character. Further, save for a few of them, there is no close connection either with the large indigenous money markets at Calcutta and Bombay, or with the western money market through the banks. The position of the rural credit agencies, which are mainly of the pure money-lending type, is even more isolated, and consequently the rural borrower gets no advantage from seasons of cheap money.

The ordinary cultivator, who forms the bulk of the population, has little margin for saving, and there is little evidence of either hoarding or excessive use of jewellery among this class. The more prosperous among them use their savings in petty money-lending, trade and the purchase of land. The middle and upper classes do not indulge largely in hoarding, but are inclined towards the excessive use of jewellery. They are, however, the main support of all investment agencies, in particular the post office, the co-operative and other banks and insurance companies.

SUMMARY OF RECOMMENDATIONS.

490. *Improvement of agricultural credit.*—For the improvement of agricultural credit the first essential is a clear distinction between the credit required to grow the crop and that required to relieve the producer from the dead weight of previous borrowing and to enable him to produce more and better crops. For the ordinary agriculturists we see no means of improving the method of supplying either form of credit, except the extension and betterment of co-operative banking. With this end in view we recommend :—

- (1) Separation of the business of central banks into short-term and long-term business (paragraph 296).
- (2) Extension of cash credits for primary societies (paragraph 250).
- (3) Raising of part of the capital required for short-term loans by means of short-term bills (paragraph 278).
- (4) Restricted use of collateral security for short and medium-term loans (paragraph 246).
- (5) More grain *golas* in Chota Nagpur and Orissa (paragraph 308).
- (6) Some extension of the normal period for long-term loans (paragraph 298).
- (7) Redemption of mortgaged land by degrees (paragraph 303).
- (8) Raising of capital for redemption of debt by debentures issued by the Provincial Bank (paragraph 343).

We add certain general recommendations relating to the co-operative movement :—

- (9) Improved training for official and non-official workers (paragraph 291).
- (10) Less interference by central banks with primary societies especially in grant of short-term loans (paragraph 288).
- (11) Detailed examination of reasons for high rates of interest (paragraph 261).
- (12) Expediting liquidation cases and publishing results (paragraph 255).
- (13) Experiment in branch banking (paragraph 306).
- (14) Concentration mainly on agricultural credit societies (paragraph 253).
- (15) Creation of a board to advise the Registrar (paragraph 313).
- (16) A further enquiry by a special committee (paragraph 314).

We consider that the problem of credit for the landlords is distinct from the credit problem of the ordinary cultivator, and make separate recommendations thereon.

- (17) A Land Mortgage Bank under Government control should be established for the redemption of the debts of this class and for financing their long-term improvements (paragraphs 326—340).
- (18) A class of registered rural *mahajans* should be brought into being to supply short-term credit to landlords and substantial cultivators as well as to finance trade in agricultural products (paragraphs 410—419).

(Mr. Hodge dissents.)

We make the following recommendations regarding credit supplied directly by Government to agriculturists.

- (19) Local officers should take the initiative in furthering schemes for which loans under the Land Improvement Loans Act can be given. Liability may be split up into groups, and vexatious delays in conducting enquiries reduced (paragraph 63).
- (20) Loans under the Agriculturists' Loans Act may be given on a more liberal acreage rate. The period of repayment may be normally placed at two years. The Act may be extended to cover loans for replacement of brood lac (paragraphs 64—70).

491. *Improvement of commercial credit.*—Our principal aim here is to increase the fluidity of credit by utilising the backing, which goods in process of marketing give, throughout the whole period, and by linking up the agencies which supply credit. Our recommendations are :—

- (21) Licensed warehouses should be established, whose receipts should serve as negotiable instruments of title to goods. Until private enterprise is forthcoming, these may be worked by the railways and by the co-operative and joint stock banks. Failing these Government should experiment (paragraphs 134—144).
- (22) The best of the rural money-lenders should be induced to become "registered *mahajans*" by giving them special facilities for recovery of debts, for getting their paper discounted and for remittance, and their acceptance of agricultural bills of not more than six months' usance should be treated as acceptance by a bank under section 14 of the Reserve Bank Bill (paragraphs 152, 160, 209, 211, 410—419).

(Mr. Hodge dissents.)

- (23) Shroffs, i.e., urban indigenous bankers of good standing should be placed on the approved list of financial agencies entitled to the privileges of a member bank in the Reserve Bank scheme to enable them to discount commercial bills more freely (paragraphs 152, 160, 194, 211, 420—424).

492. *Improvement of industrial credit.*—For cottage industry the main requirement is short-term credit for purchase of raw materials and maintenance during production and marketing. Occasional medium-term credit is required for replacement of tools. We make the following recommendations :—

- (24) The Industries Department should examine more completely than it has yet done the possibilities of developing cottage industries in rural areas, concentrating on those which are most likely to supply subsidiary occupation to the agriculturists. Until this is done, and it should be done as promptly as possible, no improvement in credit facilities can be usefully suggested (paragraph 181).
- (25) If licensed warehouses are established, the products of cottage industries may be stored therein and credit raised on them during the period of marketing (paragraph 182).

For organised industry, in addition to credit during production and marketing, and credit for replacement of machinery and extension of business, initial capital is required. For improvement of facilities for these three forms of credit we make the following suggestions :—

- (26) An examination of the possibilities of opening branches of the Imperial Bank or of a joint stock bank for the short-term finance of the lac and mica industries might be undertaken (paragraphs 190, 191, 194).
- (27) Also of establishing licensed warehouses for the products of the grain milling and mica industries (paragraph 194).
- (28) The Industries Department might share with the banks and approved shroffs the task of examining proposals for the grant of credit for replacement and extension of business, as well as the risk when credit is granted. The banks and shroffs should receive a commission for this assistance (paragraph 195).
- (29) Three members think that the province is now ready for the starting of an Industrial Bank with Government assistance to promote the industrial development of the province (paragraph 196).

493. *Improvement of consumers' and miscellaneous credit.*—The following suggestions are put forward :—

- (30) Multiplication of co-operative credit societies for professional men on limited liability (paragraph 165).

- (31) Employers should be urged to organise co-operative credit societies among their employees (paragraph 166).
- (32) The urban co-operative societies, known as "Traders" or "Peoples" Banks, should be extended to other towns (paragraph 309).
- (33) Contractors for Government and public bodies should be allowed to arrange for the payment of their "on account" bills through a bank, which would finance them on the security of their contract (paragraph 168).

494. *Extension of the use of credit instruments.*—We aim at more extensive use of the existing instruments of credit both to encourage the banking habit, and to provide more abundantly good trade paper, in which banks can place their liquid assets. We, therefore, make the following recommendations :—

- (34) The present stamp duty on negotiable bills of one year or less than one year's usance should be abolished (paragraph 210).
- (35) The form of *hundis* should be standardised throughout India (paragraph 213).
- (36) The Negotiable Instruments Act should be amended to provide a separate chapter dealing with the law regarding *hundis* (paragraph 213).
- (37) It should also be amended to secure that cheques once drawn to bearer should retain that character throughout. *Hundis* drawn as *sahjog* should remain *sahjog* and those drawn as *dhanijog* should remain *dhanijog* throughout (paragraph 212).
- (38) In places where *hundi* business is important an expeditious procedure for disposing of suits based on negotiable instruments should be introduced on the lines of Order 37 of the Civil Procedure Code (paragraphs 358, 390).
- (39) Banks should consider the desirability of using vernacular cheques and keeping vernacular accounts, enlisting the aid of *shroffs* for these purposes (paragraph 461).
- (40) Government should introduce the practice of paying its employees and others by cheque (paragraph 479).
- (41) As part of a general reduction of remittance rates, discount on cheques payable through a bank should be abolished (paragraph 462).
- (42) Better clearing house arrangements should be established (paragraph 462).

- (43) The post-office should experiment in the opening of current accounts for a selected clientele, on which they could operate by means of crossed cheques (paragraph 473).

495. *Encouragement of investment.*—To stimulate the investment habit we propose :—

- (44) Thrift and the use of money should be a subject in the curriculum of schools and colleges (paragraph 465).
- (45) Savings associations may be started with the guidance of the Scout organisation (paragraph 464).
- (46) Home saving safes should be distributed by co-operative and other banks (paragraph 463).
- (47) The possibility of provincialising the banking business of the post-office should be examined (paragraph 459).
- (48) The post-office should undertake to insure the lives of members of the ordinary public with suitable restrictions (paragraph 447).
- (49) Postal savings bank accounts should be kept in English or in the local vernacular at the option of the investor (paragraph 477).
- (50) On postal cash certificates interest should begin to accrue after three months. Loans should be made on them at a somewhat higher rate to the holder. In order to confine this form of investment to the small investor the maximum holding should be reduced (paragraph 481).
- (51) More post-offices doing banking business should be opened in the rural areas (paragraph 476).
- (52) The post-office should undertake safe deposit business (paragraph 484).
- (53) Special *stridhan* gold certificates should be issued to women (paragraph 486).
- (54) The charges levied by banks for arranging investment in Government securities should be reduced (paragraph 450).

496. *Discouragement of usury.*—We see no prospect of success in elaborate schemes for regulating the rate of interest, but we put forward three suggestions for the discouragement of usury. It should be noted that two of us consider the Usurious Loans Act useless and fit to be repealed (paragraph 354).

- (55) The High Court should be empowered under the Usurious Loans Act to fix for localities rates of interest, above which claims should be presumed by subordinate courts to be usurious in absence of special circumstances (paragraph 353).

(56) Compound interest on loans in kind should be declared to be usurious (paragraph 353).

(57) Itinerant money-lenders such as Kabulis and Gossains convicted of offences committed in the prosecution of their business should be liable to deportation (paragraph 355).

497. *Removal of legal and administrative difficulties, which tend to raise interest rates.*—Apart from the general speeding up of the disposal of suits, we make the following recommendations :—

(58) The High Court should instruct subordinate courts in the use of their discretion to award interest during the pendency of the suit and during the period of execution (paragraph 359).

(59) The task of a creditor of rebutting the contention of a member of a joint Hindu family, that the debt was not incurred for the benefit of the family, should be simplified (paragraph 360).

(60) Impediments to the splitting up of mortgaged security and the redemption of part of it should be reduced (paragraph 361).

(61) The record-of-rights should be more frequently revised to make it easier to verify title to landed property offered as security (paragraph 357).

498. *General recommendations.*—We add the following recommendations :—

(62) The creation of agricultural bills of not more than six months' usance should be encouraged in all possible ways. In particular such bills drawn by co-operative banks, registered *mahajans*, and rural licensed warehouses should be placed on the list of documents with which the Reserve Bank, if it comes into existence, may deal (paragraphs 152, 209, 211, 278, 408, 411).

(63) Remittance rates should be reduced by all possible means, the Imperial Bank setting the example (paragraphs 199—203, 416, 462).

(64) Joint stock banks should open more branches, or if that is impossible, associate with themselves as agencies registered *mahajans* and approved shroffs (paragraphs 417, 419, 423, 469).

499. *Need for a Provincial Banking Council.*—This completes the summary of our recommendations. Some of these obviously require elaboration in the light of technical knowledge and practical experience, and for their proper working require a permanent supervising organisation. We recommend that this knowledge, experience and supervision

should be supplied by the Provincial Banking Council to which we have referred more than once in earlier chapters. It should be a small body of experts qualified to plan lines of provincial banking development and to advise Government on various problems connected with it.

500. *Its composition and functions.*—It might consist of ten members and include the Member of the Board of Revenue, the Registrar of Co-operative Societies, the Postmaster-General, the University Professor of Economics, a representative of the Imperial Bank, a representative of joint stock banks, an indigenous banker and three representatives of the borrowing classes, one of whom should be a zamindar, another a merchant and the third an industrialist. The council should be nominated by Government. The council would arrange the co-ordination between the various agencies to which we have referred in Chapter XXII, supply directors to the Land Mortgage Bank proposed in Chapter XVI, and lay down the conditions of registration of *mahajans* described in Chapter XX.

501. *A further use of the Banking Council.*—We hope the council would also serve the purpose of a Board of Economic Studies which the Royal Agricultural Commission had in view and which has functioned with marked success in the Punjab. It would promote a study of special problems of provincial development by means of committees consisting of members and additional members co-opted by it. One of these committees should deal with the banking problems of co-operation and serve as an advisory council for the Registrar of Co-operative Societies with the functions we have proposed in Chapter XV.

502. *Divisional Banking Boards.*—The council might be assisted by divisional banking boards constructed on similar lines and working under the presidency of Commissioners. Each might consist of 7 members—the Commissioner, a representative of the co-operative movement, a registered *mahajan* or approved shroff, a joint stock banker, a representative of the *ruiyats*, and a merchant. The divisional banking board should be nominated by the Banking Council on the recommendation of the Commissioner and should, along with other functions, perform the duties proposed for it in Chapter XX.

503. *Acknowledgments.*—We desire to acknowledge gratefully the help that has been rendered to us. In spite of the formidable appearance of our questionnaire we received a large number of replies to it, which bore evidence of the thought which the authors had expended on the subject and the pains they had taken to place their views on record. We were fortunate too, in being able to elucidate these views, in the great majority of cases, by oral examination of the authors of the memoranda, and to collect further information in a less formal manner by interviews held during the tours of the sub-committee. We wish especially to thank those, who built up the statistical evidence on rural borrowing and indebtedness and the general evidence on rural conditions by conducting village enquiries, as well as the Subdivisional

Officers, who have enabled us to survey the indebtedness of the landlord class. To the High Court and the members of the judicial service, who have given us guidance on certain legal problems, our particular thanks are owed. The officers of the Co-operative, Income-tax and Postal departments have placed us under a great obligation. The directors of co-operative banks and their staff have supplied us with much material, which must have entailed a great deal of labour to put together and have besides given us valuable opportunities of discussing matters with them face to face. To the managers of joint stock banks and the local agents of the Imperial Bank we owe similar acknowledgments for their help and courtesy. We have further to express our gratitude to the President of the Legislative Council, and to the divisional commissioners and district officers for their kindness in finding temporary accommodation for our office and in making preliminary arrangements for interviews and enquiries. Lastly we desire to express our thanks to Saiyid Inayat Ahmad Bilgrami, who worked as Assistant Secretary during the heaviest period of our enquiry, and to the office staff generally for their hard work ungrudgingly performed in the uncomfortable conditions of a camp office. To our colleague, Mr. Batheja, who combined the duties of Secretary with those of a member of the Committee, the rest of the Committee wish to offer their thanks for his efficient performance of those duties.

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* Signed subject to a note of dissent printed at the end of Chapter XX.

APPENDIX.

I.—General Questionnaire of the Provincial Banking Enquiry Committee.

(The following memorandum is published in order to assist witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised.)

1.—Agricultural credit and credit facilities for small industries.

1. Describe the present system by which the agriculturist in your district or province 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 or province 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 Imperial Bank of India, the Joint Stock Banks, Co-operative Banks, the Indigenous Banks and Bankers, professional moneylenders, 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 or province?

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 or province.

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 is 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 province.

Have you any suggestions to make for the more extensive use of bills (e.g., by reduction 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 India 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. In your district what is the value of land per acre for different kinds of crops?

What are the factors affecting such value? In your reply, please distinguish between—

(a) value of land in Government auction for non-payment of revenue;

(b) value of land in the event of sale by court decree;

(c) value of land in purchase by private negotiation.

4. Is there any legal impediment to mortgage of land and agricultural holdings in your province? Are there any land mortgage banks

or agricultural banks in your province or any other banks for the provision of long term credit?

State what you know of their method of work and of raising capital.

If no such institution exists in the province, suggest the lines on which such institutions could be established and worked to the advantage of the landholders and tenants of your province.

Do you suggest any measures for—

- (a) improvement in the record-of-rights and title of ownership so as to simplify reference, and to avoid possibilities of disputes and counterclaims by parties other than those who are the clients of the Bank,
- (b) simplification of the process of foreclosure and sale by the Mortgage Bank in the event of non-payment,
- (c) reduction of costs of reference to the record-of-rights and of registration of records and of the process at law so as to reduce the burden on the good constituents of the Bank in respect of charges incurred on account of defaulters?

Should the working capital of the proposed Mortgage Bank be derived largely from—

- (a) deposits,
- (b) funds from central institutions, or
- (c) debenture bonds?

Should debenture bonds carry any Government guarantee either for principal or interest or for both?

If so, what measures would you suggest to secure Government against unnecessary loss?

On what terms should Agricultural Mortgage Banks raise monies under each of the abovementioned heads, with or without Government guarantee, and on what terms should they lend out money so as to cover their expenses?

Please state any other suggestions for the adequate provision of long term credit against sound security.

5. In order to devise measures for the increase of credit facilities to the agricultural classes it is necessary to reach an estimate as accurate as possible of the existing indebtedness of these classes.

Do you know of any such estimate for a village or a district in your province, or for the whole province?

In what manner can such estimate be obtained with reasonable accuracy?

In such an estimate please distinguish between—

- (a) the amount of debt with land as security which is in the form of a registered mortgage,
- (b) the amount of debt which is concealed in the form of a judicial sale to circumvent the provisions of Acts such as the Deccan Agriculturists Relief Act,
- (c) the amount of debt which is incurred against any other assets, such as the village house, ornaments, ploughs and other agricultural implements, crops and produce, or debt which is given on the general security of all the assets without a specific pledge.

Please state wherever possible the purposes for which the debt was incurred, such as

- (a) the repayment of earlier debts,
- (b) marriage and other social occasions,
- (c) famine and other kinds of distress,
- (d) payment of land revenue,
- (e) growth of the debt by compound interest, interest not having been paid,
- (f) seeds and manure,
- (g) improved agricultural implements,
- (h) sinking of wells and agricultural improvements.

Please indicate also to whom this debt is largely due and whether the creditors are Government, Banks, Co-operative Societies, or indigenous bankers and professional money-lenders.

State what you know of the rates of interest charged, the methods used for calculating it and for enforcing the payment of the debt.

Do you think a large number of people who are efficient farmers, are being turned into tenants for a period, or tenants at will through the process of the enforcement of the old debts and landed property passing on into the hands of the creditors?

If this process is going on, does it take away from the actual cultivator the incentive to produce more and in an efficient and better manner?

6. Give some idea of the number of small subsidiary industries allied or supplemental to agriculture existing in your province, such as rice milling, dairy farming, gur 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 for such enterprises?

What financial machinery do you suggest for this purpose?

7. State what you know of the relations that exist between the Co-operative Banks and the other banks in the country, namely, the Imperial Bank of India, the Joint Stock Banks and the Indigenous 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.)?

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 and lending money.)

1. State what you know of the functions of the indigenous bank or banker in your district or province enumerating all kinds of business the bank or banker transacts?

2. How and to what extent does an indigenous bank or banker in your district or province assist in financing agriculture, trade and industry?

3. State what you know of the organisation of the indigenous banking system in your district or province with regard to—

- (a) the amount of capital invested,
- (b) the volume of their business,
- (c) their expenses, and

- (d) the relations between one indigenous bank and another and between indigenous banks and other banks in the country, (*viz.*) the Imperial Bank of India, the Joint Stock Banks and the Co-operative Banks.

4. 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.

5. State what you know of the indigenous bankers' methods of granting loans and allowing cash credits and the terms and nature of these loans and cash credits.

What are the means by which the indigenous banks and bankers provide themselves with funds to meet their demands?

What are the rates of interest allowed on various kinds of deposits received by them?

6. 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.?

7. 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 this class of bankers with their clientele conducted on sound lines?

If not, indicate the existing defects, making suggestions for remedying them.

8. Would you suggest any means of making this class of bankers more serviceable to the community?

Could you suggest any means by which the indigenous banking system in India could be improved and consolidated?

Do you recommend any special facilities to be given to this class for this purpose?

What do you think would be the attitude of the indigenous banking community toward the introduction of any measures for regulating their operations and for giving publicity to the same?

9. 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?

10. Please state whether the indigenous banks and bankers are able to meet all demands for accommodation 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?

11. 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, 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?

12. 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 province?

Can you state the amount of additional capital, if any, required?

What are the means or institutions in existence for encouraging savings and investment habit?

Are the public provided with full facilities for the investment of their savings?

Can the existing facilities be improved in any way or extended in the smaller interior places?

Can you give any useful information in regard to the habits of the people of India to invest in silver and gold?

2. Are Postal Cash Certificates popular in your district or province and can any steps be taken to increase their popularity?

Do present interest rates of Cash Certificates require revision and do existing terms of issue in any way need change?

Do Savings Banks afford all possible facilities to the Public?

What classes of population resort to such forms of investment?

Can anything be done to attract other classes?

Have you anything to say regarding the alleged competition of Government with Banking institutions and bankers in regard to deposits by their attractive rates on Postal Cash Certificates and Treasury Bills?

* 3. State the existing facilities for purchase and sale of Government securities afforded by Government, the Imperial Bank of India and other Banks. Are you in favour of granting any special facilities to the small agriculturists and the small investors of the country to take up some form of Government security? If so, state what special facilities you recommend?

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 or province with reference to monies 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. State what you know about the growth of 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 above Rs. 100 by cheques)?

Have you any suggestions to make regarding the use of vernacular scripts in banking?

5. Do you support the view that the banking and investment habit in India is of very slow growth?

If so, to what causes do you attribute it?

Have you any suggestions to make regarding the various possible means of educating the people of the country to invest their savings in productive undertakings (*e.g.*, propaganda by Government in regard to Government loans for capital expenditure, etc.)?

As far as you know, what has been the result of the opening of new branches in recent years by the Imperial Bank of India?

Supplementary questions.

Question 1.—Describe the part played by the different classes of Banks and Bankers and Importing and Exporting firms in the financing of the Foreign Trade of India during the following stages :—

(a) Export trade :—

- (i) From the village to the Mandi.
- (ii) From the Mandi to the exporting ports.

(b) Import trade :—

- (i) From the importing ports to the distributing centres in India, such as Amritsar, Delhi, Cawnpore, etc.
- (ii) From the distributing centres to the consumer.

Question 2.—What are the terms on which the financing of trade during the above stages is done?

Are any difficulties experienced in connection with the above financing and have you any suggestions to make for removing those difficulties and for improving in any way the existing financial facilities available for the movement of imported and exportable articles?

Question 3.—It has been suggested that the grower of produce in India does not get the full value for his produce on account of the speculative buying and selling activities of firms and companies who deal in the export trade and by the control of prices by these and other bodies. What are your views on this suggestion? Please supplement your views by any facts and figures within your knowledge. Have you any observations to make with a view to ensure a better return to the growers of produce in India?

II.—Additional Questions for the Bihar and Orissa Provincial Banking Enquiry Committee.

1. Do you find that in the part of the province you know the native born inhabitants are backward in banking activity as compared with Indians from other parts of India? If so, what are the reasons?

2. Are branches of Joint Stock Banks, whose head offices are outside the province, to be found in your part of the province? If so, do they attract savings and export them for use outside the province which would otherwise be used within the province? Would you regard this as an evil, and if so, do you see any way to remedy it?

3. (a) Could the larger rural Post Offices, *e.g.*, those at sub-divisional headquarters extend their banking business, which already covers remittance, and Savings Bank accounts, by accepting current accounts on which customers could draw by cheque?

Should Government undertake this business pending the establishment of private Banks commanding confidence in rural areas?

(b) Would it be possible to link the indigenous banking system with the state post office banking system by entrusting, with provisions for adequate control, to such Post Offices another banking function, *viz.*, the discounting of credit paper (hundis or other negotiable instruments) drawn by local merchants or money-lenders, if adequately backed by persons of substance or supported by collateral security? If so, what limitations and safeguards and what forms of control would you suggest?

4. Do you think there is any scope for banks or other credit agencies such as pawnshops lending on valuables, *e.g.*, gold and silver ornaments? If so, should such institutions be state-owned, state-aided or merely subject to some state regulations?

5. Is it your experience that *mahajans* mix up in a single account with a client purely trading transactions, such as sale of cloth or grain, with banking transactions? If so, does that practice lead to evils which are capable of remedy by legislation, *e.g.*, by insisting on separate accounts? Would such a separation inspire more confidence in the money-lending branch of the business?

6. Could Indigenous Bankers be more adequately protected by pooling information about their clients? Is there any obstacle to Indigenous Bankers combining for this purpose, *e.g.*, the existing law of libel?

7. Is it possible or desirable to set up a class of licensed or registered money-lenders with special facilities and privileges whose operations may be controlled by the state in the interests of agriculture, small scale trade and small scale industries? If so, what restrictions would you place on their business? Would you restrict their lending to productive purposes only?

8. Is it your experience that an excessive proportion of savings is invested in land, thereby forcing up the price of land beyond the value which the returns therefrom would justify? .

9. How do small urban industries, small retail traders and small contractors obtain their finance? Have you any suggestions to make for improving their facilities?

10. Is any use made of the Usurious Loans Act (X of 1918) in your part of the province with which you are familiar? If not, can you explain why? Are there any other restrictions on usury in force, and if so, are they effective?

III.—Simple Questionnaire for Village Enquiries.

Government all over India are trying to find out how the *raiya*t*s* in the Mufassal manage to get money for expenses of cultivation, for improvements and other needs, how they sell their produce, what they do with their savings, and how much they owe. The object is to try to improve the *raiya*t*s*' condition in every way possible. We are asking some gentlemen to help us to make these enquiries and we hope you will be ready to answer the questions of the gentleman, who sends you this paper, when he comes to your village. We do not want you to write anything down yourself but only to be ready to answer questions, and to get your fellow-*raiya*t*s* to answer them too. Some spare copies are being sent so that you can give them to your friends, and then you can talk the matter over.

BORROWING.

1. Do you or the other *raiya*t*s* of your village have to borrow money in ordinary years for the expenses of cultivation? If some *raiya*t*s* have to borrow and others do not, why is this?

2. From whom is money borrowed for this purpose? Is it borrowed from a money-lender living at a distance, or from a Co-operative Society? If it is borrowed from a village money-lender, is he just one of the richer *raiya*t*s* or is he of some particular caste?

3. What rate of interest is paid for such loans, and when are these loans taken and when paid back? Is any security given? Are there any other conditions? Is any document written besides an entry in the money-lender's books?

4. When any *raiya*t in your village wants to make an improvement on his holding such as digging a well, or turning upland into paddy land, does he borrow money? If so from whom does he borrow? What rate of interest does he pay? How long is he allowed to pay the loan back? Does he give any security? What sort of document does he execute?

5. Do you or the other *raiya*t*s* of your village usually have to borrow money to meet other needs; for example to pay your rent, to feed yourselves when the crop fails, for marriage or funeral expenses, for replacing lost cattle? If so, from whom do you borrow and on what terms? Are such loans usually taken for a definite number of years?

6. Can you give any idea of how much money is borrowed in a year for each of these three purposes i.e., for the annual expenses of cultivation, for improvements, and for special needs by the *raiya*t*s* of your village? Do you think that if money could be borrowed more easily and cheaply for the first and second purposes better crops could be raised?

7. Have you ever taken a *takavi* loan? If so, did you have anything to complain about? Do you know that you can borrow from Government for making improvements? If so, can you say why very few people take such loans?

A DEBT-CLEARING BANK.

8. Do you think it would be a good thing to start a bank which would advance to *raiya*t the amount needed to clear off their debts? Such a bank would require a mortgage on the *raiya*t's holding and expect fairly regular payment of interest. The interest would probably be lower than what you pay to your *mahajans*, but if you did not pay it regularly your holding might be sold up. Such a bank might perhaps also lend out money for improvements.

TOTAL INDEBTEDNESS.

9. Can you give us a statement of how much the *raiya*t of your village owe? We do not want any names and will not let any body else see the statement, but only use the totals. We should like to have it made out like this. Please fill up the form for every household in the village, if you can, *even those who have no debts*. There will probably be some rich men and some very poor men who are not in debt at all.

Debts in village.....Thana.....District.....

Serial no.	Debt due to government (<i>takavi</i>).	Debt due to the village <i>mahajan</i> .	Debt due to a co-operative society.	Debt due to a buyer of produce.	Debt due to other creditors.	Remarks.
1	Rs.	Rs.	Rs.	Rs.	Rs.	
2	Rs.	Rs.	Rs.	Rs.	Rs.	
3	Rs.	Rs.	Rs.	Rs.	Rs.	

MARKETING.

10. To whom do you and the other *raiya*t of your village sell your produce? Do you usually sell most of it very soon after harvest? If you want to keep the produce till you can get a better price, have you any place to store it? Have you ever thought of getting a number of *raiya*t together to build a storing place, so as to be able to wait for a better price? Do you get fair treatment from the purchaser of your produce? If you do not can you find another purchaser or are you obliged, by reason of your owing money to him, to sell to a particular purchaser? Do you usually take advance from any grain merchant before the harvest? Do you take your produce yourself to the market or does your purchaser collect it?

CHEAPER CREDIT.

11. If you *raiya*t could borrow money at cheaper rates, what would be the result? Would you borrow more money? If so, would you

spend it on improvement such as wells, or on buying manures that would give you better crops? Or would most of you spend more on marriages and *shradhas*? Have you any other idea about the result of cheaper credit?

USE OF SAVINGS.

12. What do you and the other *raiya*s of your village do with your savings? Do you bury the rupees, or buy ornaments with them, or put them in your Co-operative Society, or in the Post Office Savings Bank, or buy Postal Cash Certificates, or buy more land, or use your savings in any other way? Do you know all about the Post Office Savings Bank and Postal Cash Certificates? Are you satisfied with the treatment you get from the Post Office, if you have put your savings there?

Instructions to the investigator.

The set of questions sent herewith is intended to collect information for the Banking-Enquiry from the agriculturists, particularly the actual cultivators. The questions are based on Part I, Sections 1, 2, 4, and 5 and Part III, Sections 1, 2, and 3, of the questionnaire, of which a copy is enclosed but have been put into simpler language and expanded.

The best thing will be to send five or six copies to the principal man in the village, which you are investigating, some little time before you go yourself, so that he and the other most intelligent men can talk the matter over and be ready with answers when you arrive. You will see that these men are not being asked to write down their replies. We want you to do that yourself in the "answer form" attached.

Question 9 is the most difficult one for getting good answers but is the one for which we most want your help. Please try to work through the households of the whole village, including labourers (who probably will not have any considerable debts). If these are left out and the indebtedness of the province calculated on the average of the ordinary *raiya*s, it will obviously be put too high.

We should like to have your answers to the following questions if you can get information during your visit to the village.

- | | |
|--|-----------------|
| 1. What proportion of the debt in the village was incurred for | Answers. |
| (a) repayment of earlier debts | |
| (b) marriage and other social occasions. | |
| (c) famine and other kinds of distress? | |
| (d) payment of land revenue or rent? | |

- (e) purchase of seeds and manure
 - (f) purchase of improved implements
 - (g) sinking of wells and other improvements
 - (h) non-payment of interest on due dates?
2. What rates of interest are charged by the various creditors and how is it calculated? How is payment of the debt enforced?
 3. Are the *raiya*t holdings of this village passing out of the hands of the actual cultivators who are kept on as under-*raiya*t? What amount of the total land has so passed in the last 20 years?
 4. If the land is so passing, is cultivation becoming less efficient?
 5. How much of the total debt in the village is secured by registered mortgage on the land?

We should be very glad to have your report in as soon as as you can send it, and in any case before the beginning of December. If you can manage to survey more than one village, we shall be very glad to have two or more reports.

IV.—Questionnaire for Postal Officials.

1. What do the *raiyats* and the other people of your area do with their occasional and permanent savings? Do they hoard them or buy ornaments or put them in the local Co-operative Society or in your Post Office Savings Bank or buy postal Cash Certificates or buy more land or engage in trade and money-lending, or use their savings in any other way? If they put them to all these uses, in what proportions are they utilised for each of them?

2. What is the average amount of Savings Bank, Cash Certificates, money order, insurance and V. P. P. business done by your Post Office in a year? Does it tend to increase or decrease? What classes of people transact such business with you and in what proportions? What is the total amount of Cash Certificates sold through your office and the total amount of deposits in your Savings Bank account? How does your Savings Bank and Cash Certificate business compare with investment in land and money-lending in your area as regards (a) security, (b) convenience and (c) rate of return?

3. Are the advantages of your Cash Certificates and Savings Bank business sufficiently known to the public in your area? If not what methods would you suggest to make them better known? If there is some inconvenience, vexation or delay felt by the public in respect of these transactions how can it be minimised? What further facilities would you suggest to make this class of business more popular?

4. Can your Post Office undertake with advantage to the public additional duties such as (i) sale of Government securities, (ii) serving as a safe deposit for valuables such as gold, silver, jewellery and documents, (iii) opening current accounts bearing no interest or nominal rate of interest withdrawable by cheque for approved customers such as licensed or registered *mahajans*? Can you suggest any other similar business which the Post Office can undertake with advantage?

5. Is it your experience that your office has generally a surplus of money which is transmitted either directly or indirectly through money order payments to headquarters, under standing orders of your department? If so, are you in favour of lending out under suitable safeguards and limitations, e.g., control from headquarters and with adequate security, this money to licensed or registered *mahajars*, with a view to provide money for agriculture, small scale trade and industries thereby tending to lower the rate of interest? Are you also in favour of lending this money, under similiar limitations and safeguards, to the public against the security of gold, silver and jewellery and against safe deposit receipts for such articles? If so, what safeguards, restrictions and control would you suggest?

V.—Questionnaire for Central Co-operative Banks.

[It is requested that answers to this questionnaire may be supplied to the Secretary of the Bihar and Orissa Provincial Banking Enquiry not later than the 30th November 1929. His address will be C/o. the Under-Secretary, Finance Department, Patna. It is also requested that the replies may be typed in duplicate, and that each question may be answered on a separate sheet of paper, one side only being used. Each sheet should bear the name of the Bank.]

I. RELATIONS OF THE CENTRAL BANK WITH AFFILIATED RURAL CREDIT SOCIETIES.

1. (a) Does the Central Bank in granting loans to societies distinguish clearly between short-term and long-term loans? If so, what number of years is taken as the dividing line? What proportions of the loans granted to rural credit societies in the last three years are recoverable in *kists* terminating in the period regarded as "short term"? What is the longest period over which repayment is spread?

(b) Whether any such distinction is observed or not, please state the amount of outstanding loans to rural credit societies repayable—

- (i) in 1929,
- (ii) in 1930,
- (iii) in 1931,
- (iv) in the years 1932-33.
- (v) after 1933.

(c) If any revision of the *kists* for repayment of loans by societies to the Central Bank has been approved during the last three years, please state the result of the revision in the following form:—

	Amount due in the year of revision.	Amount due in the first year after revision.	Amount due in the second year after revision.	Amount due in subsequent year.
	Rs.	Rs.	Rs.	Rs.
Before revision
After revision

2. Have any loans been granted during the last three years by the Central Bank to rural credit societies expressly for (i) repayment of old debts, including redemption of mortgage land, or (ii) improvements

of land? If so, what are the usual periods of repayment for each class?

8. What proportion of loans due for repayment to the Central Bank in the year by rural credit societies has actually been repaid in each of the last three years?

II. RELATIONS OF THE RURAL CREDIT SOCIETIES WITH THEIR MEMBERS.

4. Please state (if possible for each of the last three years) the purposes for which loans have been granted by the rural credit societies to their members, noting against each purpose the total amount so lent. Is the information so given, which has presumably been collected from the Secretaries of the individual societies reasonably accurate? What items are likely to be inaccurate?

5. (a) Are the rural credit societies ordinarily in a position to lend to their members enough for their short-term needs, or do the members have to resort to the money-lenders for this purpose? Do the societies rely mainly on the Central Bank for funds for this purpose or have they got resources of their own? What are those resources, if any?

(b) What is the position in regard to loans for other purposes than those met by short term loans?

6. What proportion of loans due for repayment to the rural credit societies in the year by their members has actually been repaid in each of the last three years?

III. POSITION OF MEMBERS.

7. Can you offer any evidence of the increase or decrease of indebtedness among members of rural credit societies and of its increase or decrease among non-members in the same period?

IV. RELATION OF THE CENTRAL BANK WITH SOCIETIES OTHER THAN RURAL CREDIT SOCIETIES.

8. What other societies are affiliated to the Central Bank besides rural credit societies? Please state for each the number of members, its purpose, and its present financial position?

9. Have any such societies been liquidated during the last five years?

10. Is the Central Bank's own financial position in any way embarrassed by its connection with such societies? What proportion of the outstanding indebtedness from all classes of societies to the Central Bank is due from societies other than rural credit societies?

V. FINANCE.

11. Please give details of the Central Bank's working capital as it stood on 31st December 1928 in the following form:—

(1) Paid up share capital.

(2) Deposits.

- (3) Other borrowings.
- (4) Reserve Fund.
- (5) Other Funds.
- (6) Undistributed profits.
- (7) Miscellaneous.

12. Please give further details of deposits in the following form :—

A.—By primary societies :—

(i) On call, i.e., current accounts, savings bank accounts, reserve and other funds of primary societies.

(ii) On fixed periods—

1 year.

2 years.

3 years.

More than 3 years.

B.—By individuals :—

(i) On call, i.e., current and savings bank accounts.

(ii) On fixed periods—

1 year.

2 years.

3 years.

More than 3 years.

Is there any restriction on the individuals, who can deposit, e.g., to persons who are shareholders or who reside in the area of the Bank's activity?

13. Please give further details of " Other borrowings ".

14. What are the liquid resources of the Central Bank for (i) normal requirements and (ii) sudden emergencies? What proportion do they bear to the total assets of the Bank? Have any emergencies occurred, and, if so, how have they been met?

15. What are the rates of interest paid by the Central Bank on the various kinds of deposit and on " other borrowings "?

16. Has the Central Bank more money on deposit than it can profitably employ? If so, what steps have recently been taken or are in contemplation to remedy the position, either by expanding business or by reducing the rate of interest? Is there any ground for believing that reduction in the rate of interest will cause excessive withdrawal of deposits?

17. At what rate of interest does the Bank lend to (i) rural credit societies, (ii) other classes of societies affiliated to it? Please state if there are any exceptional rates, e.g., for societies grouped under a guarantee union or for land improvement.

18. At what rates of interest do primary rural credit societies lend to their members?

19. Do the Central Bank and the rural credit societies insist on collateral security for all or any classes of loan to members? What proportion of the total debt due to primary rural credit societies is backed by such security? Has the proportion shown a tendency to increase in recent years?

20. Do the rural credit societies experience any difficulty in enforcing their claims against members? In what circumstances does the mahajan come to have a prior claim to the society on the assets of a member?

21. How is transmission of funds (i) between the Central Bank and the primary societies and (ii) between the Provincial Bank and the Central Bank arranged? How is interest on deposits, dividends, etc., paid by the Central Bank?

22. What dividends has the Central Bank declared on share capital during the last three years?

23. Does the Central Bank engage in any other banking activities, besides financing its affiliated societies, e.g., discounting bills of exchange? If so, please give a detailed account of such activities.

VI. GENERAL.

24. Please state the year in which the Central Bank was founded and the total number of affiliated societies and of their members on 31st December 1928.

25. To what classes do the present directors belong, e.g., professional gentlemen of the town in which the Bank is situated or representatives of the rural societies? Have the latter any real influence on the general policy or the detailed working of the Bank.

26. Please note any special features of the Central Bank.

CHECKED
20.8.04

8731

Bihar and Orissa
Provincial Banking
Enquiry Committee

Name of borrower	Lent on	Received on
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